Unit II

Subject Name	Sub Code	Semester	Prepared by
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International Business Environment comprises the political, **economic**, regulatory, tax, social & cultural, legal, & technological **environments**.

Factors in International Business Environment

1. An international business geographic conditions.
2.cultural and social factors.
3. political and legal factors.
4. economic conditions.

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:

1. The Political system of the business;
2.Approaches to the Government towards business i.e. Restrictive or facilitating;
3.Facilities & incentives offered by the Government;
4. Legal restrictions for instance licensing requirement, reservation to a specific sector like the public sector, private or small-scale sector;
5.The Restrictions on importing technical know-how, capital goods & raw materials;
6.The Restrictions on exporting products & services;
7. Restrictions on pricing & distribution of goods;
8.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:

1. An Economic system to enter the business sector.
2. Stage of economic growth & the pace of growth.
3. Level of national & per capita income.
4. Incidents of taxes, both direct & indirect tax.
5. Infrastructure facilities available & the difficulties thereof.
6. Availability of raw materials & components & the cost thereof.
7. Sources of financial resources & their costs.
8. 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:

1. Level of technological development in the country as a whole & specific business sector.
2.The pace of technological changes & technological obsolescence.
3.Sources of technology.
4. 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. The most well-known is that developed by Hofstede in1980.

His model proposes four dimensions of cultural values including individualism, uncertainty avoidance, power distance & masculinity. Individualism is the degree to which a nation values & encourages individual action & decision making. Uncertainty avoidance is the degree to which a nation is willing to accept & deal with uncertainty.

Power distance is the degree to which a national accepts & sanctions differences in power.

This model of cultural values has been used extensively because it provides data for a wide array of countries. Many academics & the managers found that this model helpful in exploring management approaches that would be appropriate in different cultures.

For example, in a nation that is high on individualism one expects individual goals, individual tasks, & individual reward systems to be effective, whereas the reverse would be the case in a nation that is low on individualism.

1.While analyzing social & cultural factors, the organization may consider the following aspects:

2.Approaches to society towards business in general & in specific areas;

3. Influence of social, cultural & religious factors on the acceptability of the product;

4. The lifestyle of people & the products used for them;

5. Level of acceptance of, or resistance to change;

6. Values attached to a particular product i.e. the possessive value or the functional value of the product;

7.Demand for the specific products for specific occasions;

8.The propensity to consume & to save.

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, & stem from traditional or new competitors, GST registration. 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.

Protectionism is the practice of following protectionist trade policies. A protectionist trade policy allows the government of a country to promote domestic producers, and thereby boost the domestic production of goods and services by imposing tariffs or otherwise limiting foreign goods and services in the marketplace.

Types of Protectionism

Protectionist policies come in different forms, including:

1. Tariffs

The taxes or duties imposed on imports are known as tariffs. Tariffs increase the price of imported goods in the domestic market, which, consequently, reduces the demand for them.

Consider the following example, which analyzes the UK market for US-made shoes. Due to the imposition of tariffs, the price for the product increases from GBP100 (P1) to GBP120 500 (P2). The demand for US-made shoes in the UK market decreases (from Q2 to Q4).

2. Quotas

Quotas are restrictions on the volume of imports for a particular good or service over a period of time. Quotas are known as a "non-tariff trade barrier." A constraint on the supply causes an increase in the prices of imported goods, reducing the demand in the domestic market.

3. Subsidies Subsidies are negative taxes or tax credits that are given to domestic producers by the government. They create a discrepancy between the price faced by consumers and the price faced by producers.

4. Standardization

The government of a country may require all foreign products to adhere to certain guidelines. For instance, the UK Government may demand that all imported shoes include a certain proportion of leather. Standardization measures tend to reduce foreign products in the market.

Reasons for Protectionism

An economy usually adopts protectionist policies to encourage domestic investment in a specific industry. For instance, tariffs on the foreign import of shoes would encourage domestic producers to invest more resources in shoe production.

In addition, nascent domestic shoe producers would not be at risk from established foreign shoe producers. Although domestic producers are better off, domestic consumers are worse off as a result of protectionist policies, as they may have to pay higher prices for somewhat inferior goods or services. Protectionist policies, therefore, tend to be very popular with businesses and very unpopular with consumers.

Advantages of Protectionism

1. More growth opportunities: Protectionism provides local industries with growth opportunities until they can compete against more experienced firms in the international market

2. Lower imports: Protectionist policies help reduce import levels and allow the country to increase its trade balance.

3. More jobs: Higher employment rates result when domestic firms boost their workforce

4.**Higher GDP**: Protectionist policies tend to boost the economy's GDP due to a rise in domestic production

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Disadvantages of Protectionism

1.Stagnation of technological advancements: As domestic producers don't need to worry about foreign competition, they have no incentive to innovate or spend resources on research and development (R&D) of new products. 2.Limited choices for consumers: Consumers have access to fewer goods in the market as a result of limitations on foreign goods.

3.Increase in prices (due to lack of competition): Consumers will need to pay more without seeing any significant improvement in the product.

4.Economic isolation: It often leads to political and cultural isolation, which, in turn, leads to even more economic isolation.

Trade Barriers

A government imposed restriction on the free international exchange of goods or services. Trade barriers are generally classified as import policies reflected in tariffs and other import charges, quotas, import licensing, customs practices, standards, testing, labeling, and various types of certification direct procurement by government ,subsidies for local exporters, lack of copyright protection, restrictions on franchising, licensing, technology transfer, restrictions on foreign direct investment, etc.

Types of Trade Barriers

There are several types of tariffs and barriers that a government can employ:

1.Specific tariffs.

2. Ad valorem tariffs.

3.Licenses.

4. Import quotas.

5.Voluntary export restraints.

6.Local content requirements.

The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.