Export Management

A European Perspective

Hans Veldman (editor)

Fenedex

Noordhoff Uitgevers

First edition

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Preface

Internationalization seems to be the 'magic word' for successful international entrepreneurship. This gives us at once two terms which are often in and out of fashion. Since the seventies Fenedex has been talking about internationalization: The aim of companies to be as successful as possible in foreign markets. By exporting from the Netherlands and, if possible, by establishing a local presence by means of takeovers or by direct investments (in sales and production).

Developing and managing exports is not an easy task. Until the seventies exporting was carried out largely by trial and error. In 2009, every error, every stumble, every hitch is punished severely. Competition has become fierce, and customers and intermediaries abroad have become more professional. This means that great demands are made on those who play a part in the export process, besides the requirements that are made of products/services, which have to be of outstanding quality. Both are key players in the process.

When you talk with exporters about their success, they will invariably mention the following determining factors:

- a passion for the export trade
- a pioneering spirit
- the ability and desire to meet challenges
- a structural approach to export
- export know-how.

People should (ideally) possess the first three qualities. The other two factors can be learned. This is why Fenedex, the representative of exporting Holland, applauds the increased professionalism with which young people in higher education are prepared for a career in export. This goes further than being taught to draft an export policy plan. Such a plan is 'just' a scenario, a definition of how exports will be built up and expanded. It clarifies the route and also shows which individuals in the company can and should contribute to the process. Adjustments will constantly have to be made and new developments incorporated.

Drafting such a plan makes it clear that exporting is a multidisciplinary task and that many subjects (management, marketing, sales, finance, customs, legal affairs, logistics, culture, etc.) are inextricably linked.

An export manager, therefore, must be a jack-of-all trades: he must have expertise and be able to recognize geographical opportunities.

This book is as up to date as possible, but the dynamics of export are such that a number of aspects may already seem outdated. However, the system does not change as quickly as that and updates can readily be traced thanks to the internet. Together, the publisher, educational institutions and Fenedex will see to it that no aspiring export manager has an excuse for not being prepared for his/her tasks/responsibilities in export.

Export Management is structured in such a way that it is also a tool for people who have already embarked on a career in export. A reference book, a source of information and inspiration, it will enable them to test their approach to export and, if necessary, adjust it.

I would like to thank all those who have made it possible for this sixth edition to be published. In the first place the editor-in-chief, Hans Veldman, and his co- authors, Dr P. de Blot SJ, LicPh, F.H. Harmsen, Drs ing. K. Hofstra, N.A. Jansen MBA (LLM) and E.W. Mehring (LLM).

I would also like to thank all those in trade and industry who have acted as co-readers, given advice and contributed their experiences.

I must, of course, add a thank-you to the editorial board for their advice and supervision in the genesis of this book.

Finally, a word of thanks to the publisher. Right from the start he has recognized the importance of a definitive reference book for the very important field of export. It is partly thanks to the publisher that more than 10,000 people have benefited from this work during their education and their career in export.

Frank Hauwert
Director Fenedex

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Introduction

The Netherlands' economic fate is inextricably linked to the world economy in general and to Europe in particular. The open character of the Dutch economy accounts for its great need of highly educated professionals who have wide-ranging knowledge in the field of strategic export management. Influenced by Europeanization and globalisation, university and other higher education graduates are required to have increasingly sophisticated knowledge and skills. This makes it possible to map the opportunities of Dutch enterprises in foreign markets in concrete terms. Making contacts with foreign partners, approaching potential customers, and advising on how an organisation must take into account the various characteristics of foreign markets are just a few of the many tasks that graduates from universities and other institutes of higher education are being trained for. All this on the assumption that internationalisation requires a planned approach and that specific knowledge of exports is therefore indispensable.

The aim of this reference book is to answer the great demand for knowledge about export and internationalisation. The book can be used as part of an educational course with an international orientation as well as in company training schemes that focus on the internationalisation of an organisation. As Dutch companies are largely focused on the European market, special attention is paid to internationalisation in a European context. The starting point of this textbook is the belief that exporting is a specific form of internationalisation, deserving a strategic approach. Chapter 1 deals with export from a global and a European perspective. The emphasis is on the extent to which recent developments have taken control of international trade. Chapter 2 shows that exporting requires a structural approach and chapter 3 emphasises how, on the basis of this structural approach, the characteristics of and opportunities in foreign markets may be mapped systematically. On the basis of the preceding chapters, chapter 4 emphasises that the implementation of an export marketing strategy should be the result of internal and external analysis of an international enterprise. In this context export marketing is defined as: developing and implementing customer-friendly strategies in export markets, so as to create value for stakeholders. It is clear that this structural approach to export requires a special approach to foreign markets and finance. These subjects are dealt with in chapters 5 and 6; in chapters 7, 8 and 9 we deal with the organisation of transport and logistics, customs, the legal aspects of export policy and the necessity for familiarity with intercultural communication. As the book is based on the premise that exporting requires a structural approach, the final chapter shows how an export policy plan may be developed and adjusted. The chapter closes with an overview of the essential elements of such a plan.

In order to achieve a responsible balance between theory and practice, the editorial board comprises subject teachers from universities and institutes of higher education as well as representatives of international business and Fenedex. The authors and members of the editorial board hope that *Export Management* will be a source of inspiration for those who are about to enter the exciting world of international business.

1

Export from a European and a global perspective

Dr. Hans Veldman

1.1 Export in the context of developments in the world economy
1.2 A more detailed definition of exporting and the Dutch situation in respect of export
1.3 Trade policies and the European Union
1.4 International cooperation and regional formation of blocs
1.5 The European Union explained
1.6 Regionalization and globalization
Summary

The world economy has suffered a serious recession and the foundations of the international economic order have undergone important changes as a result of internationalization. In spite of this, one conviction has remained unchanged: in order to achieve further development of the global economy, the process of internationalization through the encouragement of free trade should be maintained. For both large and small countries international trade is of vital importance and a decisive factor in the pursuit of prosperity. Hence, this first chapter deals with the questions of how international trade is organized, what obstacles there are and how countries try to promote free international trade.

Attention is also paid to position the European Union (EU) occupies in the context of international trade and the dependence of the Netherlands and a number of other European countries on export. Specific attention is drawn to methods of international economic cooperation and ways in which economic superpowers use economic tools to influence global trade. The overriding conviction is that whatever changes the world economy undergoes, export will always remain a salient element.

1.1 Export in the context of developments in the world economy

According to the International Monetary Fund (IMF) the world economy showed the highest growth rates in 30 years in 2006–2007. Asia was emerging, but the EU and the United States (USA) remain the prime motors of the world economy. In the World Economic Outlook, the IMF's semi-annual forecast for the world economy, the USA and Europe were still the dominant influences on the economic prospects of the rest of the world.

World Economic Outlook

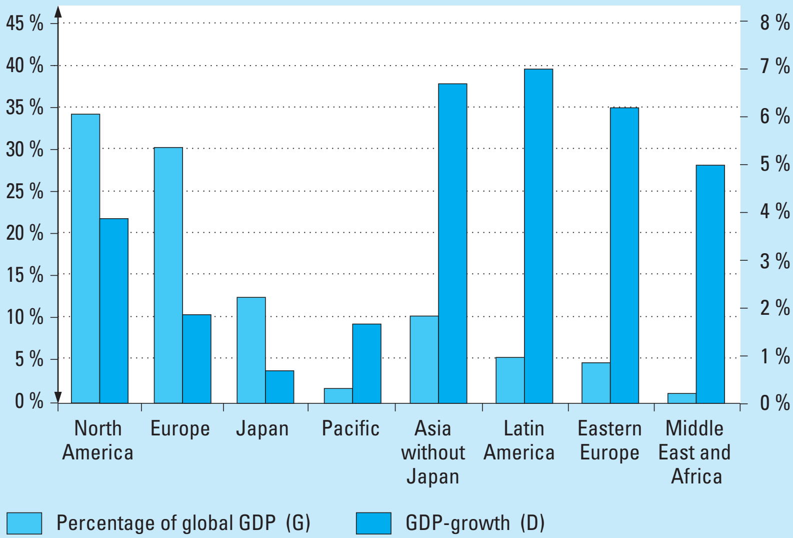
What a difference compared with 2008, when the world economy sank into a recession as a result of the credit crunch. The IMF predicted a serious recession and published an exceedingly gloomy report, stating that the gravest financial crisis since the '30s would present a serious obstacle to the growth of the world economy.
According to the IMF, international economic growth would slide and a worldwide recession could not be ruled out. The IMF emphasized that that the reality could well turn out to be even worse than its gloomy predictions.
If the unrest in the financial markets continues longer than expected, if consumer credit remains scarce as a result of the clean-up operations of banks or the housing markets in the USA and in Europe slide back even further than originally thought, international economic growth will be even lower than is predicted at present.

The world economic recession has a direct effect on export business. It seems justifiable to ask whether America and Europe can still be called "export-absorbing" countries. Will they continue to buy products from the East for subsequent re-export? It is certain that world trade is in recession, including that of the EU.
This is, however, not to say that internationalization in Europe is slowing down. It is important to mention that the internationalization of European trade and industry is progressing within Europe in particular. Many European companies trade their products on the European market.

Internationalization of European trade and industry

Moreover, the EU exports most of its goods outside its borders and, as shown in table 1.1, is one of the major motors of the world economy. The EU is the biggest exporter in the world and the second biggest importer, after the USA. The EU is responsible for one fifth of world trade. This implies that a large part of Europe's working population is active in export companies, so a large proportion of the population earns a living through export. Estimates vary from 40 to 60%. This chapter highlights Europe's export situation, with emphasis on the Dutch situation because, in relative terms, the Netherlands exports more than any other European country.

Figure 1.1 **Share of GDP in global GDP**



Source: IMG.Lex.nl, 20 February 2008

Case study 1.1 **Exports continue to do well**

In October the volume of exported goods, after correction for working day effects, was more than 8% larger than a year before. This is in line with the average growth of export volumes during the first nine months of 2007. The volume of imports rose by 1% in October, this is much lower than during the first nine months. Average imports rose by nearly 7% during that period.

Prices of imports and exports were 3 and 2% higher, respectively, than in October 2006. This is partly due to higher prices of crude oil and derived products.

The value of imports and exports reached record levels in October. The combined value of imports and exports was €1.4 billion higher than the previous March, the previous record month. The value of exports amounted to €32 billion – 14% up on a year before. Imports were 7% higher and amounted to €27.6 billion. This led to a trade surplus of €4.4 billion. This was €1.9 billion higher than in October 2006 but a fraction lower than the record trade surplus of March 2008.

The value of imports from EU countries was 13% higher, those from non-EU countries a mere 1%. The Netherlands imported primarily chemical products and foodstuffs. Exports to non-EU countries rose by 18%, those to EU countries by 12%. The value of exported foodstuffs, chemical products, machinery and means of transport increased more than average.

Tabel 1.1 **External trade: total product**

	1995	1996	1997	1998	1999
Imports in 1,000 million of ECU/euro					
EU (27 countries)	:	:	:	:	743.30
EU (25 countries)	:	:	:	:	746.62
EU (15 countries)	545.25	581.01	672.57	710.54	779.82
Euro area (13 countries)	:	:	:	:	787.31
Euro area (12 countries)	562.47	597.72	681.63	719.27	788.84
Belgium	126.10	132.24	142.79	150.74	154.64
Bulgaria	:	:	:	:	5.14
Czech Republic	:	:	:	:	26.71
Denmark	35.12	35.67	39.59	41.81	42.93
Germany	354.64	361.57	393.05	420.55	444.78
Estonia	:	:	:	:	3.22
Ireland	24.72	27.03	33.29	38.53	43.88
Greece	19.80	22.24	23.74	27.02	28.64
Spain	86.80	95.47	102.00	121.90	126.99
France	221.24	231.98	251.34	274.53	296.25
Italy	157.48	164.02	185.30	194.87	207.02
Cyprus	:	:	:	:	2.80
Latvia	:	:	:	:	2.77
Lithuania	:	:	:	:	4.35
Luxembourg	:	:	:	:	10.53
Hungary	:	:	:	:	26.29
Malta	:	:	:	:	2.67
Netherlands	126.62	150.36	168.19	174.51	193.43
Austria	50.64	53.95	57.97	62.00	66.92
Poland	:	:	:	:	43.05
Portugal	24.93	27.72	30.91	34.28	37.51
Romania	:	:	:	:	9.77
Slovenia	:	:	:	:	9.48
Slovakia	:	:	:	:	10.62
Finland	22.53	24.75	27.87	29.40	30.13
Sweden	49.72	52.71	57.84	61.01	64.35
United Kingdom	204.32	226.29	271.17	286.53	304.84
Iceland	1.34	1.61	1.78	2.21	2.17
Norway	25.00	27.02	31.54	33.43	32.06
Switzerland	61.28	61.64	66.93	71.44	74.93
United States	589.31	643.93	791.88	842.35	993.84
Japan	256.95	275.00	298.79	250.32	290.86
Canada	125.66	134.36	173.72	179.62	202.25
China (excl. Hong Kong)	100.98	109.34	125.54	125.09	155.47
Exports in 1,000 million of ECU/euro					
EU (27 countries)	:	:	:	:	683.08
EU (25 countries)	:	:	:	:	689.43
EU (15 countries)	573.28	626.29	721.13	733.43	760.19
Euro area (13 countries)	:	:	:	:	818.15
Euro area (12 countries)	611.15	662.02	755.12	787.97	821.62
Belgium	136.29	139.66	153.90	162.26	168.09
Bulgaria	:	:	:	:	3.73
Czech Republic	:	:	:	:	24.92
Denmark	38.92	40.49	43.45	43.72	47.19
Germany	400.20	413.19	452.27	485.02	509.98
Estonia	:	:	:	:	2.26
Ireland	34.18	38.07	47.04	57.38	66.84
Greece	8.45	9.22	9.99	9.69	10.39
Spain	74.81	84.46	88.85	99.88	97.99
France	230.24	240.61	266.43	286.00	305.43

2000	2001	2002	2003	2004	2005	2006
992.70	979.14	936.97	935.25	1027.54	1179.85	1350.20
995.98	983.81	942.52	940.76	1032.37	1183.78	1353.52
1033.44	1028.40	989.14	992.68	1094.32	1251.04	1430.10
1019.67	1012.49	981.61	986.51	1078.83	1224.31	1387.94
1021.47	1014.49	983.82	988.82	1081.32	1225.81	1389.09
192.19	199.49	209.72	207.70	229.62	256.17	280.33
7.08	8.13	8.41	9.61	11.62	12.50	15.32
34.62	40.53	43.00	45.73	56.25	61.50	74.24
49.33	50.60	53.22	50.77	54.79	60.75	68.71
538.33	542.79	518.49	534.49	575.40	624.61	723.66
4.62	4.80	5.08	5.73	6.70	8.21	10.57
55.26	56.45	55.41	47.64	49.69	55.11	57.98
36.25	35.74	33.39	39.65	42.41	43.46	50.32
169.06	172.68	174.60	184.41	207.68	232.12	252.03
366.98	366.91	348.20	352.58	378.60	405.21	426.01
258.51	263.76	261.23	263.01	285.63	309.29	348.35
3.39	3.74	3.90	3.58	4.42	5.08	5.52
3.47	3.91	4.28	4.63	5.70	6.99	9.17
5.68	6.77	7.96	8.53	9.96	12.50	15.37
12.21	13.77	13.38	14.29	16.12	17.60	21.23
34.83	37.54	39.93	42.26	48.67	53.49	61.30
3.70	2.83	2.80	2.85	2.95	2.89	3.17
236.32	232.96	231.88	234.00	256.99	292.44	331.67
78.38	83.33	82.80	87.99	96.39	102.34	111.71
53.08	56.03	58.48	60.35	72.11	81.70	100.35
43.26	44.09	42.47	41.73	44.17	49.18	53.06
14.24	17.38	18.88	21.20	26.28	32.57	40.75
10.99	11.34	11.57	12.24	14.28	16.35	19.20
13.82	16.48	17.52	19.91	23.91	28.46	36.53
37.29	36.44	36.19	37.58	41.36	47.43	54.85
78.91	70.57	70.81	73.85	80.74	89.58	100.94
372.21	383.86	385.02	353.08	378.35	412.89	485.26
2.58	2.34	2.21	2.50	2.93	4.00	4.77
37.20	36.80	36.90	35.23	39.00	44.60	51.12
90.50	93.90	92.35	88.71	93.23	97.43	112.62
1362.13	1317.59	1271.45	1153.72	1226.20	1392.43	1528.35
411.06	390.01	357.03	338.98	365.99	414.65	461.19
259.95	247.45	235.16	212.38	220.06	252.74	278.60
243.71	271.93	312.15	364.89	451.18	530.47	630.34
849.74	884.71	891.90	869.24	952.93	1053.20	1157.20
857.78	895.85	903.60	882.88	969.27	1071.86	1180.90
942.04	985.75	997.29	979.58	1068.47	1176.94	1309.63
996.42	1058.21	1079.49	1054.90	1149.24	1239.06	1377.26
1000.26	1061.88	1082.83	1058.39	1152.82	1241.93	1379.86
203.95	212.54	228.56	225.97	246.70	268.79	292.24
5.25	5.71	6.06	6.67	7.98	9.22	11.71
31.50	37.21	40.71	43.05	55.46	62.78	75.72
55.54	57.73	60.80	58.80	61.97	68.42	73.87
597.46	638.28	651.26	664.39	731.48	780.42	885.61
3.44	3.70	3.64	4.00	4.77	6.18	7.54
83.82	92.49	93.34	82.00	84.24	88.14	88.37
12.72	12.68	11.01	11.83	12.31	13.83	16.64
124.78	130.26	132.92	138.04	146.81	154.85	163.63
354.71	361.08	350.80	346.57	363.46	372.50	390.54

(Continuation)

	1995	1996	1997	1998	1999
Italy	178.72	198.69	212.00	219.25	221.02
Cyprus	:	:	:	:	0.39
Latvia	:	:	:	:	1.62
Lithuania	:	:	:	:	2.58
Luxembourg	:	:	:	:	7.70
Hungary	:	:	:	:	23.49
Malta	:	:	:	:	1.86
Netherlands	140.18	164.60	183.27	190.86	205.08
Austria	44.14	45.85	52.72	57.16	61.98
Poland	:	:	:	:	25.67
Portugal	17.42	19.39	21.12	22.12	23.03
Romania	:	:	:	:	7.99
Slovenia	:	:	:	:	8.03
Slovakia	:	:	:	:	9.58
Finland	30.96	32.39	36.57	39.03	39.64
Sweden	61.50	66.88	72.98	75.61	79.65
United Kingdom	181.92	203.60	247.26	244.36	255.36
Iceland	1.38	1.49	1.63	1.72	1.89
Norway	31.91	38.55	42.81	36.04	42.67
Switzerland	62.42	62.83	67.15	70.34	75.34
United States	445.69	490.48	606.27	606.94	650.03
Japan	338.63	323.64	371.29	346.21	391.84
Canada	146.11	159.29	190.50	191.43	224.04
China (excl. Hong Kong)	113.74	118.96	161.19	163.96	182.90
Trade balance in 1,000 million ECU/euro					
EU (27 countries)	:	:	:	:	–60.21
EU (25 countries)	:	:	:	:	–57.19
EU (15 countries)	28.02	45.28	48.56	22.89	–19.63
Euro area (13 countries)	:	:	:	:	30.85
Euro area (12 countries)	48.68	64.30	73.49	68.70	32.78
Belgium	10.19	7.42	11.11	11.52	13.46
Bulgaria	:	:	:	:	–1.41
Czech Republic	:	:	:	:	–1.79
Denmark	3.80	4.82	3.85	1.91	4.26
Germany	45.56	51.63	59.22	64.47	65.20
Estonia	:	:	:	:	–0.96
Ireland	9.45	11.04	13.76	18.86	22.96
Greece	–11.35	–13.02	–13.75	–17.33	–18.26
Spain	–11.99	–11.01	–13.15	–22.02	–29.00
France	9.00	8.62	15.09	11.47	9.17
Italy	21.23	34.68	26.70	24.38	14.01
Cyprus	:	:	:	:	–2.41
Latvia	:	:	:	:	–1.15
Lithuania	:	:	:	:	–1.76
Luxembourg	:	:	:	:	–2.83
Hungary	:	:	:	:	–2.80
Malta	:	:	:	:	–0.81
Netherlands	13.56	14.24	15.08	16.36	11.65
Austria	–6.50	–8.10	–5.25	–4.83	–4.94
Poland	:	:	:	:	–17.38
Portugal	–7.51	–8.34	–9.79	–12.17	–14.48
Romania	:	:	:	:	–1.78
Slovenia	:	:	:	:	–1.45
Slovakia	:	:	:	:	–1.04
Finland	8.42	7.64	8.69	9.63	9.50
Sweden	11.78	14.16	15.13	14.60	15.30
United Kingdom	–22.40	–22.69	–23.91	–42.17	–49.48

2000	2001	2002	2003	2004	2005	2006
260.41	272.99	269.06	264.62	284.41	299.92	326.99
0.43	0.49	0.45	0.42	0.76	1.18	1.06
2.02	2.23	2.42	2.56	3.22	4.15	4.90
3.85	4.78	5.54	6.16	7.48	9.49	11.24
9.07	10.90	10.80	11.75	13.06	15.11	18.19
30.52	33.98	36.50	38.10	44.67	50.59	59.32
2.66	2.03	2.14	1.99	2.00	1.83	2.12
252.41	257.77	258.10	261.68	287.34	326.64	368.28
73.31	79.00	83.20	85.88	95.16	100.62	111.82
34.37	40.19	43.50	47.53	60.33	71.89	87.85
26.38	26.92	27.40	28.07	28.77	30.66	34.50
11.27	12.72	14.67	15.61	18.93	22.26	25.85
9.50	10.35	10.96	11.28	13.15	15.47	18.52
12.81	14.06	15.23	19.30	22.23	25.76	33.23
49.92	48.28	47.74	47.00	49.46	53.07	61.35
94.34	84.46	86.19	90.26	99.10	104.73	117.38
309.04	304.51	296.31	270.18	279.36	309.04	357.78
2.06	2.25	2.36	2.10	2.27	2.48	2.75
64.85	65.83	63.00	60.06	66.31	83.40	96.86
88.28	91.72	97.28	92.80	98.89	101.22	117.76
844.87	816.19	733.10	639.68	657.53	726.90	825.92
518.88	450.37	440.69	417.25	454.83	478.21	515.07
300.03	291.48	267.11	240.52	254.53	289.47	309.01
269.81	297.11	344.33	387.40	476.99	612.45	771.69
–142.96	–94.44	–45.07	–66.01	–74.61	–126.65	–193.00
–138.20	–87.96	–38.92	–57.87	–63.10	–111.92	–172.62
–91.39	–42.64	8.14	–13.10	–25.85	–74.10	–120.47
–23.25	45.72	97.88	68.39	70.40	14.75	–10.68
–21.21	47.39	99.01	69.57	71.50	16.13	–9.24
11.76	13.05	18.84	18.27	17.08	12.62	11.91
–1.83	–2.41	–2.35	–2.94	–3.63	–3.27	–3.61
–3.12	–3.32	–2.29	–2.68	–0.79	1.28	1.48
6.21	7.13	7.59	8.03	7.17	7.67	5.16
59.13	95.50	132.77	129.90	156.08	155.81	161.95
–1.17	–1.10	–1.44	–1.74	–1.93	–2.03	–3.03
28.55	36.04	37.93	34.36	34.55	33.03	30.3
–23.53	–23.07	–22.37	–27.82	–30.11	–29.62	–33.68
–44.27	–42.42	–41.69	–46.37	–60.86	–77.28	–88.40
–12.27	–5.84	2.60	–6.01	–15.14	–32.71	–35.46
1.91	9.23	7.84	1.60	–1.22	–9.37	–21.36
–2.95	–3.26	–3.45	–3.16	–3.66	–3.90	–4.46
–1.44	–1.68	–1.86	–2.07	–2.48	–2.84	–4.27
–1.83	–1.99	–2.42	–2.37	–2.48	–3.01	–4.13
–3.14	–2.87	–2.58	–2.54	–3.05	–2.49	–3.03
–4.31	–3.55	–3.42	–4.17	–4.00	–2.91	–1.98
–1.04	–0.79	–0.65	–0.86	–0.95	–1.06	–1.04
16.09	24.81	26.22	27.68	30.35	34.20	36.61
–5.07	–4.33	0.40	–2.11	–1.23	–1.72	0.11
–18.71	–15.84	–14.98	–12.83	–11.78	–9.81	–12.50
–16.88	–17.18	–15.07	–13.65	–15.40	–18.51	–18.55
–2.96	–4.66	–4.21	–5.59	–7.35	–10.31	–14.90
–1.49	–1.00	–0.61	–0.95	–1.12	–0.88	–0.67
–1.00	–2.42	–2.28	–0.61	–1.68	–2.70	–3.30
12.62	11.83	11.56	9.42	8.10	5.65	6.50
15.43	13.90	15.38	16.41	18.36	15.14	16.44
–63.18	–79.35	–88.71	–82.90	–98.99	–103.85	–127.49

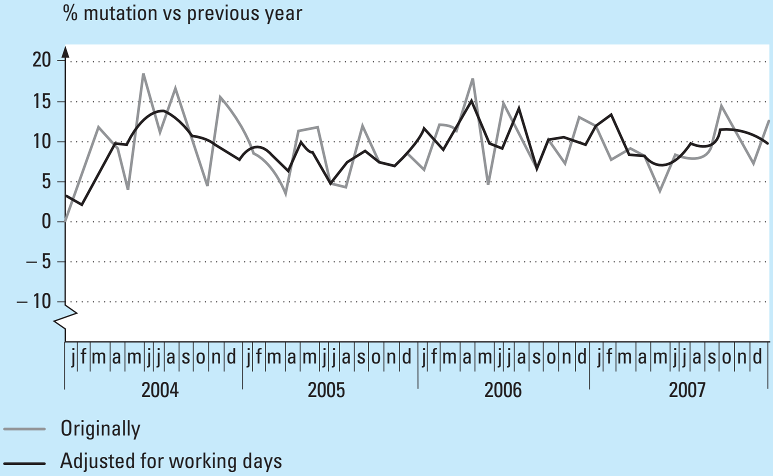
(Continuation)

	1995	1996	1997	1998	1999
Iceland	0.04	–0.11	–0.15	–0.49	–0.29
Norway	6.91	11.53	11.27	2.61	10.61
Switzerland	1.14	1.18	0.22	–1.10	0.42
United States	–143.62	–153.45	–185.61	–235.41	–343.82
Japan	81.68	48.64	72.49	95.89	100.97
Canada	20.45	24.93	16.78	11.80	21.79
China (excl. Hong Kong)	12.76	9.62	35.64	38.87	27.43

: = Not available

Source: *Eurostat*

Figure 1.2 **Export of goods** (volume)



Source: CBS, 2008 Export-Import European Union

The export situation in the European market and developments in the field of European unification are of vital importance to the Dutch export situation. More than 70% of Dutch goods and services destined for export are exported within the EU, for example, so a stable European market is essential for Dutch export.

Another important factor is that the EU is the biggest exporter in the world. In 2003 the EU was responsible for 25% of world trade and in 2007 for over 35%. Its two major trading partners are the USA and Japan. The EU imports 20% of all world exports, a little less than the USA and more than three times as much as Japan. The EU is the leading trading partner for many industrialized countries. It is a characteristic of the past decade that trade between Asian, Latin American, Eastern European and Western European countries has increased dramatically.

2000	2001	2002	2003	2004	2005	2006
–0.52	–0.09	0.14	–0.39	–0.66	–1.52	–2.02
27.65	29.03	26.11	24.83	27.31	38.80	45.75
–2.22	–2.19	4.93	4.08	5.66	3.79	5.14
–517.26	–501.40	–538.35	–514.04	–568.67	–665.53	–702.43
107.82	60.36	83.66	78.27	88.84	63.56	53.89
40.08	44.03	31.95	28.14	34.47	36.73	30.42
26.10	25.17	32.18	22.51	25.80	81.99	141.35

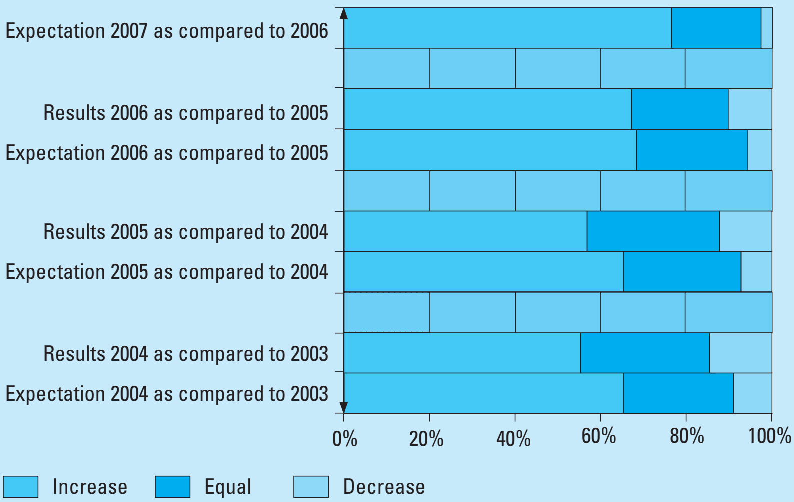
Credit crunch

In spite of the credit crunch, Dutch exporters are moderately optimistic about the future. A large majority expects an increase in exports in due course.

Trading partner

Germany remains the Netherlands' favourite trading partner. Traditionally, Belgium comes in second and the United Kingdom (UK) and France share third place. Spain is in favour with Dutch exporters again and takes fifth place in terms of trade partners within the EU. The countries where respondents expected the highest growth in exports in 2007 were, in particular, Eastern European countries such as Romania, Poland and Bulgaria. For Dutch exporters the USA and Russia were the major export destinations outside the EU.

Figure 1.3 **Development of export turnover 2004-2007**



Source: Eurostat

A significant proportion of international trade is effected through the major hubs of Dutch logistical activity: the ports of Rotterdam and

Amsterdam, and Schiphol airport. In 2005 the port of Rotterdam totalled a record in transhipments of 369 million tonnes. Schiphol international airport handles around 40 million passengers every year. These figures indicate that the Netherlands is an important global player both in international commodity trade and in providing international services. The largest exporters in the world are shown in table 1.2.

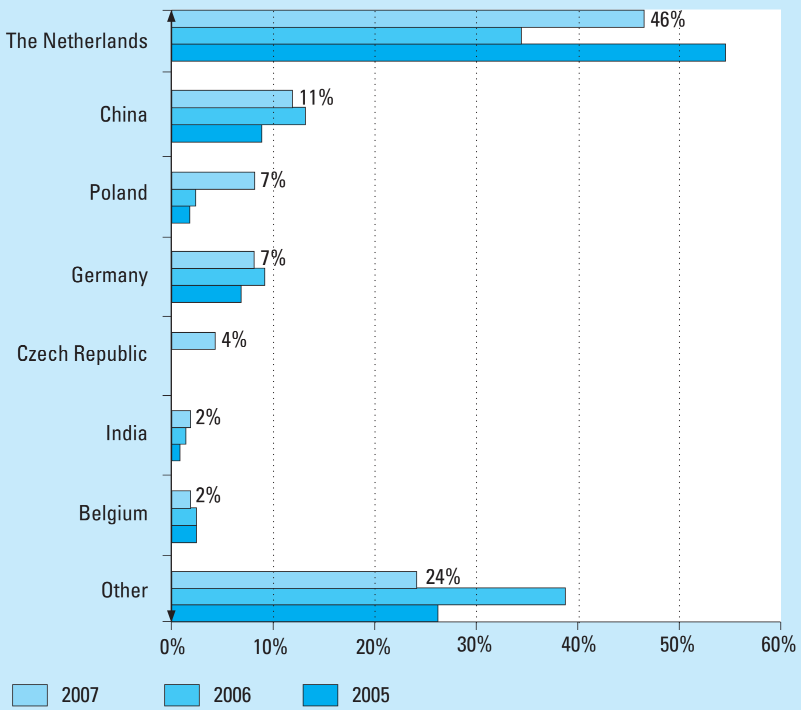
In 2005 Dutch entrepreneurs expected to keep only 34% of production in the Netherlands. After this, a strikingly higher percentage was expected, no less than 46%. China remained the front runner in expected outsourcing of Dutch production. The expected outsourcing of production to Poland in 2007 has more than doubled, from 3% to 7%, matching Germany's share (see figure 1.4).

Table 1.2 **World ranking of international commodities trade – export**

Rank	Share of world market
1 Germany	9.3%
2 USA	8.7%
3 China	7.3%
4 Japan	5.7%
5 France	4.4%
6 Netherlands	3.9%

Source: WTO – International Trade Statistics 2006

Figure 1.4 **Expected production in the Netherlands and elsewhere**

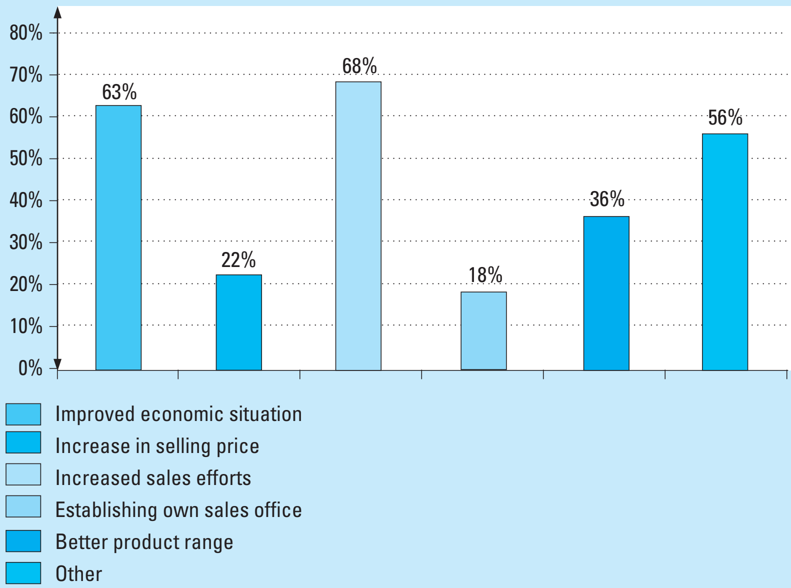


Source: Fenedex

In general, entrepreneurs indicate that they experience fewer delays in payments than last year. Exporters report that they have to wait longest for payment by customers in Italy, Belgium and France. Surprisingly, greater delays in payment are experienced from customers within the EU than outside it, which suggests that the risk of non-payment decreases as exports are done over greater distances. Pre-payment remains the most frequently used method to insure against non-payment. Half of entrepreneurs say that they require pre-payment.

As in earlier surveys, 77% of Dutch entrepreneurs consider the positive image of Dutch products to be a key factor in the export market. This contributes to the positive expectations regarding Dutch exports. Most respondents (68%) mention that the increased sales efforts, with the aid of more export staff or more agents and/or dealers, are a cause of the increase in turnover, both expected and actual. A better product range is also mentioned by Dutch entrepreneurs as an important reason for the increase in export turnover (see figure 1.5).

Figure 1.5 **Reasons for increase in export turnover**



Source: Fenedex

Last year the vast majority of entrepreneurs who took part in the survey indicated that several factors strongly influence their export situation and that of the Netherlands:

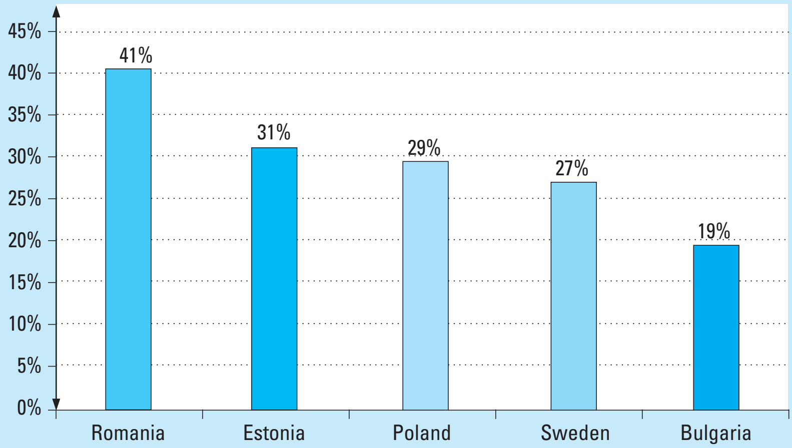
- the cost of products and wages in the Netherlands (considered to be the major influence)

- protectionism outside the EU (considered a serious threat to Dutch export)
- protectionism outside the EU (considered by more than half the exporters (54%) to be a threat to Dutch export as well)
- administrative costs
- extent of product range, level of entrepreneurship and knowledge of foreign languages
- product innovation
- having a good local partner abroad
- training of export staff.

Top five countries
Export turnover

Figures 1.6 and 1.7 list the top five countries within and outside the EU where respondents expected the highest growth in export turnover. In figure 1.6, the percentages shown are the average of the figures given by respondents for these countries.

Figure 1.6 **Top five countries for expected growth in export turnover within the EU**

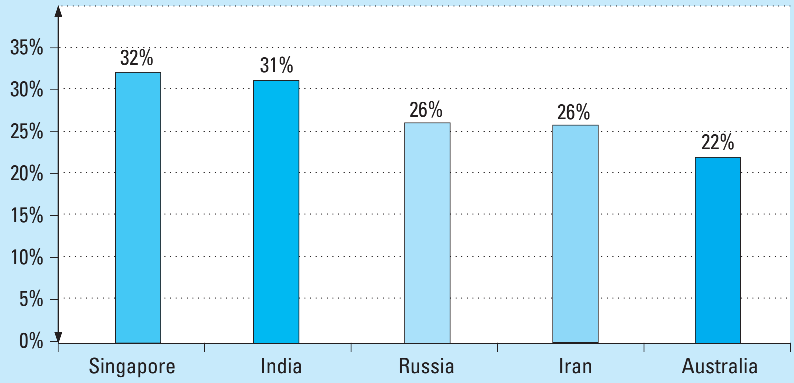


Source: Fenedex

Within the EU the largest increases in export turnover were expected in Eastern European countries and Estonia, followed by Sweden, where an average increase of 27% was expected. The lowest increase was expected for Austria, Cyprus and Luxembourg.

Striking increases in export turnover outside the EU are expected in Singapore and India. Iran, too, is in the top five, although the political developments in this country are a cause of concern for Dutch entrepreneurs (figure 1.7).

Figure 1.7 **Top five countries for expected increase in export turnover outside the EU**

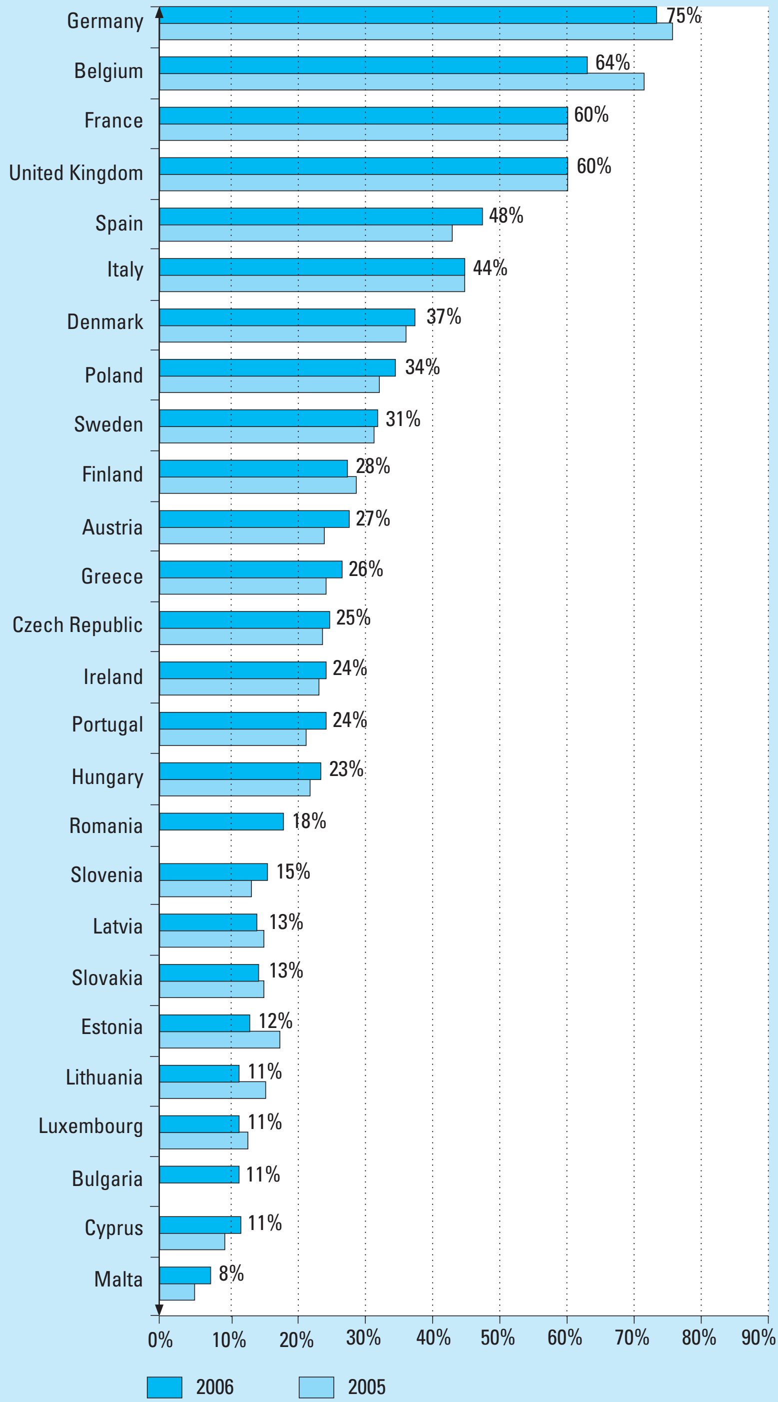


Source: Eurostat

In 2006, the strong expectation was expressed that no more than 34% of production would remain in the Netherlands. This was thought to indicate that the trend of outsourcing abroad would continue. However, 2007 showed a different picture: Respondents expected to keep 46% of production in the Netherlands. The remainder would be exported to various countries. In 2007 the Czech Republic was added to the list of countries where Dutch production might be carried out. In 2006 the Czech Republic had been emerging as a location for outsourcing and was mentioned most often in the 'other countries' category.

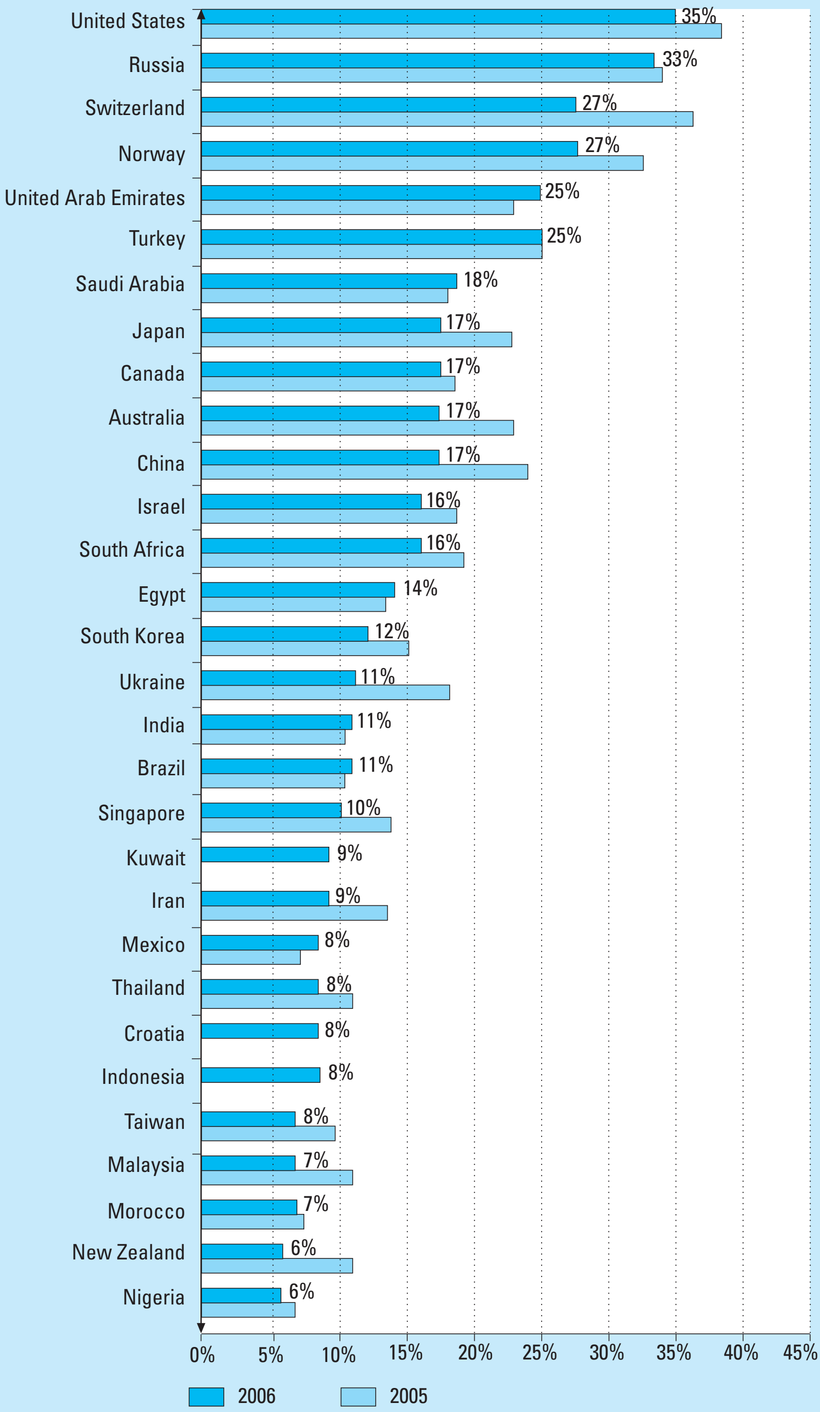
Outsourcing production to China was somewhat in decline (from 13% in 2006 to 11% in 2007), but for Dutch entrepreneurs China remained an important country for outsourcing production. The expected outsourcing to Poland doubled in comparison with 2006. from 3% to 7%. This made Poland as important as Germany for outsourcing by Dutch entrepreneurs. Other countries that exporters indicated as significant destinations for the outsourcing of production in 2007 were Taiwan, France, the UK, Thailand and Indonesia.

Figure 1.8 **Main export destinations within the EU**



Source: Fenedex

Figure 1.9 **Major export destinations outside the EU**



Source: Fenedex

Case study 1.2 **China feels the pinch**

By our correspondent Karen Meirik

Western banks, financial institutions and governments are keeping an eye on emerging economies in order to come to their aid, if necessary. But the global credit crunch is causing unrest among Chinese investors and the collapse of export.

Small investors are angry – especially with themselves. Hou Lin (33) is one of the numberless small Chinese investors who swapped their savings for shares over the past few months. 'Just like most Chinese investors, I took no great interest in the situation outside China,' says Hou. 'I stepped in blindly when Chinese shares were doing so well. But now, with this enormous drop in share prices, I suddenly have to study the global situation. With the American stock market and the sub-prime mortgage loan crisis, etc. I've become really pessimistic.'

Export
The export of Chinese products to America had been slack for quite a while, but now that the crisis is spreading across Europe, a second large market for the Chinese is disappearing.

'This is a crisis situation for China,' says Andy Xie, an independent economist from Shanghai. 'Forty% of our GDP derives from export. Now exports are coming to a standstill, for the first time in history. On top of that the real estate bubble has burst. These two sectors together were responsible for more than half the annual increase in GDP.'

Growth curve
Before becoming self-employed last year, Xie was Chief Analyst Asia with Morgan Stanley. Even then he warned about the consequences for China of the inevitable American crisis. Now he is in Dubai, attending a conference to get an idea of what the world will look like when this crisis is over. Xie has some very clear ideas about this. 'In the next period of economic growth you will see that the interaction between China and other emerging economies, especially the oil-rich countries in the Middle East and Africa, will be very important. South–south trade will play a much more central role. So I expect a strong growth curve in the emerging economies.'

Pearl river
For the time being China is struggling with the crisis in its economy. This has hit especially hard in the towns along the Pearl river, in the province of Guangdong. Some 35% of Chinese exports are produced in that region. But now many factories are idle, says Dutchman Thijs Cox, just back from the provincial capital Guangzhou, where one of the five offices of his company, Ciparo, is situated. 'For the first time in ten years many factories have granted their labourers a few weeks' extra leave. Usually the factory hands only get a holiday at Chinese new year. But now they have said: 'You don't have to come back for the time being. We are so much overstocked; we are first going to get rid of our stock and only then shall we re-start production.'

Cox's company buys up waste paper in Europe and the USA and ships it to China, where it is turned into packaging paper for export. For more than 15 years this was a formula for success, but now the consequences of the crisis are making themselves felt.

Refrigerators
'The Chinese are getting far fewer export orders from America and also from Europe,' says Cox. 'So they need much less packaging material and order less from us. We are noticing a significant change. Last month we had only 60% of the orders of the month before. Now that the European market is also suffering from the crisis, this will only get worse.'

According to economist Xie, the Chinese government should look for a solution among the 700 million farmers: 'In the countryside there is a market for refrigerators, washing machines and other products. But first their income should get a boost. That is possible, for the prices of agricultural produce can be raised – they are still at half the level of the world market. Of course this will lead to inflation, but by redistribution of incomes we can create a demand for industrial products, and this is important for keeping the economy going.' Xie is not the only expert to advocate a far-reaching plan.

Greed
In the meantime the numerous small investors in China are suffering from the slump in share prices. In Asia the stock exchanges of Indonesia, Thailand, Singapore and Shanghai were hit hardest.

Small investor Hou Lin (33), who used his savings and borrowed money to invest 220,000 yuan (€23,600) in stocks and shares, saw the value of his package go down by over 60%. 'I had borrowed nearly half that money from relatives.' he says. His initial anger has turned into frustration. 'I no longer know who or what I should be angry with. Should I be angry with the A-shares which have plummeted? Or with myself, because I had become so greedy? I started my investments when the market was at its peak, and it has only been sliding ever since. My spirit is quite broken. At first I was angry with the government, because they were not supervising things properly. But now I blame myself and my greed.'

Source: Wereldomroep 9th October 2008

1.2 A more detailed definition of exporting and the Dutch situation in respect of export

Export country
Trading country

The previous section showed how important the Netherlands are in international trade. Quite justifiably, the Netherlands is popularly known as an *export country*. However, this name only partly represents the character of the Dutch international position. In fact, the *trading country* would be better.

1.2.1 Exportation, re-importation, re-exportation and transit

It is important to know that the export volume of the Netherlands – and of countries in general – comprises the following elements:

- *exportation*: the export of products manufactured in the country
- *re-importation*: importation with added value of products that had first been exported (metal products, for instance)
- *re-exportation*: exportation of imports with little added value (usually flowers)
- *transit*: shipping on of goods that physically arrive in the Netherlands and are traded freely but remain the property of a foreign resident (container transport, for instance). There is, therefore, no transfer of ownership to a Dutch resident.

Distribution country
Export country

Imports comprise goods which physically come to the Netherlands and are introduced into free traffic. Imports and exports in the Netherlands, including re-exportation, but excluding transit, have each been at over 50% of GDP for years. In the past few years they have been as high as 60%. If we do not include re-exportation and look only at the export products produced at home, the percentage is still over 40%. Dutch trade achievements rank third after those of Belgium and Ireland. The income of the Netherlands is earned through export, re-exportation and import. Re-exportation is especially important for the Netherlands. It is worth mentioning that the Netherlands is at the same level as Hong Kong and Singapore in respect of its high degree of re-exportation. When defining *exportation* it is therefore relevant to take into account goods that have been imported to begin with. As the growth of trading seems due principally to the function of distribution, the Netherlands are also known as a *distribution country* rather than as an export country.

> **Exportation means that commodities originating in a country leave the country physically and are sold abroad by a resident of that country; or that commodities leave the country again after having been processed.**

1.2.2 International trade

International trade

Although trade and services are being exchanged more and more rapidly and opportunities to exploit foreign markets are increasing, the definition of *international trade* has remained unchanged:

> **International trade comprises all exchanges of goods and services which cross national boundaries.**

International trade, therefore, is concerned with import and export and, in addition, with trade against money and the exchange of goods. In this context the Netherlands is important in the international arena: in 2007, for instance, it was still one of the major investors in America (after the UK, Japan and China). More and more Dutch companies are expanding their activities abroad. They trade internationally by selling products in foreign markets or they establish subsidiaries and/or strategic business units (SBUs) abroad. They do this in Europe, but more especially in the USA.

1.2.3 Global sourcing

The point of departure in economic thinking, and therefore also in international trade, is that people act rationally and efficiently. People want to satisfy their limitless desires with resources that are scarce. As a result of the scarcity of resources, products with low production costs have a competitive edge over the other (comparable) products. Differences in production costs may be due to differences in the production environment in different countries: differences in climate, composition of the soil, natural resources, culture, educational level of employees, infrastructure, technological developments, etc. Nowadays more and more companies are trying to find the cheapest place for their production, and an equally cheap place for their assembly, while the head office remains in the original country. Philips and Vredestein are cases in point. This worldwide search for the optimal place to establish facilities is called *global sourcing*. Global sourcing may be defined as follows:

Global sourcing

> **Global sourcing is a strategy whereby a company establishes business processes which are not location linked, in a region across the border where the costs pertaining to business economics and the added value are the most favourable in relative terms, or whereby business processes are carried out by third parties in places in the world where this can be done most profitably.**

Thus the strategy of global sourcing is a result of differences in production costs, which, in turn, must be seen as an explanation for the emergence of international trade. These differences in costs have as a consequence that, on the basis of the economic principle, a country will specialize in activities in which it can achieve the greatest savings in costs compared to other countries.

Case study 1.3 **Flowers from Africa**

Dutch growers of cut flowers and ornamental plants are moving more and more of their production abroad. African countries are especially popular because of the low wages and the favourable climate. The region to the east of Kampala, the capital of Uganda, is supposed to be the industrial heart of the country. But anyone leaving the highway soon ends up in the bush. Between the banana trees there are rickety sheds and clay huts. Naked children run after chickens in the mud. This is where the Hillegom flower grower Royal van Zanten gets the employees for his Ugandan branch. On the edge of a swamp in the forest there are 18 hothouses with white plastic stretched over them. In 1996 Van Zanten started growing chrysanthemum cuttings on half a hectare of land. During the first year the branch shipped 11 million cuttings to the Netherlands. In 2002 the company was cultivating nine hectares and was producing 160 million cuttings.

Manager Anja de Feijter shows the test tubes in which budding chrysanthemum plants are brought in from the Netherlands. In Ugandan soil they grow to be a bush with dozens of cuttings within a year. Those cuttings are put in soil once more and supply cuttings in their turn. After this the original plant has been reproduced a sufficient number of times and the cuttings go back to Dutch growers in order to grow into full-blown cut flowers. Through the flower auctions in Vleuten, Aalsmeer, Naaldwijk and Bemmel the chrysanthemums are subsequently flown all over the globe. The auctions in the Netherlands serve as lynchpins in international trade in ornamental plants.

Of all the worldwide sales in flowers and plants, 62% goes through Dutch auction houses. They managed to generate a turnover of €3.6 billion in 2002. Foreign producers – often subsidiaries of Dutch flower- and plant-growing firms – have witnessed a slow but constant growth in their sales through Dutch auction houses over the past decade. Within ten years their turnover increased from €229 million to €529 million. Dutch growers still account for 85% of sales, but they procure their raw material more and more often abroad. The growers of chrysanthemums, who trade 1.5 billion cut flowers through these auctions every year, get 95% of their cuttings from abroad, according to the trade organisation Plantum NL.

The Ugandan branch of van Zanten employs 280 people to pick the cuttings, 80% of whom are women. They pick the cuttings from the long plant-beds at enormous speed. 'The work is very labour intensive,' says De Feijter. The main reason for Van Zanten to have a presence in Uganda is the low wages. De Feijter describes how the cultivation of cuttings has been moving south over the last decade: first to Mediterranean regions and then to Kenya, where labour costs are rising rapidly. The neighbouring country, Uganda, turned out to be cheaper. De Feijter calculates that their pickers are paid between €44 and €66 per month.

The climate was the second reason. The temperature in Uganda is constantly between 20 and 30 degrees Celsius all year round. The chrysanthemums flourish because of this. Moreover, thanks to abundant rainfall, there is still water galore. This is not the case in Kenya. The famous Lake Naivasha, an important centre of horticulture, is in danger of drying up. Growers are blamed for using too much water and too much pesticide, causing pollution of the lake. De Feijter assures us that Van Zanten is not guilty of such actions in Uganda. She gets annoyed about the opinions of local and Western pressure groups who claim that foreign companies seek out inner Africa only to dodge rules in their own countries. 'We simply have to adhere to the environmental criteria of the trade organization,' says the manager.

Olav Boenders of the floriculture enterprise Wagagai, founded in1999 by the Dutch horticultural families Boenders and De Witte, sometimes also has to fend off environmental criticism. Recently a Ugandan environmentalist group accused Wagagai of polluting Lake Victoria. 'We immediately had an investigation carried out, which, fortunately, showed that pollution was nil.' Wagagai ships 180 million chrysanthemum cuttings to the Netherlands. 'And then environmentalist groups complain that all this air traffic uses so much energy and is bad for the environment,' Boenders sighs. 'But try to think how much energy it would cost to grow these chrysanthemum cuttings in the Netherlands, with all this fierce assimilation lighting.' In Uganda, Wagagai has also started the cultivation of cuttings for potted plants in an experimental high-tech hothouse. Air locks at the entrance prevent all harmful bacteria from entering. The construction was co-financed by the Dutch Ministry of Development Cooperation through the Programme for Cooperation with Emerging Markets, which contributed €680,000. The begonia cuttings from the hothouse are sent to the Noord-Holland plant grower Florema.

This company sees little future for growing cuttings in the Netherlands: they can hardly find employees to do the picking. Moreover, the cost of energy has doubled in a short space of time. Another thing Wagagai is introducing in Uganda is hydroponic cultivation. In a hothouse the rose bushes are rooted in an artificial base of coconut fibre. All nutrients are in the water that is sprayed over the plants. The water is drained through a gully. 'The aim is eventually to catch, purify and re-use all the water in the rose hothouses,' Boenders explains. 'In this way we get a closed system that wastes no water and is good for the environment.'

Wagagai roses go straight to the auctions in the Netherlands. Boenders is not yet entirely happy with the quality of the product. The business is fairly small compared with the roses from Kenya, for instance. Roses need cold spells and there are not many of those around Lake Victoria. 'If need be, we can move the cultivation of our roses to the hilly border region near the Congo, where the nights are cooler.' The search for the ideal location for Dutch growers of plants and flowers never ends.

Source: *NRC Handelsblad*, 6th May 2003

Table 1.3 **Export value Netherlands according to CBS, 2007**

Countries (groups)	Export value 1 000 Euros	Countries (groups)	Export value 1 000 Euros
1 United States of America	17,162,337	1 Germany	81,940,053
2 Russia	6,552,055	2 Belgium	41,171,295
3 Switzerland	4,784,151	3 United Kingdom	31,865,981
4 Turkey	3,777,327	4 France	28,576,788
5 China	3,619,585	5 Italy	17,260,220
6 Norway	3,018,082	6 Spain	12,521,827
7 South Korea	2,676,028	7 Sweden	6,322,401
8 Japan	2,534,770	8 Poland	6,237,661
9 Taiwan	2,150,734	9 Austria	4,980,153
10 Nigeria	2,043,798	10 Czech Republic	4,840,153
11 Singapore	1,764,274	11 Denmark	4,686,856
12 South Africa	1,630,531	12 Finland	3,777,151
13 India	1,577,029	13 Ireland	3,428,780
14 Canada	1,503,967	14 Hungary	2,824,708
15 Saudi Arabia	1,485,018	15 Greece	2,729,172
16 Israel	1,323,911	16 Portugal	2,342,789
17 Brazil	1,212,432	17 Romania	1,409,892
18 Australia	1,179,355	18 Luxembourg	1,124,303
19 Hong Kong	1,029,401	19 Slovakia	824,635
20 Thailand	751,099	20 Slovenia	631,520
21 Indonesia	702,064	21 Lithuania	583,465
22 Malaysia	554,924	22 Bulgaria	488,259
23 Iran (Islamic Republic of)	484,999	23 Estonia	423,905
24 Algeria	363,741	24 Latvia	355,197
25 Kuwait	357,598	25 Malta	157,449
26 Argentina	349,443	26 Cyprus	292,579

1.3 Trade policies and the European Union

The position of the Netherlands as an exporting country and the policy of internationalization of Dutch companies are largely determined by the influence and cooperation of governments and the resulting EU policy. In this context we use the term *trade policies*: the measures a country's government can take in order to influence the outcome of the process of international specialization. Traditionally, two economic practices and opinions are opposed here, namely that of *free trade* and that of *protection*.

1.3.1 Free trade policy

According to free trade policy, international trade is carried out entirely according to the laws of supply and demand. This policy has a number of *advantages*:

Advantages

- It results in efficient competition and thus technological innovation.
- It does not provoke counter-measures which could lead to a trade war.
- It results in international stabilization of prices, countries and organizations.
- There are rules of the game which are known internationally and which are applied without arbitrariness; everyone knows in advance what they have to adhere to.

Drawbacks

On the other hand, some criticisms may be made of the theory of free trade. Among the *drawbacks* are:

- The theory does not allow for cyclical movements and the influence of emotions, culture and religion on the behaviour and opportunities of companies.
- The theory sets great store by the effects of comparative costs and no allowance is made for the limitations of these effects.
- Moreover, developing countries argue that international free trade by definition discriminates against them, which hampers their opportunities for growth.

GATT

The most important treaty in which the policy of free trade was laid down was the General Agreement on Tariffs and Trade (GATT – see below).

GATT and WTO

The GATT's objective was the abolition of mutual trade barriers between the signatories. This treaty has been signed by 123 countries, including most of the developing countries and all the major industrial nations. In practice, the signing of various adjustments to the treaty after certain discussions has not always led to trade discussions in which all signatories participated.

WTO

The status of the World Trade Organization (WTO) is comparable with that of the World Bank and the International Monetary Fund (IMF). One of the tasks of the WTO is to check adherence to the GATT treaty, to provide new stimuli to negotiations which have not yet been completed (in the area of financial services, for instance) and to initiate various trade-related policies (regarding investments, competition and labour standards).

The settlement of differences is an important task the WHO has to perform. In doing this, it more or less takes on the role of an international trade court, a function which the GATT has never had in the 50 years of its existence. The WTO works with a General Council, numbering 125 members.

Case study 1.4 **G20 and protectionism**

The leaders of the G20 want a far-reaching plan of action to deal with the consequences of the credit crunch as new economies step into the limelight.

'America is still the number one power in the world,' said French president Nicolas Sarkozy. 'But is it the only one? No, not any longer.' Without realizing it, Sarkozy summarized in a single sentence the most important outcome of the G20 summit in Washington this weekend.
The aftermath of the financial crisis has cleared the way for emerging economies, such as China, India or Brazil. According to British Prime Minister Gordon Brown, such shifts in power do not always happen without a hitch. He spoke of the 'birth pains of a new world order.' The leaders of the 20 leading economies in the world agreed on a plan that should begin with the reform of financial institutions and worldwide regulations within four and a half months. They also promised to do everything in their power to prevent a global recession. In order to counter this, interest rates and taxes will be lowered and no trade barriers will be put in place to protect employment in their countries during the next 12 months.
Countries such as China, India and Brazil will be given greater responsibility in these plans, as part of

the restructuring of the international financial system. This responsibility has been emphatically assumed. 'We are speaking of the G20 because the G8 has no right to exist any more,' said Brazilian president Luiz Lula da Silva. 'In other words, new economies must be taken seriously in a globalized world.' Chinese president Hu Jintao appealed for a 'new international system that is fair, all encompassing and well ordered.'
The changing balance of power also has consequences for the operations of the International Monetary Fund (IMF). The influence of large economies such as Japan, America and Europe will be curtailed. The IMF's influence, on the other hand, will increase. The IMF is to be the watchdog of the national financial systems and test them regularly for their 'financial health'.
The proposals will be developed in greater detail over the next few months. They will be discussed on 30th April, at the next G20 summit, probably in London. Barack Obama will also attend; he will then have been president of the United States for exactly 101 days.

Source: *Dagblad de Pers*, 18th November 2008

1.3.2 Protectionism

Protectionism

Trade policies and concomitant measures by a country or a group of countries to protect their own industries are called *protection* or *protectionism*. As a result of these measures, prices and/or quantities are controlled, in contrast with the situation resulting from a policy of free trade. A company that is internationally active will clearly have to allow for protectionist measures, as these form a very strong barrier to access to another country. Protectionist measures are issued by governments and defended by various arguments. A distinction should be made here between arguments which are permitted and which are not permitted according to the still valid rules of the GATT.

Arguments not permitted by the GATT are:
- The *pauper-labour argument*, used to protect own industry against imports from low-wage countries. This is not permitted because low wages are usually the result of low productivity.
- The *employment argument*, used to protect or stimulate domestic employment.
- The *balance of payments argument*, used to improve the balance of payments.
- The *reconstruction argument*, used for the purpose of reviving established domestic industries.

According to the GATT the following protectionist measures are permitted:
- The *infant-industry argument*, used to protect a young home industry. This measure is temporary and must be lifted at a certain moment.
- The *anti-dumping argument*, used to protect against dumping by other countries. Dumping is when exported goods are sold at lower prices than in the country of production. As a result, producers in the importing country suffer damage. Dumping is difficult to prove; to do so, it must be demonstrated what the cost price is.

The GATT distinguishes the following forms of dumping:
- *strategic dumping*: dumping in foreign markets in order to eliminate the competition there

- *social price cutting*: price cutting as a result of exports on the basis of wages and/or fringe benefits which lie below the value of the actual achievements
- *subsidised dumping*: granting government subsidies to exporters, so they can compete better in foreign markets due to their low prices
- *discrimination dumping*: charging different dumping prices in various markets.

Dumping is effective only when markets are separate and there is elasticity of demand. Dumping tries to achieve short-term effects and leads to price cutting in the long term. Moreover, the company that practices dumping antagonises (future) competitors, as case study 1.5 will clarify.

Case study 1.5 **Import duties on electronic goods**

Monday, 15th September 2008, 14.22 – The European Union wants a new trade agreement with, among others, the USA and Japan concerning duties on high-tech goods.

Since the drafting of the Information Technology Agreement in 1996, global trade in electronics has increased by 150% from US$600 billion to 1.5 trillion. The agreement resulted in a decrease in the rate of duty on equipment used by companies. But many products that come under the ITA have since also made a breakthrough in the consumer market. These include flat screens, integrated copying machines and printers, and digital set-top boxes. As a result, the EU has increased import duties on many products, arguing that they are no longer used for business purposes only.
Last May the EU brought the anger of the USA and Japan upon itself. The duo made a request for arbitration at the World Trade Organization (WTO) in Geneva.

New treaty solves existing problems
By requesting a new treaty, the EU hopes to avoid a costly trade conflict. 'We are prepared to discuss products which the USA and Japan are complaining about, but we wish to do this in a multilateral forum, not on a bilateral basis,' said Peter Power, the European Commission's spokesman for trade affairs. Japan and the USA do not want any consultations about a new agreement, but they want to settle their complaint directly with the EU, if need be before the WTO. 'We are now facing a double procedure before the WTO. There are both a legal conflict and multilateral discussions going on at the moment. They should be treated separately. I think it will be very difficult for the USA to reject a reconsideration of the ITA.'
The American and Japanese departments responsible were not immediately available for comment.

Technical requirements
The European Information and Communications Technology Association (EICTA) has been warning for a number of years about possible problems with the trade in IT goods. Besides the conflict about duties, the trade organization has warned about a possible trade war between the EU and Japan concerning the technical standards the products have to meet. In the past, Japan and South Korea used such methods to exclude European products. According to recent research by the EICTA, Finnish company Nokia has only limited access to the Japanese market because of these barriers, although Japanese manufacturers are, indeed, very active in Europe.

Source: Webwereld ICT by Tom Sanders

Case study 1.6 **Destructive protection – how the protection of European consumer electronics became a failure**

Philips benefits from punitive duties on the import in the EU of fax machines, cameras for television studios, capacitors, TV sets and small-screen TV sets. This weapon, however, is used less and less often. Its purpose, keeping European consumer electronics strong, has not been achieved. The result is quite the contrary.
On account of the dumping of Asian video recorders on the European market, Philips made a complaint to the European Commission in 1995. Nothing extraordinary in itself: it was the 13th complaint by Philips about price cutting since the

European Commission introduced measures against this during the eighties. The piquancy of the situation was, however, that the petition was also directed against a European producer (Thomson), which had moved its factory to Singapore a few years earlier.
The case against Thomson (and some other firms) came to nothing, but it illustrates the strange and sometimes counter-productive effect of the EU's regulations against dumping. If Philips had been successful in its action, Japanese companies in particular would have benefited from the anti-dumping measures. In the mid-nineties the Japanese produced 4 million VCRs in the EU, which would then have been exempt from punitive duties.
In a recent dissertation, *Electronic Multinationals and Strategic Trade Policies*, economist René Belderbos concludes that regulations which were introduced in the early eighties in response to Japanese dominance in the world market, have often been without effect. This is especially true in the area of consumer electronics, which is the sector that Belderbos investigated. Together with the textiles sector this was the major source of anti-dumping measures. Japanese manufacturers of colour TVs were opposed to anti-dumping measures from the beginning of the seventies. Italy, Spain and France, later followed by the United Kingdom, applied import restrictions. Moreover, until 1983 the Japanese needed a special licence for the production of TVs in accordance with European standards.
From the end of the nineties the first real anti-dumping measures for colour TVs followed. In order to evade the protectionist measures, Sony and Matsushita started TV factories in the United Kingdom in 1974. In the nineties the Japanese share of the European television market was entirely manufactured in Europe.
The anti-dumping weapon was first used in the early eighties in the fight over the video recorder. Philips and Grundig used the Video-2000 standard in competition with the Betamax and VHS standards.
A complaint against dumping in 1982 and bureaucratic warfare by the French (the Japanese had to import all their video recorders through a customs warehouse in Poitiers) forced the Japanese to agree to a 'voluntary' restriction of exports. The opponent's handicap turned out to be of little use to Philips and Grundig. VHS became the global standard and V2000 has fallen into oblivion. The measures against dumping did have another effect, an effect that had earlier been visible in the market for TVs: from 1982, the year that the petition against dumping was submitted, Japanese video manufacturers tried every trick in the book to gain a foothold with their production facilities in Europe.
Major producers, such as JVC, Sony, Matsushita and Hitachi, established factories in the EU.
The CD player, too, has been protected by anti-dumping measures. To support its inventor, Philips, starting in 1987 a duty of between 8 and 32% was levied on the products of Japanese and Korean companies. This duty was added to the 'regular' import tariffs on CD players. These varied between 9.5 and 19% at different times. A high regular import tariff also applies to TVs, TV screens and (since 1986) video recorders.
Moreover, In 1991 Philips lodged a new complaint against Asian producers of CD players. The complaint was withdrawn in 1993, as Philips had decided to produce CD players in Asia themselves. Since1998 the company has not had any production locations for CD players in Europe.
An inventory by Belderbos shows that measures against dumping have frequently been applied, also for products other than consumer electronics. Since 1982, Philips alone has lodged at least 15 complaints about dumping, either through specially founded commissions or otherwise. Besides video recorders, protests were raised against printers, halogen lamps, car radios, aluminium capacitors, TV cameras and fax machines that were priced too low. In nearly all cases Philips was successful: the complaint resulted in an anti-dumping measure. But while Japanese producers of consumer electronics moved their factories to Europe, the production facilities of European companies disappeared in many cases.
Belderbos comes to the further conclusion that Philips and other companies have not succeeded in improving their market share or competitive power, in spite of such support.
In 1987 Philips had a market share of 15% and was the most important producer of consumer electronics in Europe. The company was followed by Thomson (market share 13%) and at some distance by producers such as Matsushita (8%), Sony (6%) and Hitachi (4%). In Belderbos's estimate, Japanese producers since1997 have had by far the largest share of the market for video recorders, more than one third of the market in colour TVs and virtually the entire market for camcorders. In the audio market Sony, Matsushita and Pioneer are all larger than Philips.
Even now Philips benefits from the support of the EU. The anti-dumping duties on TV studio cameras, capacitors and ordinary small-screen TVs are still in force. The duties are, on average, above 10%, which is a hefty percentage if you take the small margins in consumer electronics into account.
Recently the EU imposed punitive duties on fax machines, which may rise to almost 90%, depending on the country of origin.

Yet Belderbos detects a change. In 1994, 43 enquiries into dumping were started across the entire EU, but in 1996 there were just 25. 'Even getting a case approved these days is no longer a matter of course.' he says. In the most recent case (fax machines) he says that Philips has been sent back at least once to do its homework. 'This used to be different,' says Belderbos. 'You submitted one and a half A4 pages and then everything was all right.' Philips denies these facts. 'The European Commission has never been satisfied with an A4 page.' The company admits that it has had to review its complaint about fax machines, not because its petition was incomplete, but because one of the other complainants had been withdrawn. In the past Philips could form a strong front for intervention with its allied companies Bang & Olufsen (Denmark) and Grundig (Germany). 'Spain, France and Italy usually joined.' says Belderbos. Now that Philips has disposed of its shareholding in Grundig and Bang & Olufsen, the German and Danish support for Philips's anti-dumping cases is less obvious. To this must be added that the European Commission is bound to new agreements that have been made within the framework of the WTO. According to Philips, the European Commission has not become stricter in its judgments, but there are fewer complaints because there are fewer European products and producers. 'This shows the precarious position of the European industry.' This dwindling influence of measures against dumping does not necessarily have only negative consequences for European companies. According to Belderbos it stands to reason that the protection afforded by the anti-dumping measures prompted Philips to postpone quite a few decisions in the past. These decisions turned out to be inevitable in the long run. 'Philips has been very slow in shifting its production to cheaper locations,' he says. 'Without the protection of the duties, they might have reorganised earlier or might have established production facilities in Asia or Eastern Europe at an earlier stage.'

Source: *NRC Handelsblad*, latter half of the nineties

1.3.3 Forms of protectionism

We shall now discuss:
- the various traditional protective measures
- new protectionism.

Traditional forms of protectionism
A company that operates internationally may be confronted with the following traditional protectionist measures (Mennes & Kol, 1987):
1 import duties
2 export subsidies
3 import and tariff quotas
4 trade agreements
5 non-tariff linked barriers
6 government trade
7 managed trade.

Ad 1 Import duties

Import duties

Import duties are also known as *tariffs*. They are taxes which the government of the importing country levies on imported goods and services. Import duties take the following forms:
- *specific*: a fixed amount per volume of the imported product
- *ad valorem*: a fixed amount of the value of the product
- *sliding or variable*: the rate of import duty depends on the product price; a low-priced product comes with a high tariff and a high-priced product with a low tariff
- *prohibitive*: a tariff that is so high that import is virtually impossible
- *implicit*: a structure of tariffs in which raw materials come under a low tariff and finished products under a high tariff.

Ad 2 Export subsidies

Export subsidies

In the case of export subsidies the government grants exporting companies or sectors financial compensation in order to increase their competitive power in foreign markets. Export subsidies occur in the same forms as import duties. Export subsidies, such as the interest bridging facility (IBF) and the export matching facility (EMF), must not be classed with the government's measures to stimulate export; these are not allowed to result in distortion of competition. In the Netherlands, export is stimulated by the activities of the Federation for Netherlands Export (Fenedex) in cooperation with the department of Information and Stimulation of Export in the Ministry of Economic Affairs. Another factor in this context are the credit guarantees which the Dutch government provides through Atradius (until 2003 the de Nederlandse Credietverzekerings Maatschappij Gerling NCM, Dutch Credit Insurance Company Gerling NCM).

Ad 3 Import and tariff quotas

Import and tariff quotas

In the case of *import and tariff quotas* the government decides on the amount of the product to be imported on the basis of quantities (a quantity quota) or on the basis of the value of the goods (a value quota). Alternatively, there are *tariff quotas*, a combination of import duties and quotas: if the quantity of imported goods exceeds a certain limit, import duties are levied. Import duties may be bilateral (between two countries) or multilateral (between more than two countries) or global in character; in the last case they apply to all countries. Import quotas are increasingly being replaced by voluntary export restrictions (VERs) (see New Protectionism in the following sub-section).

Ad 4 Trade agreements

Trade agreements

Trade agreements are agreements between two (bilateral) or more (multilateral) countries in which agreements have been reached concerning mutual trade. The Netherlands has trade agreements with countries that are not members of the WTO and with developing countries. Adherence to the agreement is monitored by the exporting country.

Ad 5 Non-tariff linked barriers

Non-tariff linked barriers (NTBs)

Non-tariff linked barriers (NTBs) are rules, regulations, formalities and (administrative) procedures which form barriers to international trade. In this context we should consider customs formalities, health and safety regulations, test specifications, levying of tolls on motorways, maximum allowable axle weights for trucks, etc. Non-tariff linked barriers are a veiled but nonetheless effective form of protectionism.

Ad 6 Government trade

In many countries it is still the government that acts as a major trading partner. In China, Cuba and many developing countries the market is controlled by the government, which means that the exporter is in fact up against a monopolist. Government trade is losing ground, however. A country such as China, for instance, is increasingly opening its markets to foreign enterprises. This is not to say that the government's influence in such countries is weakening; trade is still strictly governed by stringent administrative, procedural and currency regulations.

Ad 7 Managed trade

Managed trade

Managed trade is trade in which politics try to influence decisions regarding export. A few years ago, Airbus, for instance, was about to conclude a sizeable contract for delivery of Airbuses to Saudi Arabia. By direct intervention the then president of the USA made sure that Boeing was the eventual supplier.

New protectionism

New protectionism
Gentle protection

New protectionism, sometimes known as *gentle protection,* consists of protectionist measures in the form of non-tariff linked restrictions. These measures consist of agreements resembling cartels, agreements to divide the market, subsidies from governments to domestic companies (regional development subsidies) and voluntary export restrictions (VERs).
International cartels and agreements about the division of markets occur, for instance, within the Organisation for Economic Cooperation and Development (OECD) with regard to the reorganization of the steel industry and shipbuilding. Measures taken by the European Commission in respect of agriculture also come under this heading. Direct subsidies, credit arrangements, takeovers and financial support for bankrupt companies by governments provide indirect protection of domestic industries because production costs are kept down.

Voluntary export restrictions (VERs)

Voluntary export restrictions (VERs) are also called Voluntary export restraints (VERs). Here (on the basis of voluntary cooperation) governments impose quantitative export restrictions on their own industries in order to prevent other countries from taking harsh(er) protective measures. In formal terms these restrictions are not in conflict with the WTO, but they *are* against the spirit of this treaty. This is probably also the reason for their popularity. A VER nearly always results in an artificially high level of prices in the importing country, or it leads to a price hike. Alternatively, a VER may lead to a decrease in the market share of the domestic supplier that is 'protected' by the VER, although this is obviously not the intention. These days, VERs occur in exports from Japan and the developing countries to the USA and Europe in the case of textiles, steel, motorcars and electronics.
VERs have an 'advantage' over other protectionist measures in that GATT rules may be bypassed. By making use of a VER (usually as a result of secret negotiations), governments in importing countries can quickly favour certain of their own industries. They usually decide in favour of this type of arrangement when domestic producers are campaigning against the most threatening foreign competitors. They may justify their decision by accusations of unfair competition. If trade restrictions are deemed inevitable, governments prefer a VER to import tariffs or quotas. With a VER the export yield may also be higher.

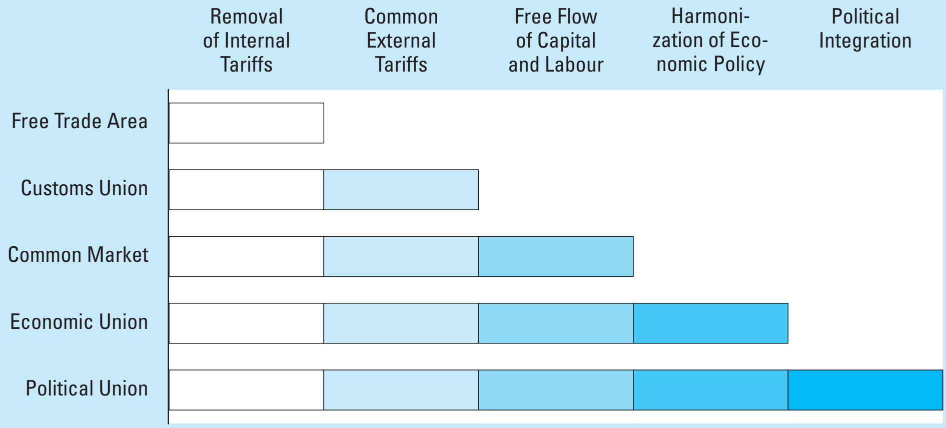
However, the effectiveness of a VER may be limited by internationally operating companies. They have three ways of doing so:

1 Suggesting that the goods originate in a country that does not impose import restrictions. In the 1970s Australia exported meat to the USA via Canada and Japan exported steel to the USA via South Korea and Canada.
2 Investing in an importing country with a VER or in a country without a VER. Investing in a country with a VER was done in the eighties by the Japanese car industry. They established or took over production facilities or started cooperating with existing companies in the USA and Europe.
3 Through the upgrading effect of a VER. This is possible when, as is usual, arrangements have been made concerning quantities. In the case of agreed quantities it is possible to increase the value of the export by substituting more expensive products. This can compensate for the falling-off of export volumes.

1.4 International cooperation and regional formation of blocs

After 1950 efforts to achieve free trade led on the one hand to international cooperation and on the other to the formation of regional blocs. Countries have various ways of cooperating with each other. The simplest form of cooperation is the removal of tariffs and quotas to a greater or lesser extent. The resulting types of trade bloc include the *preferential area*, the *free trade area*, the *tariff union* and the *customs union*. Economic unions are far-reaching forms of cooperation.

Figure 1.10 **Schematic overview of the process of economic integration**



Source: Cundiff & Hilger, 1994

Preferential area
Free trade area

In a *preferential area* a number of countries which are part of the area allow one another preferential tariffs; in a *free trade area* the participating countries mutually abolish import duties, but they retain their individual tariffs in respect of other countries. This results in the 'certificates of origin' condition.

EFTA
CEFTA
NAFTA
CBI
Mercosur
APEC
SADC
Ecowas

Examples of free trade areas can be found all over the world, in Europe in the form of the European Free Trade Agreement (EFTA) and the Central European Free Trade Agreement (CEFTA) areas. The best known and most influential free trade area is the North American Free Trade Association (NAFTA), a system of cooperation between Canada, Mexico and the USA. This is a market of 375 million consumers, even bigger than the EU. The foundation of NAFTA was followed in Central America by the foundation of the Caribbean Basin Initiative (CBI), of which the countries in the Caribbean area are members. South America has the Mercosur, whose members include Argentina, Brazil, Paraguay, Uruguay, Chile and the Andes countries. At present Mercosur is a common market with over 300 million people and a gross income of $450 billion. It is the fourth-largest trading bloc in the world, after NAFTA, the EU and Japan. Asia has the Asian Pacific Economic Cooperation (APEC) area and Africa has the Southern African Development Community (SADC) and the better-known Economic Community of West African States (Ecowas), of which most West African states are members.

Tariff union
Customs union

The next step in cooperation is that of the *tariff union*, in which the participating countries abolish internal import duties and impose a common tariff of import duties on goods from other countries. Countries which form a *customs union* impose a common tariff on outside countries. This is, for instance, what the EU did until 1993. A much more intensive form of cooperation is the harmonization of the economic, monetary, fiscal and social policies of a number of countries, combined with the foundation of supranational organs and the abolition of differences in conditions of competition.

Economic unions

Harmonisation is effected by the foundation of *economic unions*, such as the EU.

1.5 The European Union export policy explained

An important aspect of the way in which companies are internationalizing in the EU is European *government procurement*.

Government procurement

A number of regulations apply to European government procurement. One of their aims is to make government contracts accessible to all companies established in the EU. They must not be restricted to companies in that government's own country. The main objectives of the regulations are:

- the creation of an internal market (the free movement of goods, services, capital and people)
- harmonizing the legislation of the individual EU Member States
- stimulating free and fair competition within the EU by publishing tender invitations

- effecting savings for customers through a more professional process of procurement.

The Agreement on Government Procurement (AGP) came into force in the EU on 1st January 1996. This agreement, which was concluded within the framework of the WTO, had as a consequence that countries which are party to it (besides the EU, Canada, the US, Japan and Israel, among others) should allow each other access to their markets for government procurement. Conditions, however, may differ from one Member to the next. The regulations list criteria from which the department producing the tender document must choose.

Criteria for tendering

The criteria for tendering are:
- the lowest price
- the most advantageous offer in economic terms.

Tenders

Tenders often have a national orientation, but an allocation in the framework of the WTO agreement may also invite non-European companies to tender for orders. The policy of putting out work to tender may, therefore, also be seen as a trade tool. It lowers the threshold for access to the European market and stimulates improvement of trade relations. This recent development is opposed to the traditional policy of the power blocs, which protected their own markets. The most important trade tools of the EU are protection and anti-dumping measures. Consultation in the WTO, for instance, is especially aimed at the prevention of imports of cheap goods and of unfair pricing.

In addition to this general policy, the EU has a policy of strengthening the competitive position of European companies in a more directional way. This policy applies in particular to industry, the service sector and specific business areas, such as technology, quality, productivity and financial capability. Besides this, the EU has a number of specific regulations which may be applied by European companies.

1.5.1 The EU and trade with Eastern Europe

In order to stimulate the accession of Eastern European candidate Member States, but also to encourage economic reforms in Eastern Europe, the EU formulated the following programmes:
- PHARE
- TACIS
- ECIP and JEV.

The PHARE programme

PHARE programme

The PHARE programme (originally Poland and Hungary Assistance for the Reconstruction of the Economy) was introduced by the EC in 1989 in support of reforms in Poland and Hungary. One year later it was extended to Bulgaria, the former Czechoslovakia, the former German Democratic Republic and Romania, and – in 1992 – to Slovenia, Albania, Estonia and Lithuania (see figure 1.11). In order to qualify for PHARE support, the countries involved had to make a commitment to strengthen their democracies and to switch to a market economy (see case study 1.7). Within the framework of PHARE for Eastern Europe, €990 million were set aside and spent in 1994. The money went to:

- restructuring the economy
- supporting privatization and establishing small and medium-size companies
- further development of the banking and financial sector
- re-aligning the labour markets
- restructuring government and social security, education, environment and infrastructure (transport and telecommunication).

Figure 1.11 **The countries of Central and Eastern Europe which come under the PHARE programme**

Source: European Commission DGI, *What is PHARE?*, January 1995

Case study 1.7 **New orientation for European PHARE programme**

In 1997 the European Commission decided to re-orientate the PHARE programme by placing more emphasis on preparation for entry into the EU. PHARE was started in 1989 in order to support reforms in Poland and Hungary. Since that time the programme has developed into the most important instrument for cooperation between the EU and Central and East European countries. Until now the PHARE framework has supported projects suggested by the countries themselves. The Commission wants to change this approach in order to prepare the

countries for possible entry into the EU. This is why the support will focus on the most important needs of these countries with a view to future entry into the EU. These needs will be determined in consultation with the countries in question in the framework of a 'Partnership for Entry'. As a result of this new approach one of the PHARE programme's priorities will be to strengthen the democratic institutions and public administration in the countries in question. This should help these countries to meet the economic and political criteria for EU membership. The candidate members must pay particular attention to the fight against fraud, illegal immigration and organised crime, subjects which are also at the top of the EU agenda.
A second priority of the PHARE programme will be the financing of investments in the countries in question. This should help them to improve their businesses and their infrastructure and to meet the conditions of the single market. Some 70% of PHARE finances is to be dedicated to this objective. The remaining 30% is to be dedicated to strengthening the institutions.

Source: *De Financieel-Ekonomische Tijd*, 20th March 1997

Joint Venture PHARE Programme (JOP)

Joint Venture

The Joint Venture PHARE Programme (JOP) is designed to encourage joint ventures (see also chapter 5, subsection 5.2.7) in Central and Eastern Europe. Through this programme, initiated by the European Commission, support may be given in various phases of a project: before, during and after concluding the agreement. JOP is part of the PHARE programme and applies in countries where PHARE is in force. The programme is mainly aimed at small and medium-size businesses and has been set up with the aim of increasing investment in Central and Eastern Europe.
JOP can make contributions at various stages in the establishment of a joint venture. A feasibility study or a trial project may receive a maximum advance of €150,000. In order to qualify for JOP, the joint venture must comprise at least:
- one partner originating in a country in the Union
- one partner originating in an Eastern European country.

These partners must possess 75% of the capital that is put up.

Companies with fewer than 1,000 employees are given priority in the JOP.

The TACIS programme

TACIS programme

The TACIS (Technical Assistance for Commonwealth of Independent States) programme was introduced in 1990 in order to transfer Western know-how to candidate Member States. TACIS aims to create conditions which encourage private investment and thus stimulate the development of democracy and the market economy. Although TACIS was more difficult to implement than PHARE, in the period 1992–1993 Brussels gave Eastern Europe the amounts set out in table 1.4.

ECIP and JEV

ECIP

Through the European Community Investment Partners (ECIP) scheme, the EU stimulates European companies to establish joint ventures with companies from developing countries. The ECIP scheme is particularly aimed at small and medium-size businesses and offers assistance in five stages. The company is helped to identify a project and a partner; a donation of up to €100,000 may be made; a feasibility study is subsidized; and an interest-free loan is given to the European exporter.

Table 1.4 **TACIS programme 1992–1993; general division according to country**

Country	EUR (× 1 mln)	Country	EUR (× 1 mln)
Russia	496.40	Azerbaijan	12.50
Ukraine	119.24	Moldova	10.00
Kazakhstan	40.35	Turkmenistan	9.80
Belarus	31.83	Tadzhikistan	0.40
Kyrgyzstan	19.55	Humanitarian aid	22.00
Baltic States	15.00	Multiple country project	379.88
Georgia	12.65	Other	77.20
		Total	1,287.50

Source: *Centrale Raad voor het bedrijfsleven*, extra issue, Brussels, August 1995

There are also arrangements for companies that want to start joint ventures within the EU.
The Joint European Venture (JEV) scheme supports small and medium-size businesses that want to establish a joint venture within the EU with a non-EU partner. To this end, the scheme provides a subsidy of 10% of the investment costs and awards a subsidy for a feasibility study. The two main requirements are:

1 Applications must have been made by two small and medium-size businesses from different EU countries.
2 The share in the company by either Member State must not exceed 75%.

1.5.2 **The EU and trade with the Far East and Latin America**

In addition to the support mentioned above, the EU offers various programmes aimed at promoting the development of trade with countries in the Far East and Latin America. The best known are Asia-Invest, Al-Invest and Ex-prom Japan.

Case study 1.8 **Yen makes cash withdrawals expensive**

The value of the Japanese yen has risen sharply since the credit crunch. An expensive yen is bad news for exports, but also for tourism and overseas savings accounts.
By Margit Kranenburg

Tokyo, 29th October: 'Cheaper than ever.' Not so long ago this was the slogan that promoted Japan enthusiastically as a tourist destination. Pictures of temples and sushi restaurants were no match for this. Japan had finally managed to shake off its expensive image. Foreign tourists even had money left to buy amusing gadgets.

However, a corollary of the global credit crisis is that the Japanese yen's rocketing value threatens to throw a spanner in the works. Compared to other important currencies, the yen has increased in value by about 20% in one month. Measured in euros, the yen has reached its highest level since 2002. In dollars the rate was the highest in 13 years.

Expenditure
Tourists who are in Japan now hardly dare make cash withdrawals from cashpoints, and shopping is out of the question. But even the Japanese are reluctant to spend money. In some living rooms there is some fearful calculation, counting and forecasting going on.

Hisako Okochi (46), for instance, can think of nothing else but her sudden financial misery. 'I am shocked by the expensive yen,' says this female teacher. 'My bonds in Australia, New Zealand and South Africa are worth a lot less. I even invested in American dollars, because I thought that was safe. It would have been better if I had not done that.'
The credit crisis hardly seemed to hurt the ordinary Japanese. Japan had had its own crisis in the early nineties, when the bubble economy burst. The population responded to this by being very careful about spending and by saving a great deal. But this very hoarding has turned wealthy Japanese into a kind of currency traders. As Japanese interest rates are historically low – the base rate is now 0.5% and the central bank is rumoured to be on the verge of lowering it – interest on savings was nil as well. Many Japanese, therefore, took their fortunes abroad for a better return on investment. As a result of the rise of the yen they have seen their overseas savings decrease in value day after day over the past few weeks.

Savings

Okochi has more or less resigned herself to her losses and tries to keep calm about it. As everything has gone down so much, she has re-invested abroad. She thinks she is far from being the only one with problems. 'People here do not talk openly about their finances. I only know that my younger brother has invested in high-risk share options and has suffered great losses. I think that many senior citizens are worried; they are sure to have lost part of their retirement pension.'
Figures make it clear that many Japanese must be in trouble. The Japanese population has transferred billions abroad. Yet Professor Yasushi Iwamoto of the University of Tokyo would like to put the problem in perspective. 'The strong yen is a problem for trade, first and foremost,' says the economist. 'Of course there are people that have suffered personally because of the increase. But usually this concerns rich people. Many ordinary Japanese people do not have all that much wealth and can now benefit from cheaper imports and cheap foreign travel.'

Source: *NRC Handelsblad*, 29th October 2008

1.6 Regionalization and globalization

One of the effects that European unification was expected to have was that there would be fewer macro-economic differences within the EU (that is to say that differences in buying power would diminish) and national economies would grow closer to each other until they became one single economy. However, research has shown that unification was a stimulus for certain regions in the EU and that the very process of integration has led to great economic differences between regions.

Alpine area

Of all European regions, the Alpine area shows the strongest growth. One explanation of the relatively rapid development of the Alpine region is that it is situated far from competing centres; it also occupies a central position in Europe. As a result, it is doubly attractive to companies: easily accessible and relatively cheap.
Another factor which promotes the development of certain regions is the presence of new industries. Contrary to regions such as Northern France, Wallonia and Lorraine, which are dominated by obsolete industries, making it difficult for them to achieve dynamism, the new centres develop into 'technopools': centres of science and technology.

Technopools

Research has shown that regions with a lot of high-tech industry are attractive to investors. An example of this magnetism is the area surrounding Lyon and Grenoble, where technological companies are setting up near the universities' 'science parks'. Another example is Munich, where universities and the car industry (e.g. BMW) and the aircraft and electro-technical industries (e.g. Siemens) are close together.

The rapid growth of Spain and northern Italy should, however, not lead to the conclusion that the economic focus of Europe is shifting towards the south. Southern Italy, Greece and Portugal are still lagging far behind the rest of Europe. The rapid growth of parts of southern Europe should be seen as a sort of accretion. Industrial activity, for instance, is increasing much more rapidly in the south than elsewhere. On the other hand, other activities, such as high-quality business services, are growing faster in parts of north-west Europe. So there are shifting emphases, but the general trend is that companies are looking to the traditional industrial areas of Europe: the belt that stretches from the English Midlands, through London and Benelux to the Ruhr area and northern Italy.

We shall now discuss:
- the Williamson thesis
- the convergence policy of the EU.

The Williamson thesis

Williamson thesis
Centres of growth

From an economic point of view it is entirely logical that Europe has different *centres of growth*. Sometimes a country experiences strong economic growth because a number of growth centres attract economic potential or, in other words, isolate it from other areas in the EU. This causes the emergence of regional differences. Centres of growth attract investment and highly qualified staff, which isolates them from surrounding regions or areas. This theory, the so-called Williamson thesis, implies that economic differences between regions increase when there is a general rise in income.

The convergence policy of the EU

Convergence policy

The European Commission pays a great deal of attention to the problem of 'disparities'. In order to minimize regional differences, a policy of convergence is implemented. This means that support is given to regions which lag behind the average economic growth of the EU. This support is given through two tools:
1. *Hermin*: A subsidy to a region based on the recognition that its economic stagnation is to be blamed on a shortfall in demand and inadequacy of supply. This often concerns investment in infrastructure.
2. *Quest II*: A subsidy or financial support to generate long-term benefits for a region. It is given in respect of the supply side of the economy only. It usually concerns subsidies for investment and R&D.

The economic diversity within the EU means that exporters have to deal with regional differences and to adjust their export policy accordingly. Macro- and micro-economic developments generate local economies with their own market features. For example, the sale of products in northern Germany requires a different approach from that in the south.
In spite of this regionalization, which covers the various features in the market situation, the concept may also be used in the macro-economic context. In that case it means that different regions – perhaps even continents – have similar features. In the history of

the world economy, for instance, it can be clearly shown which region was the economic focus at a given moment. During most of the 20th century the world economy was dominated by the UK, the USA and Japan. It is expected in the 21st century that Asian countries will dominate the economy.
It is relatively easy to switch from regionalization to globalization. It is becoming increasingly easy for companies to produce and sell goods worldwide. Globalization is said to lead to accelerated global economic integration, due to the increase in international trade and direct inward investment.
The regionalization of foreign trade is also seen as a step in the direction of globalization. Activities in one region lead to activities in another region, the consequence being that a national company turns into an international company, operating all over the world. As we said earlier in this chapter, the Netherlands is an important export country. With increasing internationalization, Dutch economy can only grow.

Export ratio

At present the Netherlands earns more than 60% of its income from foreign trade and this results in an export ratio which is one of the highest in the world. (Export ratio = value of exports in relation to gross domestic product.) It is expected that more and more companies will internationalize under the influence of regionalization, which turns into globalization. The next chapter will clarify how this process of internationalization works and dealt with the differences between internationalizing, exporting and globalizing.

Summary

The central issue in this chapter was how export has developed as a form of internationalization within the context of the world economy. Until 2008 there was clearly a growing world economy and a concomitant increase in internationalization.
The three main economic power blocs, the USA, Europe and Asia, grew more interwoven. It is important to mention that internationalization in Europe mainly took place within the EU.

Also discussed were the resources the EU has at its disposal to stimulate international trade. It is clear that there is a consensus that the world economy cannot benefit from protectionism and that the group of major economic countries in the world has now been extended to 20 (G20). Exporters do not benefit from trade restrictions – a topic that was elaborated in detail. It is expected that in future more and more companies will use export to internationalize.