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INTER-RELATION BETWEEN GOVERNMENT POLICIES AND INTERNATIONAL BUSINESS

Ramesh Kumar[1] and Priya Singh[2]
[1]Assistant Professor, Hansraj College, University of Delhi
[2]Assistant Professor, SGTB Khalsa College, University of Delhi

ABSTRACT
Purpose of the study: The aim of this study is to discuss the role of government in International business. Political economy brings the production and exchange of goods and services that are parallel with the country's law. The government plays a massive role because if it is not effective then the trade profitability will be decreased.
Methodology: The data for this study were obtained from existing literatures on the role of government on politics and international trade.
Result: Political economy on international trade enables the cheap production and import of goods and services in the country. This is because international trade does not limit to commodities as they are produced by only some countries. Finally, political economy can be surveyed by comprehensively gathering political aspects, such as national policies and their administration, and this will take a basic position on the existing and ideal financial models, organizations, and related policies which are being formulated by micro- and macro-economic agendas.
Implication: The interest for the political economy of trade arrangement is the complementary impact of global exchange on local and worldwide legislative issues.

Keywords: Government, International Business, Political Economy

INTRODUCTION

Global trade occurs between many nations. To permit the competition and free trade, some institutions may be necessary to protect a country from the most untoward effects of competition from abroad. While the intent of free trade is to trade freely without government intervention in the open market. The truth is that governments do intervene in free trade imposing many sanctions, tariffs, quotas and other economic policies to limit free trade. In
December 2013, WTO members finalized negotiations of the Trade Facilitation Agreement. This agreement encourages measures, such as using common customs standards, facilitating electronic payment, publishing trade procedures, customs cooperation, and using a "single window" for trade documents. GATT helped trade by having all nations, included in the original group, trade on mutually beneficial policies. GATT has since been replaced by the World Trade Organization (WTO) that still honors many policies of GATT that now includes 153 nations that is inclusive of 97% of all world trade. Besides that, the economy can be divided into four stages. The first stage is the domestic stage, the second is the multinational stage, the third is the international stage, and the fourth is the global stage. Each stage has different situations and different difficulties.

When a firm or an individual buys a good or a service produced more cheaply abroad, living standards in both countries increase. There are other reasons consumers and firms buy abroad that also make them better off—the product may better fit their needs than similar domestic offerings or it may not be available domestically. In any case, the foreign producer also benefits by making more sales than it could selling solely in its own market and by earning foreign exchange currency that can be used by itself or others in the country to purchase foreign-made products.. Generally, the performance of the government plays a massive role because if the government does not act effectively, then the trade profitability will be decreased. The mankind civilizations started with a barter system where people exchanged goods among themselves.

Though a country may be twice as productive as its trading partners in making clothing, if it is three times as productive in making steel or building airplanes, it will benefit from making and exporting these products and importing clothes. Its partner will gain by exporting clothes in which it has a comparative but not absolute advantage in exchange for these other products. The notion of comparative advantage also extends beyond physical goods to trade in services—such as writing computer code or providing financial products. Because of comparative advantage, trade raises the living standards of both countries.

If the state had not taken precautionary measures, then the economically expert international players would have paralyzed the developing domestic economies. The probabilities of economic players taking advantage of the domestic situation would have been high. Thus, political intervention by the state is needed to protect the economy, sovereignty and citizens of the state. The adaption of rules and regulations ensure that the government is protected from any misconduct or exploitation by international players. The state and the world are the areas of attention for international trade. The states are concerned with the international trade areas due to the huge potential of state development. The political intervention in international trade helps the trading process to be smoother as the regulations are obeyed by traders. Thus, any exploitation or wrongdoing by traders cannot happen. Besides, the domestic economy gets a chance to develop in international arenas due to the political intervention. The government needs to be careful and wise in handling these issues to ensure that the state can develop and confront global issues.

LITERATURE REVIEW

Reforms since World War II have substantially reduced government-imposed trade barriers. But policies to protect domestic industries vary. The United States, for example, is reported to collect about 15 cents in tariff revenue for each $1 of imports from Bangladesh (Elliott, 2009).Tariffs are much higher in certain sectors (such as agriculture and clothing) and among certain country groups (such as less developed countries) than in others. Many countries have substantial barriers to trade in services in areas such as transportation, communications, and, often, the financial sector, while others have policies that welcome foreign competition.

World Bank economists calculated that exporters from low-income countries face barriers on average half again greater than those faced by the exports of major industrialized countries (Kee, Nicita, and Olarreaga, 2006). Mitra and Mehmet(2015) conducted a study on political economy titled „Development in A Globalizing World" and stated that economic policy formulation is still governed by political factors. The enlargement of national and global pies, arising mainly from the integration of economies and the removal of barriers to the movement of goods, services, capital, and people, has affected the scope of the influence of special-interest (or pressure) groups, bureaucrats, and other political actors".

In view of the outcomes, the main approach suggests that government policy and administrative staff regulated while the state may have built substantial resources and limit its ability and use in a specific territory that relied upon its authoritative work and other variable costs. This is an imperative end product that leaves this work to prove that political and government factors bring the best transition of political economy of development in a globalizing country (Whipps, 2008). On the other hand, the international political and economy aspect of the country is related much to the political factors as leaders and governments conduct economic activities. Thus, it is only different in terms of the types of economies and it will also become the most crucial aspect in a now globalized world, which is more challenging than before. Balaam and Veseth (1996) stated that liberalism is about laissez-faire and free markets while structuralism is about how capitalism pushes states and markets into class warfare.

METHODOLOGY

The data used in this research is secondary in nature. political economy can also be surveyed by comprehensively gathered political aspects, such as country policies and their administration and this will take a basic position on the existing financial models, organizations, and related policies, which are formulated by micro- and macro-economic agendas.

The major source of data is from Ministry of Commerce and Industry (2022). Also, we analyzed the import and export of Goods and services in India, the
government polices that helped in. The collected data was analyzed using correlation and time series analysis with the objective to analyze if there is any relationship between the selected two variables.

DATA ANALYSIS AND DISCUSSION

India's merchandise export in January 2022 was USD 34.06 billion, an increase of 23.69% over USD 27.54 billion in January 2021 and an increase of 31.75% over USD 25.85 billion in January 2020. India's merchandise export in 2021-22 (April-January) was USD 335.44 billion, an increase of 46.53% over USD 228.9 billion in 2020-21 (April January) and an increase of 27.0% over USD 264.13 billion in 2019-20 (April-January). India's merchandise import in January 2022 was USD 52.01 billion, an increase of 23.74% over USD 42.03 billion in January 2021 and an increase of 26.38% over USD 41.15 billion in January 2020. India's merchandise import in 2021-22 (April-January) was USD 495.83 billion, an increase of 62.68% over USD 304.79 billion in 2020-21 (April January) and an increase of 22.3% over USD 405.33 billion in 2019-20 (April-January). The trade deficit in January 2022 was USD 17.94 billion, while it was 160.38 billion USD during 2021-22 (April-January). Value of non-petroleum exports in January 2022 was 30.33 USD billion, registering a positive growth of 19.4% over non-petroleum exports of USD 25.4 billion in January 2021 and a positive growth of 33.81% over non-petroleum exports of USD 22.67 billion in January 2020. Value of non-petroleum imports was USD 40.57 billion in January 2022 with a positive growth of 24.44% over non-petroleum imports of USD 32.61 billion in January 2021 and a positive growth of 44.19% over non-petroleum imports of USD 28.14 billion in January 2020.

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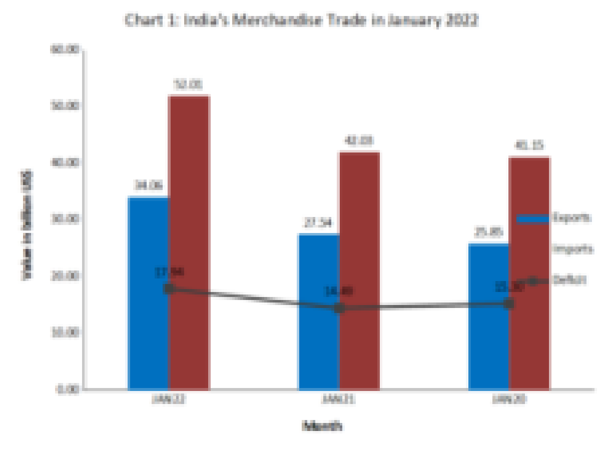
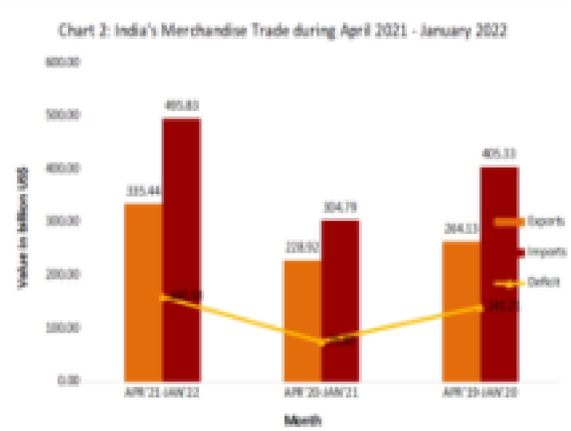
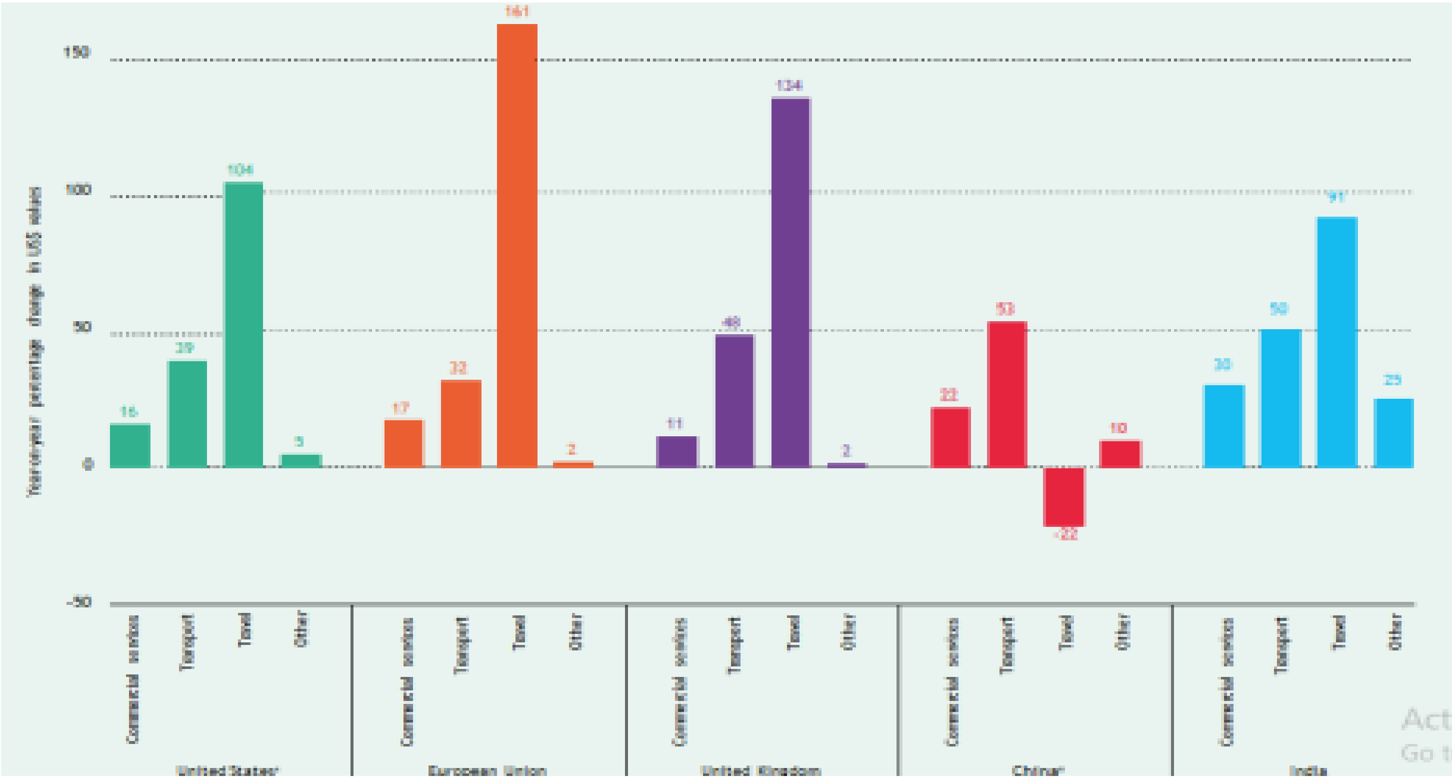




The interest for political economy of trade arrangement is the complementary impact of global exchange on local and worldwide legislative issues. Furthermore, countries need to be liberalized and ensure their economies and policies.

The government acts as a facilitator and still provides freedom of private rights to develop business. The first facility is in the form of either a transit infrastructure facilities or facilities in the business licensing process. The second facility is the legal order and rent seeking. The third facility is to minimize risks through investment and international trade policies. Besides, the government needs to manage its business by controlling the exchange rate and inflation. International business is conducted through the mobility of capital, formation of a manufacturing and trading center, and the movement of technicians and manager borders that require the role of government. The government plays a role in economic development programs, such as the substitution of import or export promotion and intervention as a result of public choice (to soothe pressure from various interest groups). This is caused because of the unemployment rate political or interest group pressure. Governmental intervention in trade is required to ensure income generation to maintain the country's economic stability and status in international trade.

A state's producers may discover extensive institutional boundaries as managerial directions, business laws, and contract authorizations. Translating the business law of an outside nation could be an expensive assignment and the outcomes of misconception of law could significantly be more exorbitant. The role of promoting its products is probably the most important in emerging economies, such as Vietnam, South Africa, or potentially Cuba. If state producers are among the first to establish the trading relationship with agents in such countries, and if those relationships are mutually beneficial, then other country suppliers will not easily break into the market. That implies of a payoff to aggressive promotion in specific markets and a long term cost of failure to enter markets in a timely way.



World Trade Organization – source

The government intervenes in term of subsides, taxes, and tariffs to get benefits for the country. The government imposes tariffs to increase government revenues and provides protection to domestic producers against foreign competitors by increasing the cost of imported foreign goods and by forcing consumers to pay more for certain imports. A subsidy is a government payment to a domestic producer and subsidies help domestic producers to compete against low-cost foreign imports and gain in the export market. The government plays a role in computing the value of taxes for export and import activities. The government makes high value taxes to increase their benefits and get high national income.

Data for the five largest services exporting economies in the first half of 2022 illustrate more recent developments incommercial services trade. Travel exports were up strongly in most cases (161 per centin the European Union, 134 per cent in the United Kingdom and 104 per cent in the United States) as pandemic related restrictions eased and pent-up demand for travel was released. China was the main exception, where spending on travel fell 22 per cent year-on-year due to extended restrictionsfollowing new outbreaks of COVID-19. India was an exception, with strong growth of 25 per cent, linked to computer and IT services being in high demand since earlyin the pandemic.

In order for international trade to work well, governments must allow the world market to determine how goods are sold, manufactured and traded for all to economically prosper. While all nations may have the capability to produce any goods or services needed by their population, it is not possible for all nations to have a comparative advantage for producing a good due to natural resources of the country or other available resources needed to produce a goods or services.

The international political economy is a network of bargains between and among states where power and markets are dealt with wealth. These bargains determine the production, exchange, and distribution of wealth and power. Bargain in international political economy can take many forms. Some are the formal signed, ratified, and enforced agreements and some bargains are merely conventions, understandings, or rules of thumb. However, some of international political economy bargains reflect the rational power of one player to get another to do or not do something. All various environmental impacts of trade policies on natural resources are difficult to assess. The government is very important in open economies because it bear failures occurring in international exchange and utilizes adaptable modification techniques. In addition, expanding exposure to worldwide exchange may accordingly make requests in greater to the government mediation and a bigger welfare state, which are thus important to maintain open support for an open economy. Actually, nations turn out to be more open to exchange when they discover that it is progressively invaluable to devise foundations that expand the state's protection, independence, and stability. This infers that parliamentary frameworks with solid gatherings give corresponding portrayal of substantial areas. In this case, a strong relationship between openness and proportional representation can boost international trade and domestic institutions.

As far as global legislative issues are concerned, exchange advancement may likewise have vital impacts. As nations turn out to be more open to the universal economy, it might influence their political relations with different nations. On the off chance that expanded exchange advances peace between nations or builds their odds of contention it will diminish the odds that those nations will be included in political or military clashes with each other. The political economy has some impact on international trade. One result is the level of consumption goods rose sharply each year. Apart from goods, the services imports have also increased. As we know, the United States is the fastest growing sector and rapidly changing economy. The trade liberalization can change local inclinations about exchanging the political economy. As nations change, the exchange part of the economy ought to develop alongside the exposure to international monetary pressures. This can lead more noteworthy or new political cleavages and conflicts amongst nations. However, this can expand openness to exchange the changes and inclinations locally. Furthermore, according to Frieden and Martin (2003), the states are treated as unitary actors and domestic politics have barely begun to be integrated into models. They may take the form of coordination or bargaining problems, where the difficulty is to choose a particular equilibrium in a situation in which states disagree on their preferred outcome (Barro & Salai-Martin, 1992).

CONCLUSION

In the final analysis, international factors play a major role in the global change in political economy and international trade. As we know, the world today is a global political economy. Despite the fact that developed and developing states are included in worldwide exchange with political impacts, international political economy moves towards the understanding of issues of the developed and the developing nations in the global framework.

However, financial results quite often have political ramifications. Financial strategies are controlled by politics on the grounds that distinctive arrangement decisions for the most part affect the appropriation of monetary yields. In short, globalization has generated an array of environmental and social problems that attract the attention of international political economy. Although globalization is good for trade it also gives a bad impact to other things. In particular, globalization has delivered genuine dangers and emergencies that states and worldwide organizations appear to be ready for controlling, such as a dangerous atmosphere, monetary turmoil, and displaced river streams.

However the test from international political economy is to create hypotheses and ideas that help people to understand what is presently a real worldwide political economy. Our trade balance changes from a positive to a negative impact on GDP. This may mark the beginning of that transition. If the consumer spending is falling and the investments are flat, the trade deficit can always increase. The international trade gives more impact and advantages than disadvantages.

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