

International Business Environment

By: Kshyama Sagar Meher

This reference book can be useful for
BBA, MBA, B.Com, BMS, M.Com, BCA, MCA
and many more courses for Various Universities



NEERAJ
PUBLICATIONS
www.neerajbooks.com

Published by:



NEERAJ PUBLICATIONS

(Publishers of Educational Books)

Sales Office : 1507, 1st Floor,

Nai Sarak, Delhi-110 006

E-mail: info@neerajbooks.com

Website: www.neerajbooks.com

© Reserved with the Publishers only.

Typesetting by: Competent Computers

Terms & Conditions for Buying E-Book

- The User must Read & Accept the Terms and Conditions (T&C) carefully before clicking on the accept option for Buying the Online Soft Copy of E-books. Under this Particular Facility you may buy only the Online Soft Copy of E-books, no Hard Copy or Printed Copy shall be provided under this facility.
- These E-Books are valid for 365 days online reading only (From the Date of Purchase) and no kind of Downloading, Printing, Copying, etc. are allowed in this facility as these products are just for Online Reading in your Mobile / Tablet / Computers.
- All the online soft copy E-books given in this website shall contain a diffused watermark on nearly every page to protect the material from being pirated / copy / misused, etc.
- This is a Chargeable Facility / Provision to Buy the Online Soft Copy of E-books available online through our Website Which a Subscriber / Buyer may Read Online on his or her Mobile / Tablet / Computer. The E-books content and their answer given in these Soft Copy provides you just the approximate pattern of the actual Answer. However, the actual Content / Study Material / Assignments / Question Papers might somewhat vary in its contents, distribution of marks and their level of difficulty.
- These E-Books are prepared by the author for the help, guidance and reference of the student to get an idea of how he/she can study easily in a short time duration. Content matter & Sample answers given in this E-Book may be Seen as the Guide/Reference Material only. Neither the publisher nor the author or seller will be responsible for any damage or loss due to any mistake, error or discrepancy as we do not claim the Accuracy of these solution / Answers. Any Omission or Error is highly regretted though every care has been taken while preparing these E-Books. Any mistake, error or discrepancy noted may be brought to the publishers notice which shall be taken care of in the next edition. Please consult your Teacher/Tutor or refer to the prescribed & recommended study material of the university / board / institute / Govt. of India Publication or notification if you have any doubts or confusions before you appear in the exam or Prepare your Assignments before submitting to the University/Board/Institute.
- Publisher / Study Badshah / shall remain the custodian of the Contents right / Copy Right of the Content of these reference E-books given / being offered at the website www.studybadshah.com.
- The User agrees Not to reproduce, duplicate, copy, sell, resell or exploit for any commercial purposes, any portion of these Services / Facilities, use of the Service / Facility, or access to the Service / Facility.
- The Price of these E-books may be Revised / Changed without any Prior Notice.
- The time duration of providing this online reading facility of 365 days may be alter or change by studybadshah.com without any Prior Notice.
- The Right to accept the order or reject the order of any E-books made by any customer is reserved with www.studybadshah.com only.
- All material prewritten or custom written is intended for the sole purpose of research and exemplary purposes only. We encourage you to use our material as a research and study aid only. Plagiarism is a crime, and we condone such behaviour. Please use our material responsibly.
- In any Dispute What so ever Maximum Anyone can Claim is the Cost of a particular E-book which he had paid to Study Badshah company / website.
- If In case any Reader/Student has paid for any E-Book and is unable to Access the same at our Website for Online Reading Due to any Technical Error/ Web Admin Issue / Server Blockage at our Website www.studybadshah.com then He will be send a New Link for that Particular E-Book to Access the same and if Still the Issue is Not Resolved Because of Technical Error/ Web Admin Issue / Server Blockage at our website then His Amount for that Particular Purchase will be refunded by our website via PayTM.
- All the Terms, Matters & Disputes are Subjected to "Delhi" Jurisdiction Only.

CONTENTS

S.No.	Page
1. Introduction to International Business Environment	1
2. Theories of International Trade	15
3. Balance of Payments	28
4. Instruments of Trade Policy	40
5. Globalization: An Overview	53
6. International Investment	72
7. Transnational Corporations	91
8. Technology Transfer	108
9. World Trade	122
10. Multilateral Trading System	131
11. Regional Economic Groupings	157
12. International Commodity Agreements	171
13. International Financial Institutions	182
14. Legal Framework of Foreign Trade	202
15. The Proper Law of the Contract or The LEX Cause	228
16. Settlement of International Trade Disputes	238
17. International Trade and Environment	252
18. International Trade in Services	266
19. International Business Ethics	279
20. Electronic Commerce	297

Sample Preview of The Chapter

Published by:



**NEERAJ
PUBLICATIONS**

www.neerajbooks.com

International Business Environment

Introduction to International Business Environment



Business may be defined as any economic activity on a continuous basis which involves production or purchase of goods for sale, transfer or exchange of goods, or supply of services undertaken with a view to earn profit. Business may be classified into following two groups on the basis of its geographical limits:

- (i) Domestic business.
- (ii) International business.

Domestic or internal business is carried within the geographical limits of a country while international business is carried outside the geographical limits of a country *i.e.* between two countries. Every business, whether domestic or international, operates within an environment. The term '*environment*' refers to the totality of all the factors, which are external and beyond the control of individual business enterprises. Although basic functions, processes and techniques of domestic as well as international business are essentially the same, the environment of international business differs from environment of domestic business. The environment of international business is an extremely complex phenomenon. The environmental factors vary from country to country. Hence, one cannot operate international business without thinking about environment.

Now we shall focus on the meaning, nature and relevance of the international business environment. We shall also highlight various aspects of international business environment such as geographical, economic, financial, socio-cultural, legal and ecological aspects.

Since the environment is the sum total of the history, geography, culture, sociology, politics and economics of a country, the environmental factors generally vary from country to country. The environment that is typical of India may not be found in other countries like the USA, UK and Japan. Unit 1 of this chapter deals with concept and relevance of international business environment. An environment may be classified as under:

- (i) Micro-environment
- (ii) Macro-environment

Micro-environment refers to the factors which directly influence a firm's decisions and operations. Micro-environment includes the factors in the firm's immediate environment such as suppliers, marketing intermediaries, services organizations, competitors and customers.

Macro-environment refers to the factors which affect the firm as well as other factors in the firm's micro-environment. Macro-environment includes the forces which operate at the domestic country, foreign

2 / NEERAJ : INTERNATIONAL BUSINESS ENVIRONMENT

country and global levels, such as economic, financial, socio-cultural, geographic, political, legal and ecological forces.

International business environment consists of various factors which may be classified as under:

- (a) Domestic environment
- (b) Foreign environment
- (c) Global environment

Domestic environment refers to the factors and forces existing and operating within the political boundary of a country in which business firm is working. Domestic environment consists of the factors such as competitors, economic conditions, political forces and legal forces.

Foreign environment refers to the factors and forces existing and operating in foreign country. Foreign environment consists of factors such as economic conditions, social and cultural values, political and legal forces technology prevalent in foreign countries.

Global environment refers to the factors and forces existing and operating worldwide. Global environment consists of forces have worldwide or regional influences on business operations like international financial system, international treaties, regional economic groupings etc.

A business and its environment interact and influence each-other. A business is a part of system and draws resources from its environment. Therefore, a business manager must understand the environment understanding of business environment is essential because it gets a first move advantage, acts as a warning signal for adverse conditions, sensitise the management, provides a basis of strategy, supplies source of intellectual stimulation, and helps in image building. Because of environmental differences, strategies a firm uses in the home country might not be appropriate in the foreign countries. Hence, a firm has to be careful in identifying various environmental forces operating not only at the home country, but also at host country and at global level. It is so because these environmental forces would influence firm's production, financial, personnel and marketing operations.

Following are the major components of foreign environment:

- (i) Geographical environment
- (ii) Economic and financial environment
- (iii) Socio-cultural environment
- (iv) Political environment
- (v) Legal environment
- (vi) Ecological environment.

Geographical environment refers to a country's climate, topography, natural resources and people.

Despite scientific and technological development, geographical environment retains its relevance for international business activity. Geographical environment affects the supply and demand of the products equally. For example, sugar industry is found in the regions where sugarcane is grown because of suitable climatic and soil conditions. Similarly, demand for air-conditioners and refrigerators will be for more in tropical regions than in temperate climate zones. Further, there will be no demand for woollens in tropical regions. Firm's distribution and logistic strategies are also influenced by geographical conditions in the foreign markets. Population of a country determines the market size and market potential of the products.

Economic and financial environment are closely related to each-other. Economic environment refers to broad characteristics of the economic system in which the firm carries out its business activities. Following are the major factors of economic environment influencing the foreign market decisions:

- (i) Economic development
- (ii) Gross national product and its sectoral distribution
- (iii) Expenditure pattern
- (iv) Infrastructure *i.e.* social overheads such as transportation, communication, warehousing, advertising etc.

Financial environment refers to broad characteristics of the financial system prevailing in the foreign country. Following are the major factors of financial environment influencing the foreign market decisions:

- (a) Monetary policy
- (b) Fiscal policy
- (c) Commercial policy or trade policy
- (d) Foreign investment policy
- (e) Balance of payments account.

Socio-cultural environment refers to social values prevailing in a country. Socio-cultural environment consists of customs, habits, beliefs, values, attitudes, language etc. Culture of a society changes only gradually and a business firm cannot afford to ignore this reality. Culture refers to that part of the total repertoire of human action which is socially transmitted. Culture consists of both material culture and non-material culture. Material culture involves man made things while non-material culture includes language, ideals, beliefs, values, music etc. Following are the important elements of culture:

- (i) Language
- (ii) Aesthetics

- (iii) Education
- (iv) Religions and superstitions
- (v) Attitudes and values
- (vi) Material culture
- (vii) Technology
- (viii) Social groups and organizations
- (ix) Business customs and practices.

Political environment of the international business is the set of governmental institutions. Political parties and organizations that are the expression of the people in the nations of the world. The political environment varies from country to country. It is very important to understand a particular government's actions with respect to taxes, dilution of equity control and expropriation. Following factors constitute the political environment of the countries:

- (i) Form of government and political party system
- (ii) Political ideology and role of government
- (iii) Political stability
- (iv) Political risks including confiscation, expropriations, nationalisation and domestication.

Legal environment of international business means the legal framework within which business firms operate. From the point of view of business, not all legislations are relevant. Legislations defining property and business organizations, laws of contracts and bankruptcy, mutual obligations of labour and management and laws and regulations constraining the way business activities are carried out constitute legal environment of business. Since different countries have different legal systems, a major problem faced by the international business firms in which country's laws—host country's or home country's or third country's laws shall binding in case of a dispute. Firms engaged in international business should also be aware of different modes of the settlement of trade disputes and role of International Chambers of Commerce; Court of Arbitration.

Ecological environment refers to the factors influencing the plants, people and institutions. Ecology refers to the interrelationship between people, the fauna (birds and animals) the flora (plants and forests) and their physical surroundings. Till recently the business had not cared for ecological effects of its activities. Guided entirely by its profit maximisation goal, the business caused tremendous damage to ecology. In many countries, with a view to protect environment, a number of laws have been passed. The purpose of environmental laws is to protect the purity of the

environment and preserve the ecological balance. For example, the Government of India has laid down emission norms for automobiles under the Motor Vehicles Rules, 1989.

CHECK YOUR PROGRESS

Q. 1. What is micro-environment?

Ans. Micro-environment refers to such players whose decisions and actions have a direct bearing on the enterprise. In other words, micro-environment means the actors in the enterprise's immediate environment, which directly influences the enterprise's decisions and operations. Micro-environment includes the following:

- (i) Input suppliers
- (ii) Workers and their unions
- (iii) Customers
- (iv) Competitors
- (v) Market intermediaries
- (vi) General public.

Q. 2. Distinguish between domestic and foreign environments.

Ans. Domestic environment refers to the factors and forces existing and operating within the political boundary of a country in which business firm is working. Since domestic environment exists at the national level, a business firm is generally familiar with it. On the other hand, foreign environment refers to the factors and forces operating in foreign country. Since foreign environment operates in foreign country, a firm is generally not familiar with it. A firm has to make conscious efforts to know the foreign environment.

Q. 3. Mention the major components of foreign environment.

Ans. Following are the major components of foreign environment:

- (i) Geographical environment
- (ii) Economic and financial environment
- (iii) Socio-cultural environment
- (iv) Political environment
- (v) Legal environment
- (vi) Ecological environment

Q. 4. What is the significance of understanding foreign environment for a firm engaged in international business?

Ans. Business environment is dynamic and is undergoing fast and significant changes. Changes in business environment influence the business decisions. Successful business firms would be those who have monitored the foreign environment to identify the opportunities and threats affecting their business.

4 / NEERAJ : INTERNATIONAL BUSINESS ENVIRONMENT

Following are the points showing significance of understanding foreign environment:

- (i) A firm gets a first mover advantage.
- (ii) It acts as a warning signal for adverse conditions.
- (iii) It provides a basis for strategy.
- (iv) It sensitises the management to the changing needs of the customers.

Q. 5. What do you mean by global environment?

Ans. Global environment refers to the factors and forces existing and operating on worldwide basis or regional basis. Global environment consists of forces listed as under:

- (i) International economic conditions
- (ii) International financial system
- (iii) International agreements and treaties
- (iv) Regional economic groupings.

Global environment transcends national boundaries and is not confined in its impact to just one country. Global environment exerts influence over domestic as well as foreign countries. Global forces exert worldwide or regional influences on business operations.

Q. 6. Write three examples of global environmental forces having worldwide or regional influences on business operations.

Ans. Following are three examples of global environmental forces having worldwide or regional influences on business operations:

- (i) World Trade Organization
- (ii) World Bank
- (iii) Association of South East Asian Nations. (ASEAN)

Q. 7. What is economic environment?

Ans. Economic environment refers to the broad characteristics of the economic system in which a firm operates. Economic environment consists of uncontrollable factors. Economic environment is sum total of institutional framework, physical framework and physical anatomy of the economy. The most important factors of economic environment are as under:

- (i) Economic development
- (ii) Gross National Product and its distribution
- (iii) Expenditure pattern
- (iv) Infrastructure.

Q. 8. Distinguish between Current Account and Capital Account.

Ans. Current account is that part of balance of payment account which shows all items of flow nature.

Flow is a variable which has time dimension *i.e.* related to a specific period of time. Current account includes the following:

- (i) Imports and exports of goods
- (ii) Imports and exports of services
- (iii) Unilateral transfers.

Capital account is that part of balance of payment account which shows all items of stock nature. Stock is a quantity which is measured at a point of time.

Capital account includes the following:

- (i) Capital receipts
- (ii) Capital payments

Q. 9. Enumerate four elements of culture.

Ans. Following are four elements of culture:

- (i) Language
- (ii) Education
- (iii) Religions and superstitions
- (iv) Attitudes and values.

Q. 10. What is material culture?

Ans. According to **Ball and McCulloch**, material culture refers to all man made objects and its study is concerned with how man makes things and who makes what and why.

Q. 11. What is political instability?

Ans. Political instability may be defined as frequent changes in the government and government policies. Political instability is caused by one or more factors given as follows:

- (i) Change in the type of government
- (ii) Shift in political parties forming the government
- (iii) Change in the government policies without change in the government
- (iv) Shifts in political parties.

Q. 12. Distinguish between confiscation and expropriation.

Ans. Confiscation refers to a situation under which a foreign investment is forfeited by a government. It implies that no compensation is paid for taking over the foreign investment. Expropriation refers to a situation under which a foreign investment is taken over by the government by paying some compensation, which may not be equal to market value of foreign investment. It implies that compensation is paid for taking over the foreign investment.

Q. 13. What do you mean by domestication?

Ans. Domestication refers to a situation under which freedom of operation of a foreign operator is