BUSINESS ENVIRONMENT
UNIT 4

ROLE OF GOVERNMENT IN REGULATION AND DEVELOPMENT OF BUSINESS

The government provides hundreds of programmes to assist businesses and entrepreneurs, such as financial assistance, information, and services. Startup loans are provided through direct regulation of business. Other services include grants, coaching, training, and management counselling. The Commerce Department aids small and medium-sized businesses to expand their international product sales.The rule of law is an often-overlooked service the government provides to all businesses.

The United States Patent and Trademark Office protects ideas and specific commodities against unauthorised infringement by competitors, therefore, encouraging innovation and creativity. Infringements on patents and trademarks are punishable by steep fines and costly court proceedings if the defendant loses.Furthermore, the government goes above and above to protect businesses during difficult economic times.

According to some economists, the Troubled Asset Relief Program (TARP) and subsequent economic stimulus programmes avoided a repeat of the Great Depression. Similarly, the CARES Act, enacted in reaction to the corona virus, may have prevented some businesses from going out of business in 2020.Some economists believe that the government should not have intervened and that failed enterprises should have been destroyed through the free market rather than through government intervention. Regardless of which side you favour, the corporate world would look quite different without these endeavours.

Government Regulations and Their Effect on Business

Government regulation of enterprises has existed in the United States for as long as there have been commercial operations to monitor. Federal rules and laws can be enacted by legislative acts that regulate whole industries, or they can be applied case by case to the commercial activities of owners. These rules aim to promote the public health, safety, welfare, and morality of its people.

What are the Objectives of the Government's Business Regulations?

Government direct business regulations are federal rules and acts enacted to safeguard businesses and the public interest. Small firms can benefit from these restrictions as they expand. For example, if you operate a construction firm, government rules may demand the use of specific safety equipment on the job site.

Federal regulations also have an impact on how local firms function since they establish requirements for employee safety, health care, and environmental protection. State licensing rules, for example, may require you to carry some insurance for your staff if they are harmed at work while using risky equipment.

Small business regulations may optimise quality and public safety, which is essential for drawing in new clients who want to feel secure while making purchases from their establishment. Finally, by forcing enterprises to follow particular principles while conducting business with customers, these regulations protect consumers against fraud and bad service.

Reduction of Government Control Over Business Sector

In 1890, Congress passed the first antitrust act, which was followed by periodic rises in corporate tax rates and more complex business statutes. Historically, the business community has opposed legislation, laws, and tax levies that it feels impede its operations and profitability. One prominent argument against over regulation and high taxation is that they cost society money in the long run.

Opponents claim that government rules impede disruptive innovation and fail to adapt to social changes.
Others argue that there are compelling reasons to regulate. In the quest for profit, businesses have destroyed the environment, mistreated people, breached immigration laws, and misled customers.

Proponents contend that this is why elected officials who are accountable to the public are in charge of regulating in the first place. Furthermore, for civilised competitive enterprises to survive, certain norms are essential. Few respectable firms want to be involved in racketeering or the black market. In any case, we now have businesses and laws in place to limit ostensibly free market excesses. Many of these restrictions are being criticised by companies, who also request that other rules be changed to benefit them.

Act Sarbanes-Oxley:

The Sarbanes-Oxley Act was created by Congress in 2002 as a result of significant corporate wrongdoing at a number of businesses, including Enron, Tyco, and WorldCom. Accounting, auditing, and corporate accountability are governed by the act. Many in the business community opposed the legislation, arguing that it would be challenging, time-consuming, and ineffective to comply with. They also projected that shareholders would not be protected against deception by the law. When various financial scams, including Bernie Madoff, were made public during the 2008 financial crisis, this viewpoint received considerable credence.

Environment Protection Agency (EPA):

By executive order, President Richard Nixon established the EPA in 1970. The organisation oversees other contaminants and how garbage is disposed of and limits greenhouse gas emissions. Businesses that must abide by these regulations have expressed dissatisfaction, saying that the costs and revenues are compromised.

Federal Trade Commission (FTC):

Some businesses view the FTC as a competitor. It was established in 1914 to defend customers against dishonest or anti-competitive corporate activities. These may involve monopolisation, price manipulation, and deceptive advertising.

Securities and Exchange Commission (SEC):

In 1934, Congress established the Securities and Exchange Commission (SEC). It oversees initial public offerings (IPOs), makes sure that all information is disclosed, and upholds regulations governing stock trading.

Food and Drug Administration (FDA):

Pharmaceutical firms frequently gripe that the FDA unnecessarily holds up the approval and marketing of some medications. Even when the medications have previously demonstrated efficacy, they frequently call for more thorough or extended clinical trials. Small businesses may be discouraged from joining the market since it is so expensive to have medications licensed. The FDA has furthermore come under fire for delaying the approval and human trials of medications for persons with life-threatening diseases.

Controlled Regulation:

The possibility of regulatory capture is arguably the most serious critique of government rules. When that occurs, the industries they are meant to oversee gain power over the authorities that are intended to safeguard consumers. In order to promote preferred companies, the regulator may intentionally up barriers to entry and redirect public funds for bailouts.

Government Regulation Examples

Government regulations have always been something that businesses must follow. But in recent years, there has been an increasing tendency toward more government regulation of commercial behaviour.
This is a result of globalisation, which has increased and led to firms now operating both nationally and globally.

Here are the top 5 government regulation examples:

Tax Regulations:

Taxation is one of the most essential forms of legislation designed to integrate enterprises into the country's economy. To fully comply with tax legislation, paying the correct taxes at the correct time is required. Furthermore, tax regulations may differ based on the type of firm. National corporations, for example, must pay federal taxes, but the majority of small firms must pay state taxes. Tax evasion or violation may result in jail or other consequences.

Employment and Labour Regulations:

Regulations for protecting employee rights are included in labour legislation. It allows company owners to set the minimum pay and overtime regulations in accordance with employees' rights. Some laws stipulate how employers must treat their employees. Institutions must abide by labour rules and provide a secure working environment for their employees.Examples include social assistance schemes, non-citizen employment permits, equal opportunity procedures, fair union contacts, and other Employment and Labour Law regulations.

-The Fair Labour Standards Act (FLSA)
-The OSH Act,Employee Retirement Income Security Act.
-The Family and Medical Leave Act (FMLA)

Antitrust Regulation:

You may have devised ways to corner the market as a business owner. However, while using these tactics, you must ensure that you comply with antitrust rules. Antitrust laws govern the methods and means of communication between business owners. As a result, it ensures that businesses stay within their purview and that unfair competition between businesses does not arise.

Advertising:

Advertising tactics are critical to your company's exposure. However, you must adhere to certain restrictions when developing these methods to make your organisation visible and renowned in the market. To begin with, the promises and statements that stick out in your advertisements should eventually represent the truth.

When drafting your ad, you must also add your references. Violations of these guidelines may cause your ad to be diverted from its intended purpose and result in fines for your company.

Monetary Policy

Central banks typically use monetary policy to either stimulate an economy or to check its growth. By incentivizing individuals and businesses to borrow and spend, the monetary policy aims to spur economic activity. Conversely, by restricting spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.

The Fed frequently uses three different policy tools to influence the economy:

- **Open Market Operations:** Open market operations are carried out on a daily basis when the Fed buys and sells U.S. government bonds to either inject money into the economy or pull money out of circulation.[1]
- **Reserve Requirements:** By setting the reserve ratio, or the percentage of deposits that banks are required to keep in reserve, the Fed directly influences the amount of money created when banks make loans.

- **Discount Rate:** The Fed also can target changes in the discount rate, which is the interest rate it charges on loans it makes to financial institutions. This tool is intended to impact short-term interest rates across the entire economy.

Monetary policy is more of a blunt tool in terms of expanding and contracting the money supply to influence inflation and growth and it has less impact on the real economy. For example, the Fed was aggressive during the Great Depression. Its actions prevented deflation and economic collapse but did not generate significant economic growth to reverse the lost output and jobs.

Contractionary vs. Expansionary Monetary Policy

Monetary policies can be either contractionary or expansionary. Implementing one type of policy depends on the current economic climate and the ultimate goals.

- **Contractionary Monetary Policy:** Central banks will use contractionary monetary policies when inflation becomes a concern as the economy gets overheated. In this case, prices rise as purchasing power drops.
- **Expansionary Monetary Policy:** This type of monetary policy is used to help spur growth when can there's a recession or slowdown. Expansionary monetary policies have limited effects on growth by increasing

asset prices and lowering the costs of borrowing, making companies more profitable.

Monetary policy seeks to spark economic activity, while fiscal policy seeks to address either total spending, the total composition of spending, or both.

Fiscal Policy

Fiscal policy refers to the steps that governments take in order to influence the direction of the economy. But rather than encouraging or restricting spending by businesses and consumers, fiscal policy aims to target the total level of spending, the total composition of spending, or both in an economy.

The two most widely used means of affecting fiscal policy are:

- **Government Spending Policies:** Governments can increase the amount of money they spend if they believe there is not enough business activity in an economy. This is often referred to as stimulus spending. They can borrow money by issuing debt securities (like government bonds) if there are not enough tax receipts to pay for the spending increases, allowing them to accumulate debt. This is referred to as deficit spending.
- **Government Tax Policies:** By increasing taxes, governments pull money out of the economy and slow business activity. Fiscal policy is typically used when

the government seeks to stimulate the economy. It might lower taxes or offer tax rebates in an effort to encourage economic growth. Influencing economic outcomes via fiscal policy is one of the core tenets of Keynesian economics.[2]

When a government spends money or changes tax policy, it must choose where to spend or what to tax. In doing so, government fiscal policy can target specific communities, industries, investments, or commodities to either favor or discourage production—sometimes, its actions are based on considerations that are not entirely economic. For this reason, fiscal policy is often hotly debated among economists and political observers.

Fiscal policy essentially targets aggregate demand. Companies also benefit as they see increased revenues. However, if the economy is near full capacity, expansionary fiscal policy risks sparking inflation. This inflation eats away at the margins of certain corporations in competitive industries that may not be able to easily pass on costs to customers; it also eats away at the funds of people on a fixed income.

Contractionary vs. Expansionary Fiscal Policy

Governments can execute their fiscal policies through contractionary or expansionary measures:

- **Contractionary Fiscal Policy:** Governments can turn to contractionary measures to slow down the economy and curb inflation. These steps include raising taxes and reducing government spending. It isn't uncommon that a recession follows to bring balance back to the economy.

- **Expansionary Fiscal Policy:** This is commonly done during recessions to encourage people to spend. Governments often turn to measures like stimulus checks issued to taxpayers. They may also increase government spending as a way to boost employment. Expansionary fiscal policies are commonly associated with deficit spending.

What's the Difference Between Monetary and Fiscal Policy?

Monetary and fiscal policy are different tools used to influence a nation's economy. Monetary policy is executed by a country's central bank through open market operations, changing reserve requirements, and the use of its discount rate.

Fiscal policy, on the other hand, is the responsibility of governments. It is evident through changes in government spending and tax collection.

Is Monetary or Fiscal Policy Better?

That depends on who you ask and the type of policy implemented. When central banks lower interest rates by using monetary policy, the cost of borrowing and investment becomes cheaper. This allows consumers to assume more debt and make large purchases. Businesses are also able to invest in their growth.

Fiscal policy, on the other hand, helps increase gross domestic product (GDP) through expansionary tools. This occurs because demand for goods and services increases, which leads to a rise in prices and output.

What Are the Common Goals of Monetary and Fiscal Policy?

Monetary and fiscal policy are two different tools that central banks and governments use to influence the economy. Both are employed to help bring stability to a country's economy. They often work best when they are implemented together, where monetary policy shifts a country's financial markets while fiscal policy affects how much money people have in their pockets.

The Bottom Line

Both fiscal and monetary policy play a large role in managing the economy and both have direct and indirect impacts on personal and household finances. Fiscal policy involves tax and spending decisions set by the government, and will impact individuals' tax bill or provide them with employment from government projects. Monetary policy is set by the central bank and can boost consumer spending through lower interest rates that make borrowing cheaper on everything from credit cards to mortgages.

International business

International business refers to the trade of goods and service goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale.[1] It includes all commercial activities that promote the transfer of goods, services and values globally.[2] It may also refer to a commercial entity that operates in different countries.[3][4]

International business involves cross-border transactions of goods and services between two or more countries. Transactions of economic resources include capital, skills, and people for the purpose of the international production of physical goods and services such as finance, banking, insurance, and construction. International business is also known as globalization.

International business encompasses a myriad of crucial elements vital for global economic integration and growth. At its core, it involves the exchange of goods, services, and capital across national borders. One of its pivotal aspects is globalization, which has significantly altered the landscape of trade by facilitating increased interconnectedness between nations. International business thrives on the principle of comparative advantage, wherein countries specialize in producing goods and services they can produce most efficiently. This specialization fosters efficiency, leading to optimal resource allocation and higher overall productivity. Moreover, international business fosters cultural exchange and understanding by promoting interactions between people of diverse backgrounds.

However, it also poses challenges, such as navigating complex regulatory frameworks, cultural differences, and geopolitical tensions. Effective international business strategies require astute market analysis, risk assessment, and adaptation to local customs and preferences. The role of technology cannot be overstated, as advancements in communication and transportation have drastically reduced barriers to entry and expanded market reach. Additionally, international business plays a crucial role in sustainable development, as companies increasingly prioritize ethical practices, environmental responsibility, and social impact. Collaboration between governments, businesses, and international organizations is essential to address issues like climate change, labor rights, and economic inequality. In essence, international business is a dynamic force driving economic growth, fostering global cooperation, and shaping the future of commerce on a worldwide scale.

To conduct business overseas, multinational companies need to bridge separate national markets into one global marketplace. There are two macro-scale factors that underline the trend of greater globalization. The first consists of eliminating barriers to make cross-border trade easier (e.g. free flow of goods and services, and capital, referred to as "free trade"). The second is technological change, particularly developments in communication, information processing, and transportation technologies.

Overview

The discourse surrounding international business has a transition in terminology over the years, reflecting shifts in understanding and the expanding scope of cross-border commerce. Initially, phrases such as "foreign trade" and "foreign exchange" were prevalent, embodying a static view of cross-border interactions. However, the term "foreign" often evoked notions of remoteness or strangeness, failing to capture the dynamic essence of international engagements.

As commerce evolved with the advent of firms engaging in substantial direct investments across borders, newer terms to encapsulate the changing landscape. The mid-19th century marked the rise of companies owning and controlling production facilities in various countries, a departure from the earlier norm where firms held minor or passive ("portfolio") investments abroad. This paradigm shift necessitated a fresh nomenclature, leading to the introduction of the term "multinational enterprise" (MNE), referring to entities with substantial operations in multiple nations.[5]

"International business" is also defined as the study of the internationalization process of multinational enterprises.
A multinational enterprise (MNE) is a company that has a worldwide approach to markets, production and/or operations in several countries. Well-known MNEs include fast-food companies such as: McDonald's (MCD), YUM (YUM), Starbucks Coffee Company (SBUX), etc. Other industrial MNEs leaders include vehicle manufacturers such as: Ford Motor Company, and General Motors (GMC). Some consumer electronics producers such as Samsung, LG and Sony, and energy companies such as Exxon Mobil, and British Petroleum (BP) are also multinational enterprises.

Multinational enterprises range from any kind of business activity or market, from consumer goods to machinery manufacture; a company can become an international business. Therefore, to conduct business overseas, companies should be aware of all the factors that might affect any business activities, including, but not limited to: difference in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local cultures, corporate cultures, foreign-exchange markets, tariffs, import and export regulations, trade agreements, climate, and education. Each of these factors may require changes in how companies operate from one country to another. Each factor makes a difference and a connection.

One of the first scholars to engage in developing a theory of multinational companies was Canadian economist Stephen Hymer.[6] Throughout his academic life, he developed theories that sought to explain foreign direct investment (FDI) and why firms become multinational.

There were three phases of internationalization according to Hymer's work.[7] In this thesis, the author departs from neoclassical theory and opens up a new area of international production. At first, Hymer started analyzing neoclassical theory and financial investment, where the main reason for capital movement is the difference in interest rates. After this analysis, Hymer analyzed the characteristics of foreign investment by large companies for production and direct business purposes, calling this Foreign Direct Investment (FDI). By analyzing the two types of investments, Hymer distinguished financial investment from direct investment. The main distinguishing feature was control. Portfolio investment is a more passive approach, and the main purpose is financial gain, whereas in foreign direct investment a firm has control over the operations abroad. So, the traditional theory of investment based on differential interest rates does not explain the motivations for FDI.

According to Hymer, there are two main determinants of FDI; where an imperfect market structure is the key element. The first is the firm-specific advantages which are developed at the specific companies home country and, profitably, used in the foreign country. The second determinant is the removal of control where Hymer wrote: "When firms are interconnected, they compete in selling in the same market or one of the firms may sell to the other," and because of this "it may be profitable to substitute centralized decision-making for decentralized decision-making".

Hymer's second phase is his neoclassical article in 1968 that includes a theory of internationalization and explains the direction of growth of the international expansion of firms. In a later stage, Hymer went to a more Marxist approach where he explains that MNC as agents of an international capitalist system causing conflict and contradictions, causing among other things inequality and poverty in the world. Hymer is the "father of the theory of MNEs", and explains the motivations for companies doing direct business abroad.

Among modern economic theories of multinationals and foreign direct investment are internalization theory and John Dunning's OLI paradigm (standing for ownership, location and internationalization). Dunning was widely known for his research in economics of international direct investment and the multinational enterprise. His OLI paradigm, in particular, remains as the predominant theoretical contribution to study international business topics. Hymer and Dunning are considered founders of international business as a specialist field of study.

Physical and social factors of competitive business and social environment

The conduct of international operations depends on a company's objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

Operations

All firms that want to go international have one goal in common; the desire to increase their respective economic values when engaging in international trade transactions. To accomplish this goal, each firm must develop its individual strategy and approach to maximize value, lower costs, and increase profits. A firm's value creation is the difference between *V* (the value of the product being sold) and *C* (the cost of production per each product sold).[8]

Value creation can be categorized as: primary activities (research and development, production, marketing and sales, customer service) and as support activities (information systems, logistics, human resources).[9] All of these activities must be managed effectively and be consistent with the firm strategy. However, the success of firms that extend internationally depends on the goods or services sold and on the firm's core competencies (Skills within the firm that competitors cannot easily match or imitate). For a firm to be successful, the firm's strategy must be consistent with the environment in which the firm operates. Therefore, the firm needs to change its organizational structure to reflect changes in the setting in which they are operating and the strategy they are pursuing.

Once a firm decides to enter a foreign market, it must decide on a mode of entry. There are six different modes to enter a foreign market, and each mode has pros and cons that are associated with it. The firm must decide which mode is most appropriately aligned with the company's goals and objectives.

The six different modes of entry are exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host-country firm, or setting up a new wholly owned subsidiary in the host country.

The first entry mode is exporting. Exporting is the sale of a product in a different national market than a centralized hub of manufacturing. In this way, a firm may realize a substantial scale of economies from its global sales revenue. As an example, many Japanese automakers made inroads into the U.S. market through exporting.

There are two primary advantages to exporting: avoiding high costs of establishing manufacturing in a host country (when these are higher) and gaining an experience curve.

Some possible disadvantages to exporting are high transport costs and high tariff barriers.

The second entry mode is a turnkey project. In a turnkey project, an independent contractor is hired by the company to oversee all of the preparation for entering a foreign market. Once the preparation is complete and the end of the contract is reached, the plant is turned over to the company fully ready for operation.

Licensing and franchising are two additional entry modes that are similar in operation.

Licensing allows a licensor to grant the rights to an intangible property to the licensee for a specified period of time for a royalty fee.

Franchising, on the other hand, is a specialized form of licensing in which the "franchisor" sells the intangible property to the franchisee, and also requires the franchisee operate as dictated by the franchisor.

Lastly, a joint venture and wholly owned subsidiary are two more entry modes in international business. A joint venture is when a firm created is jointly owned by two or more companies (Most joint venture are 50-50 partnerships). This is in contrast with a wholly owned subsidiary, when a firm owns 100 percent of the stock of a company in a foreign country because it has either set up a new operation or acquires an established firm in that country.[15]

Exports and import

- Merchandise exports: goods exported—not including services.
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- Merchandise imports: The physical good or product that is imported into the respective country. Countries import products or goods that their country lacks in. An example of this is that Colombia must import cars since there is no Colombian car company.
- Service exports: As of 2018, the fastest growing export sector. The majority of the companies create a product that requires installation, repairs, and troubleshooting, Service

exports is simply a resident of one country providing a service to another country. A cloud software platform used by people or companies outside the home country.

- "Tourism and transportation, service performance, asset use".
- Exports and Imports of products, goods or services are usually a country's most important international economic transactions

.Choice of entry mode in international business

Strategic variables affect the choice of entry mode for multinational corporation expansion beyond their domestic markets. These variables are global concentration, global synergies, and global strategic motivations of MNC.

- Global concentration: many MNEs share and overlap markets with a limited number of other corporations in the same industry.
- Global synergies: the reuse or sharing of resources by a corporation and may include marketing departments or other inputs that can be used in multiple markets. This includes, among other things, brand name recognition.
- Global strategic motivations: other factors beyond entry mode that are the basic reasons for corporate expansion into an additional market. These are strategic reasons that may include establishing a foreign outpost for expansion, developing sourcing sites among other strategic reasons.

Means of businesses

International Business Media

International business media encompasses a diverse range of channels that facilitate the dissemination of information and communication among businesses operating across borders. These channels play a crucial role in keeping stakeholders informed about global market trends, emerging opportunities, and potential risks. Here are some of the key types of international business media:

- Industry-Specific Publications:* Specialized magazines, journals, and newsletters that focus on particular industries or sectors, providing in-depth analysis, expert commentary, and industry news.
- Financial News Outlets:* Global media organizations that report on financial markets, economic developments, and business performance, offering insights into investment opportunities and economic trends.
- Business Television Networks:* Broadcast and online channels dedicated to business news, featuring interviews with CEOs, market analysis, and reports on global business events.
- Online Business Resources:* Websites, blogs, and social media platforms that provide news, analysis, and commentary on international business, often catering to specific regions or industries.

In addition to traditional media, there are also a number of social media channels that focus on international business. These channels can be a good way to stay up-to-date on the latest news and developments, and they can also be a valuable platform for connecting with other businesses and professionals.

Physical and social factors

- Geographical influences: There are many different geographic factors that affect international business. These factors are: the geographical size, the climatic challenges happening throughout the world, the natural resources available on a specific territory, the population distribution in a country, etc.[20]
- Social factors: Political policies: political disputes, particularly those that result in the military confrontation, can disrupt trade and investment.
- Legal policies: domestic and international laws play a big role in determining how a company can operate overseas.
- Behavioural factors: in a foreign environment, the related disciplines such as anthropology, psychology, and sociology are helpful for managers to get a better understanding of values, attitudes, and beliefs.
- Economic forces: economics explains country differences in costs, currency values, and market size
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Risk

- **Faulty Planning**

To achieve success in penetrating a foreign market and remaining profitable, efforts must be directed towards the planning and execution of Phase I. The use of conventional SWOT analysis, market research, and cultural research, will give a firm appropriate tools to reduce risk of failure abroad.

Risks that arise from poor planning include: large expenses in marketing, administration and product development (with no sales); disadvantages derived from local or federal laws of a foreign country, lack of popularity because of a saturated market, vandalism of physical property due to instability of country; etc. There are also cultural risks when entering a foreign market. Lack of research and understanding of local customs can lead to alienation of locals and brand dissociation.

Strategic risks can be defined as the uncertainties and untapped opportunities embedded in your strategic intent and how well they are executed. As such, they are key matters for the board and impinge on the whole business, rather than just an isolated unit.[22]

- **Operational risk**

A company has to be conscious about the production costs to not waste time and money. If the expenditures and costs are controlled, it will create an efficient production and help the internationalization.[21] Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies; employee errors, systems failure, fraud or other criminal activity, or any event that disrupts business processes.[23]

- **Political risk**

How a government governs a country (governance) can affect the operations of a firm. The government might be corrupt, hostile, or totalitarian; and may have a negative image around the globe. A firm's reputation can change if it operates in a country controlled by that type of government.[21] Also, an unstable political situation can be a risk for multinational firms. Elections or any unexpected political event can change a country's situation and put a firm in an awkward position.

Political risks are the likelihood that political forces will cause drastic changes in a country's business environment that hurt the profit and other goals of a business enterprise. Political risk tends to be greater in countries experiencing social unrest. When political risk is high, there is a high probability that a change will occur in the country's political environment that will endanger foreign firms there. Corrupt foreign governments may also take over the company without warning, as seen in Venezuela.

- **Technological risk**

Technological improvements bring many benefits, but some disadvantages as well. Some of these risks include "lack of security in electronic transactions, the cost of developing new technology ... the fact that this new technology may fail, and, when all of these are coupled with the outdated existing technology, [the fact that] the result may create a dangerous effect in doing business in the international arena."

- **Environmental risk**

Companies that establish a subsidiary or factory abroad need to be conscious about the externalizations they will produce, as some may have negative effects such as noise or pollution.

This may cause aggravation to the people living there, which in turn can lead to a conflict. People want to live in a clean and quiet environment, without pollution or unnecessary noise. If a conflict arises, this may lead to a negative change in customer's perception of the company.

Actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of an organization's activities is considered to be risks of the environment. As new business leaders come to fruition in their careers, it will be increasingly important to curb business activities and externalizations that may hurt the environment.[26]

- **Economic risk**

These are the economic risks explained by Professor Okolo: "This comes from the inability of a country to meet its financial obligations. The changing of foreign-investment or/and domestic fiscal or monetary policies. The effect of exchange-rate and interest rate make it difficult to conduct international business.

Moreover, it can be a risk for a company to operate in a country and they may experience an unexpected economic crisis after establishing the subsidiary.

Economic risks is the likelihood that economic management will cause drastic changes in a country's business environment that hurt the profit and other goals of a business enterprise. In practice, the biggest problem arising from economic mismanagement has been inflation. Historically many governments have expanded their domestic money supplying misguided attempts to stimulate economic activity.

- **Financial risk**

According to Professor Okolo: "This area is affected by the currency exchange rate, government flexibility in allowing the firms to repatriate profits or funds outside the country. The devaluation and inflation will also affect the firm's ability to operate at an efficient capacity and still be stable."

Furthermore, the taxes that a company has to pay might be advantageous or not. It might be higher or lower in the host countries. Then "the risk that a government will indiscriminately change the laws, regulations, or contracts governing an investment—or will fail to enforce them—in a way that reduces an investor's financial returns is what we call 'policy risk.'"

Exchange rates can fluctuate rapidly for a variety of reasons, including economic instability and diplomatic issues.

- **Terrorism**

Terrorism is a voluntary act of violence towards a group(s) of people. In most cases, acts of terrorism is derived from hatred of religious, political and cultural beliefs. An example was the infamous 9/11 attacks, labeled as terrorism due to the massive damages inflicted on American society and the global economy stemming from the animosity towards Western culture by some radical Islamic groups. Terrorism not only affects civilians, but it also damages corporations and other businesses. These effects may include: physical vandalism or destruction of property, sales declining due to frightened consumers and governments issuing public safety restrictions. Firms engaging in international business will find it difficult to operate in a country that has an uncertain assurance of safety from these attacks.

- Bribery

Bribery is the act of receiving or soliciting of any items or services of value to influence the actions of a party with public or legal obligations. This is considered to an unethical form of practicing business and can have legal repercussions. Firm that want to operate legally should instruct employees to not involve themselves or the company in such activities. Companies should avoid doing business in countries where unstable forms of government exist as it could bring unfair advantages against domestic business and/or harm the social fabric of the citizens.

Regulations

International business activities are governed by international commercial law, which is a set of legal rules, conventions, treaties, domestic laws and commercial customs used to regulate trade between countries. Therefore, It is a branch of law that basically aims to provide legal rules applicable to relations between business entities when the movement of products, services or values involves several countries.

After World War II and the rise of free trade between countries, multilateral arrangements such as the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO) became the primary mechanism for regulating global commerce.[29] The International Chamber of Commerce (ICC) is another important organization that sets rules for international trade and resolves disputes.

Factors towards globalization

There has been growth in globalization in recent decades due to the following factors.

- Technology is expanding, especially in transportation and communications.
- Governments are removing international business restrictions.[citation needed]
- Institutions provide services to ease the conduct of international business.
- Consumers want to know about foreign goods and services.[citation needed]
- Competition has become more global.
- Political relationships have improved among some major economic powers.[citation needed]
- Countries cooperate more on transnational issues.
- Cross-national cooperation and agreements have increased.

Importance of international business education

- Most companies are either international companies or compete with other international companies.
- Modes of operation may differ from those used domestically.
- The best way of conducting business may differ by country.
- An understanding helps one make better career decisions.
- An understanding helps one decide what governmental policies to support.

Managers in international business must understand social science disciplines and how they affect different functional business fields.

To maintain and achieve successful business operations in foreign nations, persons must understand how variations in culture and traditions across nations affect business practices. This idea is known as cultural literacy.

Without knowledge of a host country's culture, corporate strategizing is more difficult and error-prone when entering foreign markets compared with the home country's market and culture. This can create a "blind spot" during the decision making process and result in ethnocentrism. Education about international business introduces the student to new concepts that can be applicable in international strategy in topics such as marketing and operations.

Importance of language and cultural studies

A considerable advantage in international business is gained through the knowledge and use of language, thereby mitigating a language barrier. A study by Lohmann (2011) in *Economics Letters* delved into the impact of language barriers on trade. The findings suggest that fluency in the local language can significantly enhance trade interactions.[31] Advantages of being an international businessperson who is fluent in the local language include the following:

- Having the ability to directly communicate with employees and customers
- Understanding the manner of speaking within business in the local area to improve overall productivity
- Gaining respect of customers and employees from speaking with them in their native tongue

In many cases, it plays a crucial role. It is truly impossible to gain an understanding of a culture's buying habits without first taking the time to understand the culture. Examples of the benefit of understanding local culture include the following:

- Being able to provide marketing techniques that are specifically tailored to the local market
- Knowing how other businesses operate and what might or might not be social taboos
- Understanding the time structure of an area. Some societies are more focused on timeliness ("being on time") while others focus on doing business at "the right time".
- Associating with people who do not know several languages.
- Language barriers can affect transaction costs. Linguistic distance is defined as the amount of variation one language has

from another. For example, French, and Spanish are both languages derived from Latin. When evaluating dialogue in these languages, you will discover many similarities. However, languages such as English and Chinese or English and Arabic vary much more strongly and contain far fewer similarities. The writing systems of these languages are also different. The larger the linguistic distance there, the wider language barriers to cross. These differences can reflect on transaction costs and make foreign business operations more expensive.

Importance of studying international business

The international business standards focus on the following:

- raising awareness of the inter-relatedness of one country's political policies and economic practices on another;
- learning to improve international business relations through appropriate communication strategies;
- understanding the global business environment—that is, the interconnections of cultural, political, legal, economic, and ethical systems;
- exploring basic concepts underlying international finance, management, marketing, and trade relations; and
- identifying forms of business ownership and international business opportunities.

By focusing on these, students will gain a better understanding of Political economy. These are tools that would help future business people bridge the economic and political gap between countries.

There is an increasing amount of demand for business people with an education in international business. A survey conducted by

Thomas Patrick from University of Notre Dame concluded that bachelor's degree and master's degree holders felt that the training received through education were very practical in the working environment. Increasingly, companies are sourcing their human resource requirement globally. For example, at Sony Corporation, only fifty percent of its employees are Japanese.

Business people with an education in international business also had a significantly higher chance of being sent abroad to work under the international operations of a firm.

World Trade Organisation,

WTO – World Trade Organisation, was established in 1995 as the heir organisation to the GATT (General Agreement on Trade and Tariff). GATT was founded in 1948 with 23 nations as the global (international) trade organisation to serve all multilateral trade agreements by giving fair chances to all nations in the international exchange for trading prospects. WTO is required to build a rule-based trading government in which countries cannot place unreasonable constraints on trade.

In addition, its mission is to increase stock and trade of services, to assure maximum utilisation of world resources and to preserve the environment. The WTO deals include trade in commodities as well as services to promote international trade (bilateral and multilateral) through the elimination of the tax as well as non-tariff obstacles and implementing greater marketplace access to all member nations.

As an influential member of WTO, India is at the lead of building fair global laws, statutes and shields and supporting the concerns of the developing system. India has fulfilled its promises towards the liberalisation of trade, made in the WTO, by eliminating quantitative limitations on imports and decreasing tariff charges.

Objectives of WTO

- To set and execute rules for international trade
- To present a panel for negotiating and controlling additional trade liberalization
- To solve trade conflicts
- To improve the clarity of decision-making methods

RECENT -The WTO has six key objectives:

(1) to set and enforce rules for international trade,

(2) (2) to provide a forum for negotiating and monitoring further trade liberalization,

(3) (3) to resolve trade disputes,

(4) (4) to increase the transparency of decision-making processes,

(5) (5) to cooperate with other major international economic

Role of International Trade

Role of International Trade The buying and selling of goods and services across national borders is known as international trade. International trade is the backbone of our modem, commercial world, as producers in various nations try to profit from an expanded market, rather than be limited to selling within their own borders. There are many reasons that trade across national borders occurs, including lower production costs in one region versus another, specialized industries, lack or surplus of natural resources and consumer tastes. However, international trade among different countries is not a new a concept.

History suggests that in the past there were several instances of international trade. There is plenty of evidence of continuous trade and exchange of ideas between India and China, through the centuries without either political cooperation or confiict^.

Traders used to transport silk, and spices through the Silk Route in the 14th and 15th century. In the 1700s fast sailing 1 ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries. The economic, political, and social significance of international trade has been theorized in the Industrial Age.

The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade.

International trading provides countries and consumers the chance to be exposed to those services and goods that are not available in their ovm country. International trading lets the developed countries use their resources effectively like technology, capital and labor. As many of the countries are gifted with natural resources and different assets (labor, technology, land and capital), they can produce many products more efficiently and sell at cheaper prices than other countries. A country can obtain an item from another country if it cannot effectively produce it within the national boundaries.

International trade has flourished over the years due to many benefits it has offered to different countries across the globe. With the help of modem production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is grov^g and spreading very fast. International trade and economic growth International trade has played an important role as a major driver of economic growth for the latter half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy.

International trade has a major role in economic development of any country.

International 2 trade has significant role in following key areas of economic development:

1. Through specialization and increased world output, international trade expands the range of commodities available to the population and thus increases choice and welfare of the population. International trade provides countries with access to resources, which they may not have naturally. It provides access to markets

for products which may not be consumed domestically. In this way, international trade stimulates economic growth.

2. Trade leads to increased and more efficient use of a nation's resources. As seen from the Hecksher - Ohlin model, it leads to factor price equalization and a rise in the real incomes of resource owners.

3. An outward looking trade policy is superior to partial or complete isolation. International trade leads to higher output, increased consumption and higher rewards for those sectors where a country has comparative advantage.

4. International trade helps to attract foreign investment to exploit a country's comparative advantage. This can also result into investment in other sectors of the economy. For example, mining and export of minerals can lead to new investments in power generation, plantation agriculture, tourism, etc. when markets and good relations are created abroad. Expanded markets would lead to increased supply of foreign investment, domestic savings and skilled labour. The international trade helps expand economy by outward shift of Production Possibility Frontier (PPF) and allows consumption outside of PPF^. Under the field of macroeconomics PPF represents the point at which an economy is most efficiently producing its goods and services 3 and, therefore, allocating its resources in the best way possible^.

5. Export-led growth creates linkages which stimulate the development of other industries. A steady growth of an export industry, such as textiles may create sufficient demand for some input such as dyes to warrant its production. This is the backward linkage associated with trade. For example, the wheat industry in

North America created sufficient demand for rail transport and farm equipment so that these industries had to be established.

6. International trade may lead the development of infrastructure such as roads, rails, power plants and telecommunications to facilitate trade.

7. Foreign trade, especially the export sector may encourage the development of local entrepreneurs and skilled labour. Trade leads to travel and exposure to different places and cultural, which can promote learning and enhance experience.

8. International trade enhances competitiveness of domestic industry as domestic industry is required to compete with international products which may be of superior quality and at a lesser price.

From an individual company's point of view international marketing offers following benefits

i) Enables overcoming domestic marketing constraints like saturated market, small size of market, recession in domestic market etc.

ii) Helps to achieve economies of scale of production.

iii) Company can tap growth opportunities in other countries.

iv) Sometimes selling in international markets may enable to earn high profits in overseas markets than domestic market.

v) Company can avail benefit of government policies and regulations like tax concessions and other incentives.

Vi) Company can enjoy spin-off benefits like improvement image of a company and develop better products in domestic market also due to development of quality culture in company.

Case Study: Government Policies and International Trade –

The Case of India's Economic Reforms

Background

India, as one of the world's largest economies, has undergone significant economic transformations through government intervention, monetary and fiscal policies, and international trade participation. Prior to 1991, India followed a protectionist economic model with heavy government regulation. However, due to a balance of payments crisis, the government introduced a series of economic reforms that liberalized trade and investment policies, restructured monetary and fiscal policies, and aligned with international trade regulations under the World Trade Organization (WTO).

Role of Government in Business Regulation and Development

The Indian government plays a crucial role in regulating and developing businesses through various policy measures. Regulatory frameworks such as the Companies Act, SEBI regulations, and competition laws ensure a fair business environment. Developmental initiatives like the "Make in India" and "Startup India" campaigns encourage entrepreneurship and industrial growth.

Monetary and Fiscal Policy

India's central bank, the Reserve Bank of India (RBI), regulates monetary policy through tools like interest rates, cash reserve ratios, and open market operations to control inflation and ensure economic stability. Fiscal policy, managed by the government, involves taxation, public spending, and subsidies to promote economic growth and social welfare. The introduction of the Goods and Services Tax (GST) streamlined India's tax structure, improving business operations.

International Business Environment

Globalization has integrated India into the world economy, leading to increased foreign direct investment (FDI) and international trade. Policies on trade liberalization and investment protection agreements with various countries have facilitated economic growth. However, challenges like trade wars, fluctuating currency values, and geopolitical tensions impact international business.

WTO's Role in India's Trade

India is a founding member of the WTO and actively participates in trade negotiations. WTO policies have influenced India's tariff structures, intellectual property laws (TRIPS agreement), and dispute resolution mechanisms. While WTO membership has opened markets for Indian exports, concerns remain over agricultural subsidies, patent laws, and fair trade practices.

Discussion Questions

1. How has the Indian government balanced regulation and business development to ensure economic growth?
2. What role does monetary policy play in stabilizing inflation and promoting industrial growth in India?
3. Discuss the impact of India's fiscal policies, such as the introduction of GST, on businesses and trade.
4. How does India's participation in WTO affect its trade policies and international business environment?
5. What challenges and opportunities does India face in the global business environment due to economic liberalization and WTO regulations?