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# GEOPOLITICS OF GLOBAL BUSINESS: WITH SPECIAL REFERENCE TO INDIA

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## Abstract

*Geopolitics plays important role in modern discourse of global business. Business students need to understand the geopolitical events, because business houses irrespective of their locations or sectors must consider the external factors of business. Big business houses also take part in geopolitics and promote the products in an international market. Business is deeply influenced by the geopolitical events such as USA withdrawal from Paris agreement, US-China trade imbalance, US sanctions on North-Korea and Iran, Middle-East conflicts, Madrid and Moscow bombings and ISIS's presence in West Asia. Successful investors have to adjust their business activities to changing geopolitical events. The research studies on the geopolitical factors in global business are scarce and minimum. Thus the situation demands to investigate how the national laws, licensing, permits, investment, discriminatory restrictions, taxes, tariffs and currency risks play the crucial roles in the international business. This study summarises the geopolitical factors which are impacting the global business and furnishes a set of recommendations for better business opportunities.*

*The focus of the paper has been confined to the complex relationship between political issues and factors of international business. While on methodology of the study, the reports of the Ministry of Commerce and Industry, Ministry of Finance, Global Business, UNIDO and Department for Promotion of Industry and International Trade are analysed. Most important the business laws of the countries are analysed in the perspective of global business. The study delivers a clear set of guidelines to all the stakeholders for promotion of international business.*

***Key words:*** *Geopolitics, Global Business, Business Law, Licensing, International Business*

## THE CONTEXT: GEOPOLITICS OF BUSINESS

Many times, uncertain geopolitical events shape the business environment. It is vital for the business professionals to understand the geopolitical events because companies, irrespective of their location, sector or size devise strategies according to geopolitical situations. Geopolitical risks persuade investors to avoid shares. This impacts the stock market returns in a negative way. Very often, investors shift their business to the countries which provide better ease of doing business. For instance, in the last two years, many investors have shifted their business from China to Vietnam, Singapore, Indonesia and Bangladesh. Again due to covid-19 situation, Chinese investors have moved to the other countries. Japan has supported the Japanese companies to move out of China and relocate in Asian countries.

International business reduces the cost of product owing to the competitive pricing and allows the domestic industries to market their products globally. Market situation fluctuates with the development of political situation of the state. Terrorism, a political problem, has created a new threat to international business. The global supply chain on goods, services, technologies and labour are all integrated. Again, national economies are open to global market forces (Jain 2002).

Geopolitical factors can influence business in many ways. The external environmental factors can impact business. The change in political establishment can alter business policies of the country. For instance, the trump administration in America imposed new tariffs on steel items imported from China. Similarly, Indian government has recently introduced government's approval is mandatory for foreign direct investment from the neighbouring countries. Business professionals need to know country's approach towards free market and regulation of industries. The country's economic policies such as socialism or capitalism determines the business approach. Private entities control the means of production in a capitalist country. Contrarily, government controls the economy and means of production in a socialist country. In a global scenario, democratic governments have supported capitalism and authoritarian regimes have adopted socialist economy. Many developing countries such as China, India, Hungary and Mexico have protected their industries from global competition (Malhotra, 2019).

Political stability of a country plays an import role in international business. United States, Canada, Vietnam, Bangladesh, China, Japan and Australia provide political stability in their respective countries. The stability of

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the government impacts the economic and trade policies. However authoritarian countries such as China or North Korea have combined state intervention with private investment. This system is termed as "a socialist market economy." Unlike other countries, Chinese government controls the internet use of the country. As a result, Baidu, a Chinese search engine, is more popular than Google in China and Baidu has earned 73 per cent of the total search-engine revenues (Winkler, 2010).

Some countries have lengthy formalities for export and import of goods. The Japanese are expert in creating the trade barriers. Japan has the track record of checking every tulip bulb by Customs Inspectors in a damaging way. As a result, Netherland exports tulip bulbs to most countries of the world barring Japan.

Geopolitical effects are quite visible due to uncertainty emerged from the US-China trade dispute (Wade, 2019). Despite dispute, the dollar has been strong in the currency market and capitals flowed to the USA market. Countries such as USA, India and Brazil are more robust to the external factors because GDP is driven by the domestic factors. On the contrary, China, Germany, Japan and Singapore are dependent on international trade thus venerable to geopolitical factors. Global business houses must examine business policies and regulations of the government. Analysing the above context, the hypothesis has been framed to validate the role of geo-political factors in the international business.

## STUDY HYPOTHESIS

The provisional supposition of the study is geopolitical factors of the country affect business operation in twin ways - structural and populist factors. Structural factors are determined by government's measures such as legislation, taxation, and trade regulation, multilateral and bilateral treaties. Populist factors involve political ideology, nationalism, administrative measures, corruption and freedom of the press. Due to easy transmission of information, populist factors are more vulnerable than structural ones.

## METHODOLOGY

With a view to enrich the existing international business theories, authors explored the factors of the international business. This study is analytical in nature and analyses the structural factors such as tariff barriers, administrative policies, tax structure, trade regulations and business laws. Similarly, the non-structural factors such as variation in currency rates, corruption and bureaucratic efficiency have been analysed in the report.

The study is based on secondary sources of information drawn from articles on international business, newspaper editorials, WTO reports, website of government and Ministries. In a qualitative study of this nature, author attempted to analyse the contextual and real world business knowledge.

## RESEARCH QUESTION

Many countries and big business houses have limited knowledge about the geopolitical scenario of a country that deeply influences the business expansion. In a view to the problem; the author desires to ask how structural and unpredictable factors of the government have influenced the global business.

## POPULIST FACTORS OF BUSINESS

The rise of populism does affect business. Brexit issues, the election of USA president, the coalition government in Italy, victory of new political forces in Sri Lanka and Israel are all examples of populism. The populist factors such as corruption, political instability, bureaucratic inefficiency, terrorism and variation in currency rates do affect the business. The populist factors are basically aberration of the state system.

Totalitarian government creates higher risk for business than a democratic set-up. The stability of a political system creates conducive environment for business. Similarly, the image of government can affect the operation of a business firm. The corrupt, autocratic and communist government carries a negative image. Contrarily, the honest and transparent government can attract more investments. Undoubtedly, an unstable political situation is perilous for multinational firms. An unexpected geopolitical event can change a country's situation and place the company in an awkward position. For instance, the privatisation of the public sector units influence the business environment. Business risk is higher in countries facing social unrest. Corrupt foreign governments may take over the company without prior warning as seen in Venezuela (Hill, 2005).

## POLITICAL IDEOLOGY OF STATE

Political pressure on government by the interest groups influence the business environment. In India, RSS, a pressure group promoting national interest, is pressurising the government to reject Genetically Modified (GM)

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crops as it will harm Indian farmers. Thus GM crop business is not success in India. Ideology of the government influences functioning of the government. So, knowledge of the political ideologies is crucial for the businessmen to anticipate the business policy (World Economic Outlook, 2003). Totalitarian regimes and democracies present different political risks to business. Countries governed by extremist policies and military leadership create dictatorship on business autonomy. Business houses need to adjust business operations matching with the countries' institutions, ideology and political institutions (World Bank, 2003). The assessment of geopolitical risks is difficult today due to unexpected violence, political upheavals and terrorist strike. All create an atmosphere of business uncertainty. It is assumed that business entities prefer to operate in democratic and capitalist countries. However, Chinese experience nullifies this statement.

## TARIFF BARRIERS

Tariff barrier implies duties imposed on imports to protect the local industries. The countries, such as Palau (29.9 per cent) Bermuda (20.9 per cent) and Bahamas (18.6 per cent), Solomon Islands (18.5 per cent) have tariff barriers; whereas, Hong Kong (0 per cent), Brunei (0 per cent) and Singapore (0.1 per cent) and Macao (0 per net) have lowest barriers. The data indicates, the under-developed countries have highest barriers whereas developed countries have lowest. Sometimes tariff policies are formulated to promote the domestic products. Frequent change in tariff rates create uncertainty in global business. Many developed countries have imposed anti-dumping duties on imports and protective policies of countries have created difficulty for exporters. USA and India have gradually adopted protectionist policies under the assumption of protection of domestic industries.

Tariff is imposed to reduce the trade deficit between the countries. This can be a factor in international trade. For instance, USA has imposed 27 percent tariff on steel items imported from China. High tariff like this can discourage the imports. Similarly, the non-tariff barriers such as import quotas and pre-shipment inspections restrict the business. It has been noticed, poor countries have the highest tariff barriers whereas the developed countries have the lowest.

## POLITICAL INSTABILITY OF COUNTRY

Political unstable countries face economic slowdown because investors lack confidence on the government. It has been noticed that different political and economic systems do influence the international business. The instability of a country negatively influences product marketing in a foreign country. Wars can ruin the business in a foreign country. Many businesses became extinct overnight during the Libyan war in 2014 and Syrian war in 2018. Undertaking business is a risky proposition in political unstable countries such as Afghanistan, Pakistan, Syria, Yemen, Turkey, Algeria, Ethiopia, Nigeria, Congo and Nicaragua. Government may adopt protectionist or liberal approach to international business. Political establishments of rich nations such as Qatar, Singapore, Brunei, Kuwait, France, Belgium and Canada influence international business activities.

## VARIATION IN CURRENCY RATES

Variation in currency rate influences business. In the past, Indian Rupee and US Dollar were discounted at international markets. Devaluation in currency makes exports cheaper. The business is risky in the foreign country at the time of currency devaluation. Company would lose millions if currency is devalued. The Iranian Rial was devalued in 2013. Again, the Iranian government changed currency from Rial to Toman in 2012. Consequently, foreign investors suffered huge losses (Matthew, 2012). Indian rupee was devalued in last five years. As a result foreign investors were disinterested to invest in India. Various technical factors such as demand and supply of currencies, economic performance, inflation, interest rate influence the exchange rate of currency. China devalued currency twice in 2019 to balance the trade with USA. India devalued its currency in 1947, 1973 and 1991 to balance the trade deficits.

## TAX STRUCTURE OF COUNTRIES

Taxes do influence the international business. Sometimes taxes are levied on the foreign products to reduce the profit margin of the product. Countries such as Bahrain, Brunei, Kuwait, Maldives, Monaco and Qatar do not impose any tax on resident citizens and foreigners. Many governments tax individuals and enterprises on income basis. There are no broad rules for such systems of taxation. India, Indonesia and Ireland charge residence based income of individual or enterprise. Sometimes bulk production of goods cost cheaper than the local products and business strategy can reduce the cost of the production.

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## LIBERAL VERSES PROTECTIONIST POLICY

Countries adopt protectionist or liberal approach to international business. Foreign companies have free business in liberal countries. The counties such as Qatar, Singapore, Brunei, Kuwait, France, Belgium and Canada follow liberal economic policy. On the contrary, Sudan, Egypt, Venezuela, India, Brazil, China, Mexico and USA follow the protectionist policies. The protectionist countries follow the policy of protection of domestic industries from foreign competitions. Whereas liberal countries follow the free market policies.

## TRADE REGULATIONS

The trade policy of a government can seriously affect the international business. Business monopoly, unethical practices, consumer protection, advertisement and trademarks are part of the trade regulations. Certain tax policies facilitate business expansion whereas other policies restrict the business growth. Government policies might work against international companies in a competitive environment. For example, Government of India has imposed taxes on e-commerce platforms. Trade policies include the imposition of tariffs, quotas and exports of certain goods and subsidies for local producers. Government's bilateral trade agreements reduce the tariffs and barriers to business. This can be helpful to some businesses but may usher the competition from abroad. The countries such as Belgium, Equatorial Guinea, Luxembourg, Singapore, Ireland, Maldives, Slovak and Vietnam have business friendly trade regulations.

## BUSINESS LAWS

The business laws do affect the business in many ways. For instance, according to Thailand laws, no foreign company without partnership of a Thai national can own more than 49 percent of a business in Thailand. Thus partnership with Thai national is mandatory to undertake business in Thailand. In most cases, the business laws of the country deal with sales, torts, intellectual property and business law in a global context. China has Communist government where business laws allow government to control the business. India has a democratic government and business laws protect the MSME sector. Businessmen need to know common law, civil law, contract law, property law and product safety laws for rightful business decisions. Governments impose business rules to ensure ethical business and safety of the consumers.

## DISCRIMINATORY PRACTICES AND QUOTAS

Discriminatory business practices in a foreign country prohibit the fair business. The price discrimination impacts the business decisions. Foreign companies face tough competition, if a country manufactures and sales goods through tariffs and quotas. Quotas restrict the business profits of a foreign company and encourage the domestic business. For instance, Indonesia imports 60,000 tons of red onions in every six months. This quota encourages Indonesian farmers to produce onions. The business unit must be aware of any quota in a foreign market. Governments make sure that business income does not flow to foreign countries. Business will be profitable if license is issued to licensor of a foreign country. Pepsi issued license to Heineken to market Pepsi products in Netherlands. As a result, Pepsi earned huge profit by outsourcing its operation in Netherland.

## RATIONALE OF PRODUCT MARKETING

International marketing of certain goods may be successful in western countries but may fail in the Middle East countries unless it caters to the sentiment of the consumers. Adaption of products to the local economy is essential. An eco-friendly product may not be relevant in a developing country unless the customers are aware about the conservation of environment. Similarly, an energy saving product may not be marketed if energy saving is not the priority of the government. Thus global business strategy ought to be modified for same products in different countries. Marketing of ladies western outfits in Islamic countries is not at all a good proposition. Contrarily, Islamic ethnic wearing cannot be marketed in European countries. France has banned burqua and hijab use in public places. Sudan and Uganda have strict dress codes for women. Belgium and France have banned headwear for women. So business of ladies garments will be a constraint in such countries.

## EFFICIENCY OF BUREAUCRACY

Bureaucracy executes business laws. In some countries, execution of laws and bureaucracy breeds corruption and lowers the growth. World Development Report (World Bank, 2019) observed that corruption spreads with higher number of bureaucracy in a country. The Latin American countries such as Peru, Argentina, Brazil, Venezuela and Columbia have experienced massive corruption. It has been observed that corruption doesn't correlate with poverty. The poor African countries Sudan and Ghana are less corrupt than Latin American countries – Brazil, Peru and Argentina. East Asian countries such as Japan, South Korea, Singapore and Taiwan enjoyed flourishing business with minimum hassles in the business operations. The East Asian countries Singapore, Vietnam and Indonesia rapidly streamlined their bureaucracy to usher the business-friendly environment. As a result, these countries attracted huge Foreign Direct Investment (FDI). After Covid 19 pandemic outbreak many investors of China moved to Vietnam and Singapore.

## TERROR ATTACK IN COUNTRIES

Terrorism is a political problem and state is the enemy of the terrorists. Markets are dynamic that behave erratically on act of terror. Market may experience several consequences in a post terror attack situation. Price fluctuations may occur in business due to terror attack. The Dow Jones EURO STOXX index declined three percent on the day of terror attack in Madrid (2004). However it recovered within a month. Similarly, Bombay Stock Exchange (BSE) share rate reduced after 26/11 terror attack in Mumbai. Government imposes regulations and safeguards to mitigate terror risks as a result of market volatilities.
Some terror attacks impact only regional markets, while others impact international financial system. However, impact on market is dependent upon the sentiment of the market players. Surely, international companies cannot operate in a country inflicted with terrorism. Louise Arbour, the former UN High Commissioner for Human Rights said the counter terror operation has undermined international human rights agenda (Tribune, 2011).

## BUSINESS INVESTMENT RESTRICTIONS

Many countries have imposed foreign equity restrictions, restrictions on key sectors, operational restrictions and restrictions on e-commerce companies. For instance, approval of government is mandatory to procure agricultural land for business purposes. Recently, government of India introduced a clause on FDI norm that neighbouring countries investment is subject to the approval of government. Last year, Government of India had announced changes to the foreign direct investment policy for the e-commerce sector. This would discontinue discounts and cash incentives to the e-commerce companies.

## SOME OBSERVATIONS

The study draws the following observations after analysing all the factors. First, international business can be profitable in political stable and authoritarian countries offering tax incentives and business friendly laws. Second, India should provide tax incentives to foreign companies and remove tariff barriers, undertake land and labour reforms to attract the foreign investors. Third, countries should provide single window clearance facilities for business investors and remove hassles for compliances. Forth, the government should work with transparency while dealing with the business houses. Favouritism and discrimination have no place in international business. Fifth, government should only facilitate the international business but avoid direct involvement in the business. Sixth, countries should curb home grown terrorism. Terrorism affects the image of the country and ruins the economy.

International business can flourish in stable countries that offer tax incentives and business friendly laws. The countries such as Vietnam, Singapore, Brunei, Macao, Panama, Sweden, and Denmark offer such incentives. It is noticed that the counties which are adopting protectionist measures are experiencing a downward economy. Thus countries should adopt liberal economic policy and renounce protectionist measures. Again, business should be avoided in political unstable counties such as Spain, Malta, Finland, Israel, Bolivia, Lebanon, Iran and United Kingdom. The world is facing the greatest unprecedented crisis due to Covid-19 pandemics. Shutdown and lockdown affected all sectors of economy world over. In this scenario, venture into international business will not be a right decision for the investors.

## THE WAY AHEAD

Geopolitical events such as war, hostile relations between the countries matter for foreign exchange. India is yet to make a mark in international markets even after seven decades of independence. The successive governments have failed to bring the land and labour reforms, which are crucial for industries. Swaminathan Aiyar, the columnist in Times of India, viewed the three key sectors of India such as auto industry, pharmaceutical and software gained international business status in the last two decades. But even after lapse of two decades, no equivalent sector has gained that much status. Once India was famous for the textile business, now Bangladesh has replaced India in the textile business. Thus, government needs to undertake proper labour reforms, attract capital investment, increase tax collections, ensure higher exports, technology and skill development to compete in the international markets. The structural reforms required in land and labour, attract foreign investments in defence, telecommunication and transport sectors. Most important,

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reforms in the financial markets require priority. India should not be worried for weakening of the rupee in the currency market. Weakening of rupee will cheek unnecessary imports and promote Make in India programme. Simultaneously it will encourage the export promotions (Singh 2020).

Most important, India should join RCEP (Regional Comprehensive Economic Partnership) a trade agreement in Asia-Pacific region. RCEP will offer an opportunity to undertake business with South-East Asian countries. Probably, the competition in South East Asia is prohibiting India to join RCEP. The farmers in India are well protected from global competitions. If smaller countries such as Vietnam, Thailand, Philippines, Laos, Myanmar can join RCEP, why India is nervous to join the group. No nation has been economically strong without export business.

India should lower the tariff barriers. Tariff barriers does not ensure growth. Again, High collaboration is required among the various Ministries such as MSME, Shipping, Commerce, Skill development and Consumer affairs. India should amend the land and labour laws. Archaic laws are dissuading the industry owners. India should have solid export and import policy for the farm products. The inconsistent policy for farm products will not augment the farm exports. Entrepreneurs should not be burdened on electricity, freight and logistics. These expenditures are discouraging factors for business houses. The government should develop industrial parks and develop world class Industrial Training Institute (ITI) to create competitive trained manpower. Indian business can compete at the global level if all these measures are undertaken on priority basis.

Countries with open economic policies have shown far better results than countries with protectionist policies. In India, the five trillion dollar economy is impossible without solid foreign investments. Open markets can ensure flourishing business, reduce poverty and raise the living standards of the people.

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