

International Trade I



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Foreword

Scoren.info

The source book you have before you belongs to the Scoren.info method. Scoren.info is the method for commercial educations at level 3 and 4. The educations are:

- Commercial employee (CM), level 3
- Contact centre employee (CCM), level 3
- Intermediary (INT), level 4
- Junior account manager (JAM), level 4
- Branch manager wholesaler (VMGH), level 4
- Assistant manager international trade (AMIH), level 4.

Qualification file

Naturally, there are requirements to the education when it comes to performing your profession. The requirements you need to meet to carry on a profession are described in a so-called qualification file.

In this qualification file, the core tasks of your future profession are described. Core tasks are the most important tasks of a profession. To master these tasks, you have to execute work processes and develop competences. Work processes are daily tasks. To properly execute these tasks, you have to develop all kinds of qualities, such as teaming up, listening, showing and taking initiative, developing your expertise and coping with stress. We call these qualities competences.

The source books and the content of the website of the Scoren.info method will guide you through this.

How does the method work?

The method consists of source books and a website. You need several source books for every education. In these source books, you find the most important theory, including a glossary with the explanation of important terms.

On the website of the method, you find tasks and extra source material. You can find the website by navigating to www.scoren.info.

Logging in to the method site

You can find the license for the method site from Scoren.info (www.scoren.info) in your book. This method site contains all sources (for example: assignments, videos and weblinks) you need.

Description of the log in process

If you want to log in to the method site for the first time, you have to activate the license first. The license can be found on one of the first pages of your book. The license is valid for 12 months, starting at the moment you activate the license.

How to activate the license

- Open your browser and navigate to www.edu-actief.nl/licentie.
- Here, you find a video about the activation of your license. Watch this video.
- Follow the steps to activate your license.
- Log in to the method site www.scoren.info with your user credentials and your password.

Chapter 1

Introduction international trade

1.1 Introduction

International trade is a trend. More and more often, entrepreneurs and consumers buy products from foreign countries and companies sell 'our' products to foreign purchasers. In the news, they speak of import and export a lot. In this chapter, you read everything about current issues that concern international trade and the position of the Netherlands in the international trade. Additionally, you learn more about factors that have an impact on international trade and different forms of economic collaboration between countries.



1.2 Export and import; necessary and useful for the Netherlands

The Netherlands is a small country with a dense habitation. The raw materials and minerals in our country are at low levels. Therefore, we strongly depend on foreign countries. For centuries, we have purchased raw materials, minerals and other products abroad. This is what we call import.

The Netherlands is a proactive country. Dutch organisations manufacture products from the imported raw materials and minerals and these products are sold to entrepreneurs in other countries. The products are exported. The Netherlands is favourably situated and therefore, we receive lots of goods that finally end up in other European countries, especially Germany. Examples of these products are coals, iron ore and crude oil.

All products purchased from countries outside the European Union have to be presented to customs. This is called the **import declaration**. The other way around: if we sell or transport products to countries outside the European Union, we have to declare this to customs too. This is called **export declaration**.

Globalisation

Lots of companies see the world as their manufacturing and market area: produce wherever you can do it cheap and sell your products all around the world. We speak of **globalisation**. Think about companies as Unilever, Philips, Ahold, McDonald's, Coca-Cola, Boeing and Mercedes. However, small companies also try to look further than the borders of the country they are located.

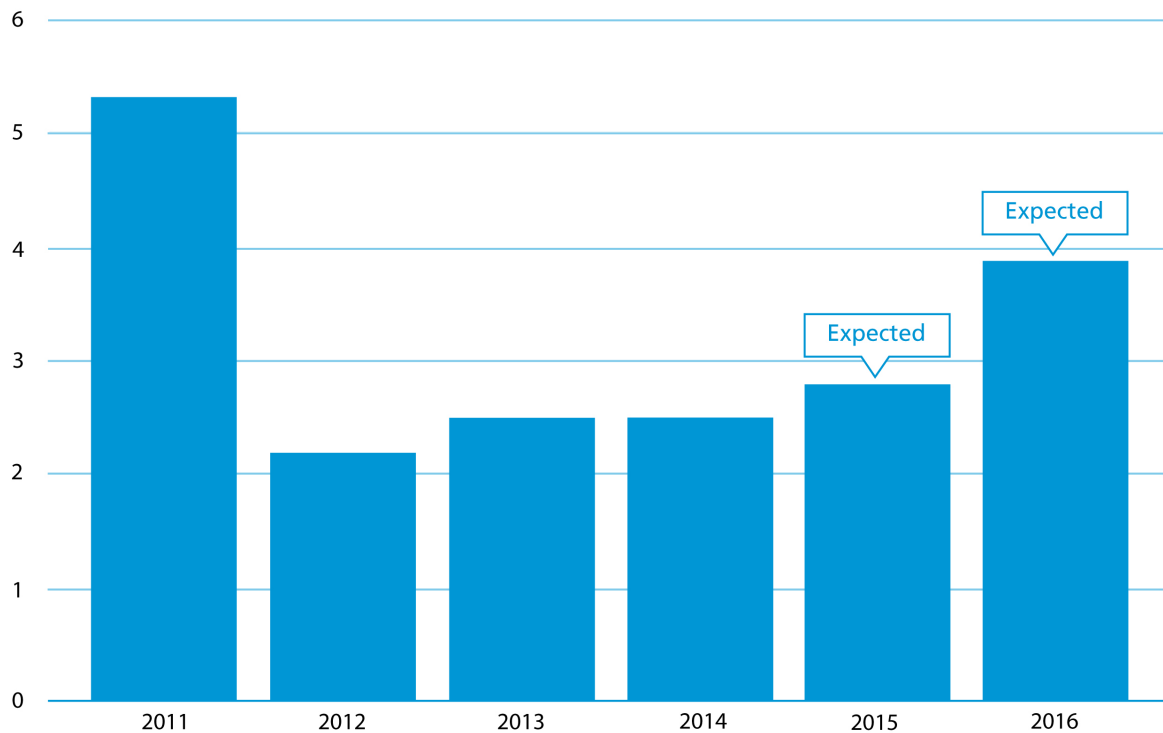
It seems like the world is getting smaller. Lots of regions, countries and companies economically collaborate. Very often, trade barriers are abolished. The formation of the European Union or other partnerships between, for example, countries in North and South America and Asia, increase the growth of the international trade.

Global trade

The trade between all countries of the world is called the **global trade**. Ever since the mid-eighties, the world trade has annually increased by approximately 5%. The amount of products sold globally (= volume of global trade) increases every year. The global trade has grown because the World Trade Organisation worked on a decrease of import duties on a global level. The growth is also caused by the development and economic growth of countries as Brazil, Russia, India and China (the BRIC countries), but also countries as Nigeria. Currently, more than one fifth of everything produced on earth is internationally traded. A strong increase of **e-commerce**, buying and selling via the Internet, will cause a more rapid increase of the international trade in the coming years.

World trade volume

Annual mutation in %. The figures for 2015 and 2016 are expectations.



Source: WTO

World trade volume.

Source: <http://fd.nl>, 30 September 2015.

The Netherlands as an open economy

The importance of international trade for the economy of a country can be uncovered by looking at the value of the import and export of goods. We call this the gross domestic product, which is expressed in percentages. These percentages are called **import ratio** and **export ratio**.

International trade: import and export key figures

		Import value	Export value
		Total amount of goods	Total amount of goods
Periods	Countries (groups)	million euros	
2010	World	331 914	371 549
	EU	176 670	275 666
	Not - EU	155 243	95 883
2011	World	364 922	409 358
	EU	193 565	302 883
	Not - EU	171 357	106 475

		Import value	Export value
		Total amount of goods	Total amount of goods
Periods	Countries (groups)	<i>Million euros</i>	
2012	World	389 449	429 717
	EU	200 696	311 724
	Not - EU	188 753	117 993
2013	World	386 355	433 106
	EU	202 149	317 031
	Not - EU	184 205	116 075
2014	World	382 416	433 405
	EU	198 383	316 949
	Not - EU	184 034	116 457
2015	World	383 205	427 266
	EU	203 208	308 727
	Not - EU	179 998	118 538
2016	World	380 474	432 529
	EU	204 277	311 420
	Not - EU	176 197	121 109
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Key figures international trade.

Source: <http://statline.cbs.nl>, 5 April 2017.

Calculation of the import ratio:

$$\text{Import quote} = \frac{\text{Total import goods}}{\text{Total GDP}} \times 100\%$$

The export ratio is calculated the same way.

In the Netherlands, the import and export ratios in 2016 respectively amounted 54.6% and 62% of our gross domestic product (= € 697.2 billion).

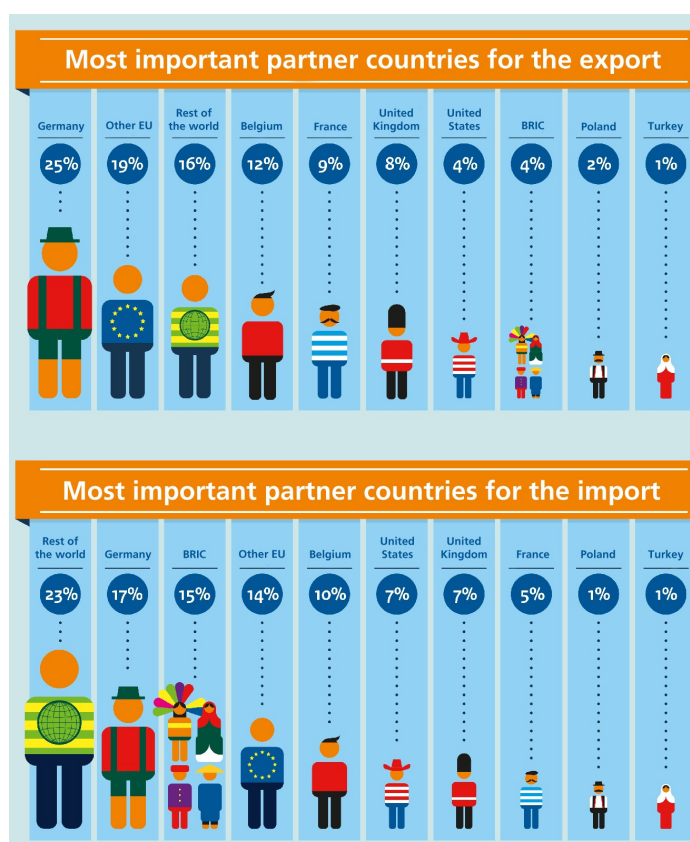
Our import and export ratios are high: the Netherlands trades extensively with foreign countries. In other words: the Netherlands has an **open economy**. The real proof can be found in a random webshop, supermarket or a warehouse: wine and cheese from France, fruits from New-Sealand and coffee from Colombia. Our clothing comes from Turkey and China, tablets and smartphones come from South Korea. Furthermore, you can find lots of products with the label 'Made in Taiwan' or 'Made in Spain'. Other products do not show that they come from abroad. The product has been produced or manufactured in the Netherlands, but parts of it or the raw materials are imported. Lots of computer components for computers assembled in the Netherlands are produced in foreign countries. In 2016, the total amount of Dutch import of goods was 380 billion euros. The export of goods amounted 432 billion euros.

The CBS's table shows something else. On a global scale, the Netherlands' export is 13% bigger than the import. Approximately 72% of our export goes to the European Union. There is a great trade surplus for trades in the EU: we export more than we import.

Do you want to see why some countries have an open economy? Navigate to www.scoren.info. There, you find the following video: 'Panama en Nederland: voorbeelden van open economieën'.

The most important trade partners of the Netherlands

Most import and export transactions take place within the European Union. Our most important trade partners in Europe are Germany, Belgium, France and the United Kingdom. The export to South America and Asia is very limited. Only 6% of the total amount of export from the Netherlands goes to Asia; 2% goes to South America.



The most important partner countries of the Netherlands. Source: CBS.

The most important trading products

The Netherlands' most important export products are: machines, vegetables, fruits, meat products, chemical products, petroleum products and natural gas. The Netherlands also provides comprehensive services to foreign countries in the form of transportation, bank matters, insurances and tourism.

The biggest part of our import consists of animal feed, crude oil, semi-manufactured products such as paper, iron, steel and other metals, clothing, foods such as wheat, maize and coffee, and machines. The open character of our economy is strongly influenced by the economic development of our most important trading partners. For instance, when the demand for products decreases in Germany, we will notice that our export to Germany decreases as well. The stability of the exchange rates – especially the American dollar compared to euros – is of great importance for the *de stabiliteit van de onderlinge wisselkoersen* – vooral die van de Amerikaanse dollar ten opzichte van de euro – is van groot belang voor de competitive position of Dutch organisations on the global market.

1.3 Export is useful for individual businesses

Exporting sets high requirements to a company. You approach new markets. New markets bring new buyers with new needs. You have to be informed on the needs of buyers in foreign countries and in order to have the correct knowledge, you conduct market research. In practice, you make a distinction between the marketing for the national market and the marketing for the export market.

The export market's marketing structure is much more extended than the marketing structure of the national market for the simple reason that there are more factors that play a role in the marketing policy in the export market's marketing structure. International business and international trade need a completely different approach.

The development of a new market, apart from the existing activities you carry out on your home ground, is a great challenge. The knowledge and experience you gain in the foreign market can have a positive and stimulating influence on the development of businesses. However, being active on foreign markets sets high requirements on the organisation of a company.

Despite the possible problems, the Netherlands contains a large amount of export companies. The question is why these companies focus on export. There are more answers to this question. The reasons for becoming an export company differ per company.

Why companies export products

The most common arguments are:

1. From an entrepreneurial perspective:
 - Profit and continuity
 - Aiming for growth of the organisation itself.
2. Because of the necessary turnover increase:
 - overcapacity
 - having to recoup research & development costs
 - wanting to achieve economies of scale
 - more productivity because of mechanisation and automation.
3. Wanting to be better than your competitor (without paying attention to profits and the continuity in that market)

4. Remaining arguments:
 - Risk spreading
 - The challenge.

Phases of export

For many Dutch companies, exporting appeared to be successful. However, not every company considered exporting to be successful. Too many entrepreneurs rush into new foreign markets without preparing themselves properly. This way, there is a bigger chance of failure, including substantial losses.

For lots of companies, the decision to start exporting was an unconscious one, based on, for instance, coincidental contacts in foreign countries. These companies are exporting in a passive manner and they barely focus on fixed sales abroad.

You can also export in an active manner. In this case, you first draw up an export plan. This plan contains your own corporate objective. You research and describe whether your organisation is fit for the export. Does your product/assortment fit the new export market? Do you have the financial capacity to start your export adventure? You work with a properly prepared export policy, underpinned with a continuous market research.

Subsequently, you can start adjusting your product/assortment to the different wishes of different export markets. This is one phase further than the phase of export development. If you really decide to relocate your business abroad, for instance to be closer to your customers, you can call your company an internationally oriented company.

There are four phases in the export development of a company:

1. **passive export:**
The company coincidentally coming into contact with a foreign buyer.
2. **active export:**
A company focusing on the foreign market with their existing products (focused on and developed for the Dutch market).
3. **international marketing:**
The company applies its marketing principles to more than one country.
4. **International entrepreneurship :**
The company has sales or manufacturing offices abroad

The growth strategies of Ansoff

Growth is one of the most important corporate objectives. Achieving the desired growth can be done by means of the following growth strategies:

- market penetration
- product development
- market development
- diversification.

Market penetration

Market penetration means that you try to increase the turnover of your existing assortment resulting from sales to your existing customers as well as new customers, which you attract in existing markets. You do this by increasing your sales in the existing market or by convincing non-users to buy your products. Market penetration means that the company tries to increase the turnover without changing its original product strategy. We can clarify this by means of an example.

Example

In France, approximately 5% of all men use aftershave of a certain brand. The Dutch manufacturer sells 100,000 bottles per year in France. By extra advertisements in France, the manufacturer tries to increase the percentage of aftershave users by 10%. This way, the sales will increase to:
 $2 \times 100,000 = 200,000$ bottles.

Product development

Product development means that you develop new products for the existing markets. Your products are the products your buyers consider as new. You can produce and offer new products, but you can also try to change existing products by means of launching a new model, offering a new taste, a new colour or a new packaging.

Example

An American manufacturer of detergents notices that there is little demand for its product in the Dutch market. After carrying out a market research and executing several tests, he develops that the Dutch water is very hard. He adjusts the composition of his products and adds to the packaging of his product that it is suitable for "hard water". The demand for his product increases significantly.

Market development

The growth strategy **market development** is reached by means of offering your existing products to new markets. In case of export, we speak of 'geographic market development': exporting your existing product to, let's say, Poland for the first time.

Example

Until the end of 2015, a Dutch manufacturer of outdoor cushions and parasols only sold his products to Dutch wholesalers and chain stores. From the beginning of 2016, he will start offering his products to big garden centres in Germany.

Diversification

The strategy **diversification** focuses on developing and releasing new products for new markets.

Example

A Dutch manufacturer of bicycle parkings also starts to design and manufacture street furniture for the English market. It concerns different products for different markets/target groups.

1.4 Cultural differences, work with them

Doing business abroad means you do business with people from other countries, with other standards and other habits. These differences are called 'cultural differences'. A culture is the way we work, produce, consume, use symbols and believe. It is a complex system of values that has been developed and passed on for generations. Culture is something we learn. In this case, we speak of culture in the broadest sense. Culture also concerns business customs, as they result from a culture.

80% of international business is communication; convincing your possible partner. Communication can lead to miscommunication, which means you misunderstand each other. Misunderstanding very often results from cultural differences.

Cultural differences can be noticed in:

- the language
- the way of doing business
- the code of conduct
- eating habits and clothing standards
- non-verbal communication.

Language

This speaks for itself: people in China do not speak Dutch. Even English can be difficult in China. You will notice that these language differences occur in both written and verbal language.

The way of doing business

In some countries, you will have to act purely formal. In other cultures, you can only close a transaction if you have had several informal conversations with your potential customer.



Source: www.global-integration.com.

The code of conduct

Every culture has another code of conduct. Time plays an important role as well. In some countries, you have to be exactly on time, but in other countries, you are expected to be a bit late.

Eating habits and clothing standards

There are countries where people eat lots of pork. In other countries or cultures, pork is regarded unclean. Cultures also deal differently with the use of alcohol: in France, having a glass of wine with your meal is a 'must'. In Arabian countries, however, drinking alcohol is a punishable offence. Also, international negotiating means that there are two or more different clothing standards in one room.

Non-verbal communication

It is important that you translate the smile of some cultures into Dutch terms. Not every smile is a positive one. Someone can smile out of compassion, but also out of contempt. Being tacit can be considered tactical or indifferent. Even hand signals can mean lots of different things in different countries. A nice gesture in the Netherlands could cause serious offences abroad.

Certain countries already have lots of experience in international business. Japan, for instance, is a very westernised country. If you are an export employee who has been doing business with a specific country for years already, and who has been dealing with specific countries for a long time now, you will not shy away from cultural differences. You are expected to know all about the ins and outs of that culture. If you have never done international business before, you might end up finding yourself in lots of cultural problems.

How do you prepare yourself for cultural differences?

It is very important to carefully prepare yourself for a new export market. The following tips can be useful:

- Recognize cultural differences in time. Be careful as long as you do not fully know the code of conduct. Active listening is always better than speaking.
- Show genuine interest in the target country and the people.
- Show understanding for their attitude, their values and the way people in the target country think.
- Do not judge cultural differences: do not openly compare the target country with your own culture. This can be considered unpleasant.
- Be flexible, creative and diplomatic.
- Do not expect to achieve all your goals at once. Be patient. In some cultures, you need more time.
- Be aware of the fact that the people abroad also have an opinion on the Dutch culture, which isn't always very flattering. Dutch people are known for their stinginess and their insensitivity. On paper, it looks simple, but in practice, it can be quite difficult.

All tips are meant as a guideline. Simply thoughtlessly applying these tips is no guarantee for a successful export adventure. The saying 'learning by doing' applies here. The longer a company trades internationally, the easier the employees cope with cultural differences and all aspects of negotiations.

Examples of cultural differences

Silence

Us, westernised people, are used to talking a lot and, if possible, we talk quickly. We consider silence as a threat. A question such as 'Is something wrong?' can break the silence. Japanese people need this silence. For them, silence is a moment of reflection to think about any possible transactions.

Saying 'no'

Chinese and Japanese people will never say 'no'. In their culture, this is rude and unheard. They will do everything they can to avoid this word. They turn their sentences into a 'yes'.

Name calling

In Asia, calling names is a no-go, even if you think people are in default. Of course, you would never start insulting someone just like that, but Asian people are much more indirect. Dutch people are used to saying what they think. Asian people prefer to start with small talk before they start doing business with you.

Patience

In lots of cultures, patience is very important. French people, for instance, love food. A good and extensive lunch can facilitate doing good business.

Burps

In China, it is not uncommon to burp after a meal. Even better, it is a complement because it means the food was good.

Agreements

Germans are very punctual. Belgians, however, are less punctual when it comes to meeting agreements. For them, time is less important. The saying 'time is money' is something we really stick to in the Netherlands. In other European countries, this does not work the same way.

Left hand

In the Middle East, you should not hold foods and/or a fork in your left hand. Your left hand is the hand you use for unclean actions, such as wiping your bottom after a toilet visit.

Englishman

Having dinner with an Englishman means that you always leave a certain amount of food on your plate. Eating all the food on your plate means that you have not had enough food. An Englishman will always say 'no' in an indirect manner, as he will always try to be as polite as possible. There will always be a strict distinction between private and business use.

Pretending

American people are very good in presenting things to be better and more beautiful than they actually are. Very often, these people are over-friendly. It is important to look through their "play".

Shaking hands

In Japan, putting your palms against each other (in front of your chest) is a way of greeting, obviously with a smile. However, some business people are very westernised. They will not be surprised if you want to shake hands.

Folding your legs

In India and Thailand, it is very unusual to sit with your legs folded. The people there consider this as an offence, as the person points to someone else with the point of his foot. This is something the people in India and Thailand do not appreciate.

Family

In lots of cultures, family plays a very important role. Very often, you first need the approval of the family before you can make any agreements. Chinese people need lots of time to negotiate. They are very bureaucratic and they have to discuss everything with their constituencies. Once you have built up a trust relationship, you can do more. Chinese people think greeting someone in a very enthusiastic way is more friendly than a tap on the shoulder.

Gifts

If you are in Indonesia and you say 'That is so beautiful!' about an item in someone's house, you should not be surprised if they give you this item as a present. It is very common to forget the item when you leave the house.

Enough food

If you have dinner with Asian people, you have to say 'no' three times before they accept that you have had enough food.

Eating from each other's plates

In Eastern countries, people are used to eating from each other's plates. People hand you your food with their bare hands. You have to take a bite and pass on the food to the next person.

Dutch people

We might not be aware of it, but Dutch people have a culture too. We make a certain impression on foreign people without knowing that, just like foreign people make a certain impression on us. Belgians think Dutch people are smart negotiators with an interest in value for money. Especially Englishmen think Dutch people are very stingy.

As you can read, there are lots of examples of business uses, habits and shortly put: cultural differences. It is a mission impossible to elaborate all these differences. Therefore, you always have to explore the cultural differences of your new export market .

1.5 Trading blocks

Countries strive for free trade between cooperating countries by means of economic cooperation. This way, 'economic blocks' are created. Economic blocks can be found all over the world. A few examples are the Latin American Free Trade Association (LAFTA) the Mercosur, the Andespact, the Association of South East Asian Nations (ASEAN), the European Free Trade Association (EFTA), the North American Free Trade Area (NAFTA) and, of course, the European Union.



Trade block Mercosur.

With regard to the economic cooperation between countries, we can distinguish a few forms:

- the free trade area
- the customs union