

INTERNATIONAL BUSINESS ENVIRONMENT

CAPACITY DEVELOPMENT COURSE ON FOREIGN TRADE & INVESTMENT

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SESSION 1 [9.30 TO 01.00PM]

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INDEX

- ❖ International Business Environment ; an overview
 - ❖ Factors affecting IBE
 - ❖ It's impact on International Business
- ❖ Global Value Chain:
 - ❖ Conventional Trade vs Global Value Chain
 - ❖ Geo-Economic Fragmentation
 - ❖ CoVID 19; Supply Chain Disruption
- ❖ Factors which has disrupted IBE
 - ❖ E-Commerce Trade; a New Model for Trade
 - ❖ Blockchain Technology , Digitalisation & Online Payment Structure
 - ❖ Free Trade Agreements
 - ❖ Environmental Standards like CBAM/Low Emission Steel Standards
- ❖ Summary



WHAT IS INTERNATIONAL BUSINESS

- ✓ a **cross-border transaction** between individuals, businesses, or government entities.
- ✓ trading in **goods and services** between countries.
- ✓ either by direct exports or through a Joint Venture in the country of Consumption (Investment abroad)



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FACTORS BEHIND COMPETITIVENESS

- ✓ **Quality of infrastructure;** (Port, Airport, Road, Rail & Communication)
 - ✓ **Level of technological innovation;** (Investment in R&D, latest technology)
 - ✓ **Skill levels** of its workforce, (Skilled Workforce, Demographic Dividend)
 - ✓ **Government Policies,** (Foreign Trade Policy, FDI Policy, Trade Agreements)
 - ✓ Efficiency of its business practices (Ease of Doing Business)
 - ✓ Access to Natural Resources,
 - ✓ Legal and regulatory environment, (Contract Enforcement)
- 

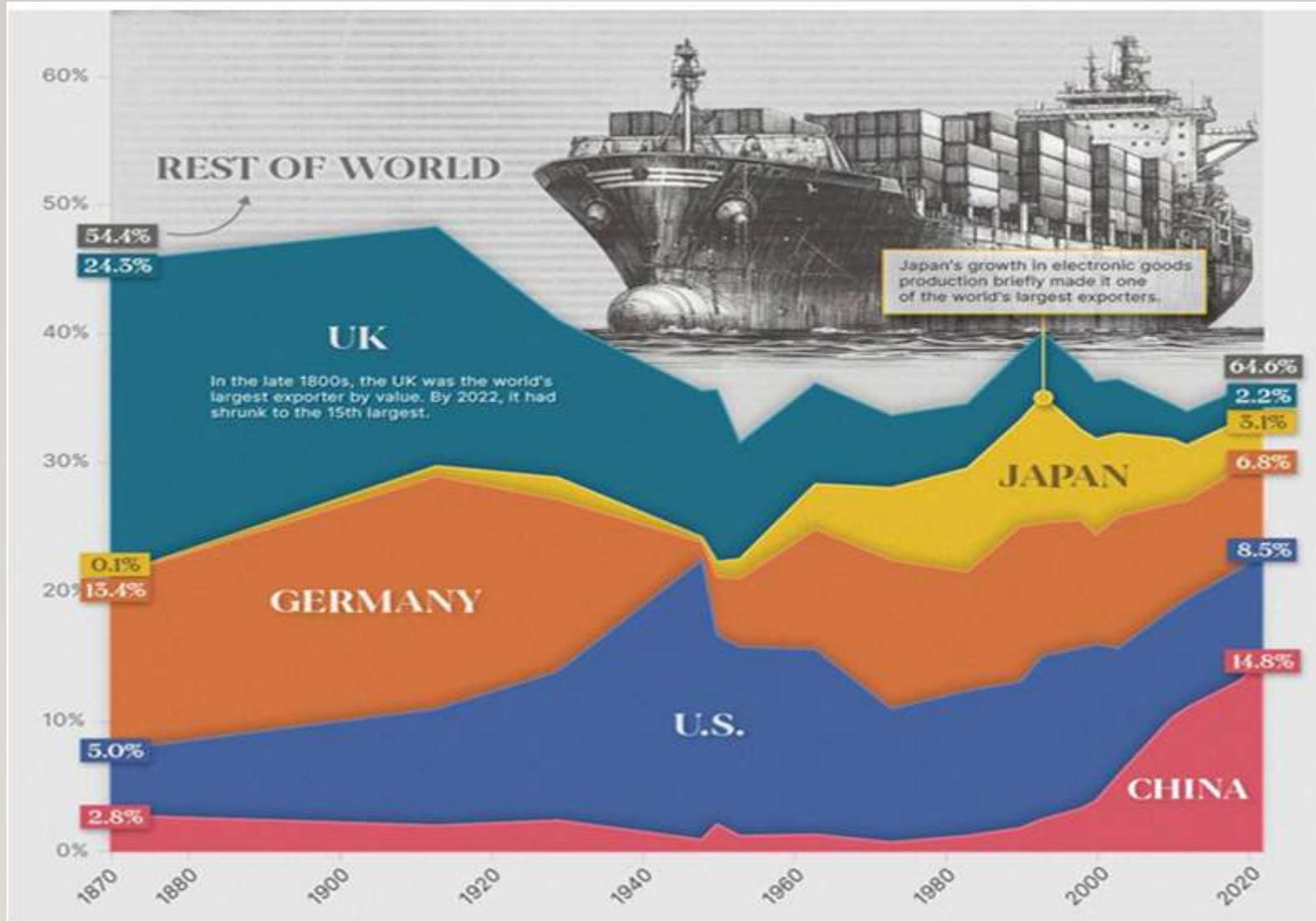
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GROWTH OF MERCHANDISE TRADE



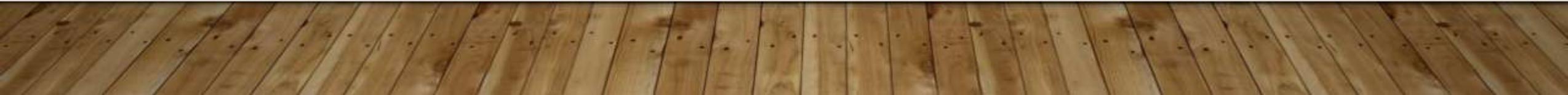
Growth of Merchandise Trade in 150 years

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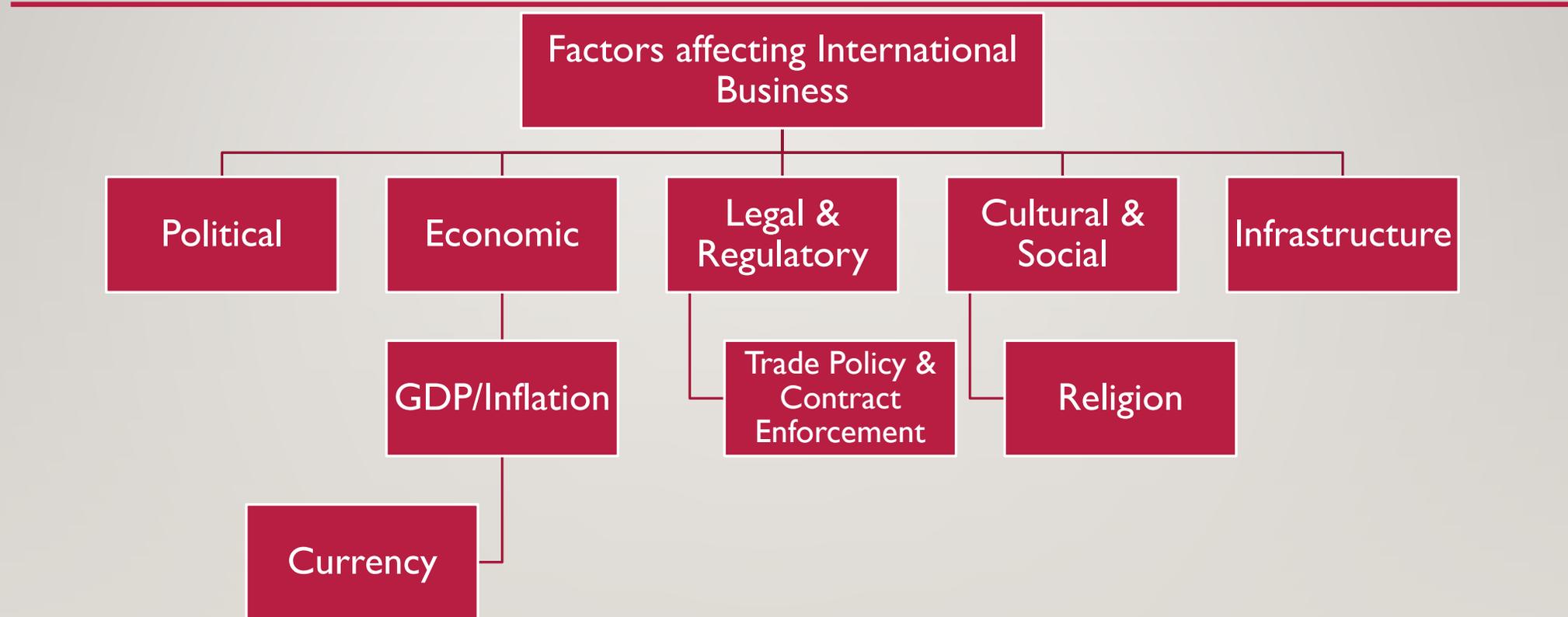
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WHY ONE SHOULD STUDY INTERNATIONAL BUSINESS ENVIRONMENT



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INTERNATIONAL BUSINESS ENVIRONMENT ?



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

- ✓ Why do we need to understand international business environment ?
- ✓ **Assists in the Risk Assessment and Management –**
- ✓ Countries vary significantly in their political, regulatory, and economic environments. (Political instability, Trade limitations, or Currency volatilities).
 - ✓ **Coca-Cola**, for example, was **forced to withdraw from Venezuela** following lack of availability of sugar, oil price slump & hyper-inflation made running its business unsustainable.
 - ✓ Rare Earth export restrictions (by China);





WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

✓ **Identification of Opportunities –**

- ✓ A comprehensive analysis and study of various international geographies enables firms **to find new markets & develop new segments** of customers.
- ✓ **Example: Netflix's foray into India**, where there is a huge demand for **digital content** on-the-go due to internet penetration & a large number of young tech-savvy populace.
- ✓ **IKEA** entered into India after identifying the growth of a **new middle class** with disposable income looking for low cost sleek, designer home furnishing, home décor and furniture items.



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

- ✓ **Strategic Decision-Making –**
- ✓ It is important for companies to have knowledge of legally allowed market entry conditions; (e.g., joint venture, licensing, subsidiary) while crafting a marketing strategy.
- ✓ **Example: IKEA chose joint ventures in China**, as local laws **did not allow foreign control** of the total retail outlet.
- ✓ In India also does not allow 100% Foreign owned Companies to enter retail trade. That's why German **METRO** was given whole sale cash and carry permission.



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

- ✓ **Compliance with Laws and Regulations –**
- ✓ Every country has its own laws regarding taxation, labor, consumers rights and intellectual property.
- ✓ **Example:** Company like **Google** adjusted the way it operates in European Union to comply with that region's data protection laws under the **General Data Protection Regulation (GDPR)**.
- ✓ **BIS standard** applicability to Imported Products into India;
- ✓ Registration of Bulk Drug/Formulation with Federal Drug Authorities.



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

- ✓ **Adaptation to Cultural Differences –**
- ✓ **Cultural sensitivity reduces conflicts** in negotiation, human resources management and marketing communication, and thus promotes acceptance to foreign markets.
- ✓ **Example: McAloo Tikki** – McDonald's serves in India, to respect territory of vegetarian eaters and culture character.
- ✓ BigMac Burger is Chicken Burger.



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

- ✓ **Competitive Advantage –**
- ✓ Businesses that understand **the trends and environments** internationally will be able to innovate, localise their products and respond quicker than the competitors.
- ✓ **Example: Samsung** by **investing substantially** in **research and development** to tailor its smartphone technology to **evolving** global customer demands, has emerged as challenger to Apple in Smart Phone segment.
- ✓ Samsung has also introduced Inverter AC, LED/OLED TV.



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WHY DO WE NEED TO UNDERSTAND THE INTERNATIONAL BUSINESS ENVIRONMENT?

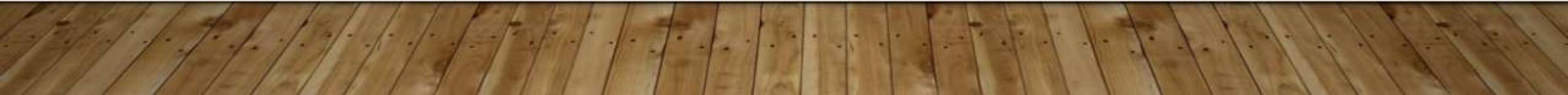
- ✓ **Sustainable Growth –**
- ✓ Knowing the various economic indicators, policies and being aware of issues can be used to place company in a good position for expansion in international markets.
- ✓ **Tesla's entry into Norway** is a prime example of this;
- ✓ **Norwegian government** has offered **financial incentives** for those buying electric vehicles, and hence, the market is ripe for sustainable expansion.



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COMPONENTS OF INTERNATIONAL BUSINESS ENVIRONMENT

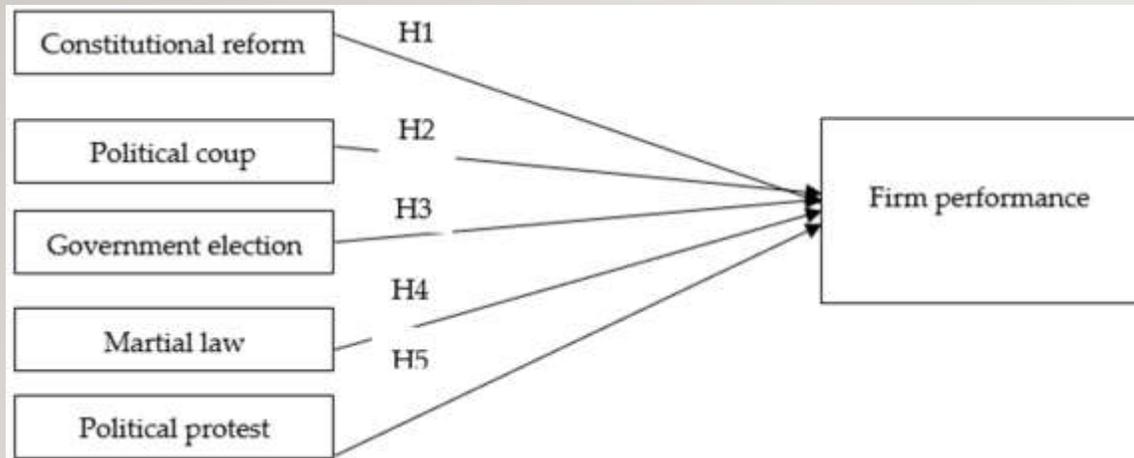
LET'S UNDERSTAND THE CONDITIONS WHICH IMPACTS IBE



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INTERNATIONAL BUSINESS ENVIRONMENT

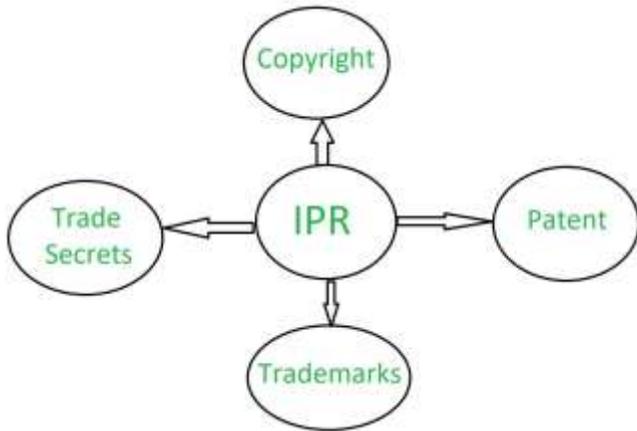
✓ Political Environment



- ✓ **Government Policies**, Legal Framework, Restrictions,
- ✓ **Political Risks**; Political Stability, Nature of Administration.
- ✓ Attitude of Government towards Foreign Investment (FDI)
- ✓ **Example:** Bangladesh's current situation,
- ✓ Myanmar currently being ruled by Military
- ✓ Iran & Pakistan

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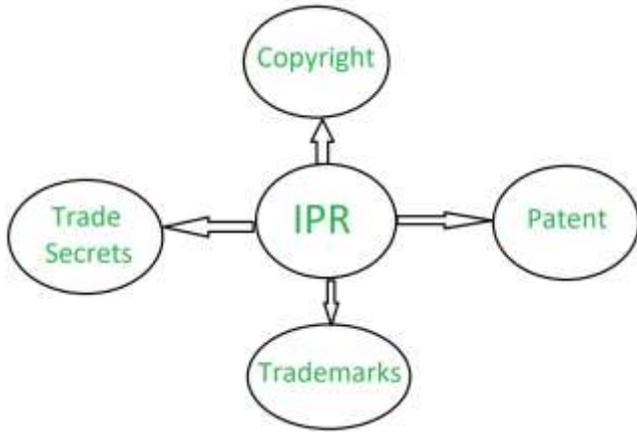
LEGAL & REGULATORY ENVIRONMENT



- ✓ Corporate Statutes & Labor Laws
- ✓ Intellectual Proprietary Rights
- ✓ **BIS** (Bureau of Indian Standards)
- ✓ Foreign Investment (**FDI**) Regulations & Control
- ✓ Free Trade Agreements (**FTA**) and Arbitration Systems
- ✓ For example, Microsoft devotes enormous resources in order to protect the legal status of its software in global markets (where piracy and intellectual property protection are weak).

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LEGAL & REGULATORY ENVIRONMENT



- ✓ Foreign Investment (**FDI**) Regulations & Control;
- ✓ Growth in FDI indicates faith in the economy.
- ✓ Creation of employment opportunities

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ECONOMIC ENVIRONMENT

ECONOMIC ENVIRONMENT

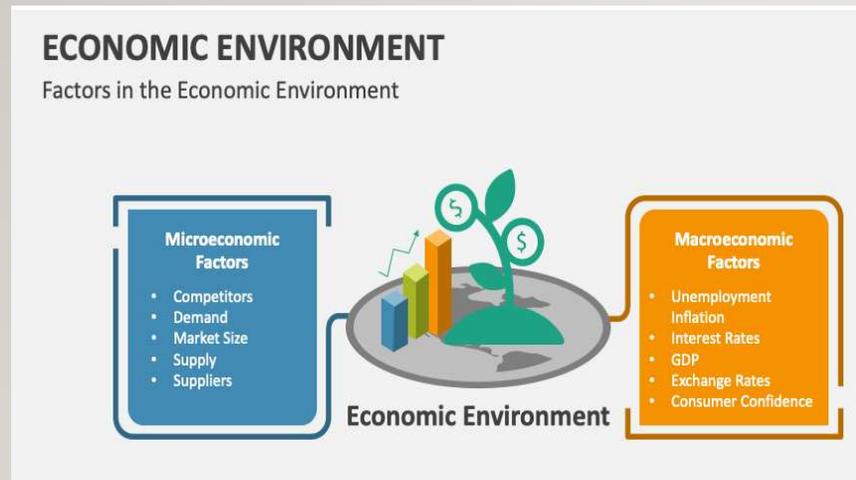
Factors in the Economic Environment



- ✓ Type of Economy (Capitalist, Socialist, Mixed)
- ✓ **Economic Indicators** – (Including GDP, Inflation, Unemployment, and Exchange rates)
- ✓ Trade Balance (**BOP**) and Foreign Exchange Reserves
- ✓ Economics Policies (Fiscal, Monetary)
- ✓ High growth of India's economy and the consequent **rise of income levels** of its middle class, has attracted US MNCs—**Amazon, Walmart and IKEA.**

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ECONOMIC ENVIRONMENT

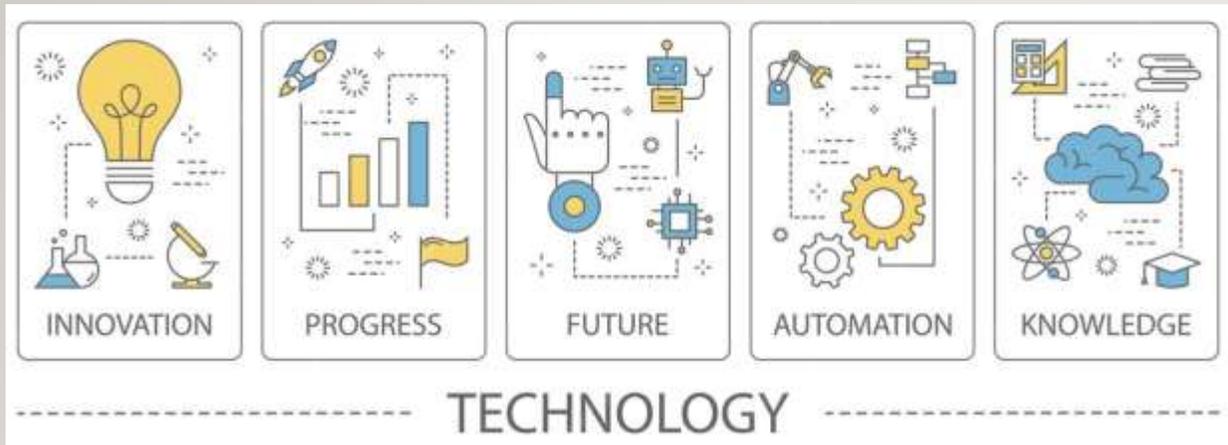


- ✓ **Stage** of Economic Growth of the country,
- ✓ **Rate** of Growth of GDP
- ✓ **Amount** of Per Capita Income
- ✓ **Level** of Infrastructure development
- ✓ **Taxation Structure**
- ✓ In case you are joining a JV for starting a Regional Airlines
 - ✓ [Please see status of operational regional airports for connectivity & Fare Structure]

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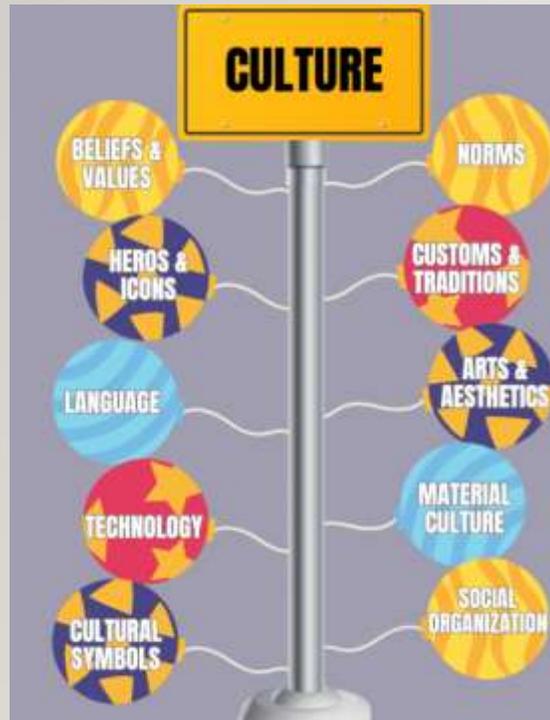
TECHNOLOGY ENVIRONMENT

✓ Technological Environment



- ✓ **Stage** of Technological Development
- ✓ **Scale** of Technological Development
- ✓ **Adaptability** to New Technologies
- ✓ **4G/5G services available or not** (for ONLINE Business/Gaming Venture or DTH venture)
- ✓ Voltage/Amperage Compatibility
- ✓ **Status of Power Transmission Network** for distribution if you are entering Power Sector

CULTURE ENVIRONMENT



- ✓ Mother tongue, religion, values and culture
- ✓ Society, social norms, manners, and consumerism
- ✓ **How cultural differences affect business**
- ✓ Hofstede's cultural differences (e.g., power distance, collectivism, uncertainty avoidance)
- ✓ For example, KFC adapted its breakfast menu in China toward the congee (rice porridge) by local food catering and habits.

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DEMOGRAPHIC & SOCIAL ENVIRONMENT

✓ Demographic & Social Environment



✓ Rates & composition of population growth

✓ Migration/mobility of labour force

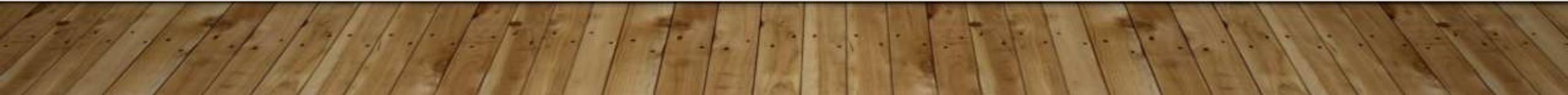
✓ Rates of literacy and levels of education

✓ Changes in lifestyle and urbanisation

✓ For example, a large millennial population in India that led global giants like Spotify, Netflix, Instagram, etc. to focus on building digital entertainment platforms and content for young people.

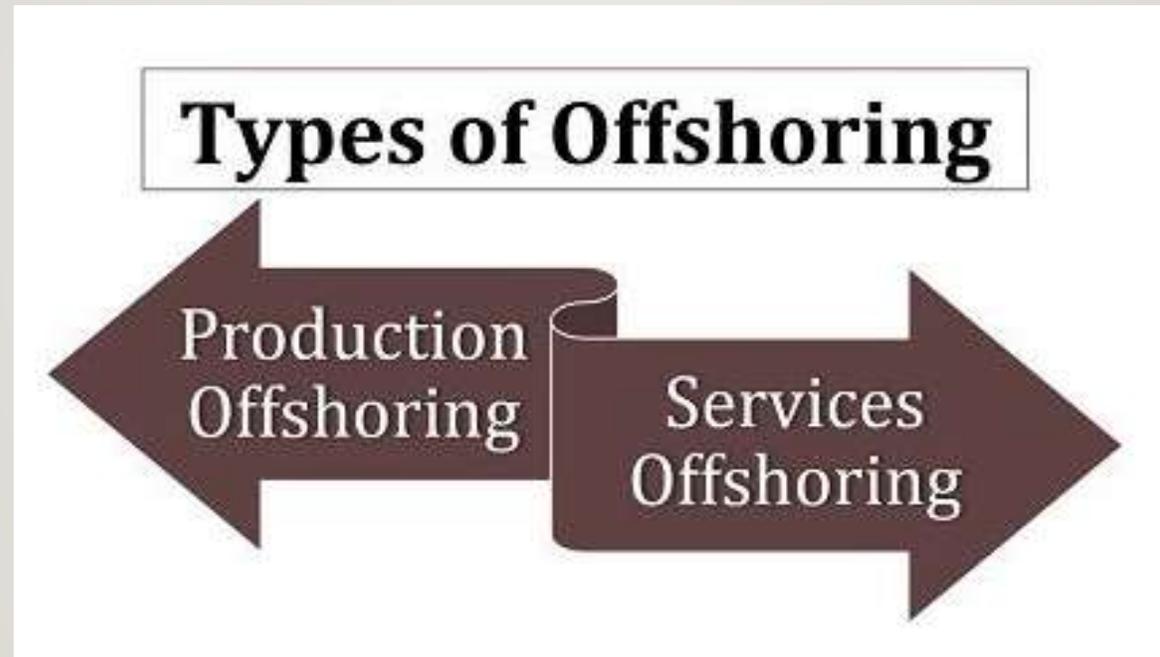
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METHODS GETTING INTO INTERNATIONAL BUSINESS



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TYPE OF OFF-SHORING



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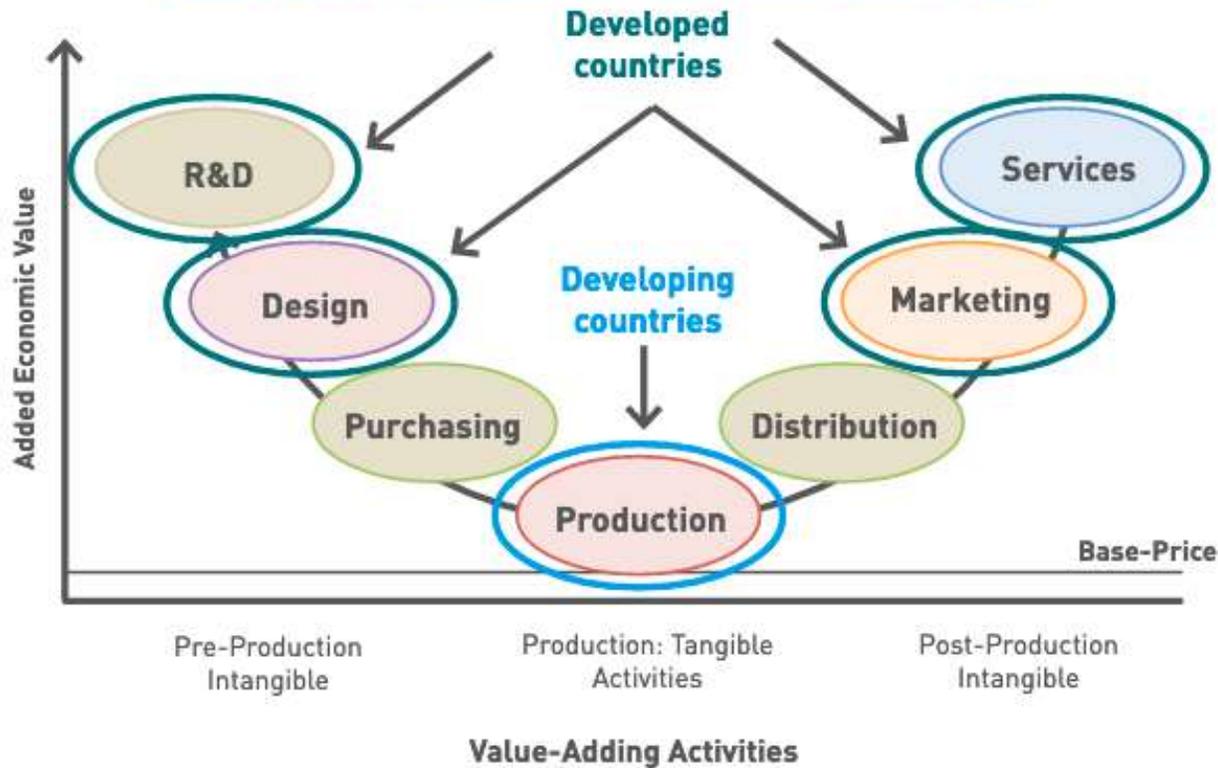
WHAT IS OFF-SHORING ?

- ✓ Off-Shoring is the practice of re-locating work to another country to cut costs and increase efficiency.
- ✓ Generally during economic slowdown the Off-Shoring increases as sellers struggle to meet cost expectations of customers.
- ✓ Apple manufactures its I-Phone in China, Taiwan, India.
- ✓ Laptop & I-Pads are manufactured in China by all brand owners due to cut cost and ability to procure large quantities.

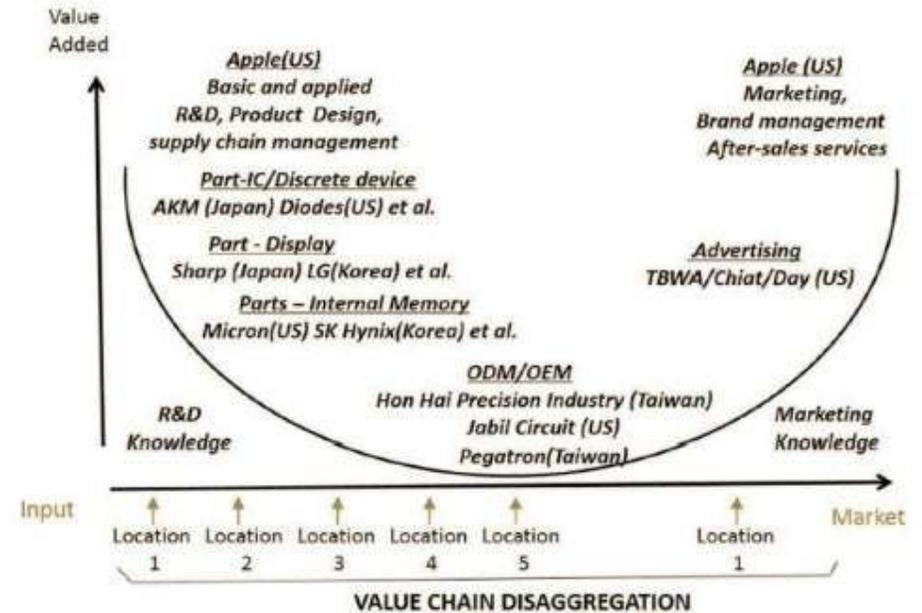


GLOBAL VALUE CHAIN DRIVEN COMPETITIVENESS

Smile Curve of High-Value Activities in Global Value Chains



Apple's Smiling Curve and GVC for iPhones

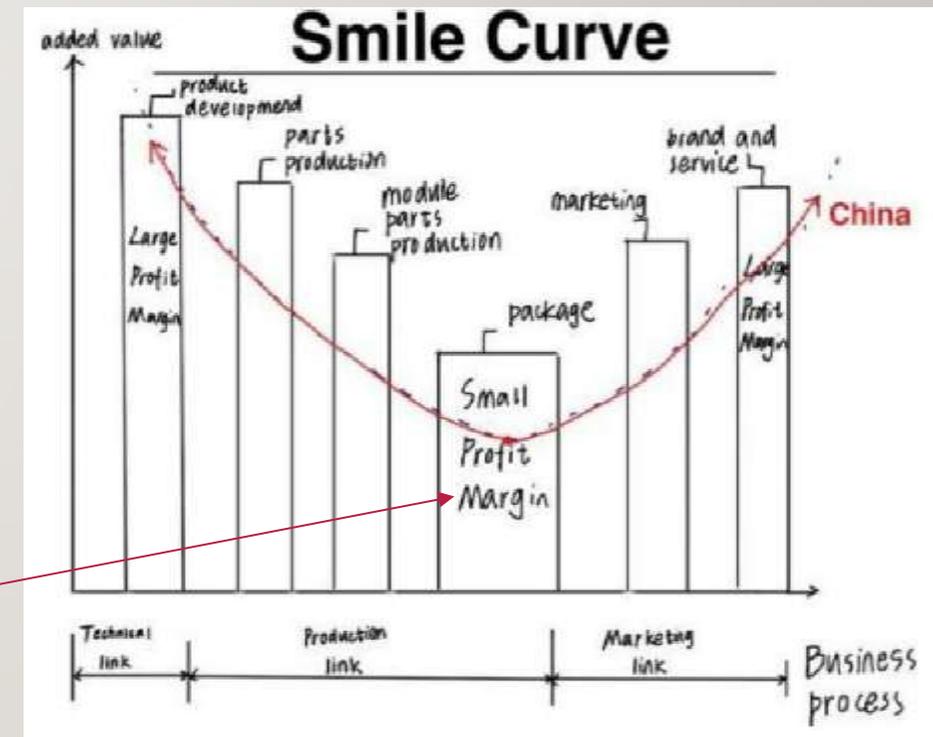


Source: Grimes & Sun, "China's evolving role in Apples GVC," Area Development & Policy, 2016.

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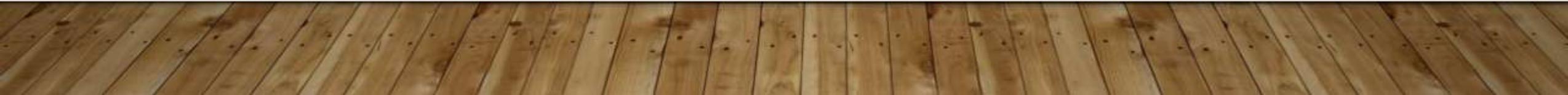
VALUE ADDITION IN APPLE GVC

- ✓ An Asian Development Bank Institute reports that China exported Apple iPhones to U.S. at a unit price of **US\$ 179**.
- ✓ Of each unit's total value of **US\$ 179**, approximately **US\$ 172** consisted of **costs for imports of foreign inputs or parts** (mostly from Japan, the Republic of Korea, Germany and the U.S.), i.e. the **value added in China only** represented **US\$ 6.5**.



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SERVICES OFF-SHORING



TYPE OF OFF-SHORING

Service Off-shoring

- ✓ A company performs **service offshoring by setting up the units** in other countries to carry out service-related operations such as customer care, information technology, marketing, human resource, accounting, sales and many more.
- ✓ **For instance; Global Capability Centers (GCC)** a software company relocates its research and development unit in a country where the technical human resources are highly competent and comparatively cheaper than the domestic personnel.

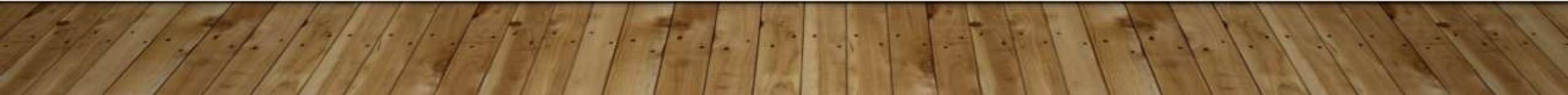
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TYPE OF OFF-SHORING

- ✓ **Services Offshoring**
- ✓ A **Global Capability Center** (GCC) or a Global Excellence Center (GEC) is a strategic unit that supports an organization's global operations through technology, talent, and innovation.
- ✓ Major hubs in India, the Philippines, Poland, Mexico, and Brazil have grown significantly.
- ✓ Modern GCCs do much more than provide lower costs or a better back office—they help organizations digitalize faster, unlock value across the enterprise, and drive growth.

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TYPES OF INTERNATIONAL BUSINESSES



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TYPES OF INTERNATIONAL BUSINESS

Import



Export

✓ **Import:**

✓ Inflow of Goods or Services

✓ **Export:**

✓ Outflow/Supply of Goods and Services

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TYPES OF INTERNATIONAL BUSINESS

❖ Licencing



- ✓ Right to use the Intellectual Property.
- ✓ Pfizer permitting an Indian Vaccine Manufacturer to produce & sale vaccine under Pfizer Brand Name.
- ✓ Products such as books and movies are usually distributed internationally through licensing agreements.
- ✓ Patent holders permit the usage of their formula or manufacturing process through Licensing Process.

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TYPES OF INTERNATIONAL BUSINESS

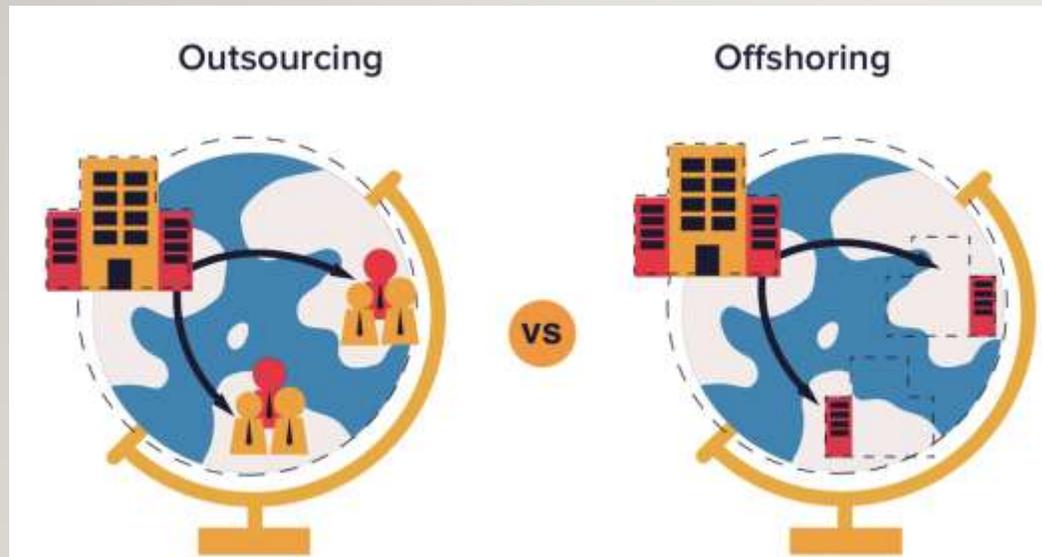
✓ Franchising



- ✓ Parent company gives right to other companies to carry on business on it's name;
- ✓ Franchising involves the replication of an entire business model.
- ✓ McDonald's (MCD), KFC, Subway.
- ✓ The parent company becomes the franchiser, and the receiving company becomes the franchisee.

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TYPES OF INTERNATIONAL BUSINESS

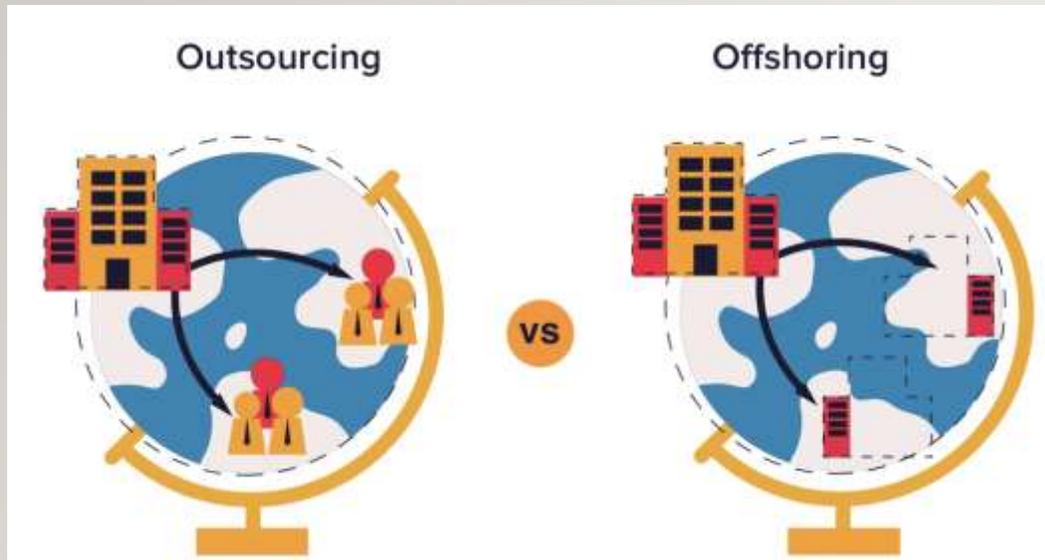


✓ **Out-Sourcing:**

- ✓ Outsourcing means giving out contracts to international firms for certain business processes, for example, **accounting functions** to an international firm.
- ✓ This is usually effective, when the **cost of conducting** these processes is comparatively much **cheaper**.
- ✓ BPO Operations and Book Keeping etc are outsourced.

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TYPES OF INTERNATIONAL BUSINESS



✓ **Off-Shoring:**

- ✓ Off-Shoring is the practice of **re-locating work** to another country to cut costs and increase efficiency.
- ✓ When a company establishes its manufacturing unit in a different country, to import the finished goods for selling it in the domestic market, it is termed as production offshoring.

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TYPES OF INTERNATIONAL BUSINESS



- ✓ **Multi-National Companies**
- ✓ The companies that are conducting business in more than one country.
- ✓ Microsoft, Coca Cola, Unilever etc



4 |

TYPES OF INTERNATIONAL BUSINESS

✓ JVs and Strategic Partnership

- ✓ It is an agreement between two companies (one being an international company) to where the business has to be conducted.
- ✓ Both the entities contribute to Equity and also share the profits.
- ✓ **Example:** Tata Motor & Jaguar UK, Indorama Venture & PET plant in Egypt (EIPET)

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INTERNATIONAL BUSINESS

✓ Foreign Direct Investment (FDI)



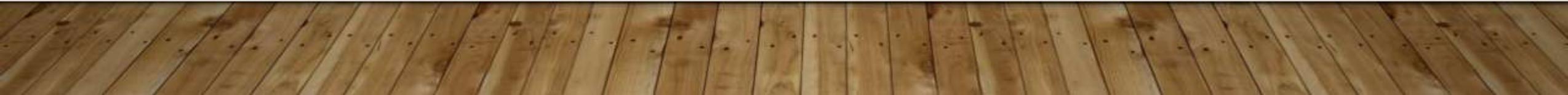
✓ Investment made by an individual or company located in one country to the business interest located in another foreign country.

✓ BP (British Petroleum) UK has invested in Reliance Industries of India in the Retailing of Petroleum Products business.

✓ Singapore Airlines has invested in Air India.

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E-COMMERCE: THE NEW BUSINESS MODEL



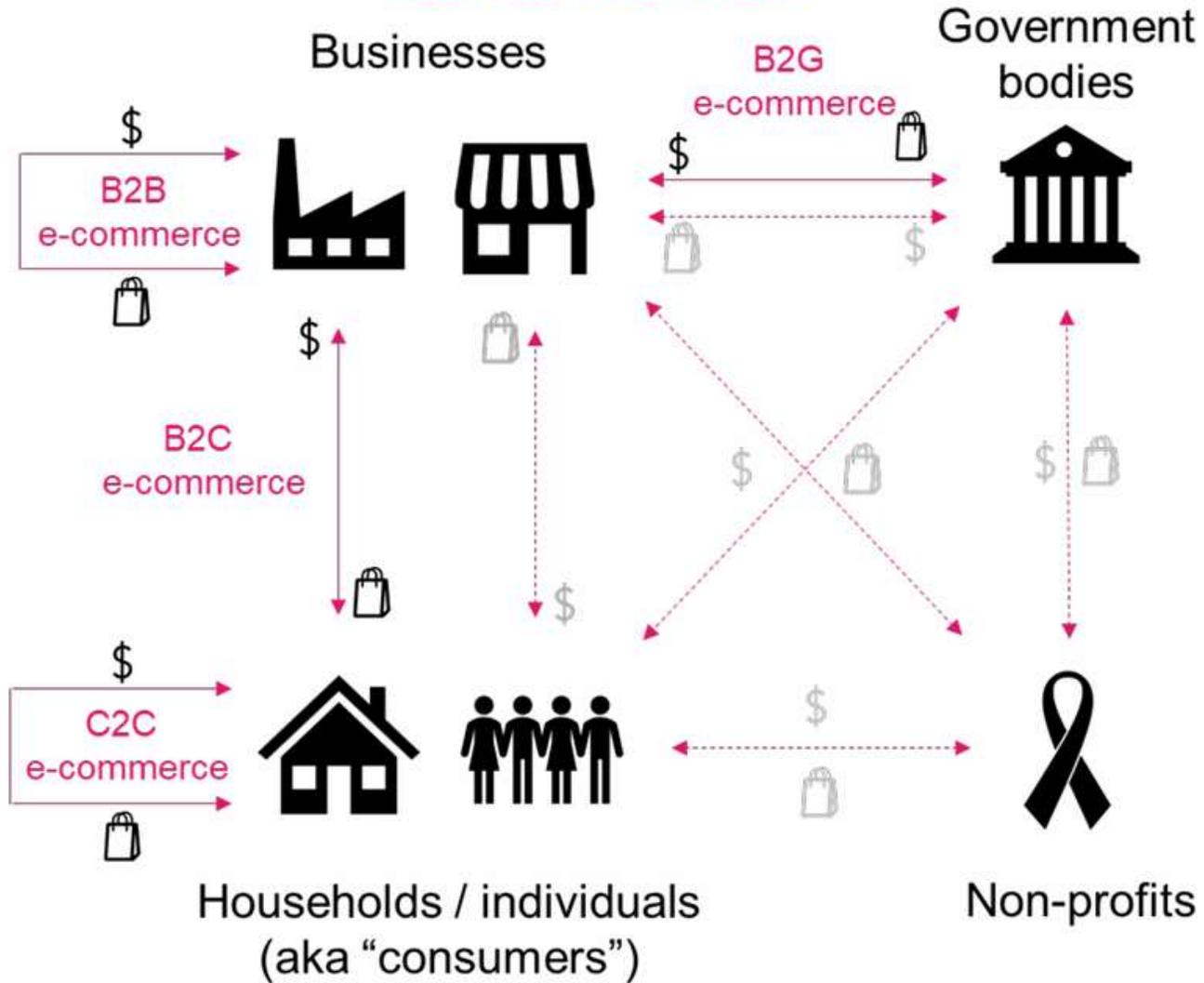
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E-COMMERCE EXPORTS:A NEW MODEL

- ✓ **Global Cross-border E-Commerce** is estimated to grow to **USD 800 Billion** by 2025 and up to **USD 2 Trillion** by 2030.
- ✓ E-Commerce would account for around 6.6% of overall global merchandise trade.
- ✓ Government of India has set a target of USD 1 Trillion of merchandise exports by 2030 aiming for a compounded annual growth rate of 12.2%.

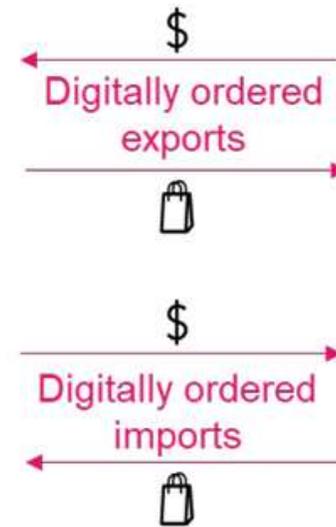
Domestic economy

Domestic e-commerce



Rest of the World

International
e-commerce
=
digitally ordered
trade



E-COMMERCE EXPORTS: A NEW MODEL

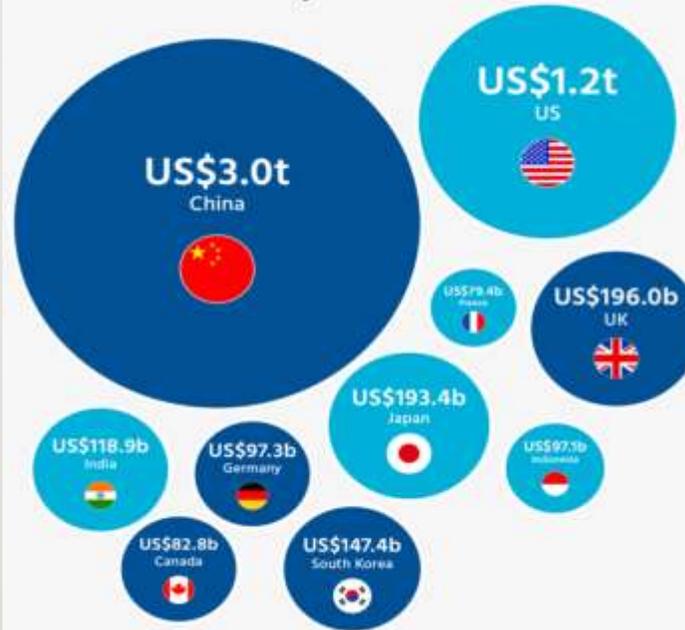
The biggest e-commerce sectors



Source: Statista Digital Market Outlook, 2023

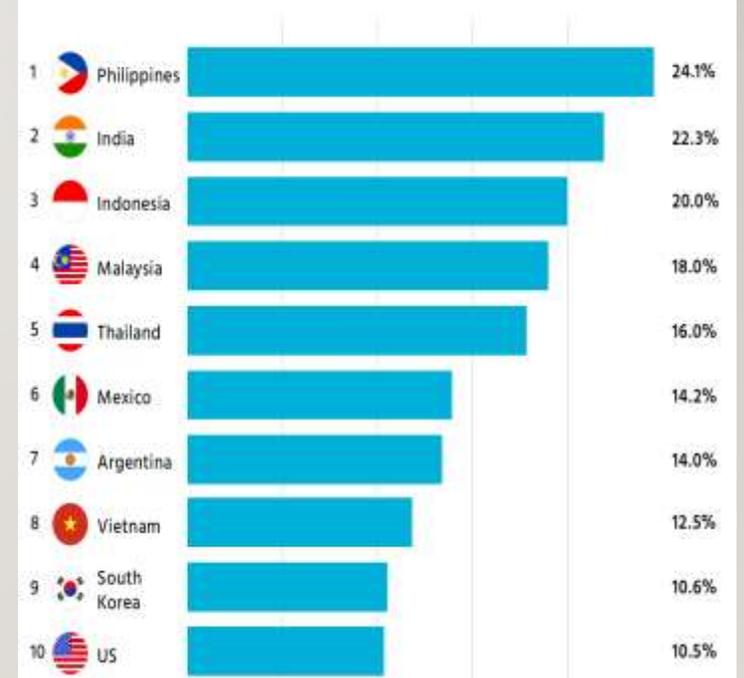
*Books, CDs, video games, etc.

The world's biggest e-commerce markets by sales



Source: eMarketer, 2023

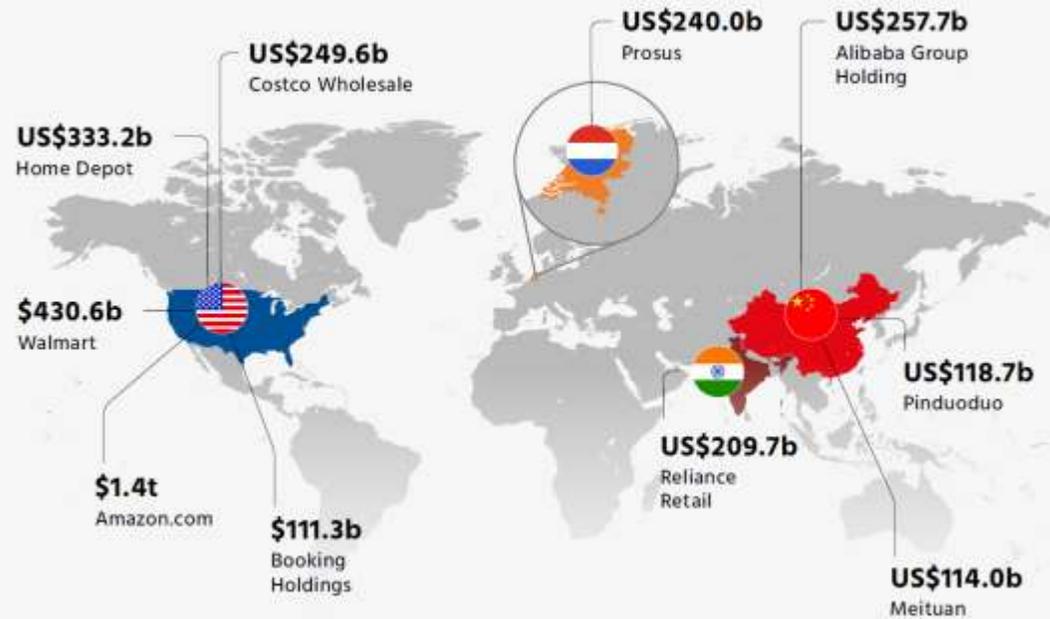
Top 10 e-commerce markets by sales growth year-on-year



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E-COMMERCE EXPORTS: A NEW MODEL

Top 10 e-commerce companies by market value



Source: Value.today, 2023

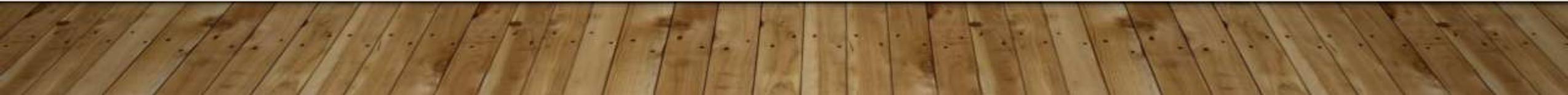
Top 10 e-commerce companies and startups by five-year search growth

1	DotPe	India	DotPe helps brick and mortar stores across India launch online stores.	5,600%
2	Vevor	China	Vevor is an e-commerce platform that specializes in selling industrial equipment and tools for businesses and individuals.	4,900%
3	Cazoo	UK	Cazoo is an online alternative for used car buying with a rigorous vehicle inspection process and home delivery.	3,400%
4	Super	Indonesia	Super provides an e-commerce platform that uses a network of delivery agents to serve small towns across Indonesia.	2,950%
5	Matternet	US	Matternet provides a drone-based on-demand delivery system.	2,464%

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3D PRINTING TECHNOLOGY

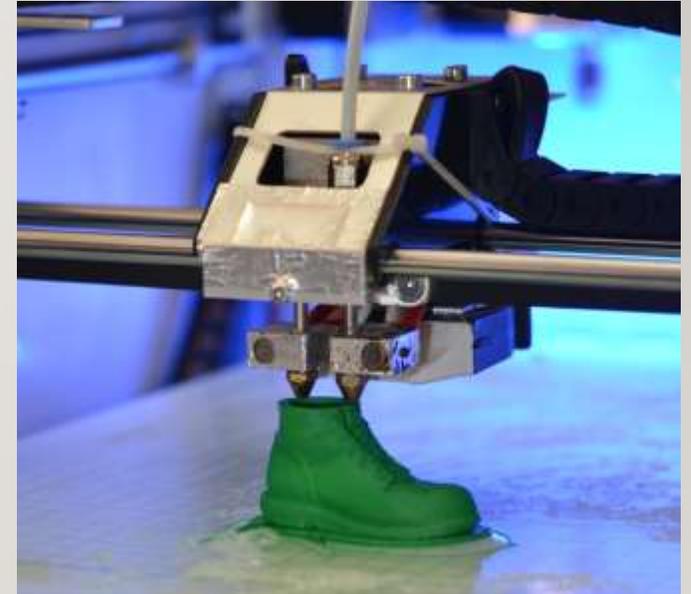
Is Disrupting in Nature



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DISRUPTIVE TRENDS IN GLOBAL ENVIRONMENT

- ✓ **Manufacturing:**
- ✓ 3D printing has become an extremely disruptive force in the manufacturing world, and many refer to it as the manufacturing solution of the future.
- ✓ **3D, three-dimensional (3D) printing** represents one of the **most disruptive digital technologies** for customs administrations since it changes the notions of borders and trade flows.



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EXAMPLES OF USAGE OF 3D TECHNOLOGY

- ✓ From **medical devices to aircraft parts to shoes**, 3D printing can virtually create anything you can think of, it's just a matter of scale.
- ✓ **Prosthetic Limbs & Body Parts**
- ✓ 3D printing has had a significant impact across the medical industry, from **producing custom prosthetic legs for a marathon runner**.



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EXAMPLES OF USAGE OF 3D TECHNOLOGY

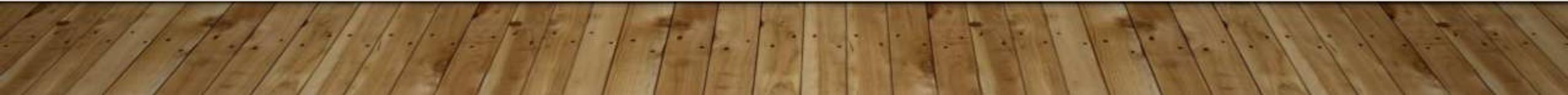
- ✓ **Homes and Buildings**
- ✓ 3D printing has the ability to produce entire houses in buildings.
- ✓ it could potentially because emergency shelters (during Tornado/storm) can be constructed quickly and on-demand using 3D printing technology.
- ✓ How fast can they be built?
- ✓ **In Moscow, Russia**, a team used 3D printing to create a 400 square foot house in less than a day.



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AI [ARTIFICIAL INTELLIGENCE] & BLOCK CHAIN TECHNOLOGY

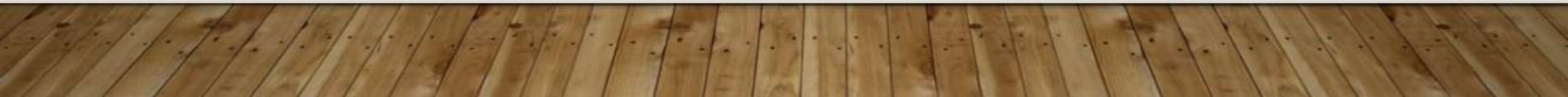
& IT'S ROLE IN INTERNATIONAL TRADE



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FOURTH INDUSTRIAL REVOLUTION

- ✓ The **Fourth Industrial Revolution** has had a profound impact on the way we trade.
- ✓ **Digital payments**, **data flows** and **digital services** have grown rapidly, and emerging technologies such as **blockchain**, **AI** and **3D printing** could further alter the trade landscape in years to come.



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BLOCK CHAIN TECHNOLOGY & GLOBAL TRADE

✓ *How Blockchain will help Global Trade?*

- ✓ It can help to push down the delay in transaction time by real-time verification of financial documents in between the transaction of goods and services, thus reducing the delayed time in delivery.
- ✓ Earlier, the third-party transactions concerning funding and payment have paved the way to the risk of fraud.
- ✓ Blockchain eliminates this correspondent relationship and thus, assimilates the risk.
- ✓ It can help execute smart contracts to reduce the cost involved in the complicated legal framework, thus simplifying the mechanism.

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DATA ANALYTICS & ARTIFICIAL INTELLIGENCE

- ✓ **Data Analytics and Artificial Intelligence (AI)**
- ✓ Data analytics and AI-driven technologies have transformed the way businesses analyze and utilize trade-related data, **enabling better decision-making and forecasting.**
- ✓ AI algorithms can analyze vast amounts of trade data, identify patterns, and predict market trends, helping businesses optimize their supply chains and identify new trade opportunities.
- ✓ According to a study by McKinsey, AI technologies could potentially add \$1.2-2 trillion to global economic output in trade-related activities by 2030.

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BLOCK CHAIN TECHNOLOGY & GLOBAL TRADE

- ✓ Blockchain technology involve decentralization and disintermediation, transparency of data, **immutability**, consensus in the trade as well as reliability and trust.
- ✓ **Blockchain, recognized by WTO and European Commission**, is a one-hand solution to ease the documentation management of foreign trade.
- ✓ It is the key to revolutionizing the international market by creating a deeper vision for the application of technology and digitization of payment of global trade.

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ENVIRONMENTAL STANDARDS CARBON BORDER ADJUSTMENT MECHANISM



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ENVIRONMENTAL STANDARDS

CARBON BORDER ADJUSTMENT MECHANISM

- ✓ What is [European Union CBAM](#) ?
- ✓ The EU's upcoming Carbon Border Adjustment Mechanism (CBAM) is set to reshape global trade and climate efforts, aiming to reduce the carbon content of imports and combat climate change.
- ✓ With a [carbon tax of \\$44 per tonne](#), the CBAM targets high-carbon imports like steel and aluminum, but developing economies, including India and China, could face disproportionate financial strain.

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ENVIRONMENTAL STANDARDS

CARBON BORDER ADJUSTMENT MECHANISM

- ✓ What is [European Union](#) CBAM ?
- ✓ The Carbon Border Adjustment Mechanism (CBAM) is a carbon tariff on carbon intensive products, such as steel, cement and some electricity, imported to the European Union.
- ✓ Legislated as part of the European Green Deal, [it has come into effect in 2026](#).
- ✓ CBAM was passed by the European Parliament with 450 votes for, 115 against, and 55 abstentions and the Council of the EU with 24 countries in favour.
- ✓ It entered into force on 17 May 2023.

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ENVIRONMENTAL STANDARDS

CARBON BORDER ADJUSTMENT MECHANISM

- ✓ **What is UK CBAM ? (United Kingdom [UK])**
- ✓ The Carbon Border Adjustment Mechanism (CBAM) is a carbon tariff on carbon intensive products, such as steel, cement and some electricity, imported to the United Kingdom.
- ✓ UK CBAM will be implemented by 2027.
- ✓ The CBAM is designed to stem carbon leakage to countries without a carbon price.

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**THANK YOU FOR GIVING ME
A PATIENT HEARING**

