International Business

Noordhoff

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3rd edition

International Business
An introduction

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Third edition

Noordhoff Groningen

Cover design: Shootmedia, Groningen

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MIX
Paper from responsible sources
FSC® C118189

0 / 22

ISBN (ebook) 978-90-01-29977-6
ISBN 978-90-01-29976-7
NUR 801

Preface

The open nature of the economy and the internationalisation of trade and industry have resulted in a growing need for well-trained students with a broad knowledge of the different aspects of international business. In our opinion, a book for English language bachelor courses in Higher Education describing the basic principles of international business was not available. Therefore, we deemed it necessary to compile a guideline that provides an introduction to international business for students who come across the subject on a regular basis in their curriculum. Students are made aware of the fact that international business transactions are not only based on abstract theories, but that day-to-day reality plays an important part as well. Facts, figures and relevant case studies have been added to explain the text material.

Theories and general principles serve as an introductory explanation of the dynamic international environment. The book has been written in industry-wide terms, which means the book provides suitable text material for various forms of Higher Education, in which international business, international trade, international management and globalisation are part of the curriculum. As nearly all companies have suppliers or customers of foreign origin, this book is recommended to anyone working in an international company with limited expertise in international trade.

In the third edition all facts and figures have been updated. Supplementary topics are considered, e.g. block chain, INCO terms 2020 and on the subjects of social media and crowdfunding. In addition, more attention is being paid to new developments and global organisational models when doing business with other countries, such as, for example, the new silk route countries. Hall's contextual approach has been moved from chapter 3 to chapter 7 because this model is more appropriate there.

We would appreciate receiving remarks and comments of students and lecturers, so that we can improve the quality level of this book. Finally, we would like to express our thanks to all those who have supported us with their advice and suggestions.

Summer 2021,
Radha Jethu-Ramsoedh
Maud Hendrickx

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Introduction to international business

This introductory chapter discusses the essence of international business in its context. Subsequently, a look is taken at the incentives for companies to cross borders. A number of terms frequently used in this book, e.g. import and export, are explained. Finally, the performance of the European Union member states in the international business context is dealt with.

Chinese firms prepare to charge into Europe's electric car market

Tesla boss Elon Musk is not known for admiring his competition, but when Chinese manufacturer Nio made its 100,000th electric car last week, he offered his congratulations. Yet it is also a sign of the growing influence of China's electric carmakers. They are hoping to stake out a spot among the heavyweights of the new industry and bring a significant new challenge to Tesla – and to the rest of the automotive industry as it scrambles to catch up.

Tesla mania and cheap money have pushed the market valuations of a bunch of electric carmakers to astonishing levels. Chinese rivals Nio, Xpeng and Li Auto have all rapidly risen in value to rival much bigger and longer-established manufacturers – despite having never made an annual profit –. Now they are eyeing the European electric car market – the biggest in the world.

Nio, known as Weilai in its home market, aims to start selling vehicles in Europe later this year. Its factory can currently produce about 120,000 cars a year, significantly fewer than the near-500,000 Tesla made in 2020. Nio avoided bankruptcy in early 2020 when the city of Hefei bailed it out, but it has raised more than $4.5bn in stock and bond offerings in recent months, amid soaring investor demand.

Tesla will have an advantage in Europe when it opens a factory in Berlin as early as this summer, but China's carmakers have the capital to open production in Europe too. Matthias Schmidt, a Berlin-based automotive analyst, says Chinese manufacturers will have an opportunity while Europe's giants are eking out profits from their petrol and diesel models, plus hybrids.

Source: www.theguardian.com (edited)

1.1 What is international business?

Where do the products come from that you used today? Let's go back for a second to how you started your day. Your Sony alarm clock went off and you checked your iPhone for messages. You switched on your LG TV set and watched the news while quickly having your first Nespresso. You then brushed your teeth with Aquafresh and put on your Diesel jeans. You got on your Giant bike to catch the morning train.

Multinationals

Now all these brands and products are sold in Europe, but most certainly not all of them have been designed and produced in Europe. The market for products and services is not limited to European borders, but it encompasses the whole world. Furthermore, there are many foreign companies that operate worldwide. These companies are called multinationals. They include Daimler, Suez, BP en Metro. But even small and medium-size companies (SMEs) are not limited to doing business in their own country any longer. Gradually small companies are venturing across their national borders: e.g., through web shops which sell goods to foreign customers.

● www.fortune.com, adapted

Global 500

FORTUNE Global 500 companies generated revenues totaling more than one-third of the world's GDP. They generated $33.3 trillion in revenues (up 2%), $2.06 trillion in profits (down 4%) and employ 69.9 million people worldwide. Saudi Aramco (No. 6) netted $88 billion in profits, and is the FORTUNE Global 500's most profitable company for the second consecutive year.

There were precisely zero Global 500 companies based in mainland China in 1990 when Fortune began their survey. Today there are more giant for-profit enterprises there than anywhere else on earth. […] It goes without saying that cross-border trade is precisely what made America the first economic superpower—long before it made China one.

THE FORTUNE GLOBAL 500 TOP 10 LIST (revenue based on 2019 figures in million):

1. Wal-Mart Stores (U.S.)	$ 523.964
2. Sinopec (China)	$ 407.009
3. State Grid (China)	$ 383.906
4. China National Petroleum (China)	$ 379.130
5. Royal Dutch Shell (Netherlands)	$ 352.106
6. Saudi Aramco (Saudi Arabia)	$ 329.784
7. Volkswagen (Germany)	$ 282.760
8. BP (Britain)	$ 282.616
9. Amazon.com (U.S.)	$ 280.522
10. Toyota Motor (Japan)	$ 275.288

International business

Low-wage countries

International business is a broad definition. It covers more than marketing and the sale of goods and services abroad. It is also related to the development of international commerce or the actions that need to be taken when doing business on an international level. Companies are increasingly seeking collaboration with partners abroad. They outsource activities to low-wage countries to increase their productivity or to reduce their labour cost. They share knowledge with foreign partners to take up a stronger competitive position, or they work with others to achieve economies of scale. As it is much more complicated to conduct business on an international than on a national level, many different aspects are discussed.

1.1.1 Globalisation

Globalisation

Why has international business expanded so enormously? Due to the opening of borders, it has become increasingly easy to buy products or services from, or sell them to, consumers in other countries. The advent of the internet has made a significant contribution to this development. It has become easier and cheaper to be connected worldwide. Due to the industrialisation process of low-wage countries such as China, India and Bangladesh, manufacturing can be done more cheaply. The term globalisation refers to goods and services but also to capital, knowledge and labour which find their way around the globe. Due to the abolition of frontiers, people travel more than ever. Because of this, political systems, economies and cultures influence each other. This can be seen in metropolitan areas more and more cities are starting to look alike. Look, e.g., at McDonald's, a company with an outlet in every metropolis.

Gross National Product (GNP)

BRICS countries

N11 (Next-Eleven) countries

The last three decades have often been referred to as 'the age of globalisation'. However, the development of globalisation has changed in the last decade. When looking at the growth of the Gross National Product (GNP) of all countries together, it becomes clear that more than 50% of this growth comes from the new industrial countries (emerging markets). Before the financial crises in 2008 the BRICS countries (Brazil, Russia, India, China and South Africa) played an important role in globalisation – in particular, where an enormous growth in GNP was expected. After the crisis the growth turned out to be disappointing. That's why the so called N11 (Next-Eleven) countries: Bangladesh, Egypt, The Philippines, Indonesia, Iran, Mexico, Nigeria, Pakistan, Turkey, Vietnam and South Korea got attention.

Silk Route

Recently, the Indian Rim is defined as the countries that border the Indian Ocean, such as Australia, India, but also the United Emirates, Kenya and Tanzania. China is investing a lot in the old Silk Route in order to breathe new life into it. This new Silk Route consists of two main components: a route that should connect China by land with countries in Central and Western Asia, the Middle East and eventually Europe. And a maritime route, which runs via the east coast of Africa and the Suez Canal to the Mediterranean Sea.

Gross National Product (GNP)
The extent to which a country participates in international trade is reflected primarily by its GNP. The Gross National Product of a country is the total value of what is produced in that country in terms of goods and services by firms that are nationally owned, plus the income derived from nationally-owned firms abroad, which is received as a reward for making production facilities available. GNP is an important means to measure the economic performance of a country.

Table 1.1 lists several countries and their GNP.

TABLE 1.1 Different countries and their GNP

Position	Country name	GNP in millions of US dollars in 2019
–	World	87.798.526
1	United States	21.433.226
2	China	14.342.903
3	Japan	5.081.770
4	Germany	3.861.124
5	India	2.868.929
6	United Kingdom	2.829.108
7	France	2.715.518
8	Italy	2.003.576
9	Brazil	1.839.758
10	Canada	1.736.426
11	Russia	1.699.877
12	Korea, Rep.	1.646.739
13	Australia	1.396.567
14	Spain	1.393.491
15	Mexico	1.268.871
16	Indonesia	1.119.191
17	Netherlands	907.051
18	Saudi Arabia	792.967

Source: World Development Indicators, World Bank

Just like all phenomena, globalisation has a number of advantages and disadvantages.
Advantages of globalisation:
- It promotes economic growth and welfare.
- It disseminates technological knowledge.
- It leads to cultural integration.

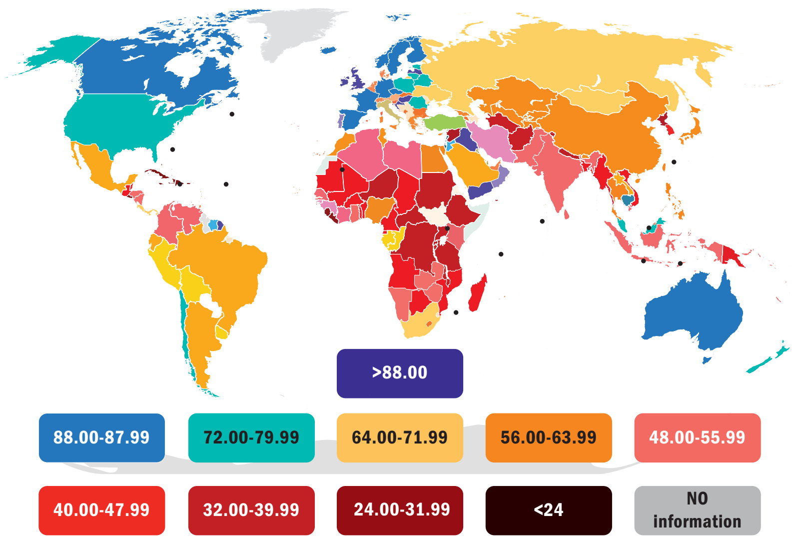
Disadvantages of globalisation:
- There is a greater risk that wages in developed countries are undermined.
- There is an increase in the exploitation of workers in less developed countries.
- It offers multinationals a great deal of power.

In recent years e.g. due to the rise of terrorism, globalisation has been inhibited by stricter entry checks at airports and land frontiers, the obligatory application for visas for some countries and stricter immigration procedures when entering a country. The economic crisis and the COVID-19 crisis have also had an impact on the development of globalisation. Due to the fact that the economic tide was against us, globalisation stagnated during this period. As a result of the economic crisis, many countries, including the United States, have taken trade-restrictive measures to protect their own economies. That has had its effect on globalisation.

1.1.2 Europe and globalisation

How globalised is Europe, with its open and developed economy and multicultural society? From figure 1.1 it can be deduced that Europe is very globalised.

FIGURE 1.1 KOF Index of Globalisation 2018



Source: www.globalization.kof.ethz.ch

According to the KOF Index of Globalisation 2018, Switzerland was the world's most globalized country. Switzerland is followed by the Netherlands, Belgium, Sweden and United Kingdom. Germany and Austria are on the 6th and 7th place respectively while Denmark is in 8th place. Finland is on the 9th rank and France is end of line of the top ten.

The index consists of three dimensions: economic, social and political. The economic dimension of the KOF index measures not only cross-border trade, investment and income flows, but also the extent to which countries protect themselves by imposing restrictions on trade and capital movements. The social dimension of globalisation measures the cross-border contacts, flows of information and the cultural neighbourhood to the global mainstream such as the number of McDonald's restaurants and Ikea branches. The political dimension measures the degree of political cooperation between countries.

1.1.3 Localisation

Apart from globalisation a new trend has been catching on the last few years. Instead of looking for potential trade partners all over the world, there is now a tendency to look closer to the home market. This development has undoubtedly been induced by the economic crisis, a time when several countries decided to protect their home economy and started creating trade barriers. According to some, globalisation has gone too far and as a result 'localisation' is gaining strength.

Localisation

An example of localisation is factories being located close to outlets to be able to respond to the ever-changing consumer needs. When it comes to setting up a new factory, China is no longer the first option on the list. Africa, the Middle East, South America and South East Asia, but also Eastern Europe are rapidly becoming popular. This development is a result of the increase in transport costs due to the rise in the price of oil and the soaring cost of wages. In addition, new techniques such as 3D printing and robotization are enabling companies to produce goods at lower costs in Europe.

It turns out that, on average, 77% of the sales of the top 500 largest companies in the past 10 years are realized in their own home regions. If you look at the top five trading partners of The Netherlands, three of the five are neighboring countries, namely Germany, Belgium and the United Kingdom. If you consider Europe as one region, you will see that The Netherlands remains close to its national borders when doing business.

1.1.4 Glocalization

Glocalization

Glocalization is a contraction of globalisation and localization. It is the integration of global with local, resulting in a unique outcome (Ritzer, 2007 p.118). Think, for example, of products that are tailored to the local market and the taste of consumers there. McDonald's McKroket is an example of a product from a company that uses glocalization. The product is only available in the Netherlands, Belgium and Curaçao. For more examples of this, see section 6.6.2.

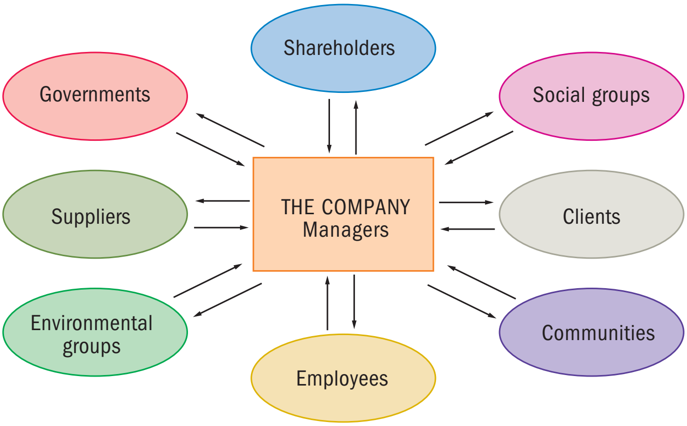
Based on the reaction to the disadvantages of globalisation and the rise of localization, companies in the new economy are both global and local to a maximum extent. A precondition for opting for glocalization is that value is created in three areas: social, ecological and in terms of financial value. The three rules of thumb of 'glocal' entrepreneurship:
- *Click with your neighbors*: (large) companies should make contact with (small) local communities.
- *Know your way around the web*: optimal digital infrastructure for global exchange of information and knowledge.
- *Move as little as possible*: minimal trafficking of raw materials, goods, products and people.

1.1.5 Sustainable international business

Globalisation has placed pressure on the global environment and natural resources, revealing human dependence on the environment in the process. Hence, this book focuses on sustainable international business, a way of doing business which shows that companies are, conscious of the way in which they do business and the consequences, not only for mankind and the environment, but also for society as a whole.

The core of a sustainable international business is the stakeholder. A stakeholder is a group or an individual who influences/who are influenced by an organisation or company. Figure 1.2 provides an overview of various types of stakeholders in a company.

FIGURE 1.2 Overview of Stakeholders



Source: derived from Donaldson & Preston, 1995

Often shareholders are only focussed on economic results. Not all stakeholders have the same priority. However, apart from profit, a business should embrace sustainability for the purpose of innovation and business growth.

So sustainable international business distinguishes three pillars: **Sustainable international business**

1 people;
2 planet;
3 profit.

Ad 1 People

'People' relates to the human side of sustainable international business. It covers people inside and outside the company, and aspects such as health and safety in the workplace, employment laws, human rights, wages, training and child labour. This is an important pillar, especially when production takes place in low-wage countries, where working conditions are often poor. **People**

Ad 2 Planet

'Planet' refers to care for the environment. As our natural resources are becoming exhausted, we shall have to look for alternatives. Aspects such as efficient use of raw materials and waste management are part and parcel of this pillar. Much attention has recently been paid to the process of recycling, in which products are made from components that can be re-used after the lifetime of the original product is over. **Planet**

Ad 3 Profit

Of course, profit is a condition for the continuity of an enterprise, but a number of other important aspects contribute towards its prosperity. 'Profit' therefore includes aspects such as location policy, profitability, profit appropriation, dividend distribution, sponsoring and charity policy. **Profit**

For companies, the challenge is to find a good balance among these three pillars, referred to as the triple bottom line.

Due to increasing globalisation, more and more products are produced abroad, and it is not always clear where the raw materials for these products have come from. Neither do we always know under what circumstances they have been produced. More and more companies accept responsibility for the whole production chain, and therefore more and more companies are participating in 'fair trade' – in the coffee and clothing sector, e.g. These 'fair trade' products are made of raw materials for which a fair price has been paid, so that farmers can earn a living. The production process is monitored, and therefore undesirable factors such as child labour and poor working conditions can be eliminated. In short, conducting international business in a sustainable way does not stop at a national frontier. **Fair trade**

There are various ways companies can find out which aspects are important in sustainable international business:

- The European Union has introduced a special sustainability label. With this so-called CEEP-CSR label, companies can distinguish themselves in European tenders. The label covers aspects such as human rights, the environment, fair trade, consumer interests and working conditions. **CEEP-CSR label**

- Sometimes there are covenants for a specific sector, such as the covenant for the food industry.
- A company can also consult the OECD guidelines (see section 2.5.7). This describes how a company should deal with subjects such as human rights, child labour, supply chain responsibility and the environment.

ISO 26000

- Finally, there is ISO 26000. This international guideline provides companies with tools for corporate social responsibility, in practice.

In short, sustainable entrepreneurship does not stop at national borders

ceep
CSR LABEL
Promoting sustainability in Public Services

1.2 Why do companies cross borders?

If companies do business abroad, they internationalize. The reason why companies make this choice is discussed in this section. First, the basis for international business, international trade is explained. Next another aspect of internationalisation is clarified, viz., foreign investment. In conclusion, the motives for companies to do business on an international scale are examined.

1.2.1 International trade

International trade

As indicated previously, the basis for internationalisation is often the trade in goods or services, called international trade. Europe has been familiar with international trade throughout history, e.g. through the trade in spices. European countries have had good trade relations with some countries for centuries.

www.focusMalaysia.my (edited)

Eroding comparative advantage

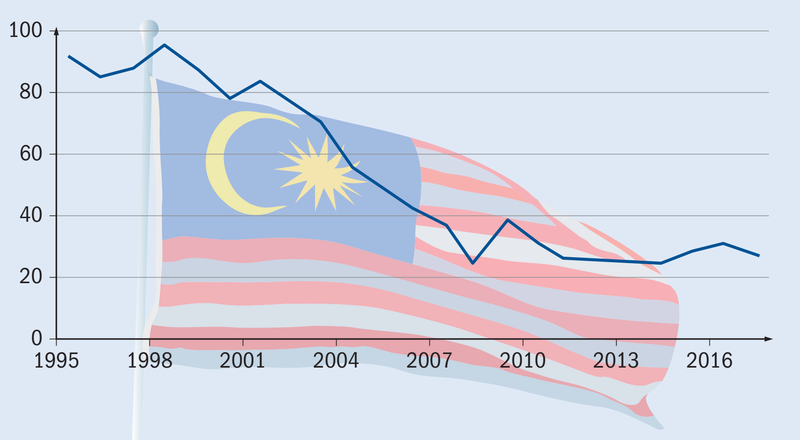
Malaysia's strong export performance, especially by the manufacturing sector, has supported economic growth since the late 1980s. However, since 2000 its manufactured exports performance has been on a decline.

It was partly due to the downturn in the electrical and electronics (E&E) industry. Furthermore, manufacturing exports also face a number of challenges. Most notable is China as well as the increasingly stiff competition from the Asean peers.

At the country level, Malaysia enjoyed a comparative advantage between 1998 and 2017 vis-à-vis its peers amongst the Asean-6 countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam).

However, Malaysia is losing its comparative advantage, critically to both Thailand - which surpassed Malaysia in 2015 - and Vietnam in 2017. Meanwhile, Singapore further widened its comparative advantage against Malaysia.

FIGURE Manufacturing sector decline in Malaysia's electronics industry



Source: http://focusmalaysia.my/Markets/eroding-comparative-advantage

Theories about the origin of international trade
International trade has existed since time immemorial, but only in the last 250 years theories about its development have been formulated. In the past, people attempted to explain the origin of international trade from an economic point of view. The classic economists soon came to the conclusion that macro-economic conditions in the home market – such as national income, the employment situation, national consumption,

investment and general price levels – could partly determine international competitive strength.

The viewpoint of (neo-)classical economists was that the origin of international trade can best be explained in terms of differences in (cost) prices and productivity between countries. The country that can manufacture products at the lowest cost will sell them to other countries. This is the basis of the Theory of Absolute Advantage by Adam Smith (1723-1790).

David Ricardo (1772-1823) built on Smith's theory and came up with the law of comparative (or relative) cost advantage. This means that another country has a comparative cost advantage in producing an item if it can produce it at a lower cost than another country. It concerns the (unrealized) yield of the best possible alternative compared to the final decision, or the relative advantage.

After the theories of absolute and comparative advantages they were followed by Heckscher and Ohlin's (1933) point of view, saying that the availability and cost of production facilities determined the extent of international trade. In this way, India, which has a large amount of labour available in comparison to Switzerland, must concentrate on the production of labour-intensive goods. Switzerland however, with more capital than labour, must specialise in capital-intensive products.

Modern trade theories, introduced in the past 40 years emphasize relevant factors other than price elements, such as quality, economies of scale, knowledge, technological development and product differentiation. For example, Paul Krugman (1979) emphasized aspects other than productivity, raw materials or resources such as economies of scale, consumer preference and transport costs.

The bulk of international trade takes place between similar rich countries that do not or hardly differ from each other in terms of productivity or raw materials. Germany, for example, exports a few tens of billions worth of cars every year, but at the same time, it imports cars from France for about the same amount. That is why Germany specializes in the production of Mercedes for the world market, while France makes Renault cars for the world market. Every country enjoys economies of scale and consumers see their prosperity increasing thanks to the resulting lower prices and broader supply.

In 1990, in his book *The Competitive Advantage of Nations*, Porter tried to build a bridge between the viewpoints of the neo-classicists and the modern trade theories. In his explanation of national competitive strength, Porter does not concentrate on a single factor at macro level, but on several factors at meso level (industrial branch level). The following factors are involved in distinguishing among sectors:
- the extent and nature of domestic competition;
- the presence of an adequate supply industry;
- the conditions in the home market (infrastructure, capital, labour);
- the demand level (responding to the diversity in customer demand).

Because of these factors, some industrial types of industry remain largely confined to their home country whereas other industrial sectors internationalise at an early stage. Examples include high-tech industry (Silicon Valley in the United States), high-tech and design (Eindhoven in the Netherlands), software outsourcing (Bangalore in India) and fashion (Paris in France).

Types of international trade
In international trade, a distinction is made between
- import;
- export;
- direct investment (explained in subsection 1.2.2).

These terms are frequently used in this book

Import
The term import refers to the buying of foreign products, which are then shipped to the home country. A company buys goods or services from an exporting company with the objective of selling them at a profit. As the world is becoming relatively smaller, some products or components on the shelves have been manufactured thousands of kilometers away. This happens for two reasons: **Import**
- The production of goods or components is cheaper in other countries, as a result of which products are often developed in Europe and produced in a particular country. It is done for various reasons:
  - In the country of origin, labour costs are lower than in Europe.
  - The raw materials are readily available in the country of origin. The processing of the raw materials in the country of origin not only provides time benefits, it also has the advantage that the knowledge required for the production of the product is available on site.
- The product or service is not supplied in Europe.

www.cbs.nl, adapted

Avocado imports up by 19 percent in 2020

More and more, the Netherlands has developed into a gateway to Europe for avocados from around the world. In 2020, Dutch imports of avocados showed 19 percent year-on-year growth. The Netherlands is the world's second largest importer of avocados and the largest non-producing exporter. Statistics Netherlands (CBS) reports this on the basis of new figures.

Dutch imports of avocados from outside the EU increased from 15 million kg in 2000 to 3,373 million kg in 2020. They still amounted to 313 million kg in 2019. Since 2012, the Netherlands has imported more avocados from outside the Union than all other EU countries combined; the gap has only widened further since then. The Netherlands is currently good for 63 percent of all EU imports of avocados produced outside the Union. In 2000, this share was 15 percent.

Export

Export

The term export refers to the selling of domestic products or services to foreign importers. Export is thus the opposite of import. The prime motives for entering a foreign market are the following:

- New technologies and new products constitute a challenge. In a less-developed market, demand for such products will be greater than in a market already developed.
- The domestic market is too small for the product; the demand is too modest, or too many similar types of products are supplied.
- To assure the continuity of the company, a constant search for new markets is essential.
- The cost price of the product the company supplies makes it competitive in the foreign market.
- If the company is suffering from overcapacity, it is attractive to sell products in a foreign market.
- Strategic reasons. The entrepreneur's ambition to enter a foreign market.

www.power-technology.com by Matthew Farmer, adapted

How Norway became Europe's biggest power exporter

The world's largest synchronous electricity network has allowed many European countries to make power trading a part of everyday grid balancing. Until now, France has usually acted as the grid's largest exporter, thanks to its location and nuclear fleet. But in the second half of 2020, Norway rose above France to become Europe's powerhouse. What changed in the two countries, and is this an anomaly or a trend?

Almost all of Norway's domestic generation comes from hydroelectric power. In 2020, the country had more rainfall than average and eventually the country's reservoirs reached their highest point since 2015.

This pushed down Norway's power price, making it an attractive power option for linked countries. Harreman tells us: 'The cheapest asset always gets dispatched first and if there is cross-border capacity available, this means it will also become available to export once local demand has been satisfied. There was, however, an abundance of hydropower available, which has a very low cost. Norway's neighbours have a larger percentage of conventional generation, which has a higher marginal cost of production. Therefore, it was able to export huge volumes to the Netherlands, Germany, Denmark, Sweden, and Finland.'

1.2.2 Foreign Direct Investment

Besides engaging in international trade, companies can invest abroad, a phenomenon referred to as Foreign Direct Investment (FDI). It means a company directly invests in the production in another country, e.g. by building a factory. Other examples would be starting up a company in another country, the take-over of a local company or a merger with another company.

Foreign Direct Investment

www.reuters.com, adapted

China was largest recipient of FDI

In a report released on Sunday, the UNCTAD said that China received $163 billion in inflows, compared to $134 billion attracted by the United States. In 2019, the United States had received $251 billion in inflows and China received $140 billion.
China's economy picked up speed in the fourth quarter, with growth beating expectations as it ended a rough coronavirus-strike 2020 in remarkably good shape and remained poised to expand further this year even as the global pandemic rages unabated.

1.2.3 Motives for international business

There are many reasons why a company may decide to do business abroad. In some cases, it just happens. The company stumbles across an interesting product abroad and decides to bring this product to Europe. Or one of its representatives accidentally meets a Turkish entrepreneur while on holiday in Turkey. They start talking and decide to collaborate, with the result that a truckload of ceramics is exported from Turkey to another European country every month. Naturally, the most important reason is to earn money, but that is often not the case. Table 1.2 lists the principal motives. These can be divided into proactive and reactive motives. Proactive motives result from the policy that a company establishes to do business internationally, whereas reactive motives result from a threat in the home market or the nature of the product.

TABLE 1.2 Motives for internationalisation

Proactive motives	Reactive motives
Profit and growth goals	Competitive pressure
Managerial urge	Small and/or saturated home market
Distinctiveness of the product	Utilisation of overproduction/excess capacity
Anticipating foreign market opportunities	Reduced dependence on customers/suppliers
Economies of scale	Stabilisation of seasonal factors
Integration of the supply chain	Proximity of customers/suppliers
Tax benefits	Perishable products

Source: Albaum et al., 2008,

Further explanation of these motives is offered below.

Proactive motives

As stated above, proactive motives result from the company policy, i.e. there are no external influences or threats. Seven proactive motives can be identified.

1 Profit and growth goals

Companies can come to the conclusion that their growth goals are no longer feasible in the domestic market because that market is saturated. To be able to meet the formulated growth targets, management can decide to enter foreign markets. Especially in the current economic environment, cost saving is an important factor. By moving production to low-wage countries, companies save on production costs, and they can thus make more profit.

2 Managerial urge

The management board of the company has decided to internationalise. Management and staff are ready to accept this new challenge; travelling may be involved. This decision is sometimes endorsed, because the management board consists of people from different cultures who see opportunities in their country of birth.

3 Distinctiveness of the product

A company can profile itself abroad with a product that distinguishes itself in a positive way from other products. Examples of distinguishing features are low price, superiority of the product quality, speed of delivery, design and good service. A company may supply goods or services that are not yet available worldwide. For competitors it is difficult to copy a product with high distinctiveness. Some products are technologically advanced in certain respects. It is, however, open to questioning how long these technological advantages continue to exist, as competition is not idle.

● www.ft.com, adapted

The rye stuff: America's original whiskey rides again

Whisky is more interesting than it's ever been, with new distilleries and styles proliferating all over the world. But there's one type in particular that's set to get a lot more airtime this year – and that is rye. Peppery, nutty and spicy-sweet, rye is usually associated with North America. It was the first whiskey (to use the US spelling) to be distilled by settlers in the 1700s. And it was the style that prevailed, particularly in the north-eastern states, until after Prohibition. Most of the original whiskey cocktails – the Manhattan, the Sazerac, the Old Fashioned – would have been made with rye.

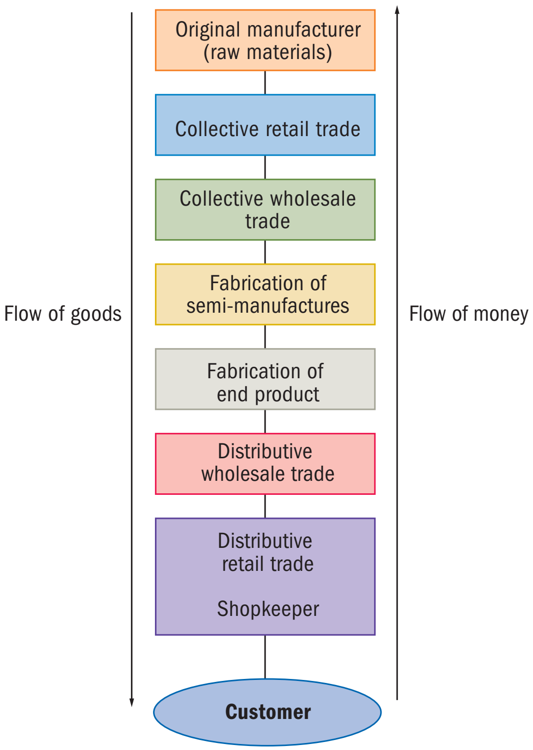
Rye is an obsession for The Gospel distillery in Melbourne. 'It's a great midway point between sweet and savoury whiskies', says its co-founder and director Andrew Fitzgerald. 'It's not as sweet as bourbon and maintains that distinct pepper and baking spice character – especially when un-malted.' Gospel sources all its rye from Murray Mallee, an arid region in South Australia where the grain grows smaller and, Fitzgerald believes, more concentrated in flavour. 'It's that distinctiveness we try to celebrate.'

4 Anticipating foreign market opportunities
International businesses often see more opportunities for growth in rapidly expanding countries than in countries where growth has clearly lagged behind the rest of the world. For this reason, their investment policy is often focused on rapidly growing markets. Sometimes it is cheaper to produce goods in a particular country. The choice depends on the costs of labour, raw materials, capital and infrastructure. The total of these costs determines where the product can be produced at the lowest price. The company will be interested in countries where its products can be made most cheaply, while maintaining good quality.

5 Economies of scale
Economists have shown that it is possible, in some cases, to reduce the cost price per unit by 10–30 % with every doubling of the production quantity. This is especially the case when the production process can be standardised. A company can increase production by entering the international market. This can lead to a reduction in production costs, while increasing the company's competitive strength in the domestic market.

6 Supply chain integration

FIGURE 1.3 Example of a supply chain



Source: http://www.businessmodellen.com

Some companies integrate forward or backward in the supply chain to gain more control over the whole chain, from producer to customer. The supply chain (see figure 1.3) can consist of: production of raw materials, production of components, production of finished product, wholesaling, retailing and after-sales service. Backward integration, e.g., may involve taking over production locations abroad. An example of forward integration is the takeover of a chain of shops abroad. Various benefits can be derived from supply chain integration, such as savings on transaction costs, more power to negotiate with suppliers and purchasers about prices, fewer risks of products being out of stock and a reduction in overhead costs.

7 Tax benefits
Doing business abroad can also bring about tax benefits, as in the case of withholding tax (tax that is deducted when interest, royalties or dividends are received from another country), which for certain countries can lead to exemption or restitution in Europe. Furthermore, no VAT has to be paid on foreign sales.

Reactive motives
Reactive motives stem from external influences or threats and not from the company policy. Here, too, seven motives can be identified.

1 Competitive pressure
Some companies perceive the competition for a certain product on the domestic market as too fierce, as a result of which profit margins are e.g. under pressure. A certain foreign market where competition is less keen, may offer the company in question the opportunity to make a reasonable profit. Increased competition from foreign companies in the home market may also force the company, to start exporting products for financial or human reasons, to compensate for the loss of turnover.

2 Small and/or saturated home market
When a product reaches the maturity stage or the decline stage of its lifecycle, pressure on the price increases because of intensified competition. Suppose that the market for this product in another country is still in the growth stage. Then the company may decide to enter this other, more lucrative, foreign market. The size of the market naturally plays an important part in this decision. The market in Europe is small in comparison with markets in China, India and the US.

3 Utilisation of overproduction/excess capacity
If the production capacity is insufficiently utilised because no more products can be sold in the domestic market, entering a foreign market is an ideal way of utilising that capacity. Such a response may increase the total profit of an enterprise. Surplus stock is sometimes sold to foreign markets, reducing stock costs to an acceptable level.

4 Reduced dependence on customers/suppliers
In general, the more suppliers a company has, the fewer the risks of stock shortages. When doing business with suppliers in several countries, the moment trade with a particular country declines, a company can switch over to suppliers in other countries. The more clients a company has, the greater the spread of sales and the lower the risk of loss of turnover if a client is lost. Companies doing business with countries characterised by political instability, high inflation, a balance of payments deficit or sluggish economic growth act wisely by spreading their risks.

5 Stabilisation of seasonal factors
Some companies are troubled by seasonal factors, due to which their turnover in some months is higher than in other months. E.g., a European company sells more golf carts in spring and summer than in winter. By supplying golf carts to customers in countries where it is summer when it is winter in Europe (think of countries such as Australia and South Africa), seasonal fluctuations in turnover can be reduced.

6 Proximity of customers/suppliers
As distances within Europe are relatively small, it is fairly easy to enter these markets. That is why countries within Europe are the main business partners for European enterprises.

7 Perishable products
With perishable products (such as vegetables and flowers) and products that deteriorate in quality over time (such as washing powder), it would be a good idea to sell them abroad before they deteriorate in quality.

1.3 European Union and international business

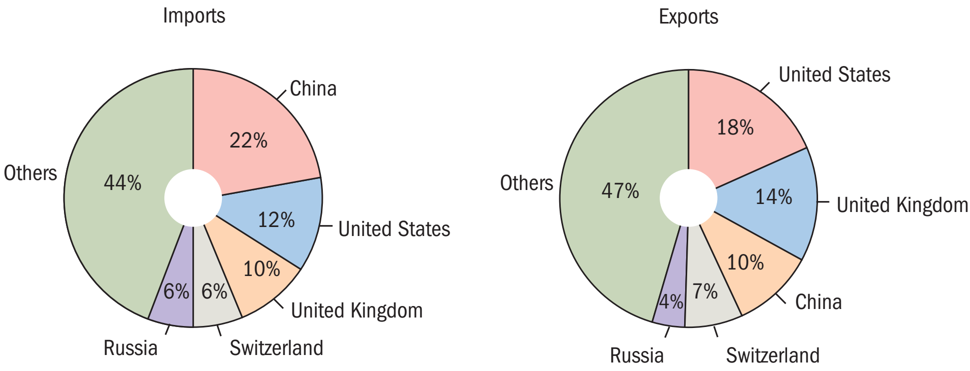
In this section the focus is on the performance of the European Union (EU) on the international stage. International trade as well as foreign direct investment are discussed. Moreover, the world trade prospects are discussed.

1.3.1 European Union and international trade

The EU is the world's third largest economy, with over 16 % of the world's gross domestic product (GDP) (see subsection 5.2.2) and more than 440 million inhabitants, making it the world's most lucrative consumer market. It is also the world's largest trading block, accounting for 14,7 % of global trade in goods and 21,8 % of global trade in services in 2019, according to Eurostat. In the top 10 trading countries, four belong to the EU (Germany, the Netherlands, France, and Italy).

The main business partners for the EU member states are the other member states and all other European countries. According to Eurostat in 2019, three fifths (59.9%) of the EU Member States' trade in goods concerned exchanges between Member States. The relative share of intra-EU trade peaked at 82.0% share of total trade in Luxembourg and accounted for more than three quarters of total trade in Slovakia, the Czech Republic and Hungary. By contrast, the share of intra-EU trade was 51.5% in Greece and 37.5% in Ireland (where the share of intra-EU trade was notably lower than in previous years as a result of the United Kingdom having left the EU)

FIGURE 1.4 Trade in goods by top 5 partners, European Union, 2020



In 2019 the main business partners outside the EU are the United States, China, and United Kingdom. The highest growth rate was recorded for exports to China (up 13.5%), while exports to United States and United Kingdom grew more slowly. In table 1.3 an overview is presented of all EU member states and their international trade of goods.

TABLE 1.3 Member States EU total trade (Euro 1 000 million) (intra-EU + outside EU) in goods.

	Total exports		**Total imports**		**Trade Balance**
	2020	**Share of EU exports (%)**	**2020**	**Share of EU imports (%)**	**2020**
Belgium	130,9	6,8	134,7	7,9	-3,8
Bulgaria	9,5	0,5	11,7	0,7	-2,2
Czech Republic	34,0	1,8	40,5	2,4	-6,5
Denmark	45,9	2,4	26,7	1,6	19,2
Germany	572,4	29,6	377,3	22,0	195,0
Estonia	4,8	0,3	3,8	0,2	1,1
Ireland	93,3	4,8	53,5	3,1	39,8
Greece	13,1	0,7	20,9	1,2	-7,9
Spain	104,4	5,4	122,6	7,2	-18,2
France	198,0	10,2	172,9	10,1	25,1
Croatia	4,9	0,3	5,4	0,3	-0,5
Italy	211,9	11,0	154,7	9,0	57,2
Cyprus	1,8	0,1	3,1	0,2	-1,4
Latvia	5,3	0,3	3,8	0,2	1,5
Lithuania	12,6	0,7	8,5	0,5	4,1
Luxembourg	2,4	0,1	2,0	0,1	0,3
Hungary	22,8	1,2	29,4	1,7	-6,6
Malta	1,2	0,1	2,0	0,1	-0,8
Netherlands	202,4	10,5	305,0	17,8	-102,6

1

	Total exports		Total imports		Trade Balance
Austria	46,4	2,4	34,9	2,0	11,5
Poland	62,0	3,2	73,5	4,3	-11,5
Portugal	15,4	0,8	17,2	1,0	-1,8
Romania	16,0	0,8	21,2	1,2	-5,2
Slovenia	12,8	0,7	15,2	0,9	-2,4
Slovakia	15,9	0,8	14,5	0,8	1,4
Finland	26,4	1,4	16,9	1,0	9,6
Sweden	65,1	3,4	42,3	2,5	22,9
Total	1931,7	100	1714,2	100	

The United States remained the most common destination for goods exported from the EU in 2020 with a share of 18.3 %. The United Kingdom was the second largest destination for EU exports (14.4 % of the EU total), followed by China (10.5 %). The seven largest destination markets for EU exports of goods — the United States, the United Kingdom, China, Switzerland, Russia, Turkey and Japan — accounted for more than three fifths (61.0 %) of all EU exports of goods.

The seven largest suppliers of EU imports of goods were the same countries as the seven largest destination markets for EU exports, although their order was slightly different. These seven countries accounted for a larger share of the EU's imports of goods than their share of EU exports of goods: just over three fifths (62.7 %) of all imports of goods into the EU came from these seven countries. With over one fifth (22.4 %) of all imports, China was the largest supplier of goods into the EU in 2020. The United States (11.8 %) and the United Kingdom (9.8 %) followed at some distance.

Active trade balance

Trade surplus

Trade deficit

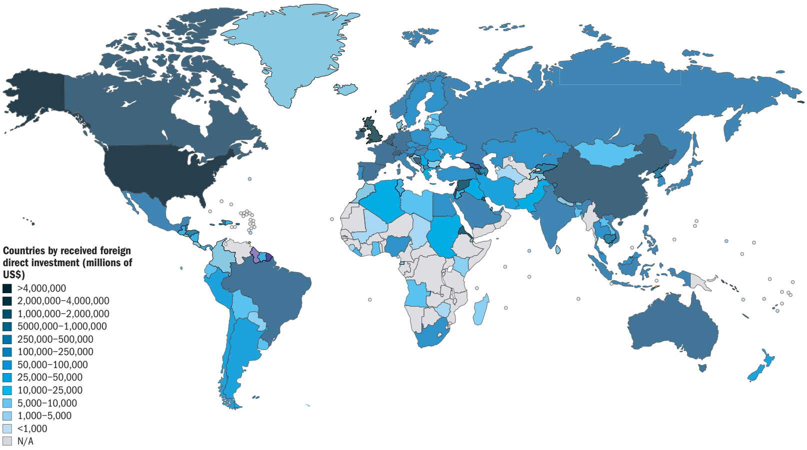
Passive trade balance

As shown in 2020, in table 1.3, the 27 member states of the EU export more than they import. This is called an active trade balance, as there is a trade surplus. This is often regarded as a positive development for a country, because more money comes into the country (money is paid for exported products and services) than is spent on imports. The opposite is a trade deficit, also referred to as a passive trade balance, as you can see in table 1.3 for 2020 for e.g. the Netherlands. As more money goes out of the country than comes in, this is often regarded as a negative development. Many developing countries have a passive trade balance. They are dependent on foreign countries for many goods and/or services.

1.3.2 Europe and Foreign Direct Investment

According to Eurostat, foreign direct investment (FDI) stocks held in the rest of the world by investors resident in the EU amounted to € 8990 billion at the end of 2019, up by 3.8% compared with the end of 2018. Meanwhile, investment stocks held by the rest of the world in the EU also increased to € 7138 billion at the end of 2019 (+3.4%). Consequently, the EU's net investment position vis-a-vis the rest of the world was higher than a year earlier i.e. € 1851 billion at the end of 2019 compared with € 1761 billion at the end of 2018.

FIGURE 1.5 Share of FDI stock held by the EU in the rest of the world



At the end of 2019, the United States absorbed 24% of the total FDI stocks held by the EU in the rest of the world (€ 2161 billion), closely followed by the United Kingdom (€ 1872 billion, 21%). They were far ahead of Switzerland (€ 969 billion, 11%), Canada (€ 399 billion, 4%), China (incl. Hong Kong; € 362 billion, 4%), Brazil (€ 319 billion, 4%), Russia (€ 311 billion, 3%) and the United Arab Emirates (€ 271 billion, 3%).

In the reverse direction, United States' direct investors accounted for 28% (€ 2003 billion) of the total FDI stocks held by the rest of the world in the EU at the end of 2019 and those of the United Kingdom for 18% (€ 1278 billion). They were followed by those from Switzerland (€ 735 billion, 10%), Bermuda (€ 411 billion, 6%), Jersey (€ 304 billion, 4%), China (incl. Hong Kong; € 255 billion, 4%), Canada (€ 239 billion, 3%), Cayman Islands (€ 219 billion, 3%) as well as Japan (€ 217 billion, 3%).

1.3.3 Prospects for Europe and international business

In a report entitled *2030 Global Trends to 2030: Can the EU meet the challenges ahead?* Espas stated that a projection for 2050 forsaw a factor of 16 for China's GDP (compared to 2008), 21 for India, the United States doubling and the European economy increasing by 40 %. This can lead to an economic G3 power; United States, China and the European Union with China as the economic superpower. By 2030, China, India, Brazil and Russia have also evolved into influential world players (see figure 1.6).

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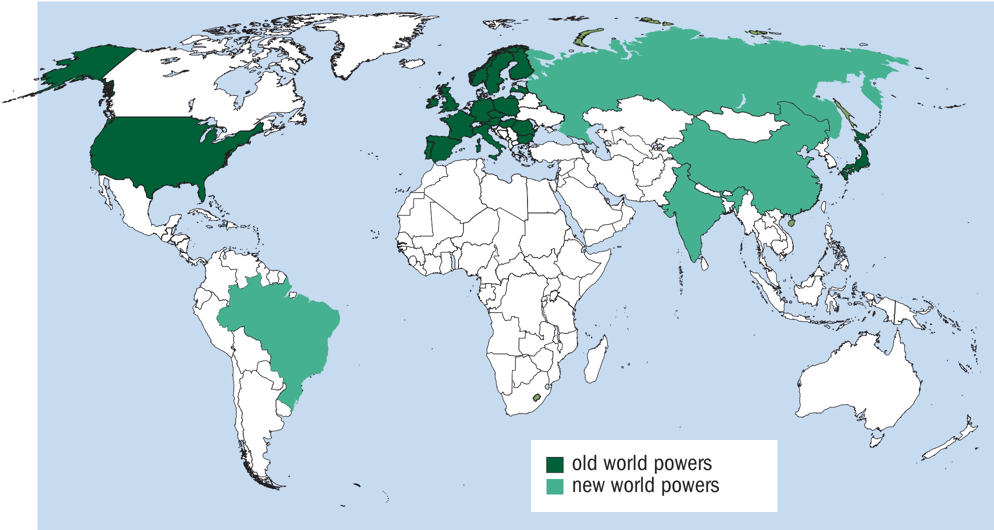
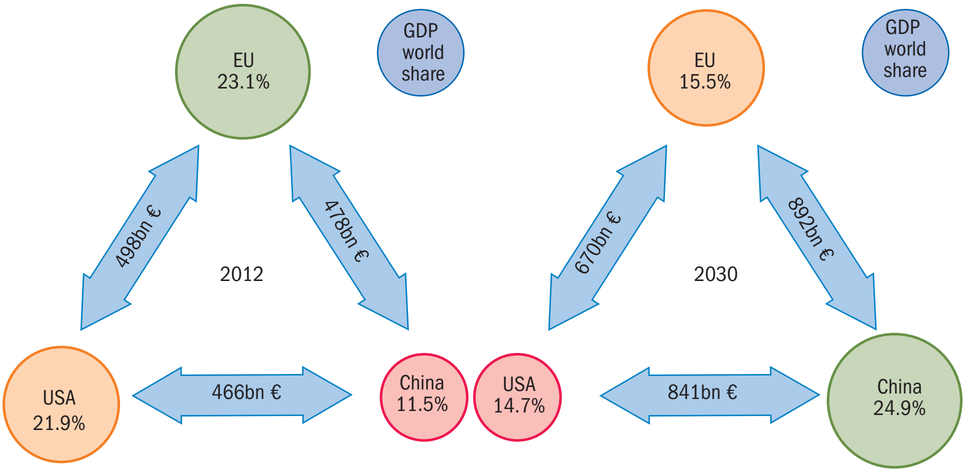
FIGURE 1.6 New powers appearing on the world stage



Source: Rabobank

In the coming years, growth in traded goods could slow down for the first time since the early 1990s, while trade in services, investment flows could see a substantial increase. However trade will still concentrate around three industrial hubs (North America, Europe and Asia), where the value and production chains are tightly integrated (see figure 1.7).

FIGURE 1.7 Bilateral Trade Flows and World GDP share of the three economic powers



Source: Espas, 2015

Financial markets will probably undergo a paradigm shift: by 2030, the limited capacity of younger economies (India and Sub-Saharan Africa) to absorb the excess savings of ageing societies (with Europe and China at the forefront) will restrict the opportunities for investment. Therefore, new opportunities in the developed countries and greater risk control will be essential to ensure that a quest of high returns does not lead to new speculative bubbles. The global attractiveness of European financial markets will depend not only on their stability, but also on the quality and diversity of financial instruments and products, and on the credibility of European financial regulations.

1.4 Organisations with information about international business

There are many organisations that support and help companies to collect the right data. Advice provided by these organisations relates to all aspects of international business. Table 1.4 lists these organisations by subject with their website addresses.

TABLE 1.4 Organisations that help with international business

Subject	Organisation	Internet address
International business	International Trade Centre International Chamber of Commerce Enterprise Europe Network	www.intracen.org www.iccwbo.org https://een.ec.europa.eu/
Exports	Access2Markets Export from EU Export from UK	https://trade.ec.europa.eu/access-to-markets/en/content/ http://ec.europa.eu/trade/import-and-export-rules/export-from-eu https://www.gov.uk/export-goods
Imports	Centre for the Promotion of Imports from Developing Countries Import to EU Import to UK	www.cbi.eu http://ec.europa.eu/trade/import-and-export-rules/import-into-eu/ https://www.gov.uk/import-goods-into-uk
Globalisation	European Commission Swiss Economic Institute (KOF) United Nations United Nations Conference on Trade and Development G20	http://globalization.kof.ethz.ch www.un.org www.unctad.org www.g20.org
International competitive strength	IMD World Economic Forum	www.imd.org/wcc www.weforum.org
Sustainable international business	Sustainable Development Goals Global Compact	www.un.org www.unglobalcompact.org

Summary

- International business: economic activities across borders or actions that are necessary to do business abroad.

- Globalisation: the worldwide coalescence of economies, politics and cultures.

- The main emerging economies are:
  - The BRICS countries: Brazil, Russia, India, China and South Africa;
  - The N11 (Next Eleven) countries: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Turkey, Vietnam and South Korea;
  - countries of the Indian Rim (countries bordering the Indian Ocean);
  - countries on the Silk Route (Central and Western Asia, the Middle East and Europe).

- Causes of globalisation:
  - opening of international borders;
  - advent of the internet;
  - economic development of low-wage countries.

- Advantages of globalisation:
  - contributes to higher economic growth and prosperity;
  - results in dissemination of technological knowledge;
  - induces cultural integration.

- Disadvantages of globalisation:
  - greater risk of wages in developed countries being undermined;
  - increased exploitation of workers in less developed countries;
  - provides multinationals with a great deal of power.

- Countermovements that arise from the disadvantages of globalisation are:
  - localization;
  - glocalization.

- Due to the disadvantages of globalisation, more and more attention is paid to sustainable international business.Sustainable international business is based on three pillars: people, planet and profit.

- Guidelines/labels for sustainable international business:
  - CEEP-CSR label;
  - covenants;
  - OECD Guidelines;
  - ISO 26000.

- The basis for international business is formed by international trade and foreign direct investment. International trade is subdivided into import and export.

- Import refers to the buying of foreign products or services. The reasons are:
  - production in other countries is cheaper;
  - the product/service is not yet available on the domestic market.

- Export refers to the selling of foreign products or services. The motives are:
  - too small a domestic market;
  - new markets;
  - continuity of the enterprise;
  - price is competitive;
  - overcapacity;
  - strategic.

- Foreign direct investments are investments made abroad by domestic companies.

- The principal motives for internationalisation are subdivided into proactive and reactive motives (table 1.2).

- Active balance of trade or trade surplus: exports > imports.
  Passive balance of trade or trade deficit: imports > exports.

- The most important trading partners for the European Union are the United States, China, and United Kingdom.

Questions and assignments

Questions relating to the opening case study

1.1 What type of international business is operated by Nio in Europe?

1.2 What underlying motive may have induced Nio to expand its business to an international level?

Questions relating to theory

1.3 What is the difference between international trade and international business?

1.4 Which of the two is generally considered a more positive development: a passive or active balance of trade? Give your reasons.

1.5 Are we talking about a direct foreign investment when an American company invests in Europe? Give your reasons.

Questions relating to the article

● www.ft.com, adapted

Technology will save emerging markets from sluggish growth

Emerging economies struggled to grow through the 2010s and pessimism shrouds them now. People wonder how they will pay debts rung up during the pandemic and how they can grow rapidly as they did in the past — by exporting their way to prosperity — in an era of deglobalisation.

The freshest of many answers to this riddle is the fast-spreading digital revolution. Emerging nations are adopting cutting-edge technology at a lower and lower cost, which is allowing them to fuel domestic demand and overcome traditional obstacles to growth. Over the past decade, the number of smartphone owners has skyrocketed from 150m to 4bn worldwide. More than half the world's population now carry the power of a supercomputer in their pockets.

The world's largest emerging market has already demonstrated the transformative effects of digital technology. As China's old rustbelt industries slowed sharply over the past decade, and ran up debts that threatened to explode in crisis only a few years ago, the booming tech sector saved the economy.

Now, often by adopting rather than innovating, China's emerging market peers are getting a push from the same digital engines. Since 2014, more than 10,000 tech firms have been launched in emerging markets — nearly half of them outside China. From Bangladesh to Egypt, it is easy to find entrepreneurs who worked for Google, Facebook or other US giants before coming home to start their own companies.

As well as the so-called Amazon of China, there are Amazons of Russia, Poland, Latin America and south-east Asia. Local firms dominate the market for search in Russia, ride-hailing in Indonesia and digital payments in Kenya. How can it be that poorer nations are adopting common digital technologies faster than the rich? One explanation is habit and its absence. In societies saturated with bricks-and-mortar stores and services, customers are often comfortable with and slow to abandon the providers they have. In countries where people have difficulty even finding a bank or a doctor, they will jump at the first digital option that comes along.

1.6 What advantages of globalisation are mentioned in this article?

1.7 Explain why the economies of the emerging markets can grow due to digital revolution.

1.8 Explain what is meant by the 'triple bottom line'.