International Business

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Second Edition

International Business

An introduction

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Second edition

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Preface

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

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

In the second edition all facts and figures have been updated. Supplementary topics are considered, e.g. on the subjects of social media and crowdfunding. In addition, Geert Hofstede's sixth dimension is discussed. Attention is furthermore devoted to articles and case studies involving the BRICS countries and Africa.

We would appreciate receiving remarks and comments of students and lecturers, so that we can improve the quality level of this book. Finally, we would like to express our thanks to all those who have supported us with their advice and suggestions: Martin Zuurhout MBA (Martin Delta), Louise van Weerden (Saxion University, the Netherlands) Sharro Jethu (Optimal Synergy), Marijn Mulders (Avans University of Applied Sciences, the Netherlands), Hendrie van Maanen (Christian University of Applied Sciences, the Netherlands), Ron Harmsen (Radio Gelderland) and our colleagues at the TMO Fashion Business School. Furthermore, we wish to thank all those from the business community who offered us practical advice: Eric Verbeek (AON Insurance company) and Henrike Bongers. A special word of thanks goes to Irene Sueters and Ageeth Bergsma and Petra Prescher (Noordhoff Publishers) our excellent coaches, and to our families for their encouragement.

Radha Jethu-Ramsoedh
Maud Hendrickx

Contents


14251 km
8855 mi INDIA
CANADÁ 2890 km
1796 mi
7846 km
4875 mi MARRUECOS
ALASKA 5628 km
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8406 km
5220 mi ALEMANIA
XCARET 0 km
0 mi
33 km
20 mi XEL HÁ
HAWAII 7305 km
4539 mi
7535 km
4682 mi PORTUGAL
GRECIA 10263 km
6377 mi
2277 km
1415 mi COLOMBIA
13557 km
8424 mi KENIA
6208 km
3857 mi CHILE
12835 km
7975 mi CHINA
2513 km
1561 mi
XPLOR 3 km

1 Introduction to international business

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

1

Welcome to the posh pound shop:

Welcome to Tiger, the poshest, brightest, happiest pound shop in the land. For those who haven't heard of it, Tiger is a cross between Ikea and Woolworths. Here you can buy everything from batteries to glitter pens, tents to reading glasses – all in technicolour and all at bargain basement prices. Eighty per cent of its products sell for £5 or less, but its stylish Danish designs mean everybody loves it – even people who live in multi-million-pound houses next to Mick Jagger, here in Richmond.

It's a winning formula. Last year its pre-tax profits jumped more than 60 per cent to £2.5 million, while sales increased from £14.7 million to £21.3 million. It currently has 33 stores across the UK, predominantly in the South-East, in middle-class areas such as Chiswick, Kingston upon Thames and Cambridge. But it's announced plans for a massive expansion to towns such as Canterbury and St Albans, which means that it's likely to be on a High Street near you soon. Worldwide Tiger has more than 300 shops in 22 countries.

'We like to think that one day a customer will never be more than 40 minutes away from a Tiger store,' says the perky Danish owner of the UK stores, Philip Bier. 'We plan to open 100 new stores in the next five years.'

Tiger started life as a Danish pound shop - its name is a play on 'tier,' which is Danish slang for 10 kroner (£1.10). Its ethos is to sell 'stylish own-branded products in a fun environment at astonishingly low prices.' Bier, a Dane living in London, brought it to the UK in 2005, taking out a second mortgage to open his first store in Basingstoke. 'I was a freelance photographer and had no experience of retail but I knew it would work,' he says. He was right.

Tiger employs ten full-time designers, who come up with 300 new products a month, including sticky tape decorated with moustaches and pencil erasers that look like polar bears. They often work to themes – and at the moment, Tiger is feeling fishy.

'It's difficult to predict bestsellers. Last year we sold more than 30,000 head massagers – who could have predicted that? We also did a Mona Lisa reproduction in gilded frames, which was very kitsch. We weren't sure so we put in one or two per store, but they flew out the door.'
But how is it so cheap? 'We buy in bulk,' says Bier. 'Our products are made all around the world, including Denmark and China. We are very aware of our social responsibility, we have a strict code of conduct and we visit factories regularly.' No child labour then? He seems genuinely shocked at the suggestion. 'No, of course not; no success is worth that.'

Edited source: *Mail Online,* May 21, 2014

1.1 What is international business?

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

Multinationals

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

● www.fortune.com

Global 500

Global business is back. After limping through a worldwide financial crisis and economic slowdown, the 500 largest companies ranked by revenues shattered all sorts of performance records in 2013: they racked up combined revenues of $31.1 trillion, up 2.5% from 2012, and profits soared 27% to nearly $2 trillion. China's 95 companies (up from 89 last year) posted $5.8 trillion in revenues. The US has four fewer companies on the list than last year but remains (for now) the country leader, with 128 corporations on the list – including No. 1 Wal-Mart Stores – reporting $8.6 trillion in revenues.

The following companies are the top 10 of the Global 500 (based on 2013 figures):

1. Wal-Mart (US)
2. Royal Dutch/Shell Group (UK/the Netherlands)
3. Sinopec (China)
4. China National Petroleum (China)
5. Exxon Mobil (US)
6. BP (UK)
7. State Grid (China)
8. Volkswagen (Germany)
9. Toyota Motor (Japan)
10. Glencore (Switzerland)

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

1.1.1 Globalisation

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

The last ten years have often been referred to as 'the age of globalisation'. However, the development of globalisation has changed in the last decade. **Gross National Product** When looking at the growth of the Gross National Product (GNP) of all countries together, it becomes clear that more than 50% of this growth comes from the new industrial countries (emerging markets). These countries play an increasingly important role in globalisation – **BRICS countries** the BRICS countries (Brazil, Russia, India, China and South Africa) in particular, where an enormous growth in GNP is expected in the coming years. But also the **N11 countries** so called N11 (Next-Eleven) countries: Bangladesh, Egypt, The Philippines, Indonesia, Iran, Mexico, Nigeria, Pakistan, Turkey, Vietnam and South Korea.

Gross National Product (GNP)

The extent to which a country participates in international trade depends primarily on its GNP. The Gross National Product of a country is the total of what is produced in that country in terms of goods and services by firms that are nationally owned, plus the income derived from nationally-owned firms abroad, which is received as a reward for making production facilities available. GNP is an important means to measure the economic performance of a country. Table 1.1 lists several countries and their GNP.

TABLE 1.1 Different countries and their GNP

Position	Country name	GNP in US dollars in 2013
–	**World**	75.260.642.584.048
1	United States	16.967.739.758.395
2	China	8.905.335.869.769
3	Japan	5.875.018.799.868
4	Germany	3.716.837.527.956
5	France	2.789.619.055.553
6	United Kingdom	2.506.905.818.183
7	Brazil	2.342.551.559.807
8	Italy	2.058.171.889.629
9	Russia	1.988.215.911.128
10	India	1.960.071.533.405
11	Canada	1.835.341.210.125
12	Australia	1.515.558.382.553
13	Spain	1.361.121.929.657
14	Korea, Rep.	1.301.575.380.898
15	Mexico	1.216.087.074.270
16	Indonesia	894.967.331.904
17	Turkey	820.622.254.941
18	Netherlands	797.211.252.422

Source: World Development Indicators, World Bank

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

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

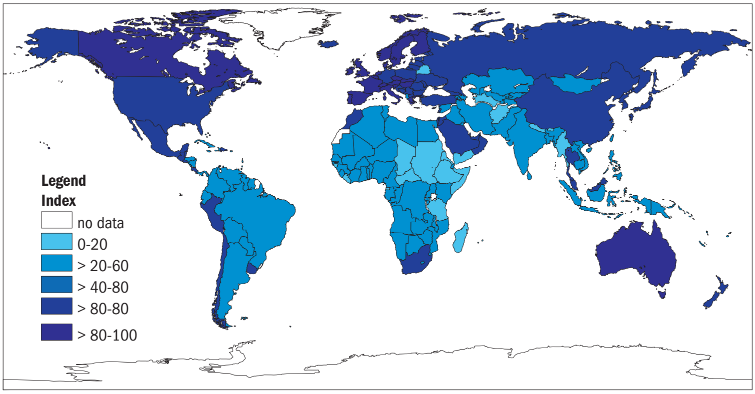
In recent years e.g. due to the rise of terrorism, globalisation has been inhibited by stricter entry checks at airports and land frontiers, the obligatory application for visas for some countries and stricter immigration procedures when entering a country.

1

1.1.2 Europe and globalisation

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

FIGURE 1.1 KOF Index of Globalisation 2011



Source: http://globalization.kof.ethz.ch/maps/

According to the KOF Index of Globalization 2014, Ireland was the world's most globalized country. Ireland is followed by Belgium, the Netherlands, Austria and Singapore. Denmark and Sweden are on the 6th and 7th place respectively while Portugal remained in 8th place. Hungary advanced one place to 9th rank, one place higher than Finland, which moved up three places compared to the year before – the biggest jump among the most globalized countries. The degree of globalization has declined in northern and southern Africa and in the near and Middle East while the index has risen slightly in East Asia. In all other regions, globalization stagnated.

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

1.1.3 Localisation

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

Localisation

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

1.1.4 Sustainable international business

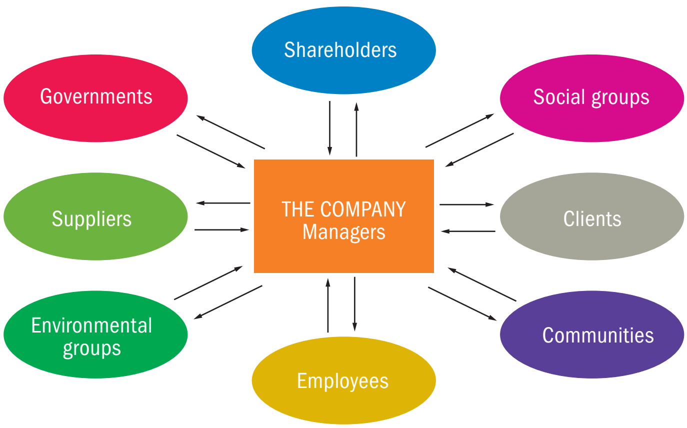
Globalisation has placed pressure on the global environment and natural resources, revealing human dependence on the environment in the process. Hence, this book focuses on sustainable international business, a way of doing business which shows that companies are, conscious of the way in which they do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

Sustainable international business

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

Stakeholder

FIGURE 1.2 Overview of Stakeholders



Source: derived from Donaldson & Preston, 1995

Often shareholders are only focussed on economic results. Not all stakeholders have the same priority. However, apart from profit, a business should embrace sustainability for the purpose of innovation and business growth. So sustainable international business distinguishes three pillars, viz.
1 People
2 Planet
3 Profit

Ad 1 People

‘People’ relates to the human side of sustainable international business. It covers people inside and outside the company, and aspects such as health

People

and safety in the workplace, employment laws, human rights, wages, training and child labour. This is an important pillar, especially when production takes place in low-wage countries, where working conditions are often poor.

1

Ad 2 Planet

Planet

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

Ad 3 Profit

Profit

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

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

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

1.2 Why do companies cross borders?

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

1.2.1 International trade

International trade

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

GLOBAL RESEARCH, AUGUST 14, 2014

Trade Is Not Meant to Boost Economies

The view of trade most people are familiar with is the Marco Polo version. Marco Polo loaded some European-made goods on boats and then camels and trekked across Asia Minor to China where he swapped those goods for goods like silk and spices and hauled them back to Europe where they were sold for a huge profit.

In truth, trading was dangerous and vicious. Traders were often subjected to extortion by the peoples whose lands had to be traversed. Other times these traders were merely robbed. All this led to a search for safer trade routes. Portuguese navigators sailed around the tip of Africa. Then Columbus tried sailing west from Spain and the world changed. He found silver and valuable crops. Colonization was born.

In the newly claimed colonies, plantation agriculture was developed to grow and harvest the newly found crops. But that farming required labor. So the traders went right to work. The British developed the procedure known as triangular trade. Ships laden with goods made in England sailed to Western Africa where they were swapped for human beings who were kidnapped in central Africa. The ships, when laden with people, sailed to America where the people were sold into slavery.

Edited source

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

The viewpoint of (neo-)classical economists was that the origin of international trade can best be explained in terms of differences in (cost) prices and productivity between countries. The country that can manufacture products at the lowest cost will sell them to other countries. The theories of absolute and comparative costs (Ricardo 1817) were followed by Heckscher and Ohlin's (1933) point of view, saying that the availability and cost of production facilities determined the extent of international trade. In this way, India, which has a large amount of labour available in comparison to Switzerland, must concentrate on the production of labour-intensive goods. Switzerland however, with more capital than labour, must specialise in capital-intensive products. Modern trade theories, introduced in the past 40 years emphasize relevant factors other than price elements, such as quality, economies of scale, knowledge, technological development and product differentiation.

The According to Kol and Mennes (1989), the traditional theories are most successful in explaining why companies engage in international trade, but they only partly explain the differences in competitive strength between countries. In 1990, in his book *The Competitive Advantage of Nations*, Porter tried to build a bridge between the viewpoints of the neo-classicists and the modern trade theories. In his explanation of national competitive strength, Porter does not concentrate on a single factor at macro level, but on several factors at meso level (industrial branch level). The following factors are involved in distinguishing among sectors:
- the extent and nature of domestic competition
- the presence of an adequate supply industry
- the conditions in the home market (infrastructure, capital, labour)
- the demand level (responding to the diversity in customer demand)

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

In international trade, a distinction is made between
- import
- export

These terms are explained below.

Import

Import

The term import refers to the buying of foreign products, which are then shipped to the home country. A company buys goods or services from an exporting company with the objective of selling them at a profit. As the world is becoming smaller, some products or components on the shelves have been manufactured thousands of kilometres away. This happens for two reasons:

- The production of goods or components is cheaper in other countries, as a result of which products are often developed in Europe and produced in a particular country. It is done for various reasons:
  - In the country of origin, labour costs are lower than in Europe.
  - The raw materials are readily available in the country of origin. The processing of the raw materials in the country of origin not only provides time benefits, it also has the advantage that the knowledge required for the production of the product is available on site.
- The product or service is not supplied in Europe.

FINANCIAL TIMES, AUGUST 13, 2014

Tata Steel net profits drop 70% as imports hit European division

Tata Steel has blamed a glut of steel imports for the slower than expected recovery of its European division as net profits at India's largest private sector steelmaker fell 70 per cent in the first quarter.

Even taking into account one-off charges, underlying performance at the group's European division has barely improved, dashing hopes that falling input prices and a recovery in steel demand would translate into a faster recovery in earnings.

Karl-Ulrich Köhler, Tata Steel Europe chief executive, said these efforts had helped to deliver a 'slightly' better financial performance in the quarter, but blamed rising foreign competition for his division's slower than expected improvement.

'European steel demand is moving in the right direction . . . [but] Europe's position as the world's most open market is bringing in a rising tide of imports. While we fully support free trade, all trade must be fair and international rules fully respected and enforced,' he said.

Edited source

Export

Export

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

- New technologies and new products constitute a challenge. In a less-developed market, demand for such products will be greater than in a market already developed.
- The domestic market is too small for the product; the demand is too modest, or too many similar types of products are supplied.

- To assure the continuity of the company, a constant search for new markets is essential.
- The cost price of the product the company supplies makes it competitive in the foreign market.
- If the company is suffering from overcapacity, it is attractive to sell products in a foreign market.

www.boerderij.nl

Poultry farming

EU anticipates fall in exports of poultry

BRUSSELS So far the European Union has been fairly successful in its reorientation in other markets for poultry, but difficulties with Ukraine and Russia are casting a dark cloud over the future. Ukraine is buying less poultry meat and striving for greater self-sufficiency. In addition, the country's unstable political situation and the devaluation of its national currency are burdening the export to this country. Export of poultry to Russia is also under pressure. In the first four months of this year there was a slight upturn in exports to Russia as a result of the import ban on pork.

The EU is reorienting itself in other markets and seems partially successful in doing so. More poultry is being sold in South Africa and Benin, though the amounts do not compensate the reduced volume of exports to Hong Kong, Saudi Arabia and Ukraine. On the one hand imports grew from Brazil, whereas on the other hand imports from Thailand dropped. The EU ascribes the reduction in imports from Thailand to the political unrest in the country.

Over the past years, the European production of poultry meat has been growing steadily and the EU expects this growth to continue for some time to come. However, in the EU it is expected that this growth may slow down when pork and beef production recover.

1.2.2 Foreign investment

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

Foreign direct investment

● www.telegraaf.nl

US largest foreign investor in EU

LUXEMBOURG (ANP) – Last year US companies were by far the largest foreign investors in the European Union with a total of EUR 313 bn, according to an announcement made by the European statistics agency, Eurostat, last Friday.

Second on the list is Brazil with EUR 21 bn in direct investments, followed by Switzerland (18 bn), Japan (10 bn) with Hong Kong and Russia sharing the 5th position on the list with 8 bn each. The other way round, in 2013 the US was the largest recipient of foreign direct investments, viz. EUR 159 bn in all from the EU. According to Eurostat, in total EU companies made direct investments in the rest of the world to an amount of EUR 341 bn. Eurostat further reported that direct foreign investments made in the Netherlands by investors outside the EU amounted to EUR 14.2 bn last year and that direct foreign investments from Holland outside the EU came down to EUR 10.5 bn.

1.2.3 Motives

There are many reasons why a company may decide to do business abroad. In some cases, it just happens. The company stumbles across an interesting product abroad and decides to bring this product to Europe. Or one of its representatives accidentally meets a Turkish entrepreneur while on holiday in Turkey. They start talking and decide to collaborate, with the result that a truckload of ceramics is exported from Turkey to another European country every month. Naturally, the most important reason is to earn money,

Proactive motives
Reactive motives

but that is often not the case. Table 1.2 lists the principal motives. These can be divided into proactive and reactive motives. Proactive motives result from the policy that a company establishes to do business internationally, whereas reactive motives result from a threat in the home market or the nature of the product.

TABLE 1.2 Motives for internationalisation

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

Source: Albaum et al., 2008, p. 76

Further explanation of these motives is offered below.

Proactive motives

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

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

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

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

THE NATION, OCTOBER 16, 2014

Minimalism with an endless twist

German designer Jil Sander's stylish minimalism has landed in Bangkok with a bang, with the brand's collections for men and women now available at its flagship store at Central Embassy.

In Bangkok for the opening, the brand's chief executive Alessandro Cremonesi explained that the brand has managed to modernise traditional concepts of luxury and elegance by emphasising purity, quality, and the contemporary.

'Purity means maintaining the pureness of the cut, the material and the line. Quality is ensured through manufacturing all Jil Sander products in Italy. This is very important to us. We put a lot of effort into connecting with our manufacturers and fabric suppliers so that they really take care of our product.'

'And contemporary means that the design must be in line with current trends but still look good in the future. It's this unconditional dedication to contemporary design combined with innovative materials, top craftsmanship and superb tailoring that give the clothes their exceptional form,' he said.

The colour palette is dense and moody: shades of purple, teal, dark green, anthracite and metropolitan black, with light or dark grey and neutral shades broken by prints and brushed effects. Materials are brushed wool and treated flannel. A sense of chromatic consistency runs through the outfits, expressing clarity and distinctiveness.

Edited source

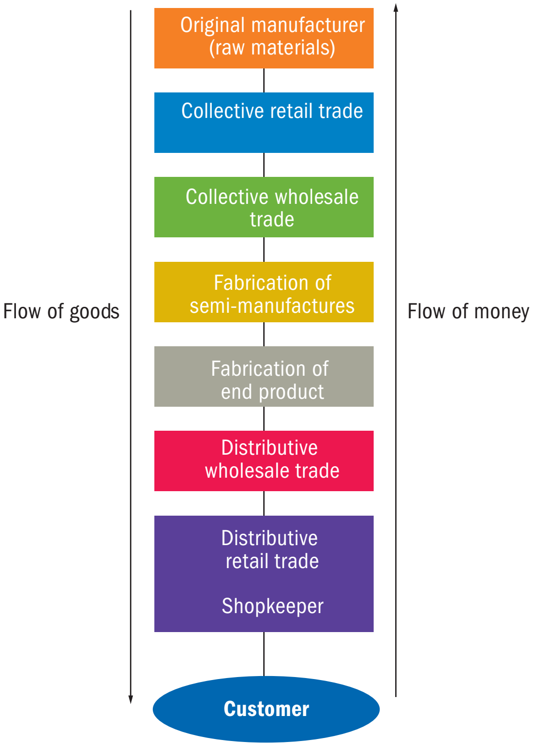
4 Anticipating foreign market opportunities
International businesses often see more opportunities for growth in rapidly expanding countries than in countries where growth has clearly lagged behind the rest of the world. For this reason, their investment policy is often

focused on rapidly growing markets. Sometimes it is cheaper to produce goods in a particular country. The choice depends on the costs of labour, raw materials, capital and infrastructure. The total of these costs determines where the product can be produced at the lowest price. The company will be interested in countries where its products can be made most cheaply, while maintaining good quality.

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

6 Integration of the supply chain
Some companies integrate forward or backward in the supply chain to gain more control over the whole chain, from producer to customer. The supply chain (see figure 1.3) can consist of: production of raw materials, production of components, production of finished product, wholesaling, retailing and after-sales service. Backward integration, e.g., may involve taking over production locations abroad. An example of forward integration is the takeover of a chain of shops abroad. Various benefits can be derived from

FIGURE 1.3 Example of a supply chain



Source: http://www.businessmodellen.com

supply chain integration, such as savings on transaction costs, more power to negotiate with suppliers and purchasers about prices, fewer risks of products being out of stock and a reduction in overhead costs.

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

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

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

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

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

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

5 Stabilisation of seasonal factors
Some companies are troubled by seasonal factors, due to which their turnover in some months is higher than in other months. E.g., a European

company sells more golf carts in spring and summer than in winter. By supplying golf carts to customers in countries where it is summer when it is winter in Europe (think of countries such as Australia and South Africa), seasonal fluctuations in turnover can be reduced.

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

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

1.3 European Union and international business

In this section the focus is on the performance of the European Union (EU) on the international stage. International trade as well as foreign direct investment are discussed. Moreover, the world trade prospects are discussed. In the last section, a summary is given of agencies that assist entrepreneurs in international business.

1.3.1 European Union and international trade

The EU remains the world's largest economy, with over 20 % of the world's gross domestic product (GDP) (see subsection 5.2.2) and more than 500 million inhabitants, making it the world's most lucrative consumer market. It is also the world's largest trading block, accounting for 15 % of global trade in goods and 22.5 % of global trade in services in 2012, according to Eurostat. In the top 10 trading countries, four belong to the EU (Germany, the Netherlands, France, and Italy).

The main business partners for the EU member states are the other member states and all other European countries. The main business partners outside the EU are the United States, Switzerland, China, Russia and Japan. The highest growth rate was recorded for exports to Switzerland (up 27.0%), while exports to South Korea, Turkey and China grew more slowly. The biggest fall was registered in relation to exports to India (down 6.9 %). In table 1.3 an overview is presented of all EU member states and their international trade.

Relatively small increases in the level of exports in goods outside the EU member states were reported for the two product groups with the highest level of exports in 2013, namely machinery and transport equipment (up 0.6%) and other manufactured goods (up 1.0%). The highest growth rate for EU member states exports in 2013 was recorded for exports of food, drinks and tobacco, which reached the record value of EUR 104.3 billion. The latter was also the only product group to show an increase in 2013 (up 0.4%).

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

	Total exports		**Total imports**		**Trade Balance**	
	2012	*2013*	*2012*	*2013*	*2012*	*2013*
Belgium	347.089	353.452	341.787	339.307	5.301	14.145
Bulgaria	20.770	22.229	25.460	25.839	-4.689	-3.610
Czech Republic	122.230	121.588	110.066	108.021	12.164	13.567
Denmark	82.090	82.932	71.548	72.811	10.542	10.121
Germany	1.093.630	1.093.788	905.378	895.175	188.252	198.613
Estonia	12.518	12.269	13.848	13.669	-1.329	-1.401
Ireland	90.888	85.991	48.855	49.229	42.033	36.762
Greece	27.618	27.553	49.192	46.788	-21.574	-19.235
Spain	229.802	237.422	262.561	255.163	-32.759	-17.741
France	442.643	436.418	524.918	512.726	-82.275	-76.308
Croatia	9.629	8.920	16.214	15.759	-6.586	-6.839
Italy	390.182	389.835	380.293	359.455	9.890	30.381
Cyprus	1.354	1.522	5.678	4.751	-4.324	-3.229
Latvia	10.984	10.869	13.409	13.386	-2.426	-2.517
Lithuania	23.048	24.554	24.882	26.506	-1.835	-1.953
Luxembourg	15.931	13.880	21.332	20.087	-5.401	-6.207
Hungary	80.612	81.365	74.078	75.350	6.533	6.015
Malta	3.308	2.628	5.135	4.384	-1.827	-1.757
Netherlands	508.944	505.836	459.490	444.091	49.455	61.745

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TABLE 1.3 Member States EU total trade (euro 1 000 million) (intra-EU + outside EU) (Continued)

	Total exports		Total imports		Trade Balance	
	2012	*2013*	*2012*	*2013*	*2012*	*2013*
Austria	129.679	131.508	138.942	137.191	-9.264	-5.683
Poland	144.282	152.133	154.934	154.436	-10.652	-2.304
Portugal	45.259	47.332	56.166	56.589	-10.906	-9.256
Romania	45.020	49.572	54.645	55.279	-9.625	-5.707
Slovenia	25.033	25.694	24.934	25.211	100	483
Slovakia	62.742	64.754	60.242	61.676	2.501	3.078
Finland	56.878	55.992	59.517	58.236	-2.639	-2.244
Sweden	134.387	126.262	127.649	120.352	6.738	5.910
United Kingdom	367.990	408.124	537.487	492.800	-169.497	-84.676
Total	4.524.540	4.574.422	4.568.640	4.444.267	-44.099	130.153

Source: Eurostat

On the import side, between 2012 and 2013 the EU-28 saw a decrease in the level of its imports of goods from all of its main partners, except those from Turkey (up 4.4 %). China — which was the origin of one sixth of all imports into the EU-28 in 2013 — remained the most important supplier of goods imported into the EU-28 in 2013. Food, drinks and tobacco was also the only product group to show an increase in EU-28 imports in 2013 (up 0.4 %). The largest reduction in imports between 2012 and 2013 was registered for mineral fuels and lubricant products (down 9.1 %); these products accounted for the highest level of EU-28 imports in value terms. The second largest import group of goods is machinery and transport equipment. As shown in 2013, in table 1.3, the 28 member states of the EU export more than they import. This is called an active trade balance, as there is a trade surplus. This is often regarded as a positive development for a country, because more money comes into the country (money is paid for exported products and services) than is spent on imports. The opposite is a trade deficit, also referred to as a passive trade balance, as you can see in table 1.3 for 2012. As more money goes out of the country than comes in, this is often regarded as a negative development. Many developing countries have a passive trade balance. They are dependent on foreign countries for many goods and/or services.

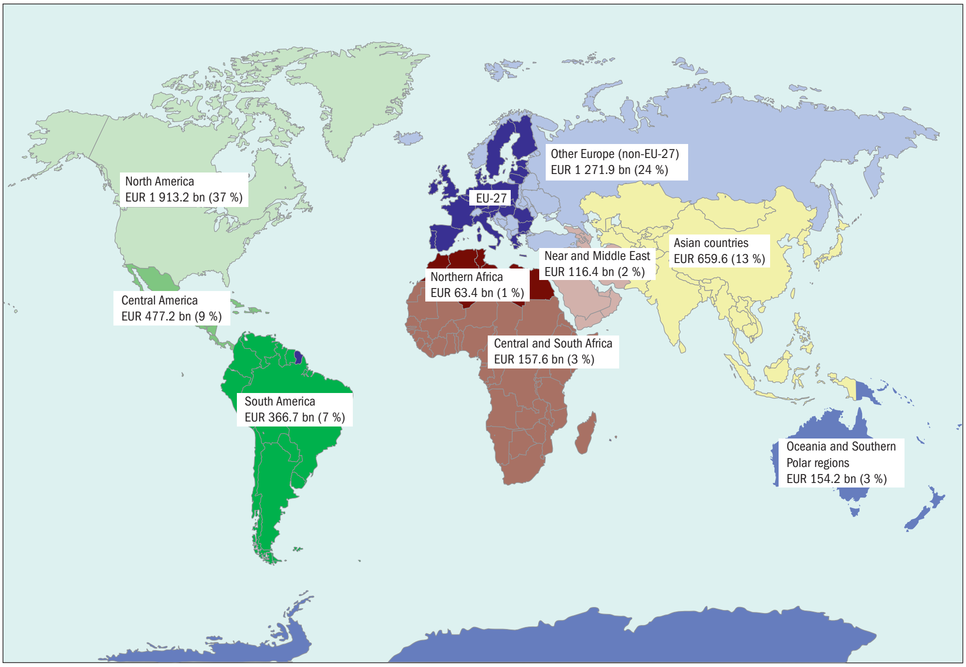
Active trade balance
Trade surplus

Trade deficit
Passive trade balance

1.3.2 Europe and Foreign Direct Investment

EU foreign direct investment (FDI) is recovering after the global financial and economic turmoil. In 2013, the EU member states outward flows were 34% higher than EU-27 flows in 2012. Similarly, the EU member states inward flows were 12% above flows in the previous year. However, EU flows in 2013 stood at more than 20% below the EU peak levels of 2011 in terms of both inward and outward investment relations with the rest of the world.

FIGUUR 1.4 Outward stocks of FDI, EU-27, end 2012



(1) The sum of data by continent does not equal the extra-EU total because of non-allocated flows.
Source: Eurostat (online data code: bop_fdi_main)

Source: Eurostat

According to Eurostat, Foreign Direct Investment from the 28 EU member states to the rest of the world reached 341 billion euros in 2013, while investment from the rest of the world into the European Union was 327 billion. The largest part (95%) of the outward FDI is registered by the Euro Area countries.

In 2013, the main destination of 28 member state investments was by far the USA (159 billion euros), followed by the financial centres, including Guernsey, Bermuda and the Cayman Islands (40 billion euros), Brazil (36 billion), Switzerland (24 billion), Hong Kong (10 billion) and China (8 billion). Disinvestment was recorded by Russia (minus 11 billion) and Canada (minus 2 billion). Figure 1.4 shows the outward FDI per continent in 2012.

The main investor into the EU28 was also by far the USA (313 billion), followed by Brazil (21 billion), Switzerland (18 billion), Japan (10 billion), Hong Kong and Russia (both 8 billion).

1.3.3 Prospects for Europe and international business

World trade is recovering from the economic crisis. However, the increase remains below the 20-year average of 5.3%. For 2015 the World Trade Organization (see subsection 2.5.3) forecast is 5.3%, with Asia forecasting a 7% growth in exports and imports whereas Europe is on an average of 4% growth.

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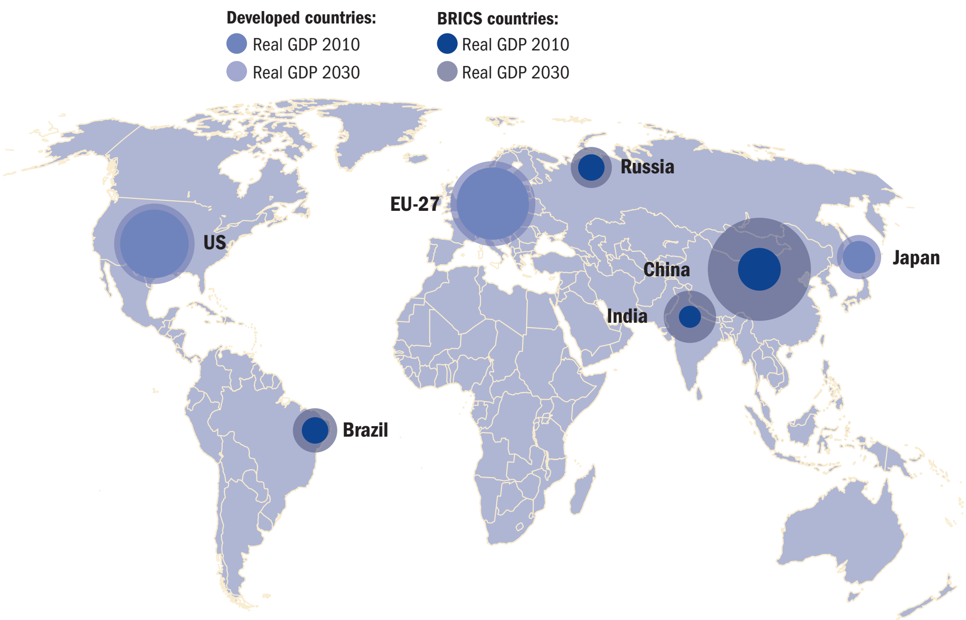
In a report entitled 'The future of world trade,' PricewaterhouseCoopers stated that by 2030, the world economy is expected to look quite different, with the emerging and developing economies making up a significant share of global output. This will undoubtedly affect global trade volumes and flows. World GDP is expected to grow strongly, perhaps doubling over the period to 2030 according to the Organisation for Economic Cooperation and Development (see subsection 2.5.7). By 2050, global GDP could have grown to three or four times its current level. Differentiated patterns of global economic growth evident since the recent financial crisis are expected to continue. The highest economic growth is expected in the Asia/Pacific region – underpinned by China and India – with many other economies also growing strongly. Among the developed country group, by 2030, North America's GDP could be 50% higher and Europe's could be 40% higher.

G7

China is projected to surpass the Euro Area in 2014 and the United States in 2017, to become the largest economy in the world, and India is surpassing Japan about now and is expected to surpass the Euro Area in about 20 years. The faster growth rates of China and India imply that their combined GDP will exceed those of the major seven (G7) OECD economies around 2025 and by 2060 it will be more than 1½ times larger, whereas in 2010 China and India accounted for less than one half of G7 GDP. Strikingly, in 2060, the combined GDP of these two countries will be larger than that of the entire OECD area (based on today's membership), while it currently amounts to only one-third of it. Figure 1.5 gives an overview of the GDP growth of the BRICS countries compared to the US, the EU and Japan.

FIGUUR 1.5 Economic growth of BRICS (without South Africa) countries in 2030



Source: Future state 2030, KPMG

www.ft.com

Chinese superpower is thus far limited to the economy

Many economists had assumed the overtaking manouvre between the two main economies would happen in 2019. But by updating the cost of goods and services, economists have narrowed the gap significantly. These changes suggest the era of global American economic dominance that began in the 1870s is all but over.

China's economic miracle continues to astound. Since 2000, annual growth rates averaging 10 per cent have raised the GDP fourfold. The wonders of compound growth meant that China was always going to overtake the slower-growing US. China is the world's supplier of cheap goods, taking the global lead in trade from the US last year. The renminbi is the seventh most used currency and in 2013 China was sitting pretty on a current account surplus of about $200bn, compared with a US deficit of roughly $400bn.

Before Americans get too dispirited, they should keep things in perspective. GDP is of limited use as a measure of a nation's worth. China remains – undeniably – a developing country. In per capita terms the US is five times richer. Absolute figures reveal little of the differences in health, education and the environment – the impact of pollution being particularly poor in China's large industrial cities. The UN's Human Development Index places China 101st out of 186 countries: the US comes third.

The BRICS countries will still be among the world’s most attractive locations for FDI in 2030, due to their prospects for economic growth and wealth in resources. The strongest FDI growth rates are expected for India, followed by Brazil, Russia and China. The reason for China’s slower growth is the strong basis it already has today (9% of world FDI). As India catches up to China, it will receive around 70% of China’s FDI inflows as early as 2014.

1.4 International business organisations

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

TABLE 1.4 Organisations that help with international business

Subject	Organisation	Internet address
International business	International Trade Centre International Chamber of Commerce	www.intracen.org www.iccwbo.org
Exports	Market Acces Database European Commission	http://madb.europa.eu http://ec.europa.eu/trade/import-and-export-rules/export-from-eu/
Imports	Centre for the Promotion of Imports from Developing Countries	www.cbi.eu
	European Commission Swiss Economic Institute (KOF)	http://ec.europa.eu/trade/import-and-export-rules/import-into-eu/ http://globalization.kof.ethz.ch
Globalisation	United Nations	www.un.org
	United Nations Conference on Trade and Development	www. unctad.org
	G20	www.g20.org
International competitive strength	IMD	www.imd.org/wcc
	World Economic Forum	www.weforum.org

Summary

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

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

- The main emerging economies are:
  - The BRICS countries: Brazil, Russia, India, China and South Africa
  - The N11 (Next Eleven) countries: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Turkey, Vietnam and South Korea

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

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

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

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

  At the centre is the stakeholder, a group or an individual who influences/ is influenced by an organization or company. (Figure 1.2.)

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

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

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

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

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

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

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

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Questions and assignments

Questions relating to the opening case study

1.1 What type of international business is operated by Flying Tiger in England?

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

Questions relating to theory

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

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

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

Questions relating to the article

1.6 What advantages of globalization are mentioned in this article?

1.7 What disadvantage of globalization is mentioned in the article?

1.8 Explain what is meant by the ‘triple bottom line’

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Entrepreneurship and globalization: The steps we need to take for a more sustainable world

Saumya Krishna is an alumna of The Next 36 (2011) and co-founded the Youth Social Innovation Capital Fund, which provides early-stage financing to youth-led social ventures across Canada.

We're already acquainted with globalization. For instance, consider how ethnic diversity in our communities has blossomed in recent decades, how our computers are made of parts from a long list of different countries, or how a distance of 3,000 miles can now be promptly crossed by an airplane, TV screen or click of a mouse.

As the world becomes a smaller and more integrated place, what is happening 'over there' in some faraway corner, is increasingly salient at home. If Delhi and Beijing are reporting toxic levels of air pollution, and oceans are being contaminated by nuclear waste, there are consequences for other parts of the world. If financial markets collapse in our integrated global economy, the ramifications are felt from New York to Dubai to Hong Kong. On the bright side, this interconnectedness also means that innovations and advancements are more accessible to a wider audience.

There is a growing community of entrepreneurs and investors who believe that a bifurcated system is no longer sufficient enough to meet the needs and complex problems of the 21st century. From this perspective, balancing economic growth with social and environmental responsibilities is not only increasingly necessary, but also possible and measurable. Canada's growing impact investing sector provides the financing for these 'triple bottom line' initiatives, which are expected to deliver financial returns as well as defined social or environmental impact.