Geopolitical, Economic and Regulatory Factors Affecting Global Business

A Critical Analysis of External Global Factors in International Business

International Business Report

1. Introduction

For most of the 1990s and 2000s, managers of international firms worked on a fairly comfortable assumption: that the world was gradually becoming more open, and that the main strategic question was where to locate each activity at the lowest cost. That assumption looks much shakier today. Since 2016 the international business environment has been hit by a trade war between the United States and China, Brexit, a pandemic, the invasion of Ukraine, attacks on shipping in the Red Sea, a sharp burst of inflation and a rapid rise in interest rates. By late 2026, tariff policy in the United States is still being fought over in the courts, and the legal basis of the duties companies pay has changed more than once within a single year.

This report examines how these external forces shape decision-making and performance in internationally active organisations. It begins with a PESTLE-style description of the political, economic, social, technological, legal and environmental dimensions of the global environment. It then looks more closely at geopolitics, trade policy, conflict and financial volatility, before turning to the role of international institutions, trade agreements and regulation. Later sections assess supply chain disruption, currency movements, inflation and uncertainty, review how firms manage the risks of operating in several countries, and give examples of companies that have changed strategy. The final sections propose ways of building global strategies that are robust and flexible.

The argument is that external factors do not simply happen to firms. Their effect depends on exposure, which is a function of how a company has organised its footprint, and on the quality of the managerial response. Two firms in the same industry can experience the same shock very differently. The report therefore treats the global environment as something to be read and anticipated, not just endured, while acknowledging that no organisation can foresee everything.

2. The Global Business Environment: A PESTLE Description

PESTLE analysis, which developed from Aguilar's (1967) scanning of the business environment, is a simple but useful way of sorting external influences. It has well-known weaknesses, which are discussed at the end of this section, but it gives a structure for describing what international managers actually face.

2.1 Political factors

Politics shapes the rules of the game: who may trade with whom, which sectors are open to foreign investors, what subsidies are available, and how secure property rights are. Government stability, the risk of expropriation or sudden policy reversal, corruption, sanctions regimes and industrial policy all feed into location and entry decisions. Industrial policy has returned strongly in recent years. The US Inflation Reduction Act and CHIPS Act, the European Chips Act and China's long-running support for strategic industries all use subsidies to pull investment toward particular places, and firms in affected sectors are effectively choosing between different state-supported ecosystems. Political risk is also not confined to emerging markets.

Abrupt changes of trade policy in advanced economies have shown that even a country with strong institutions can produce policy shocks.

2.2 Economic factors

Economic conditions include growth rates, income levels, interest rates, inflation, exchange rates, labour costs and the structure of demand. They determine market attractiveness and also the cost of doing business. A firm selling premium consumer goods will care about the growth of the middle class in India or Indonesia, while an exporter of capital equipment will care more about investment cycles and the cost of credit. Divergence between economies has increased in the post-pandemic period, with the United States, the euro area and China often facing different inflation and monetary conditions at the same time, which complicates the planning of multinational groups.

2.3 Social factors

Social factors cover demographics, culture, values, consumer behaviour, education and attitudes to work. Ageing populations in Germany, Japan, South Korea and China reduce labour supply and change demand towards healthcare and services, while younger populations in parts of Africa and South Asia create both markets and labour pools. Cultural distance affects marketing, negotiation and management. Ghemawat (2001) argued that cultural, administrative, geographic and economic distance still matter a great deal, despite talk of a borderless world. There is also a growing social dimension to corporate legitimacy: consumers and employees increasingly expect companies to take positions on labour standards, human rights and inequality, and a supply chain scandal can damage a brand far from where it occurred.

2.4 Technological factors

Technology affects how firms produce, communicate and compete across borders. Digital platforms allow even small firms to reach foreign customers, while automation and additive manufacturing reduce the labour cost advantage of low-wage locations and so make reshoring more feasible. Artificial intelligence is changing forecasting, procurement and customer service. At the same time, technology has become a geopolitical battleground. Export controls on advanced semiconductors and chip-making equipment, restrictions on specific vendors in telecoms networks, and rules about data localisation mean that technology is now partly a matter of national security, and firms may have to maintain separate product versions or data systems for different blocs. Cyber risk is a further cross-border exposure, since attacks on logistics firms or software suppliers can halt operations worldwide.

2.5 Legal factors

The legal environment is probably the most fragmented dimension of all. Firms must comply with company law, employment rules, competition law, product standards, intellectual property regimes, data protection, anti-corruption statutes and sanctions in every jurisdiction where they operate, and some laws apply extraterritorially. The US Foreign Corrupt Practices Act, UK Bribery Act, EU General Data Protection Regulation and US sanctions rules all reach beyond

their borders. Contract enforcement and dispute resolution vary widely, which is why international arbitration and bilateral investment treaties matter. The cost of legal complexity is often under-estimated at the planning stage, particularly by firms moving into new regions for the first time.

2.6 Environmental factors

Environmental factors include climate change, resource scarcity, extreme weather, biodiversity and the regulation that follows from them. Physical risks, such as floods affecting factories in Thailand in 2011 or drought lowering water levels on the Rhine and the Panama Canal, show how climate affects supply chains directly. Transition risks arise from regulation, carbon pricing and shifts in customer preference. The EU's Carbon Border Adjustment Mechanism, which entered its definitive phase at the start of 2026, puts a carbon cost on certain imports such as steel, aluminium, cement and fertiliser, so that a non-EU exporter's emissions profile now affects its access to the European market. Environmental rules therefore operate more and more as trade rules.

2.7 A critique of the framework

PESTLE is easy to use but it has limits. It tends to produce long lists rather than analysis, and it treats the six categories as separate when in practice they interact constantly. A tariff is political in origin, economic in effect and legal in its implementation, and may trigger social reaction. The framework also says nothing about the firm itself, so it cannot show why one company is more exposed than another. For that reason the rest of this report treats PESTLE as a starting inventory and concentrates on interactions and firm-level exposure.

3. Geopolitics, Trade Policy, Conflict and Financial Volatility

3.1 Geopolitics and the weaponisation of interdependence

Farrell and Newman (2019) described how states can turn the networks of global economic exchange, such as financial messaging, technology supply chains and energy flows, into instruments of coercion. The 2022 freezing of Russian central bank assets and the removal of Russian banks from the SWIFT system were examples, as were China's export restrictions on certain critical minerals and the US limits on chip exports to China. For firms, this means that interdependence, which used to be treated as a source of efficiency, now also carries strategic risk. A company that depends on one country for a critical input can find that input becoming a bargaining chip in a dispute that has nothing to do with the company.

The consequence is that political relationships between governments have become part of the commercial risk assessment. Companies increasingly speak of 'friend-shoring' or 'de-risking', meaning a move of production towards politically aligned countries. This can reduce one kind of risk but it often raises costs and may simply shift dependence elsewhere. Critics, including some economists writing for the IMF, have warned that fragmentation into rival blocs could lower global output by a noticeable margin, with the largest costs falling on poorer countries

and on firms that need scale.

3.2 Trade policy

Tariffs and non-tariff barriers directly change landed cost, but their wider effect is on predictability. The recent US experience is instructive. After sweeping tariffs were introduced in 2025 under emergency powers, the US Supreme Court ruled in 2026 against that legal basis, and the administration moved to a temporary global tariff under a different statute, which the Court of International Trade then found unlawful in May. Reports in autumn 2026 suggest that new routes, including measures justified on forced-labour grounds, are being tested in the courts. Meanwhile the US and China have operated a one-year truce on some tariffs and export-control measures, due to be reviewed around now, and the US has been signing separate bilateral arrangements with the EU, India, Switzerland, South Korea and others. The details of all of this will have moved on again by the time this report is read, and that is rather the point.

For a business, the lesson is not any single tariff rate but the fact that the rate can change quickly, can be struck down retroactively, and can differ by product, origin and even the degree of local content. Companies must decide whether to pay, absorb, pass on or avoid tariffs, and each choice has consequences. German carmakers, for instance, have faced tariffs on exports to the United States and have had to weigh price increases against margin loss and the option of building more vehicles in American plants. Firms that front-loaded imports, rerouted through third countries or sought refunds after rulings have also found that legal and compliance cost can rival the duty itself. Trade policy uncertainty has measurable effects on investment: Baker, Bloom and Davis (2016) show that spikes in policy uncertainty are associated with lower investment and hiring, because firms hold back when the option value of waiting rises.

3.3 Global conflicts

Armed conflict affects business through several channels: direct physical damage, sanctions and counter-sanctions, energy and commodity price spikes, shipping disruption, cyber attacks and the flight of capital. After Russia's invasion of Ukraine in 2022, hundreds of Western firms had to decide whether to leave, scale down or remain in Russia, and many took large write-downs. Shell and BP, for example, announced exits from Russian ventures at substantial cost. The loss of Russian pipeline gas hit European energy-intensive industry especially hard, and German chemical producers in particular reconsidered their domestic production. In the Middle East, attacks on commercial vessels in the Red Sea from late 2023 forced carriers to reroute around the Cape of Good Hope, lengthening Asia-Europe transit times by roughly ten days or more and raising freight rates.

What these cases show is that conflict risk is rarely contained. A war in one region affects food prices, fertiliser, energy, insurance and shipping elsewhere. Firms with little direct exposure may therefore still be hit indirectly, and the scale of the second-round effects is difficult to estimate beforehand.

3.4 Global financial volatility

Financial volatility enters the business through interest rates, credit availability, equity valuations and exchange rates. The rapid tightening of monetary policy from 2022 raised borrowing costs for firms and governments, strained some emerging market debtors, and contributed to the failure of banks such as Silicon Valley Bank in 2023. Higher rates reduce the present value of long-dated investment projects, and make leveraged expansion abroad more dangerous. Capital flows can reverse suddenly, as during the 2013 'taper tantrum', leaving firms with local-currency revenues and hard-currency debts badly exposed. Financial shocks also spread quickly through the global system, so that a problem in one market can close funding windows everywhere. Companies with strong balance sheets, however, can use periods of distress to buy assets or gain share, which is a reminder that volatility is an opportunity as well as a threat.

4. International Institutions, Trade Agreements and Regulatory Structures

4.1 Multilateral institutions

The post-1945 economic order rested on institutions such as the World Trade Organization (WTO), the International Monetary Fund and the World Bank, which provide rules, dispute settlement, balance-of-payments support and development finance. For business, the WTO's most-favoured-nation principle and bound tariff schedules have long offered a baseline of predictability. That baseline has weakened. The WTO Appellate Body has been unable to function since 2019 because appointments have been blocked, which leaves rulings open to appeal 'into the void', and major economies have increasingly used national-security justifications for measures that would once have been challenged. Chatham House and others have described this as a shock to the system of global economic governance. Firms can no longer assume that unlawful trade measures will be quickly corrected through multilateral channels, and so have to plan for a world in which power matters more than rules.

4.2 Trade agreements and regional blocs

Preferential agreements and blocs have meanwhile expanded in importance. The EU single market, the USMCA, the Regional Comprehensive Economic Partnership (RCEP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the African Continental Free Trade Area create zones where tariffs are lower and rules of origin steer sourcing. Rules of origin deserve particular attention in practice: a product only qualifies for preferential treatment if enough of its value is added within the bloc, so supply chains are sometimes redesigned around qualification thresholds. The EU has also been signing agreements with Mercosur, India and others in an effort to diversify away from dependence on the US and China, although ratification is politically difficult and slow. For firms, trade agreements are therefore a source of cost advantage but also a constraint on where to source, and they can be reopened or ignored when governments change.

4.3 Regulatory structures and the Brussels effect

Regulation is a growing driver of international strategy. Bradford (2020) describes the 'Brussels effect', in which EU rules in areas such as data protection, chemicals and product safety become de facto global standards because it is cheaper for multinationals to comply everywhere than to maintain separate versions. GDPR is the standard illustration. At the same time, regulatory divergence between the EU, US and China, for example on artificial intelligence, digital markets and data transfers, creates compliance burdens and may force splits in products or organisation.

Recent developments show that regulation is itself volatile. The EU's sustainability agenda was substantially scaled back through the 'Omnibus I' simplification package, adopted in early 2026, which narrowed the scope of the Corporate Sustainability Reporting Directive (broadly towards companies with more than 1,000 employees) and revised the Corporate Sustainability Due Diligence Directive. The EU deforestation regulation has also been postponed again, to the end of 2026. CBAM, by contrast, moved into its definitive phase in 2026, although simplifications such as a 50-tonne threshold removed many small importers and certificate sales are not due to start until early 2027. For companies this creates a difficult judgement: whether to invest early in compliance systems that might later be relaxed, or to wait and risk being unprepared. Most large exporters to Europe seem to be treating the direction of travel, rather than the latest deadline, as the planning guide, which is probably wise.

Taxation is a final regulatory structure. The OECD's two-pillar framework, including a global minimum tax of 15 percent for large multinational groups, has begun to limit the benefit of profit shifting, though the United States has resisted parts of the arrangement and implementation remains uneven. Tax-driven location choices are therefore less reliable than before.

5. Supply Chain Disruption, Currency Volatility, Inflation and Market Uncertainty

5.1 Supply chain disruption

Modern supply chains were optimised for cost and efficiency, using lean inventory, single sourcing and long distances. That produced large savings but little slack. The Fukushima disaster, the Thai floods, the pandemic, the 2021 blockage of the Suez Canal by the Ever Given, the semiconductor shortage that cut car output by millions of vehicles, and the Red Sea crisis each exposed this fragility. Christopher and Peck (2004) argued that resilience has to be designed in, through visibility, flexibility and collaboration, rather than added after a crisis. Sheffi (2005) made a similar case in The Resilient Enterprise.

The impact on performance can be severe. Lost sales, expedited freight, idle plants and penalty payments reduce margin, while long recovery periods can lose market share. But resilience is expensive. Holding more inventory ties up working capital, and dual sourcing can sacrifice volume discounts. This creates a real trade-off between efficiency and robustness, and firms in

low-margin sectors have limited ability to pay for insurance against rare events. The question for managers is how much to pay for protection, and that depends on probability, impact and the speed with which they can recover. Baldwin and Freeman (2022) make the point that supply chain risk is not only about concentration in one country, since problems can originate in a specific supplier several tiers down, which many firms cannot even identify.

5.2 Currency volatility

Exchange-rate movements affect firms through three channels: transaction exposure on contracted cash flows, translation exposure when foreign subsidiaries' results are consolidated, and economic exposure, which is the longer-run effect on competitiveness. A strong euro, for instance, hurts German exporters that price in euros against competitors in weaker currencies, while a weak yen has boosted the reported profits of Japanese exporters like Toyota. Emerging-market currencies can move violently, as with the Turkish lira and Argentine peso, which can erase a subsidiary's profits when translated into the parent currency.

Firms respond with financial hedging, such as forwards and options, and with operational hedging, such as producing in the currency zone where they sell, matching costs and revenues, and diversifying suppliers. Financial hedges are cheap in the short term but cannot protect against permanent shifts in relative prices over several years. Operational hedges are more durable but expensive and slow to put in place. There is also a governance question about whether treasury should aim only to reduce volatility or to make a profit, since speculative hedging has caused spectacular losses at some companies.

5.3 Inflation

Inflation raises input costs, wages and financing costs, and makes planning harder. The post-pandemic surge, which saw consumer prices rise at rates not seen in decades in many advanced economies, put pressure on margins for firms with limited pricing power. Those with strong brands could pass costs on, and some arguably used the environment to raise prices by more than costs, which attracted attention from regulators and the public. Others, particularly in retail and food, saw volume fall as consumers traded down to cheaper brands. In international groups, inflation differs by country, so a firm may be coping with low single-digit inflation in one market and triple-digit inflation in another. Accounting for hyperinflationary economies, such as in Argentina or Turkey, adds further complexity to reported results. Contracts with price-adjustment clauses, indexed pricing, shorter supplier agreements and strong cost management are the typical defences.

5.4 Market uncertainty

Uncertainty differs from risk, in that probabilities cannot be reliably assigned. Policy shifts, technology changes and political shocks fall into this category. Under uncertainty, decisions based on a single forecast tend to fail, and the temptation is to freeze. Real options reasoning offers a better approach: make small, reversible commitments that keep the opportunity to expand alive, and defer irreversible ones until more is known. Scenario planning, made famous

by Shell in the 1970s, remains useful because it prepares managers mentally for several plausible futures rather than predicting one. The costs of uncertainty are both direct, in the form of hedging and delay, and indirect, since an environment of constant change may encourage short-termism and weaken long-run investment, which in turn lowers productivity.

6. How Businesses Respond to the Risks of Operating in Multiple Countries

Multinationals face political, economic, cultural, legal and operational risk at once, and their typical responses can be grouped into avoidance, mitigation, transfer and acceptance. Avoidance includes declining to enter or exiting a market; mitigation includes diversification, local partnerships, and adapting operations; transfer relies on insurance, political risk cover from agencies such as MIGA, and contractual allocation; acceptance is sensible where a risk is small or the market is strategically important.

Entry mode is itself a risk decision. Exporting involves low commitment and high flexibility; licensing and franchising transfer capital risk but risk loss of intellectual property; joint ventures share risk and add local knowledge but bring governance disputes; wholly owned subsidiaries give control but expose more capital. Many firms in China, for example, have been reassessing joint venture structures as local competitors have caught up. Ghemawat (2007) proposed that global strategies be thought of as a balance of adaptation to local differences, aggregation to gain scale and arbitrage to exploit differences, rather than a pure choice between standardisation and localisation. The balance among these three shifts with the environment: when trade barriers rise, adaptation and local production become more attractive relative to arbitrage from distant low-cost locations.

Other common practices include geographic diversification of sales and sourcing so that no market or supplier is critical, regional supply chains designed to serve a region from within it, strong local management with authority to react, systematic monitoring of political risk, compliance programmes covering sanctions and anti-corruption, and scenario-based stress tests. Governments are an influence too, and well-managed firms engage proactively with them through trade associations, local stakeholders and clear communication about commitments to employment and investment, because social licence is a protection against hostile policy.

7. Examples of Firms Adjusting Strategy

Apple is a frequently cited example. It historically relied on China for most iPhone assembly, but rising tariffs, pandemic lockdowns and political tension encouraged it to expand production in India and Vietnam, and reports indicate that a growing proportion of iPhones sold in the United States are now assembled in India. Apple has not left China, which remains both a vast market and an unmatched manufacturing ecosystem, so its approach is better described as diversification than decoupling. It shows the limits of reshoring too: moving final assembly is

relatively easy, but moving the component base takes far longer.

Volkswagen illustrates strategy under regulatory and geopolitical pressure. Its 'in China, for China' approach, including a stake in the Chinese electric vehicle firm Xpeng and local development of models, reflects the view that the Chinese market requires local speed and cost. At home, it has had to deal with high German energy and labour costs, the transition to electric vehicles, US tariffs on exports and EU emission rules, and has announced capacity reductions and cost-cutting. The case demonstrates that a single company can be simultaneously localising in one region and restructuring in another.

BASF, the German chemical group, has cut capacity at Ludwigshafen following the energy price shock, while investing heavily in a large integrated site at Zhanjiang in southern China. Whether this is a sensible strategy or a concentration of risk in a politically sensitive market is debated, and the case is a good example of how external factors can pull a company's footprint in opposite directions. TSMC, for its part, has responded to geopolitical and customer pressure by building fabrication plants in Arizona, Japan and, through a joint venture, Dresden, accepting higher costs in exchange for supply security and political goodwill.

In shipping and logistics, Maersk and other carriers rerouted vessels around Africa during the Red Sea crisis and have invested in integrated logistics to give customers more control over supply chains. In fashion, Inditex has long used a nearshore model, producing a significant share of garments in Spain, Portugal, Morocco and Turkey so that it can react to fashion trends within weeks, which also reduces exposure to long ocean transit. Finally, European companies exporting to the EU's CBAM-covered sectors, such as steel producers and fertiliser makers outside Europe, have begun to invest in lower-carbon processes because emissions now affect market access. These examples differ in detail but share a pattern: firms are placing more weight on resilience, proximity and regulatory alignment, and less on pure cost minimisation.

8. Building Robust and Flexible Global Strategies

The preceding analysis suggests several principles for strategy. They are offered as practical guidance, though the right mix will depend on a firm's industry, size and margin structure.

First, build strategic awareness. Companies should establish a systematic process of environmental scanning, with political risk analysts, trade and legal specialists and finance staff working together instead of in silos. Early-warning indicators, such as changes in sanctions lists, regulatory consultations or supplier financial stress, should be tracked and linked to defined triggers for action. Second, use scenario planning and stress-testing. Instead of one base-case plan, firms should develop a few scenarios, for example escalating tariffs, a regional conflict, or a major currency shift, and test whether the strategy survives each. The aim is not to predict but to discover which assumptions are most dangerous.

Third, design the footprint for optionality. This means diversified sourcing with qualified alternative suppliers, modular production that can shift between sites, and regional hubs. Not

every product needs this; critical, high-margin or hard-to-substitute items justify the cost of redundancy, while commodity items may not. Fourth, strengthen the balance sheet and financial policies. Conservative leverage, well-staggered debt maturities, liquidity buffers, and a clear hedging policy give the firm time to react. Natural hedges, such as matching currency of costs to revenues, are preferable where feasible. Fifth, increase visibility into supply chains beyond first-tier suppliers using mapping tools and data sharing, since hidden dependencies are often the source of surprise.

Sixth, embed compliance and ethical standards in operations. The tightening of due-diligence expectations, even after the EU's rollback, and the growth of forced-labour import bans mean that traceability is both a legal and reputational necessity. Seventh, invest in people and decision speed. Local managers who understand context, and governance structures that permit rapid decisions within pre-agreed limits, are an advantage in a fast-moving environment. Finally, engage with the external environment through industry associations, government dialogue and partnerships, and keep a long-term view. A caution is needed here: resilience can become an excuse for complexity and cost. Strategies should be tested against the question of what each layer of redundancy buys, and reviewed regularly.

9. Conclusion

The global business environment has become more fragmented, more political and less predictable. PESTLE factors do not act separately; trade policy, geopolitics, regulation, technology and climate reinforce each other and show up in firms as supply chain disruption, currency swings, inflation and uncertainty. International institutions that once stabilised expectations are weaker, regional blocs and national policies are stronger, and regulation is both expanding and being revised, sometimes within the same year.

Performance consequently depends less on forecasting the environment than on how the organisation is built to cope with it. Firms such as Apple, Volkswagen, BASF, TSMC and Inditex have taken different paths, but all have moved toward diversification, proximity and flexibility. The most defensible strategies combine moderate redundancy in critical areas, financial strength, good information, and the managerial agility to adjust quickly. Two cautions remain. Over-correcting, for instance by abandoning efficient global networks out of fear, can destroy value as surely as complacency. And since the facts on tariffs and regulation are moving, any assessment of the current position, including this one, should be treated as a snapshot of November 2026 rather than a settled picture.

References

Aguilar, F.J. (1967) Scanning the Business Environment. New York: Macmillan.

Baker, S.R., Bloom, N. and Davis, S.J. (2016) 'Measuring economic policy uncertainty', Quarterly Journal of Economics, 131(4), pp. 1593-1636.

Baldwin, R. and Freeman, R. (2022) 'Risks and global supply chains: what we know and what we need to know', Annual Review of Economics, 14, pp. 153-180.

Bradford, A. (2020) The Brussels Effect: How the European Union Rules the World. New York: Oxford University Press.

Christopher, M. and Peck, H. (2004) 'Building the resilient supply chain', International Journal of Logistics Management, 15(2), pp. 1-14.

Farrell, H. and Newman, A.L. (2019) 'Weaponized interdependence: how global economic networks shape state coercion', International Security, 44(1), pp. 42-79.

Ghemawat, P. (2001) 'Distance still matters: the hard reality of global expansion', Harvard Business Review, 79(8), pp. 137-147.

Ghemawat, P. (2007) Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter. Boston: Harvard Business School Press.

Sheffi, Y. (2005) The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage. Cambridge, MA: MIT Press.

Chatham House (n.d.) Analysis of US trade policy and global economic governance. London: Royal Institute of International Affairs.

Reed Smith (2026) Trump 2.0 Tariff Tracker. Available at: tradecomplianceresourcehub.com (accessed November 2026).

Squire Patton Boggs (2026) EU Green Deal Simplification Tracker. Available at: squirepattonboggs.com (accessed November 2026).