BUSINESS EFFICIENCY AND GEOPOLITICAL FACTORS IN INTERNATIONAL TRADE: A STUDY OF INDIA'S EMERGING POTENTIAL

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DOI: 10.46609/IJSSER.2023.v08i07.025 URL: https://doi.org/10.46609/IJSSER.2023.v08i07.025

Received: 18 July 2023 / Accepted: 28 July 2023 / Published: 31 July 2023

ABSTRACT

This paper examines the concepts of business efficiency and competitiveness, as well as their empirical measures, with a focus on the role of regional/geopolitical factors in shaping international trade economies. It also explores India's post-independence scepticism towards private businesses and foreign policy, along with its strategic thinking and trade economy. Additionally, the paper discusses post-pandemic opportunities for trade, particularly in the context of the Russian-Ukraine conflict and its potential impact on global economic dynamics. The findings suggest that geopolitical tensions and shifts in global economic paradigms have significant implications for trade relations between nations. The study highlights the importance of diversifying investments, enhancing manufacturing capabilities, and investing in research and development efforts to strengthen economies and navigate geopolitical complexities. The paper concludes by emphasizing India's emerging potential as an alternative investment destination and its role in balancing interests between major global players.

Keywords: business competitiveness, empirical measures, geopolitical factors, post-pandemic opportunities

Business Efficiency, Competitiveness, and Geopolitical Factors in International Trade: A Study of India's Emerging Potential

Business efficiency, as defined by Trivedi, (2002) is, “the degree to which an enterprise rationally allocates its limited resources to achieve predetermined goals after taking the constraints of the internal and external environment into account.” An organization's ability to deploy its production on both domestic and international markets increases in direct proportion to how well it operates. Achieving greater efficiency enables the company to implement its strategic plans more effectively and inexpensively than its rivals, giving it a competitive
advantage and enhancing its long-term viability (Ko et al., 2017). External factors for businesses like economic and geopolitical developments can have ramifying impacts on their efficiency. These developments can negatively affect the commodity turnover, production relations, export relations, investments and competitiveness of the general environment (Davis & Meunier, 2011; Jafarzadeh & Shuquan, 2021; Verstiak & Kormakova, 2021).

**Business Competitiveness Defined**

The use of national macro-economy as a variable was first used in industrial performance studies by Smith, (1776), who spurred the creation of economics with his book The Wealth of Nations. This was followed by the formulation of Ricardo's theory of comparative advantage (Ricardo, 1821), which was perfected by models such as Heckscher-Ohlin's (Ohlin, 1967) and Dornbusch et al., (1977), which sought to explain patterns of production, trade, and development of countries based on the availability and relative costs of local factors in each country. Further contributions were made to this line of thought by Porter, (1985): if a business's profits were higher than those of its competitors as a result of this more favorable climate, this company would have a durable competitive advantage over time. de Oliveira e Silva et al., (2012) also verified whether business performance is related to the environment of the nations in which they operate and which aspects within them are most important. Evidence of a link between a country's competitiveness measures and the long-term performance of its enterprises was discovered.

The International School for Management & Development, (2014) defines business competitiveness as the capacity of an enterprise to generate value through sustainable long-term growth and cost-effectiveness. Furthermore, they attribute the competitiveness of firms to two factors – general and intrinsic. Whereas the general dimensions are inclusive of structural and industry-related factors, the intrinsic dimensions encompass governance, organizational, functional, sustainability, talent development, and digital factors. Fuentes et al., (2021) conducted a documentary investigation to analyse the business competitiveness under the economic, political, social, and cultural scenario at the municipal, regional, national, and international levels. The results obtained by them were in line with studies conducted by Burinskienė & Daškevič, (2023). The latter expressed on the importance of adaptability to dynamic economic factors and globalisation trends along with flexibility, mobility & speed for businesses as these factors are important sources of competitiveness. Moreover, they assign innovations great weightage in keeping firms competitive in the domestic and global market, and thus, a key role should be assigned to the development of businesses while focusing on enhanced economic development. Lu-Chang-Say et al., (2018) rephrased the concept of business competitiveness as the strength and/or capacity to grow, alter, and excel in continuously producing and exchanging value and benefits among people, leading to variations in the rate at
which the activity is carried out. According to them, it is quantifiable in output, meta units/time
and the goal is to empower people, forge synergies, and help them overcome their own
limitations and capacities rather than achieving greater productivity, quality, or advantages
relative to others and/or comforting to others.

**Empirical Measures of Business Competitiveness**

Feurer & Chaharbaghi, (1994) gave a holistic approach to measuring competitiveness in
businesses by studying interrelated factors like customer values, shareholders’ values, and their
ability to react within a competitive environment. According to them, defining and mapping
various aspects of competitiveness leads to its measurement. Horváthová & Mokrůnovová, (2020)
on the other hand used the financial health of respective businesses as an indicator to determine
their level of competitiveness. They assessed the competitiveness of businesses by the
application of the Economic Value Added (EVA) indicator. The study by Kozená & Chládek,
(2012) created a Competitiveness Index that divides company competitiveness into various areas.
The Index was tested using discriminant analysis, and the various competitiveness groups were
examined using multivariable logistic regression. Research and development, shifting target
markets, flexibility, rate of marketing budget, involvement in strategic alliances, and workforce
fluctuation are the factors that make up the competitiveness index. These elements may boost a
company's industry competitiveness. Falciola et al., (2020) used factor analysis to create a
multidimensional competitive index based on data from individual firms along with standard
macroeconomic variables used in other studies. They aimed to provide insights into the
anticipated future performance of the countries on the basis of the current competitiveness of
their firms. The multi-dimensional competitiveness index in their suggested framework has a
positive correlation with widely used measures of firm performance, including labor
productivity, the likelihood of exporting, the proportion of inputs used by the firm that is of
foreign origin, and the percentage of total sales that were exported. The competitiveness index
and GDP per capita have a positive correlation when taken as a whole at the national level. The
IMD World Competitiveness Yearbook (WCY) is an extensive annual report and a major source
of information on how competitive various nations are. It offers benchmarking, trends, statistics,
and survey data based on in-depth analysis. It evaluates and ranks nations based on how well
they manage their capabilities to produce long-term value. Based on an extensive study using
economic literature, global, national, and regional sources, as well as input from the business
community, government organisations, and academics, the World Competitiveness Ranking is
based on 335 competitiveness criteria (The International School for Management &
Development, 2022). Ushakov et al., (2019) mentioned by the importance of national
competitiveness in being a determinant of modern “TNCs international expansion.” Their study
makes an effort to identify how countries’ competitiveness affects multinational business flows.
and makes recommendations for modernising state foreign economic policy in light of the dynamics of entrepreneurship trans-nationalization.

**Role of Regional/Geopolitical Factors**

According to the geopolitical paradigm in international business, several geopolitical aspects, in addition to firm-specific and environmental variables, can influence international business choices. When considering geopolitics in the context of international business, it is critical to keep the notion of globalisation in mind. Observations of the contemporary worldwide economic climate draw attention to a few strictly global geopolitical concerns. Regionalism and bilateral commercial agreements between nations are important factors in shaping international business connections (As-Sabar et. al., 2000).

Michňová & Megyesiova, (2022) used XGBoost Tree Model and the CHAID algorithm to determine the significance of socioeconomic factors in determining business efficiency in a sample of 150,000 companies. Along with the financial and non-financial factors, regional factors played a very significant role in the study. Using the Geopolitical Risk (GPR) Index measure proposed by Caldara & Iacoviello, (2022), Hao et al., (2022) found that the negative effect of GPR is more prominent when acquirers have foreign operations or are financially limited, and when targets have more irreversible assets or operate in lower-competition industries. Motivated by the recent geopolitical shocks of the COVID-19 pandemic and the Russia-Ukraine war, and their consequences for the global investment world, Hao et al., (2022) contribute to this ongoing discussion by demonstrating that GPR, an important dimension of uncertainty with its own distinct characteristics, is an important dimension of uncertainty. The Global Economy, (2023) constructed the Political Stability and Absence of Violence/Terrorism Index that assesses public perceptions of the likelihood of the government being destabilised or overthrown through unconstitutional or violent means, including politically motivated violence and terrorism. The index is a weighted average of various other indexes, including those from the Economist Intelligence Unit, the World Economic Forum, and the Political Risk Services.

**Business Competitiveness: Key Insights in India**

**Post-Independence Scepticism with Private Businesses and Foreign Policy**

At the time of India's independence, the country already had a well-established business community and various political groups familiar with the norms and procedures of a parliamentary system. There were over 1,500 business and trade groups and more than 1,000 labor and peasant unions in the country. Initially, the business had a close relationship with the Congress Party. However, in 1955, the government began adopting a socialist economic strategy that emphasized a dominant public sector. In response, interest groups chose to support
alternative political parties rather than cultivating pro-business members from all parties (Kochanek, 1995).

From 1950 to 1990, the Indian government was extremely unlikely to involve the private sector in foreign policy problems for a variety of reasons. For starters, throughout this period, India pursued a closed and self-sufficient growth paradigm, which prohibited connections with the outside world. Second, the dominance of public-sector corporations has marginalised private companies' involvement in setting public policy. Furthermore, the government neglected private-sector representation organisations, reflecting their economically marginalised status. India's leadership in the non-aligned movement and its Cold War alliance with the Soviet Union made it impossible for the private sector to have a substantial role in foreign policy. Political leaders and bureaucrats who supported socialist ideology viewed the private sector with distrust (Kumar, 2016).

The Indian private sector fought a survival fight against the dominant pro-state capitalism ideology and government policies. Through the development of the public sector and the nationalisation of private firms in industries such as banking and coal, the government aggressively curtailed the private sector's share of the economy. During the 1970s and early 1980s, the severely controlled environment, known as the "license-quota raj," reached its pinnacle of dysfunction. As a result, the private sector became fully dependent on the government, with no opportunity to participate in the formulation or implementation of foreign policy.

Indira Gandhi's government undermined this pluralist approach by implementing economic and political centralization measures and banning business contributions for political purposes. Business interests were forced to operate in an opaque and unrepresentative system where access was available only to those with money or political connections. Policy decisions favoured those who contributed to the ruling Congress Party (Piramal, 2000). When Rajiv Gandhi became Prime Minister in the mid-1980s, he embarked on a slow process of economic liberalisation that began to transform the situation. This entailed removing some of the restrictions imposed by the "license-quota raj," which had hampered the private sector. As a result, the function of corporate organisations shifted little over this decade. Economic liberalisation policies, along with a pause in the expansion of public-sector firms, permitted the private sector's fast growth and entry into formerly public-sector-only areas. Furthermore, beginning with the Uruguay Round of global trade talks under the General Agreement on Tariffs and Trade (GATT) in 1984, India took a more active and combative attitude in international trade discussions. This led to the private sector's increasing influence in determining India's foreign policy (Panagariya, 2004). As a result, it wasn't until the latter part of the 1980s that the material and political economic space for private sector involvement in India's foreign policy planning and implementation began to develop.
With the onset of economic reforms in 1991, the business community found a receptive policy establishment. The electoral loss of the Congress Party in 1989, the frequent turnover of central governments, and the emergence of coalition governments created a new era of political uncertainty. In this competitive environment, political contributions by businesses are legalized. As a result, the institutional features of the Indian legislature have created an incentive structure that drives the behaviour of business lobbies (Yadav, 2008).

**India’s Strategic Thinking and Shaping of Trade Economy**

Factors like a firm’s dependence on India’s strategic autonomy and the consequential ability to preserve freedom of action, strategic competition with China, strategic cooperation with allies, support of the liberal international order, increment in defence capabilities and promotion of human rights agenda are key some key factors that shape the strategic thinking of India (Varghese, 2018). The India-US, India-China & India-Australia, and India-SAARC strategic relationships are merits of the geopolitical thinking of India exhibiting elements of both economic cooperation and economic competition.

The country's potential as an alternative investment destination to China is becoming more attractive despite local business challenges. India's $3 trillion economy is projected to grow by 6.5% this fiscal year, surpassing global growth rates. The abundance of cheap Russian oil imports helps control inflation, while the large English-speaking workforce, abundant technology engineers, and low costs make India an appealing destination for businesses. The government's business-friendly policies and the high probability of Prime Minister Narendra Modi winning a third term in the upcoming elections contribute to the positive sentiment. Moreover, worsening relations between the United States and China have prompted companies to seek new supply chain options, and India has emerged as a favoured choice (Galani, 2023).

Inter-regionally, India's largest trading partners are ASEAN + 3 with a trade share of 25.73%, followed by the Middle East with a trade share of 24.11% and East Asia with a trade share of 16.83%. In recent decades, India has worked positively on its 'Look East Policy' to shift attention from Western nations to East Asian countries to establish economic and political connections. Until recently, the European Union was India's second largest trading partner, with a 19.48% trade share, being displaced by the Middle East. India is assigned the role pushing forward SAARC economies to boost their respective regional economic growth and inequalities. The resultant integration leads to high intra-regional trade allowing for massive cross-broader investments. Given the large volume of trade carried out by India and SAARC nations and the large size of its economy and resources, India is a stakeholder in the growth process of linked through regional trade diversified among various sectors like engineering products, minerals, textile and textile products (Kumar, 2019).
Post-Pandemic Opportunities for Trade

Post-pandemic global economies are mitigating risks associated with single economy-specific global value chains and diversifying investments from China. India has emerged as a major beneficiary which is apparent through large amounts of Foreign Direct Investment (USD 171.84 billion from March 2020 to March 2022), benefits of boosts in consumption, savings, and investment attributed to the country’s youth population that will be inconsequential in consumption-led-growth, low average wage as compared to China leading to cost-competitiveness and a massive emphasis on physical infrastructure. Reforms in tax regimes, liberalisation of Foreign Direct Investment (Kripalani, 2020) and schemes such as Production Linked Incentive (PLI) Scheme are also being put to complement the geo-economic plans of the country (Ministry of Commerce & Industry, 2022; Ghosh, 2023).

Post-COVID-19, supply chain disruptions and cost of reorganisation, increased economic protectionism and stringent controls on domestic businesses has led to increasing instability characterised by increasing coldness between the United States, Russia, China and the European Union. The instability has been consequential in India and other Emerging Asian countries. This resultant geopolitical instability has weighed on businesses’ performance and decision-making processes, disrupting supply chains, inflating input costs, affecting the supply of labor, and limiting access to finance, among other factors. On the other hand, stringent regulations that led to disincentives in China have led global businesses to reconsider their production and market decisions. This can be seen with the shifting of the complex production process from Southern China to Cambodia and also that of Apple and Google to India. The quantities of later, however, remain small but signal the breaking of the monopoly China possessed over the production process of these companies earlier (Samel et al., 2022). India's business environment, however, remains misunderstood by many outsiders, despite the prevalence of English and the presence of influential business leaders from global companies. On the other hand, concerns about China may be driving investors to discount Indian risks, while political and socioeconomic issues within India are largely overlooked. Ultimately, India's growing significance as an alternative to China is reducing the Indian risk premium and attracting investors to explore the country's potential (Galani, 2023).

Russian-Ukraine Conflict and Trade Impetus

Following the Russian-Ukraine conflict, the pre-existing assumptions regarding the existence of bilateral nations have been challenged by the geopolitical tensions and the trade influenced by them. Existence of strong manufacturing capabilities is a plus point for nations to handle adverse situations. Product Innovations and Diversification in manufacturing sector has positive spillover effect on the service sector of nation as well once a determined level of saturation has been
achieved in the former. India should vamp up its investment to at least 1% of the GDP in Research & Development efforts to boost the manufacturing capabilities (Joshi et. al., 2023).

The findings by Hill et. al. (2012), suggest that oil plays a crucial role in facilitating global economic participation for many nations. This leads to the expectation that other raw material producers may also benefit from similar advantages. However, there are concerns regarding countries that lack natural resource advantages. Adverse geographic circumstances may hinder their economic development and global integration. In the case of India, oil has become an important asset. Both Russia and the United States have an interest in maintaining India as an oil export market and would not want to risk losing it. They also aim to avoid disruptions in global energy markets that could harm their own economies. India's significant oil imports make it a major market, second only to China. As Russia relies more on India as an oil export destination, it becomes easier for India to balance its interests between Russia and the Western countries (Seshasayee, 2023).

Conclusion

In conclusion, this paper has delved into the multifaceted aspects of business efficiency and competitiveness, exploring their definitions, measurement approaches, and the role of regional and geopolitical factors in shaping international trade economies. The study emphasized the significance of achieving greater efficiency for enterprises, enabling them to implement strategic plans effectively and gain a competitive advantage in the global market.

The empirical measures of business competitiveness showcased various methodologies, ranging from holistic approaches involving customer and shareholder values to indices encompassing multiple dimensions. These measures play a crucial role in evaluating and benchmarking nations and their enterprises in terms of managing capabilities and generating long-term value.

The paper also sheds light on India's post-independence journey, navigating scepticism with private businesses and foreign policy, which eventually evolved into a more receptive policy establishment. Economic liberalization and geopolitical shifts allowed the Indian private sector to gain influence in determining the country's foreign policy, leading to its emergence as an attractive investment destination post-pandemic.

Post COVID-19, global supply chain disruptions and geopolitical uncertainties have challenged traditional assumptions, prompting businesses to diversify their investments and explore alternatives to China. India has emerged as a beneficiary, offering a large and youthful population, cost-competitiveness, and growing strategic importance in the global arena.
Furthermore, the paper highlighted the significance of the Russian-Ukraine conflict in reshaping trade dynamics. Geopolitical tensions have led to a reevaluation of global economic participation, with countries focusing on manufacturing capabilities and product innovations to enhance economic resilience.

In this rapidly changing landscape, India's strategic thinking and trade economy have taken center stage. Its ability to balance interests between major global players while actively engaging in regional economic growth presents immense potential for the country's economic future.

Overall, this paper underlines the importance of adaptability and innovation for businesses and nations alike. It stresses the need for ongoing research and development efforts to strengthen manufacturing capabilities, promote investment, and navigate geopolitical complexities. By embracing these factors, India and other countries can harness post-pandemic opportunities and position themselves as significant players in the ever-evolving global economic landscape.

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