UNIT I

AN OVERVIEW OF INTERNATIONAL BUSINESS

PART I

Syllabus: Definition and drivers of International Business - Changing Environment of International Business - Country attractiveness - Trends in Globalization - Effect and Benefit of Globalization-International Institution: UNCTAD Basic Principles and Major Achievements, Role of IMF, Features of IBRD, Role and Advantage of WTO.

The International business means the buying & selling of the goods & services across the border. These business activities may be government or private enterprises. Here national border is crossed by the enterprises to expand their own business activities such as the manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication & so on. The business enterprise that goes for the international business has to take a very wide & long view before making any decision; it has to refer to the social, political, historical, cultural, geographical, physical, ecological & economic aspects of another country where it had to business.

Definitions of IB

One of the results of the increasing success of international business ventures is globalization. The International business is defined as the global trade of goods/services or investment. International business is an exchange of goods and services that conducts its operations across national borders, between two or more countries.

According to International Business Journal,

“International business is a commercial enterprise that performs economic activity beyond the boundaries of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries.”

International business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument).

The entities involved in international business range from large multinational firms with thousands of employees doing business in many countries around the world to a small one-person company acting as an importer or exporter.

Drivers of International Business

Drivers of international business are factors that prompt companies or businesses to engage in international business. Such factors include the following:

Higher Rate of Profits:

The basic objective of the business is to achieve profits. When the domestic markets don't promise a higher rate of profits, business firms search for foreign markets where there is a scope for a higher rate of the profits. Therefore the objective of profit affects & motivates the business to expand operations to the foreign countries. **For example,** Hewlett Packard in the USA earns more than half of its profits from the foreign markets as compared to that of domestic markets.

Expanding the Production Capacities beyond the Demand of Domestic Country:

Some of the domestic companies expand their production capacities more than the demand for the product in the domestic countries. In such cases, these companies are forced to sell their extra production in foreign developed countries. **Toyota of Japan is an example.**

Limited Home Market:

When a size of the home market is limited either due to the smaller size of the population or due to the lower purchasing power of all people or both, the companies internationalize their operations. **For example,** most of the Japanese automobiles & electronics firms entered the USA, Europe & even African markets due to the smaller size of the home market. **ITC** entered the European market due to the lower purchasing power of the Indians with regard to high-quality cigarettes.

Political Stability vs. Political Instability:

The Political stability doesn't simply mean that the continuation of the same party in power, but it means that continuation of the same policies of the Government for a quite long period. Business firms prefer to enter the politically stable countries & are restrained from locating their own business operations in politically unstable countries. In fact, business firms shift their operations from politically unstable countries to politically stable countries.

Availability of Technology & Competent Human Resources:

Technology is one of the major drivers of international business. Availability of advanced modern technology facilitates international business. The Availability of advanced technology & competent human resources in some countries act like pulling factors for business firms from other countries. **For example**, American & European companies, in recent years, have been depended on Indian companies for the software products & the services through their business process outsourcing (BPO). This is due to the cost of human resources in India is almost/approximately 10 to 15 times less compared to the US & European labor markets.

High Cost of Transportation:

Initially the companies enter foreign countries for their marketing operations. But the home companies in any country enjoy their higher profit margins as compared to the foreign firms on account of the cost of transportation of the products. Under such conditions, the foreign companies are inclined to increase their profit margin by locating their manufacturing facilities in foreign countries through **Foreign Direct Investment** (FDI) route to satisfy the demand of either one of the countries or the group of neighboring countries.

Availability of Raw Materials:

The availability of raw material is a major driver of international business. Domestic countries are highly attracted to foreign countries endowed with such materials. The source of highly qualitative raw materials & bulk raw materials is a major factor in attracting companies from various foreign countries. **For example,** Vedanta Resources is a London Stock Exchange (LSE) listed UK based company operating principally in India due to the availability of raw materials such as iron ore, copper, zinc & lead.

Liberalization & Globalization:

Most of the countries around the globe liberalized their economies &opened their countries to the rest of the globe. These change in the policies attracted multinational companies to the extent their operations to these countries.

Growth in Market Share:

Some of the **large-scale business firms** would like to enhance their market share in the global market by expanding & intensifying their operations in various foreign countries. The Smaller companies expand internationally for survival while the larger companies expand to increase their market share. **For example** Ball Corporation, the 3rd largest beverage can manufacturer in the USA, bought the European packaging operations of Continental Can Company.

Limited domestic market

A market is described as limited when its population size is small or the consumers' purchasing power (real income) is low or the company is matured in its domestic market or a combination of two or more. The occurrence of any of the above implies the revenue generated is inadequate to attract full manufacturing economies of scale. This drives companies to internationalise their operations.

Higher profit margins

The cardinal objective of a profit-oriented company is to obtain higher profit margins. If the home market is not profit promising enough, companies will be forced to either quit their home markets or reduce their home operations and enter foreign markets where the promise is higher.

Increased market share

Increase or growth in market share is one of the drivers of international business. Firms would like to increase their customer base, hence market share, by expanding and intensifying their operations in foreign markets.

Communication

Domestic companies can easily contact foreign markets through the application of advanced information technology such as the internet. Consumers too can reach businesses in foreign countries through **www** (**world wide web**). International businesses are now conducted through e-commerce or merely over phones. Today, one can get involved in international business without stepping their feet out of their country.

Formation of trading blocs

Formation of trading blocs, regional or international, has enhanced high degree of cooperation. The objective of the formation of trading blocs is to promote businesses within the framework of their powers by allowing the creation of free trade zones in which trade or investment barriers are removed.

Examples of trading blocs include, World Trade Organization (WTO), European Union (EU), North American Free Trade Agreement (NAFTA) and South Asian Free Trade Agreement (SAFTA). The removal of trade barriers drives international business.

Disparities in tax system

Companies are normally forced out of countries where high level of taxes are levied to countries where taxes imposed are nominal. Some countries adjust their tax systems in the bid to attract foreign direct investment.

Emerging markets

Emerging markets are untapped or unexplored markets with high potential and scope for business operationalisation. Companies that want to expand internationally would seek to operate in such markets.

Benefits of International Business

High Living Standards	Increased Socio-Economic Welfare	Wider Market	Reduced Effects of Business Cycles
Reduced Risks	Large-scale Economies	Potential Untapped Market	Provides the Opportunity to Domestic Business
Division of Labour and Specialisation	Economic Growth of the World at large	Optimum and Proper Utilisation of World Resources	Cultural Transformation

High Living Standards: Comparative cost theory indicates that the countries which have the advantages of raw materials, human resources, natural resources & climatic conditions in producing particular goods can produce the products at low-cost & also of high quality. Customers in various countries can buy more products with the same amount of money. In turn, it can also enhance the living standards of the people through enhanced purchasing power & by consuming high-quality products.

Increased Socio-Economic Welfare: International business enhances consumption level, the economic welfare of the people of the trading countries. For example, the people of China are now enjoying a variety of products from various countries like Coca-Cola, McDonald’s range of products, electronic products of Japan & coffee from Brazil. Thus the Chinese consumption levels & socio-economic welfare has enhanced.

Wider Market: International business widens the market &increases the market size. Therefore, the companies need not depend on the demand for the product in a single country or customer’s tastes & the preferences of a single country. Due to the enhanced market Air France now mostly depends on the demand for air travel of the customers from the countries other than France. This is factual in case of most of the MNCs like Toyota, Honda, Xerox & Coca-Cola.

Reduced Effects of Business Cycles: The stages of the business cycles vary from country to country. Therefore, MNCs shift from the country experiencing a recession to the country experiencing ‘boom’ conditions. This enables international firms to escape recessionary conditions.

Reduced Risks: Both commercial & political risks are reduced for the companies engaged in the international business due to spread in the different countries. Multinationals which were operating in erstwhile USSR were affected only partly due to their safer operations in other countries. But the domestic companies of the then USSR collapsed entirely.

Large economies of Scale: Multinational companies due to wider &larger markets produce larger quantities, which provide the benefits of large-scale economies like reduced cost of production, availability of expertise, quality etc.

Potential Untapped Markets: International business provides the chance of exploring & exploiting the potential markets which are untapped so far. These markets provide an opportunity for selling the product at a higher price than in the domestic markets. **For example,** Bata sells shoes in the UK at £ 100 (approx. Rs. 8000) whose price is around Rs. 1200 in India.

Provides the Opportunity to Domestic Business: International Business firms provide opportunities for domestic companies. These opportunities comprise technology, management expertise, market intelligence, product developments, etc. **For example,** Japanese firms like Honda, Yamaha, and Suzuki & Kawasaki have a combined to form Joint Ventures with Indian companies to form a Hero Honda, Birla Yamaha, Maruti Suzuki & Kawasaki Bajaj to share the technology & the product development expertise.

Division of Labour & Specialization: International business leads to division of labor &specialization. For example, Brazil specializes in coffee, Kenya in tea, Japan in automobiles & electronics, India in textile garments etc.

Economic Growth of the World at large: Specialization, a division of labor, enhancement of productivity, posing challenges, development to meet them, innovations & creations to meet the competition leads to the overall economic growth of the world nations. The International business particularly helped the Asian countries like Japan, Taiwan, Korea, Philippines, Singapore, Malaysia & the United Arab Emirates.

Optimum & Proper Utilization of World Resources: the international business provides for the flow of the raw materials, natural resources & human resources from the countries where they are in excess supply to those countries where they are in short supply or need most. For example the flow of human resources from India, consumer goods from the UK, France, Italy & Germany to developing countries. This, in turn, helps in the optimum & proper utilization of world resources.

Cultural Transformation: International business benefits are not purely economic or commercial; they are even social &cultural. These days, we observe that the West is slowly tending towards the East & vice versa. It does mean that the good cultural factors & values of the East are acquired by the West & vice versa. Therefore there is a close cultural transformation & integration.

Increased government revenue

Government realises revenue from international business by imposing duties on both imports and exports. Government obtains foreign exchange from export of goods and services.

Increased specialisation

International business brings about specialisation in the production of particular goods usually of high quality for both domestic and international consumption. Specialisation increases as firms' engagement in international business increases.

Employment opportunities

International business creates job opportunities for individuals in both importing and exporting countries.

Consumer benefits

International business benefits consumers by providing them with greater product choice (i.e. a variety of products). Consumers, therefore, have access to different types of imported goods at affordable prices. They can choose whatever goods they desire.

Challenges in International Business

Challenges faced in international business include the following:
- Language barriers
- High competition among nation
- Legal problems
- Exploitation of developing nations
- Dumping problem
- Scarcity of goods in the exporting nations
- Conversion of currency
- Cultural issues
- Tariff payment

Language barriers

Language barrier is one of the major problems or challenges in international business.

Different countries speak different languages. Establishing a business in a foreign country whose language you do not understand creates a significant communication problem. Such barrier impedes international trade.

High competition among nations

International business creates competition among countries. Competition severely worries competitors as whether they would realise profits or not. Competitors are more worried about profit making than their employees' work conditions. This prompts rivals into price cutting in the bid to actualise profit

Legal problems

Every country in the world has its own laws which dictate the activities of businesses. Such laws prescribe the type or nature of business to be established, the tax level to be levied, the minimum wage rate, the product price level etc. Companies engaged in international business are governed by the laws of the country of operation. Companies going international may face significant operating difficulties if there exists immense disparity between domestic and foreign laws. Such companies may find it diametrically difficult to cope with the listed international laws.

Exploitation of developing nations

In international business, developed countries dominate and exploit developing countries since the former regulate the latter's economies. Developed countries (or international markets) often control the exports of developing countries.

Dumping problem

International business creates problem of dumping in foreign countries. Dumping occurs when domestic companies produce a product in excess, sell part of the product in their domestic market at higher prices and sell the extra or surplus product to foreign countries at lower prices.

Companies do this in order to edge out companies in the importing country. These goods (exports) compete with the foreign country's domestically produced goods. This has adverse effect on the importing country

Scarcity of goods in the exporting nations

Most companies choose to sell their products abroad leaving little or nothing in their home countries. By so doing, scarcity of goods will be created.

Conversion of currency

International business transactions require companies to convert their home currency into foreign currency. Cross-border activities are virtually impossible without currency conversion

Cultural issues

Culture could be defined in many ways. But for the purpose of this research, culture will be taken to mean the norms of a society or country. The term "norms" refers to people's beliefs, way of life, values, attitudes etc. It relates to the social organisation of a particular group or country.

Norms differ from nation to nation, region to region. Most conspicuously, norms are reflective of people's beliefs and attitudes about or towards particular goods/products and dress code. Products such as alcohol and pork are totally prohibited in any predominantly muslim countries or societies. In muslim dominated countries, people cover their heads.

Tariff payment

International business requires companies to pay tariff imposed by governments. Recall, tariffs are imposed on both imported and exported goods though largely imposed on imports. Tariffs are hardly imposed on exports because most countries encourage their exports in the bid to obtain encouraging balance of payments position through favourable trade balance.

Major Trends in International Business

Before examining foreign markets, you have to be aware of the major trends in international business so you can take advantage of those that might favor your company. International markets are evolving rapidly, and you can take advantage of the changing environment in favour of your business

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

Population and Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Speed of Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

More Informed Buyers

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Business Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Economic Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Emergence of Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

Changing Environments of Int'l Business

International Business is quite an essential term for a country's economy. All of the world's strongest as well as wisest economies like Germany, Japan, Switzerland, etc as per the Operation for Economic Co-operation and Development (OECD) are concerned in international trade practices and have the highest standards of living.

They got high volumes of imports and exports while countries like Spain, Greece, Italy, etc have lower ratios of international trade and are in front of some serious economic problems and challenges. Therefore, we can say that the International Business environment plays a vital role in the growth and development of a nation.

Moreover, the domestic business is also a limited case of international business. The characteristic feature of international business is that international firms activate in environments that are extremely uncertain where the game rules are often contradictory, ambiguous, and subject to fastest change in comparison to the domestic environment.

Business Environments

There are numerous types of business environments, however the political, the cultural, and the economic environments are the prime ones. These factors influence the decision-making process of an international business firm. It is important to note that the types of environments we discuss here are interlinked; meaning one's state affects the others in varying dimensions.

Political Environment

The political environment refers to the type of the government, the government relationship with a business, & the political risk in the country. Doing business internationally, therefore, implies dealing with a different type of government, relationships, & levels of risk.

There are many different types of political systems, for example**,** multi-party democracies, one-party states, constitutional monarchies, dictatorships (military & non-military). Therefore, in analyzing the political-legal environment, an organization may broadly consider the following aspects:

- The Political system of the business;
- Approaches to the Government towards business i.e. Restrictive or facilitating;
- Facilities & incentives offered by the Government;
- Legal restrictions for instance licensing requirement, reservation to a specific sector like the public sector, private or small-scale sector;
- The Restrictions on importing technical know-how, capital goods & raw materials;
- The Restrictions on exporting products & services;
- Restrictions on pricing & distribution of goods;
- Procedural formalities required in setting the business

Economic Environment

The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. The economic environment can be very different from one nation to another. Countries are often divided into three main categories: the more developed or industrialized, the less developed or third world, & the newly industrializing or emerging economies.

Within each category, there are major variations, but overall the more developed countries are the rich countries, the less developed the poor ones, & the newly industrializing (those moving from poorer to richer). These distinctions are generally made on the basis of the gross domestic product per capita (GDP/capita). Better education, infrastructure, & technology, healthcare, & so on are also often associated with higher levels of economic development.

Clearly, the level of economic activity combined with education, infrastructure, & so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, & a firm needs to recognize this environment if it is to operate successfully internationally. While analyzing the economic environment, the organization intending to enter a particular business sector may consider the following aspects:

- An Economic system to enter the business sector.
- Stage of economic growth & the pace of growth.
- Level of national & per capita income.

- Incidents of taxes, both direct & indirect tax.
- Infrastructure facilities available & the difficulties thereof.
- Availability of raw materials & components & the cost thereof.
- Sources of financial resources & their costs.
- Availability of manpower-managerial, technical & workers available & their salary & wage structures.

Technological Environment

The technological environment comprises factors related to the materials & machines used in manufacturing goods & services. Receptivity of organizations to new technology & adoption of new technology by consumers influence decisions made in an organization.

As firms do not have any control over the external environment, their success depends on how well they adapt to the external environment. An important aspect of the international business environment is the level, & acceptance, of technological innovation in different countries.

The last decades of the twentieth century saw major advances in technology, & this is continuing in the twenty-first century. Technology often is seen as giving firms a competitive advantage; hence, firms compete for access to the newest in technology, & international firms transfer technology to be globally competitive.

It is easier than ever for even small business plan to have a global presence thanks to the internet, which greatly grows their exposure, their market, & their potential customer base. For the economic, political, & cultural reasons, some countries are more accepting of technological innovations, others less accepting. In analyzing the technological environment, the organization may consider the following aspects:

- Level of technological development in the country as a whole & specific business sector.
- The pace of technological changes & technological obsolescence.
- Sources of technology.
- Restrictions & facilities for technology transfer & time taken for the absorption of technology.

Cultural Environment

The cultural environment is one of the critical components of the international business environment & one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs & values that determine what is right for one group, according to Kluckhohn & Strodtbeck.

National culture is described as the body of general beliefs & the values that are shared by the nation. Beliefs & the values are generally seen as formed by factors such as the history, language, religion, geographic location, government, & education; thus firms begin a cultural analysis by seeking to understand these factors.

While analyzing cultural factors, the organization may consider the following aspects:

- Approaches to society towards business in general & in specific areas;
- Influence of social, cultural & religious factors on the acceptability of the product;
- The lifestyle of people & the products used for them;

- Level of acceptance of, or resistance to change;
- Values attached to a particular product i.e. the possessive value or the functional value of the product;
- Demand for the specific products for specific occasions;
- The propensity to consume & to save.

Knowledge of foreign culture is important for international firms. Marketers who ignore cultural differences risk failure.

- **Language** − There are nearly 3,000 languages in the world. Language differences are important in designing advertising campaigns and product labels. If a country has several languages, it may be problematic.
- **Colors** − It is important to know how people associate with colors. For example, purple is unacceptable in Hispanic nations because it is associated with death.
- **Customs and Taboos** − It is important for marketers to know the customs and taboos to learn what is acceptable and what is not for the marketing programs.
- **Values** − Values stem from moral or religious beliefs and are acquired through experiences. For example, in India, the Hindus don't consume beef, and fast-food restaurants such as McDonald's and Burger King need to modify the offerings.
- **Aesthetics** − There are differences in aesthetics in different cultures. Americans like suntans, the Japanese do not.
- **Time** − Punctuality and deadlines are routine business practices in the U.S. However, Middle East and Latin American people are far less bound by time constraints.
- **Religious Beliefs** − Religion can affect a product's labelling, designs, and items purchased. It also affects the consumers' values.

Competitive Environment

The competitive environment also changes from country to country. This is partly because of the economic, political, & cultural environments; these environmental factors help determine the type & degree of competition that exists in a given country. Competition can come from a variety of sources. It can be a public or a private sector, come from the large or the small organizations, be domestic or global, & come from traditional or new competitors, For a domestic firm, the most likely sources of competition might be well understood. The same isn't the case when a person moves to compete in the new environment.

Changing Global Business Environment

The global market today is highly dynamic, and an organization must be ready to face different challenges brought about by the ever-changing environment. The global business environment is made up of economical, social, and political factors that keeps changing requiring businesses to be versatile. Such changes pose challenges to different operations of a busines.

Studies have shown that the common global business environment changes are related to **customers, competitors, regulations, and technology**. All these are subcategories of a business environment and changes in these factors pose challenges to international business. As customers' preferences change so do their expectations. The current global market is made up of customers with higher expectations. And as customers' expectations rise, companies need to change their marketing practices to meet these expectations. This means changing the speed by which marketers respond to customers, how companies communicate to customers and how to customize customer information. Customers expect companies to have access to information. In today's market, being informed about a customer is as important as providing a customised solution to a customer. Therefore, businesses must have adequate customer information to build a successful relationship with their customers.

Technological advance is another change in the global business that poses challenges. In today's market, customers prefer to shop online and safely on time. The physical stores are slowly being replaced by online stores meaning using product display and strategic store location as a marketing practice is slowly becoming ineffective. This means increasing brand awareness to customers with diverse cultures and characteristics. Therefore, business houses must adopt different tools depending on the geographical location of their target customers.

The legal and regulatory changes in the global business is another changing business environment. Therefore, company's management is often faced with the challenge of how to present their content without facing any legal charges or offending anyone. Also, operating globally means adhering to different countries' legal and regulatory requirements. This makes it hard for marketers to develop one campaign for all their markets. Companies are therefore forced to develop different advertisement contents and materials depending on a region's cultures, legal and regulatory rules.

Technological advancement such as the development and use of social media has posed challenges to companies' marketing practices forcing them to come up with new ways of promoting their products. In short, regulatory functions within organizations - especially those with global aspirations - should not only be reactive and tactical, but more proactive and aligned with the organisation's global product strategy.

Country Attractiveness:

Country attractiveness is a measure of a country's attractiveness to the international investors. In international business, investment in foreign countries is the most important aspect and hence firms want to determine how suitable a country is in terms of its external business environments.

International business firms judge the risks and profitability of doing business in a particular country before investing and starting a business there. This judgment includes studying the environmental factors to arrive at a decision.

It is pretty clear that businesses prefer a country that is less costly, more profitable, and has fewer risks. Cost considerations are related with investment. Profitability is dependent on resources. Risks are associated with the environment and hence it is of prime concern.

Political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business

The political, economic, and legal environment of a country clearly influences the attractiveness of that country as a market and/or investment site.

Attractiveness Return

A country attractiveness assessment is based on two dimensions Market and industry opportunities, country risks (many organizations publish country assessment results based on various economic/political/social factors)

Country attractiveness analysis

Market opportunities

Market opportunities assessment measures the potential demand in the country for a firm's products or services based on:

- Market size Growth
- Quality of demand.

Industry opportunities

Industry opportunities assessment determines profitability potential of a company's presence in a country given the following factors:

- Quality of industry competitive structure (Porter's five-force Industry Analysis Framework)
- Resource availability (Porter's diamond framework)

Framework for country market and industry attractiveness assessment.

MARKET - How important is the demand in this country? + Growth? + Size? + Customer quality

- Resources
- Skilled personnel
- Raw materials
- Components
- Labor
- Technology
- Innovation
- Quality of infrastructure
- supporting services Location

Risks may be of various types. However, the general consensus is that a country that is more stable in terms of political, social, legal, and economic conditions is more attractive for starting a business.

Political risks

Political risks are probable disruptions owing to internal or external events or regulations resulting from political action of governments or societal crisis and unrest.

Economic risks

Economic risks expose business performance to the extent that the economic business drivers can vary and therefore put profitability at stake.

Competitive risks

Competitive risks are related to non-economic distortion of the competitive context owing to cartels and networks as well as corrupt practices. The competitive battlefield is not even and investors who base their competitive advantage on product quality and economics are at disadvantage.

Operational risks.

Operational risks are those that directly affect the bottom line, either because government regulations and bureaucracies add costly taxation or constraints to foreign investors or because the infrastructure is not reliable.

Globalisation

What is globalisation?

Globalisation refers to the process of establishing and increasing the interconnectedness and interdependence between or among nations in the world. It enhances a stronger integrated and interdependent world economy. It brings about world's economic, social and cultural integration. Globalisation is increasing at an increasing rate.

Features of globalisation

Features or charcteristics of globalisation.

- Globalisation is a phenomenon that views the world as if it is without borders or boundaries.
- Easy flow of goods (raw, semi-finished and finished) and services across borders.
- High interconnectedness and interdependence.
- Easy financial and information flow among nations.
- Exchange of cultural values.
- High exchange of knowledge between nations.
- Flow of resources (human and non-human) between countries.
- Advanced means of transportation from one nation to another (through land, air and sea).
- Advanced forms of communication including internet.
- Relatively easy movement and/or settlement of people away from their countries of origin.
- Creation of enabling environment for students to study in different countries.
- Easy access to foreign markets.

Trends in Globalization

Globalization has impacted people and communities across the globe and has significantly influenced sustainable development. Fueled by fast-paced changes in technology and the increased mobility of goods, services, capital and labour, over the past decades globalization has greatly changed economies, societies and the natural environment and has made our world more interconnected than ever before.

These trends have presented a wealth of opportunities. Globalization and increased economic interdependence have accompanied and facilitated rapid economic growth in many countries and regions, helping world GDP grow from around 50 trillion USD in 2000 to 75 trillion USD in 2016. Yet, globalization has also presented significant challenges, including an uneven distribution of its benefits and costs.

United Nations identified three mega-trends related to globalization:

1. **Shifts in Production and Labor Markets,**

The first mega-trend refers to the impact that production changes have had on labour markets, including through outsourcing and mechanization, which have spurred job losses, particularly in manufacturing sectors. These trends in labour markets are associated with higher rates of income inequality, which has increased in a majority of countries across the globe

2. **Rapid advances in Technology and**

The second mega-trend is closely connected to the first, as it relates to the fast-moving development and advancement of new technologies, including in information and communications and artificial intelligence that have also affected the world of work. While these innovations can act as catalysts for sustainable development, countries that do not have access to them are at risk of being left behind.

3. **Climate Change.**

Globalization and its effect on climate change is the third emerging mega-trend. The report highlights that many trends closely linked to globalization, including economic activity, lifestyle changes and urbanization, all have an impact on our environment and may contribute to climate change.

Effects of Globalization

Globalization affects businesses in a variety of ways:

Increasing Competition: Businesses that contend in the global marketplace will naturally face competition from companies all over the world. Consumers demand ever-higher quality and cheaper products, and when they have a global array of companies to choose from, only those that evolve to supply what consumers want and need will prosper. This increased competition means companies must keep up with cutting-edge developments and stay assertive in the global marketplace to survive.

Opening larger, more diverse Markets: On the other hand, companies that open themselves up to the global marketplace will naturally find a much larger market in which to sell their services. Has a Western electric bike manufacturer found limited success in a country where cars are still king? It can turn to Asian markets, where population density has led to crushing vehicle traffic and a huge market for lighter electric transportation. The ability to discover and cater to niche markets around the world is one of globalization's appeals.

Increased flow of Trade, Capital, Information and People: The DHL Global Connectedness Index, in partnership with NYU's Stern School of Business, has identified these four elements as the four pillars of global connectedness. All these elements except capital saw moderate growth worldwide in 2018.

Sharing Technology: For countries to be able to cooperate globally, they must share similar technology and technological infrastructure. The need for shared technology means that technological advances quickly make their way around the world.

Sharing Knowledge: Similarly, the need for a centralized base of knowledge for cooperating countries to work from means globalization results in a rapid transfer of knowledge. Scientific advances made in Belgium can be in Japan with the touch of a button.

Promoting a Diversified Workforce: Businesses operating globally attract employees from all over the world. They are likely to draw management staff from the countries where they maintain a presence and employ laborers in a country where labor is relatively affordable. Learning to manage a culturally diverse staff can be both a benefit and a challenge to a multinational business.

The Benefits of Globalization

1. Increased Flow of Capital

The economic benefits of globalization to much of the world are hard to ignore. Increased trade to larger and more diverse markets results in greater revenues and increased gross domestic product (GDP). World GDP has grown from about $50 trillion in 2000 to about $75 trillion in 2016, primarily as a result of economic interdependence and the increased global trade it allows.

India, for example, is a country whose GDP has benefited immensely from globalization in the technology sector:

- The United States relies on India for half of its computer service imports.
- India has seen an increase in the value of its computer service exports from $11 billion in 1995 to almost $110 billion in 2015.

Globalization also means that businesses can realize greater profits by tapping into previously untouched markets and taking advantage of lower local costs. By expanding into new countries, businesses reach markets that are hungry for their novel goods and eager to pay top dollar for them. They can achieve higher revenues in unsaturated markets while saving money via the lower cost structure that results from cheaper labor, rent, and materials.

2. Better Products at Lower Prices

Global competition in the markets leads to both quality and affordability. As consumers realize they have a variety of options from all corners of the globe, they will choose to purchase the best and cheapest options, requiring companies to enhance quality and provide affordable prices if they wish to remain competitive. The outsourcing of work also contributes to lower prices, as many companies hire foreign laborers to do the work for lower pay.

3. Collaboration and Shared Resources

Combining efforts and resources allows for more creativity and innovation to solve problems that affect people all around the globe. Conservation efforts and efforts to combat rising carbon emissions, for example, will require a concentrated global effort if they are to succeed. Nongovernmental organizations (NGOs) use a collaborative approach to address issues that are not confined within borders, such as child labor, human trafficking, and health care and disease prevention.

4. Cross-Cultural Exchange

Not all the positive effects of globalization take place at the scale of billions and trillions of dollars. Cross-cultural exchanges of ideas, food, music, media, and language are just as valuable.

Individuals who travel around the world for business or leisure and try different foods, listen to different music, read different books, gain exposure to different media outlets, and learn to express themselves, even poorly, in another language gain a broader perspective on the world. Their new knowledge helps develop stronger empathy and appreciation for people of other cultures.

5. Spread of Knowledge and Technology

Arguably one of the top advantages of globalization has been the rapid spread of technology worldwide. Google, Dell, and Microsoft, for example, all have offices on many continents. Developing countries often appeal to investors because of the huge potential for growth. The resulting advancements lead to results like the spread of motorized farm machinery in Southeast Asia, for instance, where there had previously only been manual labor.

6. Quick Technological Advances

For developing countries, especially, being able to skip the long technological development processes of industrialized countries brings rapid progress. For example, cell phones came quickly to the African continent, with cell phone use currently growing every year in sub-Saharan Africa and approaching 90% in countries such as South Africa.

The rapid adoption of mobile technology has spurred entrepreneurism in countries like Kenya. Where it is dangerous or difficult to travel, small business owners simply use their mobile phones to reach clients and contractors.

Rapid technological advances have benefits other than economic ones. Pregnant women without access to traditional medical care can use their phones to keep in touch with midwives. The midwives, in turn, use their phones to connect to a system that doctors monitor at all hours.

7. Increased Household Income

The European Centre for International Political Economy reports that globalization has helped reduce high inflation rates in western economies, so each dollar of consumer spending goes further. This development also has the effect of increasing real wages by lowering the cost of living. Additionally, competition on the global market means the prices of many items have declined, so purchases that were once unaffordable luxuries, such as laptops, cars, and washing machines, are now affordable for many people.

8. Increased Open-Mindedness and Tolerance

It's easy for people to fear others whom they have never met. Foreigners come to seem completely unfamiliar under such conditions. But if people have networked with others from elsewhere over the world, spoken with them about common problems, and partaken of their food and culture, they are better able to perceive their common humanity and treat these others as equals.

The Challenges of Globalization

It's clear that globalization provides an abundance of benefits worldwide — but what are the disadvantages of globalization? Here are just a few.

1. Exploitation

American companies have been known to use cheap foreign sweatshop labor to make cheap American goods. Wealthy, industrialized countries have shipped their trash to China and Malaysia. Exploiting cheap markets and lax regulations in developing nations has caused pollution and suffering in those countries, even as profits soar abroad.

The outsourcing of labor also leaves a dearth of jobs in industrialized countries, where labor is more expensive. When the United States outsources manufacturing to cheaper competitors in foreign markets, domestic manufacturing laborers lose their jobs. Higher unemployment leads to discontent, strain on the social safety net, and lower tax revenue from income. Laborers whose skills are less relevant in a global marketplace will have a hard time adjusting to a world dominated by globalization.

2. High Investment Costs

Globalization presents challenges for multinational corporations in terms of capital investment and leadership. Setting up a business in a new country, especially a developing country, requires substantial upfront capital. The needed infrastructure may not be in place.

Roads, electrical grids, broadband internet, water, and sanitation may need to be upgraded or developed from scratch. It can also be difficult to find and retain managers with the requisite skills to add value to the company and work effectively within the local culture.

3. Confusing Local Systems

Multinational corporations also face the challenge of contending with different laws in different countries. Sometimes they must contend with different types of legal and banking systems entirely. Difficulty navigating these systems may lead to impediments in expanding to new countries and severe repercussions for missteps made.

4. Weak Regulation

Fewer regulatory bodies exist for international business enterprises. Navigating the international markets can thus sometimes feel like the Wild West. Interconnected markets also mean that with a lack of regulation, if something goes wrong, the repercussions will resound globally. The global financial crisis, for example, hit many nations hard.

5. Immigration Challenges

Increasing populations of immigrants and refugees present a challenge for industrialized nations. Though countries may wish to help, too large an influx puts a strain on resources and social structures. Countries find themselves limited in the aid they can provide without detriment to their own citizens.

6. Localized Job Loss

Globalization can contribute to a decline in job opportunities as companies move their production facilities overseas. Forbes reports that the move toward globalization has led to deindustrialization throughout the United States, which was once home to many more factories and auto plants. When American companies move their production to China and other countries with plentiful, cheap labor, American workers suffer under factory closures, layoffs, and skyrocketing unemployment rates where they live. According to the Economic Policy Institute, the U.S. trade deficit with China — that is, the amount by which our imports, which tend to cost U.S. jobs, exceed our exports, which tend to provide them — has lost the United States 3.4 million jobs since 2001.