CHAPTER 14

Export and Import

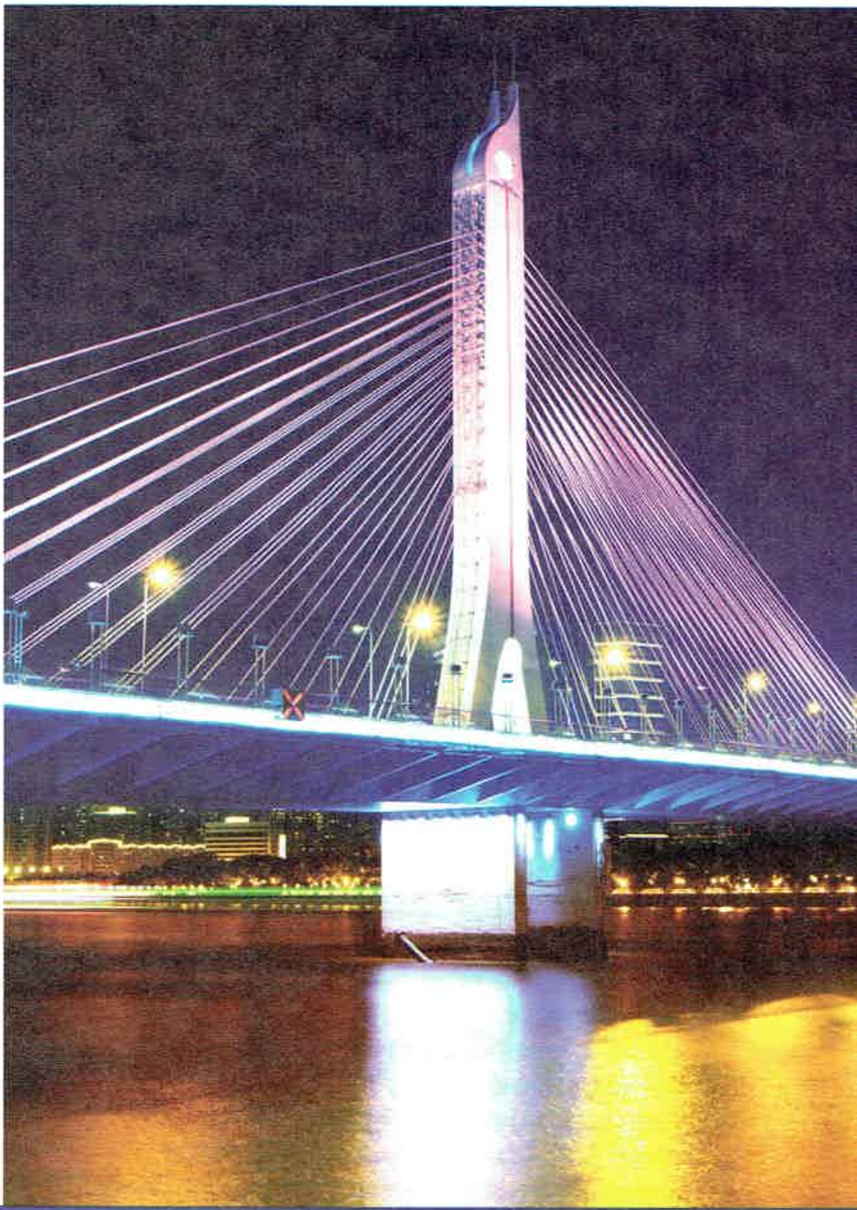
OBJECTIVES

After studying this chapter, you should be able to

1. Explain the idea of exporting and profile its elements
2. Explain the idea of importing and profile its elements
3. Evaluate the relative benefits and drawbacks of the export and import of e-waste
4. Describe the problems and pitfalls that challenge international traders
5. Describe the resources and assistance for international traders
6. Define the idea of an export plan
7. Discuss the practice of countertrade
8. Describe the resources and assistance for international traders
9. Identify and discuss the platforms that support expanding international trade

When one is prepared, difficulties do not come.

—Ethiopian proverb



Source: yuliufu/Fotolia

respective territories." The key, he added, was partnering with a respected firm in the target country. On the flip side, SpinCent had to assure potential partners that it was a good long-term fit for them.

To that end, Knepper sought background information on potential distributors, making sure possible agents were who they said they were. A few of the company's earlier export transactions, for instance, had run into problems with buyers who wouldn't pay or couldn't arrange letters of credit. As Knepper warned, "Getting paid is a huge part of running a business, and unless a company has the right payment policies in place, it will get scammed."

Mindful of these issues, Knepper attended a trade seminar sponsored by the U.S. Commercial Service's Export Assistance Center of Philadelphia that featured market analysis and trade reports on the fast-growing, emerging economies of Asia. Taking his seat, he couldn't help but wonder about the opportunities. Sure, they sounded great. However, he had seen hype like this come back to bite, not to mention the horror stories he'd heard at trade shows about the inevitable problems and evolving pitfalls of exports. Indeed, he reflected, a key reason for attending the seminar was to reconcile his vague sense of the opportunities and threats.

GETTING HELP

Since exports promote economic growth, policymakers and government agencies offer extensive assistance, such as trade seminars, market research, training programs, financial planning, and many other services. Trade officials especially encourage SMEs like SpinCent, seeing them as the primary beneficiaries of initiatives to improve and accelerate international trade activity. U.S. trade officials, for instance, reason that since 60 percent or so of all SME exporters posted sales to only one foreign market, many could boost performance by entering just one or two new markets. Expanding SMEs' market horizons through trade seminars and such could bolster their confidence.

After a full morning of profiles and presentations, Knepper increasingly believed the Asian markets held more opportunities than risk. He learned quite a bit about Asia, as well as some technicalities of exporting. Still, his unfamiliarity with the region, compounded by the company's lack of local sales representatives, bothered him. He believed that grassroots research was necessary before committing SpinCent. Before leaving that day, he spoke to Commercial Service agents and arranged to tag along on a 12-day trade mission that was heading to Hong Kong, Philippines, Vietnam, and Taiwan the following month.

GOAL SETTING

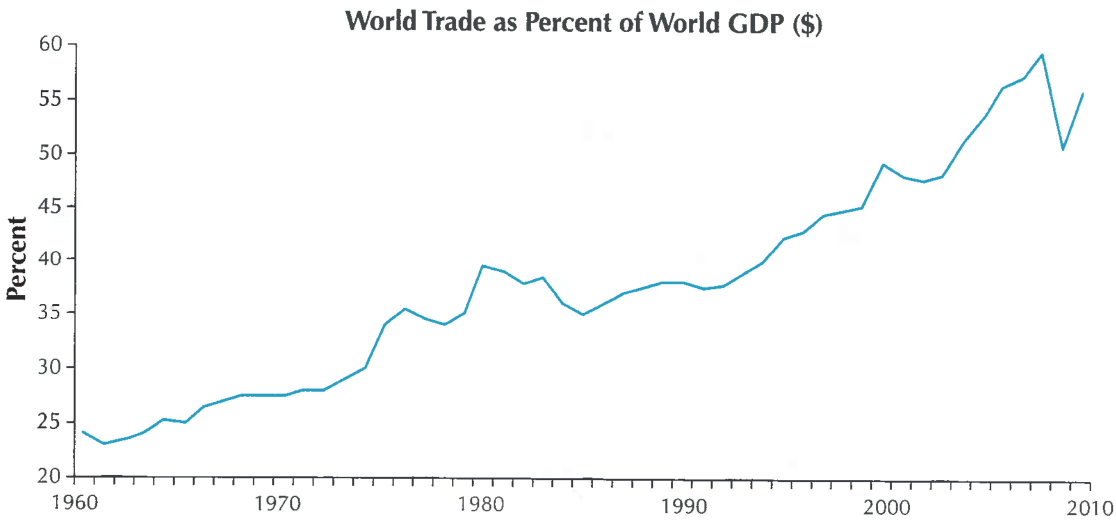
The goals of his trip were straightforward: assess market potential, identify competitors, get a sense of reasonable price points, and recruit local sales representatives. Although he had never traveled to Asia before, he believed he had prepared well. His time with the trade experts in Philadelphia had educated him on the general characteristics and industry conditions in Asian markets. Also, SpinCent had at some time past received inquiries from Asian distributors asking to represent the company; depending on how busy the company was with its domestic customers, SpinCent had tried to respond. These contacts had been saved, thereby giving Knepper a start on potential distributors and likely customers. In addition, he tapped the Commercial Services' Gold Key program to prescreen potential distributors. This program helps SMEs enlist Commercial Services agents overseas to scan local markets for qualified agents, distributors, and representatives. Exporters report that it ensures that when a firm adds a partner to its network, it is a respected company in the target country.

Thinking back to his days as a Boy Scout, Knepper took comfort in the fact that he believed he had met the sacred command: "Be prepared." With a briefcase full of brochures, a laptop loaded with profiles of his product line, and the sense of doing something potentially great, he headed to Asia. Over the next two weeks, he interviewed potential agents, chatted with likely customers, scouted competitors' offerings, test called their service support, spoke to freight forwarders and logistics companies, and visited local government officials and customs agencies.

FIGURE 14.1 World Trade, 1960–2010

Despite periodic ups and downs, for the past 50 years the dominant trend in international trade, as a share of global business activity, has been strong, steady expansion. By the way, these trade data combine imports and exports—i.e., a bit of double counting. Still, the upward trend continues.

Source: Based on Assembled from data reported in the WorldBank's World Development Indicators, in particular *Trade* (% of *GDP*) (Series NE_TRD_GNFS_ZS), retrieved February 13, 2013, from data.worldbank.org/data-catalog/world-development-indicators.



Exporting sends products to another country; importing brings products in from another country.

CONCEPT CHECK

"Why Companies Engage in International Business" emphasized three operating objectives: expanding sales, acquiring resources, and minimizing risk. To achieve one or more of these objectives, companies choose from various "Modes of International Business." Among these modes, **exporting** and **importing** are the most prevalent, especially among small and medium-sized enterprises (SMEs).

Besides general trends, the composition and direction of trade flows continue changing. Export and import flows reflect the ongoing transformation of developing economies into industrializing versions, emerging markets tapping developed countries for tools to continue doing so, and developed countries looking to their developing counterparts for competitively priced goods and services. For instance, emerging markets increasingly drive the growth of Irish food and drink exports: during 2011, Ireland's exports to China rose by 47 percent, South Africa by 43 percent, Nigeria by 38 percent, and Russia by 30 percent.[4] Likewise, U.S. companies continued expanding markets and now trade with 233 countries and territories.[5] Also, as Ireland has experienced, the United States saw increasing trade involving companies in Brazil, Chile, Australia, Columbia, Saudi Arabia, and Nigeria.[6]

Companies worldwide respond accordingly, using exporting and importing to go international. Granted, earlier chapters report that companies engage in international business through a variety of modes. The choice a company makes, say, in choosing exporting rather than licensing, joint ventures, or FDI, follows its analysis of external factors as well as its core competencies (see Figure 14.2).

Export and import are the most common modes of international business. The number of firms that engage in both have seen steady and substantial growth. Indeed, the United States saw the value of its total exports grow 21 percent and total imports 22.7 percent in 2010. The headcount for identified exporters rose 6 percent that year compared to 2009, climbing to 293,000. The roll of importers also expanded, from 179,800 to 181,600.

These statistics underestimate the number of exporters and importers; the complexity of trade means that we cannot link all international shipments to specific firms. Many products, for example, are indirectly exported—embedded in other products that are exported via other firms—and tracking them is tough. The key takeaway, though, is straightforward: Exports and imports are a major part of the global economy, a critical feature of the nations' economic performance, and a big strategic choice for companies of all sizes in countries worldwide.

The popularity of export and import follows their key advantages. Both are relatively easy, low cost, and quick means to engage foreign markets; they impose minimum business risk, require relatively low resource commitment, and improve marketplace flexibility. Moreover, whether large or small, international trade helps companies increase sales and profits, tap points of innovation, and stabilize seasonal fluctuations. Then there is the seemingly minor

The trade of services, such as we see with higher education, makes it a bit tougher to define what qualifies as an export. Still, service exports occur across a range of industry sectors. Engineering contractors—such as Bechtel, Skanska AB, or Kajima—export services when they construct buildings, roads, utilities, airports, or seaports in a foreign country. Management consultants such as McKinsey & Company export when they perform advisory services for foreign clients. Investment banks, such as Goldman Sachs and UBS, export when they help a foreign client arrange financing or navigate capital markets. Similarly, services are exported indirectly when the Japanese advertising firm Dentsu, the world's largest single-brand agency, creates a marketing campaign for Sony that then uses that campaign outside Japan. Hydraulx Visual Effects, designers of digital monsters and such, exports its services when it helps overseas clients add visual effects to feature films, commercials, and music videos. In these examples, the seller is the exporter while the buyer is the importer.

Conversely, it clarifies matters to define what some mistakenly classify as a service export. Opening a Starbucks in Argentina, which we commonly regard as a service enterprise, does not qualify as a service export. Rather, the foreign ownership of some or all of the productive assets of the local operation qualifies it as a foreign direct investment. Furthermore, a royalty fee paid to Starbucks in the face of no foreign ownership would qualify the Argentina activity as a licensing agreement.

WHO ARE EXPORTERS?

Many companies claim the intention to export, anticipating it will accelerate growth and boost profits. In reality, not all companies export, and among those that do, some do far more than others. Company practices identify three types of exporters.

Types of exporters include

- Non-exporter
- Occasional exporter
- Regular exporter

Non-Exporters Such a company commands little to no knowledge about exporting and often professes no intention to engage in international trade at any time. Although this may sound like a deficiency, many firms grow in their domestic market without exporting simply because they make goods or provide services that do not travel well to foreign markets. Still, many firms whose products appeal to customers elsewhere prefer disregarding exporting. This latter population is a primary target of export promotion programs.

CRN Case Review Note

Occasional Exporters This type of company fills unsolicited orders from foreign buyers but investigates international trade options passively, if at all. Think of SpinCent's international activities prior to Knepper's realization of the need to export. It would try to fill export orders as they arrived, depending on activity in the domestic market. Generally, though, it regarded them as anomalies. Occasional exporters understand the basics of the export process, but, for any number of reasons, they assign it low priority.

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Regular Exporters A company that aggressively pursues export sales as a productive, profitable, strategic activity is regarded as a regular exporter. It has experience along with an improving understanding of the routines and technicalities of international trade. Again, think of SpinCent's activities following Knepper's realization, corroborated by his chats with Commercial Service agents and travels to Asia, of the importance of exporting. Each step demystified aspects of the experience, thereby fortifying Knepper's commitment. And just as success feeds upon success, so it is with exporting.

THE MATTER OF ADVANTAGES

The question of who is likely to start and sustain exporting directs us toward a broader conception of a company's choice of how best to go international. Earlier materials identified several options that firms consider, most notably export, licensing, joint venture, alliance, or FDI. They also profiled the influence of ownership, location, and internalization advantages on a firm's preferred entry mode into foreign markets.[9] Here, we apply these discussions to the export decision.

respectively.[11] This situation is not unique to the United States. Worldwide, more than two-thirds of exporters have fewer than 20 employees. More than 98 percent of companies in the Asia-Pacific region are SMEs. China has more than 42 million SMEs, defined as enterprises with annual revenues of less than $250 million. They account for about 99 percent of all companies and contribute approximately 60 percent of China's GDP, more than 70 percent of the country's employment, and more than 80 percent of its exports.[12]

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Case Review Note

Unquestionably, firm size helps explain who exports. It does not, however, determine who exports. SpinCent, a typical SME, marshaled the resources and made export an important part of its strategy. Its size moderated its decision to seek assistance from federal and state agencies, but did not determine its decision to export. Instead, research directs our attention to the importance of other factors. Specific characteristics, such as core competencies, competitive prices, efficient production, executive leadership, and effective marketing techniques better predict export activity than does the size of the firm.[13] Production efficiency, rather than size, was a better predictor of Swedish companies' export activity; those firms with higher productivity targeted foreign markets while those with lower productivity focused on domestic customers.[14] Chinese SMEs' labor costs, R&D advantages, and state ownership better predicted their export activity than did their size.[15] Likewise, higher-performing Taiwanese firms, no matter how large or small, were more likely to become exporters than lower-performing firms.[16] Similarly, firm competencies, not size, had more to do with Canadian companies' propensity to export, the number of countries they exported to, and their export intensity (the ratio of a firm's revenue from its export sales to its total revenue). Finally, top management's favorable perception of exports, based on their anticipated contribution to growth and profits, fueled the commitment that powered exporting in British companies.[17]

A firm's characteristics moderate its export activity. Size matters, but often management commitment, efficiency, and cost structure matter more.

In summary, firm size can influence a company's inclination to initiate or escalate exporting, but other features matter more. More pointedly, Texas-based Coffee & More, a small company selling premium coffees and related products, looked to boost growth through export. Its CEO's reasoning captures many common themes: "People thought we were cutting our throats by exporting, and I admit we had our own doubts. However, we knew the customer base for our product outside the United States was large, and so was the potential for success. Perseverance and commitment paid off. Now international exporting has become an integral part of the company. Our international exports went from 2 percent of annual income in 2005 to 60 percent of annual income in 2009."[18]

WHY EXPORT?

Several factors motivate export. Companies that are capital- and research-intensive, such as those making pharmaceuticals or avionics equipment, export products to amortize the steep costs of development and production. Many, such as advertisers, lawyers, and consultants, export their services to meet the needs of clients working abroad; they either follow their clients there or risk losing them to the rival that does. Smaller firms in their domestic markets may export as an indirect way to counter the production volume advantage commanded by the industry leader. Finally, some companies export rather than invest abroad because alternate modes such as licensing, joint ventures, and FDI carry higher risks. Serving foreign markets from the home office imposes far fewer operational requirements than other modes.

Exporting helps companies
- Increase profitability,
- Improve productivity,
- Diversify activities

From this diverse set of scenarios, we can derive the three dimensions that drive export: profitability, productivity, and diversification.

PROFITABILITY

Point blank, the key advantage of exporting is the potential to become more profitable. Companies often sell their products for higher prices abroad than at home. Foreign markets may lack competitive alternatives, or they may be in different stages of the product's life cycle. Mature products at home may trigger price competition, whereas growth stages in

Keeping the global trade game going requires accurately storing, stacking, sorting, and shipping cargo. The logistic flow of the game is astounding–from 1990 through 2011, the global stock of 20-foot equivalent units (TEUs) containers, the most common means of transporting goods, grew from 28.7 million to more than 200 million. In 2011, port container traffic saw those TEUs make nearly 600 million "trips" among trading partners. Here, we see TEUs in transit at a Hong Kong terminal.

Source: Lee Yiu Tung/Shutterstock

The shift in economic power from the West to the East is often portrayed as a threat to developed countries. Alternatively, it likely signals that companies will increasingly look to diversify through export. The industrial and infrastructure ambitions of emerging economies push them to import machinery from rich countries. In fact, imports into emerging markets have grown twice as fast as those into richer nations over the past decade.[25] The U.S., for instance, saw 30 percent of its export go to emerging markets in 1990; by 2012, almost 60 percent did. As SpinCent and Jarden Zinc show, it represents an opportunity for companies in such Western markets as the United States, Italy, and the United Kingdom to diversify sales by exporting to faster-growing, increasingly wealthy emerging countries.[26]

EXPORT: INITIATION AND DEVELOPMENT

Two views of export shape interpretation: the deliberate, sequential dynamic of incremental internationalization and the instant internationalization of the born global.

Research assesses how, when, and why companies initiate and develop exporting. Reports cover a lot of territory, evaluating the influence of managerial attitudes, product features, organizational resources, firm strategy, market trends, technology tools, disruptive innovations, public policy, and so on. Although there is some consensus, divergence persists. Indeed, as far back as 1991, research compiled more than 700 explanatory variables as plausible drivers of export initiation and expansion.[27] Today, two perspectives anchor interpretation: the incremental internationalization and the born global.

SEQUENCES AND INCREMENTS

Incremental internationalization sees physical distance, cultural ties, and market similarities fundamentally shaping how companies approach export. Specifically, exporting follows a sequential process that leads a company to sell initially from its home market to the most geographically and psychologically proximate countries. From there, it deliberately expands exports to more and more dissimilar and distant countries.

Initially, companies find it easier and less risky to trade with customers in countries that share geographic, cultural, linguistic, political, and legal commonalities. As one would expect, trading with folks in similar markets who speak the same or similar languages and share historical legacies puts less stress on managers' competencies. Trade data indicate strong

FIGURE 14.3

Source: Robert Weber/New Yorker Cartoon Bank/www.cartoonbank.com

"Grab some lederhosen, Sutfin. We're about to climb aboard the globalization bandwagon."

trade barriers, growing demand for specialized products, and improving communication technologies. The enterprising firm exploits these circumstances, building a powerful business platform to develop and deliver innovations in niche markets that, although specialized, span the world.

Take the case of Evertek Computer, a U.S. SME, which started up in 1990 and quickly began to export. By 2009, it was exporting to customers in 105 countries, 30 percent of which were in South America, 20 percent in Europe, and 20 percent in the Middle East and North Africa. Its success comes from selling refurbished computers and parts, for which worldwide demand is booming because buyers, particularly poorer ones, don't need the latest and most expensive equipment. "They want cheap," says Evertek's international sales manager, John Ortley. "The firm's business model," he adds, "matches these folks with those who want to sell their used personal computer equipment."[34]

At first glance, liquidating obsolete pieces and parts seems an unlikely basis for successful exporting. And Evertek does not command the intimidating ownership advantage that usually supports exporting. However, the international orientation of its top management creates a powerful driver. Mr. Oxley's enthusiasm for international business, for example, fortifies the firm's belief that a big part of its business is found abroad: "For me," he says, "it started with being curious about the world. I enjoy learning about other cultures and respecting people who have a different background than mine."[35] Then, speaking like a true born global, he adds, "We're thriving. The world is shrinking, and it's getting easier and less expensive to do business on a global basis."[36]

CONCEPT CHECK

Change in the structure and dynamics of world business has taken a significant turn to new and novel standards. A flat world, billions of new capitalists, emerging economies, the global financial crisis, and so on, challenge many of our conventional theories. Consequently, scholars study trends, such as those dealing with incremental internationalization and the born-global phenomenon, to assess the direction and momentum of change.

INTERACTION: TIME AND PLACE

Neither the incremental nor the born global perspective definitively represents how companies initiate and escalate exporting. Research as well as company practices confirm that each credibly interprets the export process. For instance, recall that U.S. exports travel to 233 countries and territories. Many reflect long-running trade relationships, such as that between the United States and Canada. Others reflect more recent relationships, such as as well as relative to large exporters. From 1992 to 2009, the number of SMEs exporting to China surged 776 percent versus 167 percent for large-company exporters. This effect is far more pronounced on the import side; SMEs accounted for 96 percent of the 87,910 U.S. firms that imported merchandise from China in 2009. The scale and scope of U.S.-China trade by a growing variety of SMEs speaks to the born global phenomenon.

Trade data suggest increasing interaction between the incremental international and born global perspectives.

Going forward, we anticipate stronger interaction effects between the incremental internationalization and born global perspectives. First, e-commerce continues turbo charging the latter. A generation ago, going global involved slow-acting trade officials directing slow-moving flows between tough-to-understand markets that differed on countless regulations and routines. Hence, incremental, market-by-market export expansion was not only feasible, it was arguably the only practical option.[39] Now e-commerce, fortified by social media, immediately gives small startups global reach, providing a platform that efficiently overcomes historic barriers to internationalization. Our closing case profiles a leading intermediary, Alibaba.com, which facilitates this process. Second, for those exporters more inclined toward incremental expansion, the Internet provides cheap, easy, and effective means to analyze and access dissimilar markets. Hence, their expansion to far more such markets fits the incremental view, whereas the acceleration of this process fits the born global perspective.

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Case Review Note

THE WILDCARD ROLE OF SERENDIPITY

Exporters are often proactive decision makers. Sometimes, however, serendipity—making fortunate discoveries by accident—initiates exports.

It is appealing to depict export initiation and development, whether done incrementally or immediately, as a purposeful strategy designed and delivered by proactive executives. However, research tells of accidental exporters who, responding to happenstance or odd circumstances, successfully enter foreign markets. Essentially, some companies start exporting because of fortuitous events rather than purposeful intent. Perhaps the most common trigger is the arrival of an unsolicited order in the mail, either postal or electronic. Others include a new hire that has connections to foreign buyers, an international contact made at an industry conference, personal travel abroad that alerts one to new options, and so on. Thus, **serendipity**—making fortunate discoveries by accident—is not an uncommon export trigger.

Edward Cutler is such a case. He is the owner and founder of Pennsylvania-based Squigle, a unique brand of toothpaste for people who cannot tolerate mass-produced varieties.[40] Upon launching Squigle, Mr. Cutler exclusively focused on the U.S. market. Internet posters spread the news of his product, and Squigle soon received inquiries from Taiwan, Turkey, and elsewhere. One customer, a canker-sore sufferer in Britain, was so enthusiastic about it that he began importing Squigle into England for local sale. That was good news for Mr. Cutler because it let him expand abroad at little cost and low risk. Now he is eager to export more, explaining, "We're looking to sell overseas for the same reason the big companies do: Most of the world's population lies outside the United States."[41]

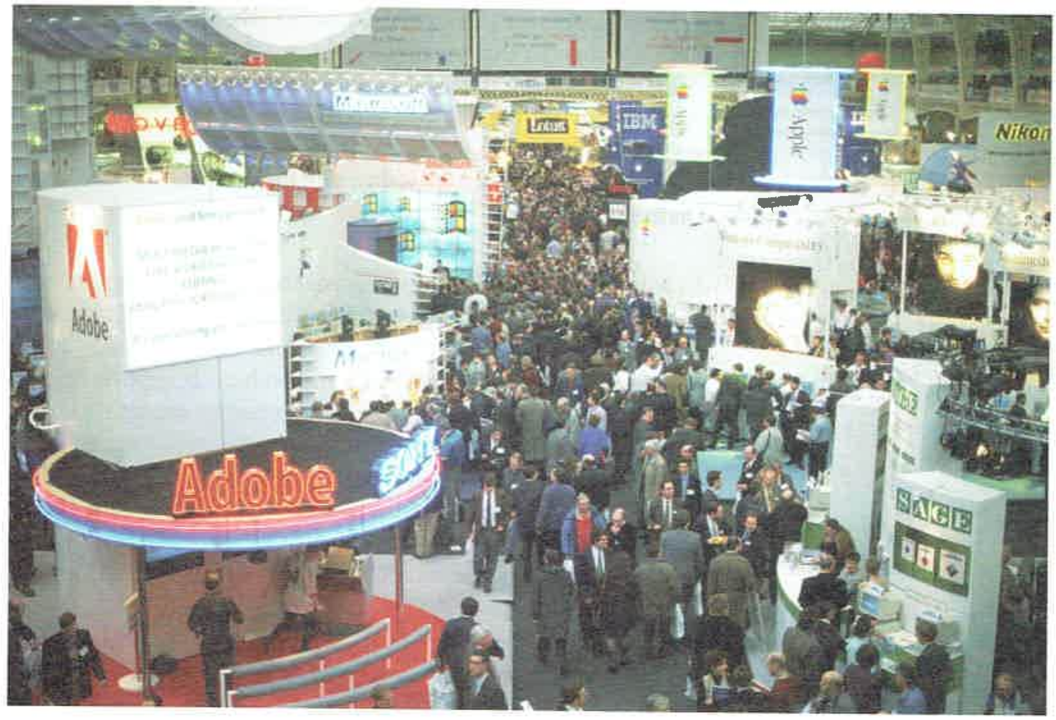
CONCEPT CHECK

The Internet influences political change, improves the operations of **foreign-exchange markets,** and changes the location economies that drive **value chain** configurations. Similarly, the Internet reshapes export and import activity by opening new markets, supporting new strategies, and providing new tools.

Similarly, Vellus, a small Ohio-based company that makes a line of high-end pet grooming products, began its export odyssey when a Taiwanese businessperson, after trying its customized shampoos, bought $25,000 worth of the company's products to sell in Taiwan. Soon, word spread from show to show on the global canine circuit. Recounted Vellus's CEO, "I started receiving calls from people around the world who would hear of our products at dog shows and ask organizers how they could get in touch with me to buy our products."[42] Today, Vellus exports its products to about 30 countries.

APPROACHES TO EXPORTING

Granted, export sounds straightforward—make it, sell it, pack it, and ship it.[43] To some degree, this holds true for many trades. Generally, the ease of exporting reflects how a company chooses to do so. As we explain below, there are several options.



Oddly suggestive of a Potemkin village, this exhibition hall hosts the International Business Intelligence and Information Technology trade fair. The meeting and greeting that goes on here creates connections that often sparks export and import activity.

Source: © Robert Harding Picture Library Ltd/Alamy

Selling to Domestic Buyers Who Represent Foreign End Users or Customers MNEs, general contractors, foreign trading companies, foreign governments, and foreign distributors and retailers purchase goods for export. These buyers either need a product or see demand for it in foreign markets, so they buy it here and ship it there. Again, the company that makes the product may not know of its export.

WHICH APPROACH WHEN?

No one approach is intrinsically superior. At the broadest level, the company's particular ownership, location, and internalization advantages moderate its optimal approach. Considering firm size, large MNEs generally serve foreign customers through their foreign affiliates, while SMEs typically export directly or indirectly.[45] There is no hard and fast rule that one option is superior—approximately half of SMEs' exports are direct (i.e., produced by the exporting SME immediately before export) while the other half are indirect (i.e., supplied by the SME to other companies that then ultimately export it).[46]

CRN
Case Review Note

Several factors shape an SME's preferred approach. Protecting ownership advantages endorses exporting directly. SpinCent, for example, saw direct selling as the best means to retain control of its core competency. Similarly, top management's outlook and company resources endorse some choices while discouraging others. A regular exporter is more likely to export directly. Firms new to exporting or those who are unable to commit staff and funds will likely prefer indirect methods.

Internet marketing helps companies—large and small—engage in international trade quickly, easily, and cheaply.

Technology's Role Technology influences the relative merits of the different approaches. The Internet makes direct exporting increasingly efficient and effective by providing immediate, low-cost access that lets regular exporters, particularly born globals, more easily access more markets.[47] In addition, e-commerce helps companies, both big and small, overcome capital and infrastructure limitations.[48] For example, exporters in Chile use extranets to find what they want) or perceived (the presumption that products from some countries are intrinsically superior to local substitutes). They then opportunistically exploit it by finding, buying, transporting, and distributing products available only from foreign suppliers to local customers. The product is secondary; rather, the game is using import channels to fill gaps in the local marketplace profitably. For example, the release of the latest, greatest iPad typically triggers consumer frenzy, including scalpers aiming to exploit a temporary market gap given that it is only available in the United States for the first several weeks. Demand in other countries creates compelling opportunities. Buyers in China, for instance, hired shoppers in New York to buy whatever quantity they could and overnight it to Shanghai, where it is then marked up twice or thrice more.[51] Eventually, as Apple stores begin selling the iPad in China, the gap closed.

ARBITRAGEURS

Arbitrageurs look to foreign sourcing to get the highest-quality product at the lowest possible price. This motivation is timeless—an agent takes advantage of a price or quality difference between two or more markets, transacting deals that exploit the imbalance, and profiting from the difference. For instance, after Utah-based SME ForEveryBody began making bath and body products locally, it became an importer once it discovered low-cost home decorations available from Asian manufacturers that were competitive with premium products in the United States.

CHARACTERISTICS OF IMPORTERS

Extensive research has investigated the characteristics of exporters; for any number of reasons, however, importers have received far less investigation. Data do indicate that importers are also likely to be exporters, and that these firms account for the bulk of the world's exports and imports.[52] In the United States, for instance, 2010 data indicated that 212,491 companies only exported goods, and 101,008 companies only imported goods, while 80,640 companies handled both. Moreover, the latter companies accounted for 94.1 percent of total export value and 85.1 percent of the total import value.[53] In fundamental ways, then, our discussion of the characteristics of exporters applies to importers. For instance, importers tailor international activity to reflect their ownership, localization, and internalization advantages, exhibit incremental and born global characteristics, and indicate that firm size, along with efficiency, innovation, and commitment, explain their activity.

Several points qualify the degree of overlap. Historically, importers traded relatively few products with a relatively few developing countries.[54] Essentially, the bulk of imports tended toward opportunism or arbitrage—i.e., cheap oil in Saudi Arabia became expensive oil in the United States. The emergence of fast-growing economies accelerates and alters this relationship. These countries increasingly produce more goods and services that outperform, in price and function, local choices in advanced markets. They also increasingly provide higher-end products that once were the province of advanced markets—recall U.S. companies importing business process services from India-based firms. Finally, globalization supports far more differentiated supply chains that are longer, have more links, and cross more markets. Their growth has commensurately increased the import of inputs.

Several reasons motivate importing:

- Specialization of labor
- Global rivalry
- Local unavailability
- Diversification
- Top management's outlook

WHY IMPORT?

Various factors spur a firm to begin importing and motivate that firm's ongoing activity. Research emphasizes high product quality, satisfactory order processing, reliable delivery, lower prices, and domestic shortages. These factors, singly and collectively, push importers to scan world markets in search of lower-priced, better-quality, or locally unavailable

Point

Point **Yes** Exporting is a win-win situation: The more companies and countries export, the more they improve their performance. Exporting enables companies to increase sales, improve productivity, and diversify activities. Likewise, exporting helps countries generate jobs, accelerate innovation, and improve living standards. In broader terms, it promotes connections among countries that improve foreign relations and stabilize international affairs.

Despite these virtues, some contend there is a dark side of exporting, namely the trade of hazardous waste in the form of obsolete computer equipment. E-waste—trash composed of computers, monitors, electronics, game consoles, smartphones, and other items—inexorably increases as the Information Era rolls on. In 2006, nearly 66 million used electronic components were collected for reuse or recycling in the United States; most were exported.[59] By 2011, e-waste was pushing several hundred million pieces, with the U.S generating about 400 million and China 160 million units. Ongoing trends crank out newer, cooler, faster, smaller, fancier devices that, in replacing their predecessors and then eventually being replaced themselves, will increase e-waste nearly 500 percent over the next decade.

Exporting E-waste: A Useful Solution?

Where Should E-waste Go? Where to put all this e-trash is a tough question. Many counties and municipalities in the United States, for example, ban outright dumping of e-waste in local landfills. This legislation means that disposing of e-waste products, when possible, in any given industrialized country costs from $2,500 to $4,000 a ton. In contrast, selling untreated waste to countries in Africa and Asia, where it will be recycled, reused, or dumped, reportedly goes as low as $50 a ton.[60] Low costs follow from cheap labor, different environmental regulations, and growing processing capacity. Plus, the absence of public opposition reduces processing expenses and desperate folks seeking work dampens public objections. As might be expected, major e-waste shipping routes show that the industrial nations export the bulk of their e-waste to developing countries, notably China, Malaysia, India, Nigeria, and Bangladesh (see Map 14.1).[61]

Benefits for All Exporting e-waste to recycling centers throughout the world is an efficient solution to an escalating problem. First and foremost, recycling sustains our resources and helps us protect the environment. In developing countries, industries have sprung up to recycle old computers, monitors, circuit boards, scanners, printers, routers, cell phones, and

MAP 14.1 The Patterns of Trade of Electronic Waste

When computers, cell phones, and other electronic equipment become obsolete, they are no longer worth much in rich countries. E-waste, however, has some value in developing countries. That is exactly where, as exports, it usually ends up. Proponents note it promotes productive recycling as well as local economic development. Critics charge it is viciously hazardous and callously exploits cheap labor and lax regulations.

Source: Basel on Action Network; Silicon Valley Toxics Condition, www.ban.org/about/.

Exporting E-waste: A Useful Solution?

Counterpoint

No In theory, recycling is beneficial. Recycling your e-waste, however, does not always mean you're doing the right thing. Explained the director of the Basel Action Network, "The dirty little secret is that when you take [your electronic waste] to a recycler, instead of throwing it in a trashcan, about 80 percent of that material, very quickly, finds itself on a container ship going to a country like China, Nigeria, India, Vietnam, Pakistan—where very dirty things happen to it."[67] Added the chief executive of RSR, a Dallas-based lead recycler that operates solely in the United States, "We're shipping hazardous waste to a neighbor ill-equipped to process it, and we're doing it legally, turning our heads, and pretending it's not a problem."[68] Growing exports of hazardous waste have created dangerous recycling industries in many developing countries. Going forward, exports will accelerate as e-waste increases far faster than other sorts of rubbish. Collectively, the tsunami of e-trash imposes far more costs than the pittance recycling it generates.

A Witch's Brew Most developing countries lack the regulatory codes or disposal infrastructure to safeguard against such dangers. Locals often use crude methods that, besides being illegal in the United States, expose workers and residents to a witch's brew of toxins. For example, some e-waste contains trace amounts of precious metals like copper and silver. Extracting them encourages cash-strapped, loosely regulated recyclers to use unsafe, antiquated open-air incineration methods. Burning electronic parts to separate copper, solder, or other metals from plastic coatings releases

Counterpoint

dioxins and other hazardous chemicals. Indeed, snagging that sliver of silver unleashes a mixture of more than a thousand chemicals, including toxic metals (e.g., lead, barium, and mercury), flame-retardants, cadmium, acids, plastics, and chlorinated and brominated compounds. Local air quality suffers as "circuit boards are burned after acid washing, spewing deadly smoke and exposing workers and people living around these facilities."[69] Once local scrap shops finish disassembling equipment, the trash goes into public landfills, the acid runoff flows into groundwater, and the noxious fumes follow air currents—all mercilessly contaminating the environment.

Casual Inhumanity Madhumita Dutta of Toxics-Link Delhi argues that these problems are less disturbing than the "appalling" working conditions in recycling facilities: "Everything from dismantling the computer to pulling out parts of the circuit boards to acid-washing boards to recover copper is done with bare hands without any protective gear or face protection." Rare is the worksite that uses proper disposal practices. Workers and society, to say nothing of environmental sustainability, suffer.

What, then, of the premise of charity—that is, sending computer equipment from countries where it has little use to countries where it can make a difference? Critics shred this straw man, asserting that wealthier countries and powerful companies conveniently donate obsolete equipment to dodge high recycling expenses. "Too often, justifications of 'building bridges over the digital divide' are used as excuses to obscure and ignore the fact that these

Here we see a frightful wasteland near Lagos, Nigeria. Notwithstanding the toxic threats of this witches' brew, desperation spurs people to scavenge for anything of value.
Source: n86/ZUMA Press/Newscom

TABLE 14.2 The Relative Influence of Leading Barriers to Export

International trade presents a range of difficulties. Here we see how managers of both SMEs and large companies, operating in either making a good or providing a service, rate the challenge of leading types of trade impediments.

Note: The higher the percentage, the greater the perceived severity of the particular impediment to trade.

Barrier to Export	SME Manufacturer	Large Manufacturer	SME Services	Large Services Firm
Transportation/shipping costs	88.5	93.6	53.6	35.1
Language/cultural barriers	82.2	86.8	53.4	42.2
Difficulty locating sales prospects	79.1	83.2	55.8	45.2
Foreign regulations	78.0	90.0	51.1	48.3
U.S. regulations	73.4	86.8	45.4	37.8
Foreign sales not sufficiently profitable	72.5	84.4	58.7	46.2
Customs procedures	71.9	87.4	44.6	35.5
Difficulty receiving or processing payments	67.9	87.9	39.3	41.1
U.S. taxation issues	62.8	80.7	37.4	39.2
Lack of trained staff	62.6	85.7	36.7	46.5
Insufficient intellectual property protection	61.8	71.6	43.6	27.3
Foreign taxation issues	60.4	80.5	36.1	40.6
Preference for local goods/services in foreign market	57.4	81.7	37.8	35.8
Difficulty establishing affiliates in foreign markets	57.2	76.9	29.8	33.8
High tariffs	56.6	81.6	36.8	28.8
Lack of government support programs	56.4	70.3	29.2	29.4
Obtaining financing	51.6	63.8	38.5	31.9
Unable to find foreign partners	50.5	66.6	33.0	36.0
Visa issues	30.1	67.8	34.9	33.5

Source: The *United States International Trade Commission* asked 3,500 U.S. big and SME in manufacturing and service industries firms if they had ever exported or considered exporting (the latter point was included to account for the possibility that firms had faced perceived insurmountable barriers). These firms were then asked to report whether they had encountered the various impediments and, if yes, assess the impediment's severity on a scale of 1 to 5, with 1 representing no impediment, 3 a moderate impediment, and 5 a major impediment. See "Small and Medium-Sized Enterprises: Characteristics and Performance," United States International Trade Commission, Investigation No. 332-510, USITC Publication 4189, November 2010.

by fluctuating exchange rates. Managing these risks involves currency and credit processes that call for sophisticated financial expertise. Moreover, completing international sales often requires helping foreign customers obtain credit, whether in the form of trade credits, government-financed support, or bank guarantees.[79] Firms accustomed to offering financing in terms of the traditional 30- or 60-day trade-credit cycle at home regard the need for different arrangements denominated in different currencies as excessively escalating risk.

CUSTOMER MANAGEMENT

An enduring barrier to exporting is misunderstanding the difficulty of profitably serving consumers in foreign markets.

Historically, exports and imports were arm's-length, ship-it-and-forget-it transactions. Contact with customers relied on documents either faxed or posted overnight. This situation created useful time lags with which to deal with questions and complaints. Now, contacting vendors via email or voice-over-Internet-protocol (VoIP) gives customers, no matter how far away, real-time access. The resulting boost of customers' service expectations reduces the appeal of international trade. "The new notch in the bar for us is the requests from our customers for additional services beyond the port of delivery," said the materials manager of Seco/Warwick, a manufacturer of heat-treating equipment. "In previous years, I would be responsible for cost, insurance, and freight (CIF) to the port of import, but now I'm often tasked with all aspects of delivery to the customer's plant location. Now we're often involved

Occasionally, shipments to various markets require government clearance. Refusals come easily to officials facing product constraints at home or political tension abroad. REACH disproportionately affects SME exporters, given staff and resource constraints to ensure compliance. Worse still, Canada, China, Japan, Switzerland, Taiwan, and Turkey are developing regulations like those of REACH.[84]

CONCEPT CHECK

"Legal Issues in International Business," profiled in Chapter 3, note how a country's legal system influences operating decisions. Chapter 7 shows how governments influence import flows with instruments of trade control. Here, we add revenue collection and homeland security to the list of moderators.

Similar regulatory situations are emerging in other industries. Exporters of medical devices face complex regulations and lengthy approval times that require extensive test data. Many countries, including Australia, Canada, China, certain EU member states, Japan, and the United States (and the list is growing), impose approval procedures that require firms to implement an ISO-certified production quality management system. Firms intent on complying must pay various fees and related charges to gain and maintain certification. Many exporters, particularly SMEs, struggle to fund such efforts.

Table 14.2 shows that service exporters also run into other problems. Professional service providers, such as the sort found in engineering, legal, finance, and entertainment services, regularly send employees abroad to perform contracted services. In Malaysia, for example, foreign engineers cannot work on building projects unless the hiring company demonstrates to the Malaysian Board of Engineers that a Malaysian engineer cannot do the job.[85] It's harsher in Thailand—its Alien Occupation Act reserves architecture and engineering services jobs for Thai nationals.[86] Morocco likewise prohibits foreign architects registering with its National Association of Architects, then mandates that only members of this Association can legally practice architecture. The Philippines goes even farther, reserving the practice of most licensed professions to Philippine citizens.[87] Finally, India restricts the right to practice law to natural persons who are both Indian citizens and on the advocates' roll in the particular Indian state where legal services will be provided. Furthermore, to qualify as an advocate, candidates must be either an Indian citizen or a citizen of a country that allows Indian nationals to practice law on a reciprocal basis, hold a degree from a university recognized by the Bar Council of India, and be at least 21 years of age.[88] Similar situations in Brazil, Bahrain, and Hong Kong, to name just a few, challenge the legal firm with international ambitions.

E-commerce, while a powerful export platform, does not let companies circumvent barriers. Government regulations may lag company actions, given the speed by which e-commerce occurs, but they eventually regain their authority. For example, Chinese law holds that an enterprise seeking to operate in the digital publishing field of China must obtain at least one of the four licenses for publishing, copying, distributing, or importing e-books in order to operate legally. Within a day of Amazon announcing its Kindle store launch in China, for instance, the Chinese authorities began investigating its legality, claiming its licensing agreement with its Chinese partner, Chineseall.com, was insufficient.[89]

In the United States, homeland security issues constrain trade. The logistics manager at Schott North America notes that the real danger to international trade these days is not tariffs; rather, it's "that your containers are stuck down at the terminal in New York [harbor] waiting for inspection" by radiation detection instruments before being allowed to enter the United States.[90] Likewise, moving goods across borders takes far longer today than it did a dozen years ago given security procedures: processing a truckload of goods across the Canadian–American border takes three times as long as it did pre-September 11, 2001.[91] The United Kingdom, likewise, replaced its "account consignor scheme" that had allowed logistics groups to accept goods for cargo planes from self-certified businesses in order to improve its air cargo safety. As a result, importers and exporters must have all shipments scanned by the freight firms, such as FedEx, TNT, and UPS, or establish high-security sites.[92] Governments work toward common standards, adopting similar screening methods, and harmonizing security measures. The sensitivity of these issues, particularly security, slows progress.[93] Consequently, national, regional, and global trade regulations impose persistent barriers.

TRADE DOCUMENTATION

Governments require international traders to thoroughly document transactions.

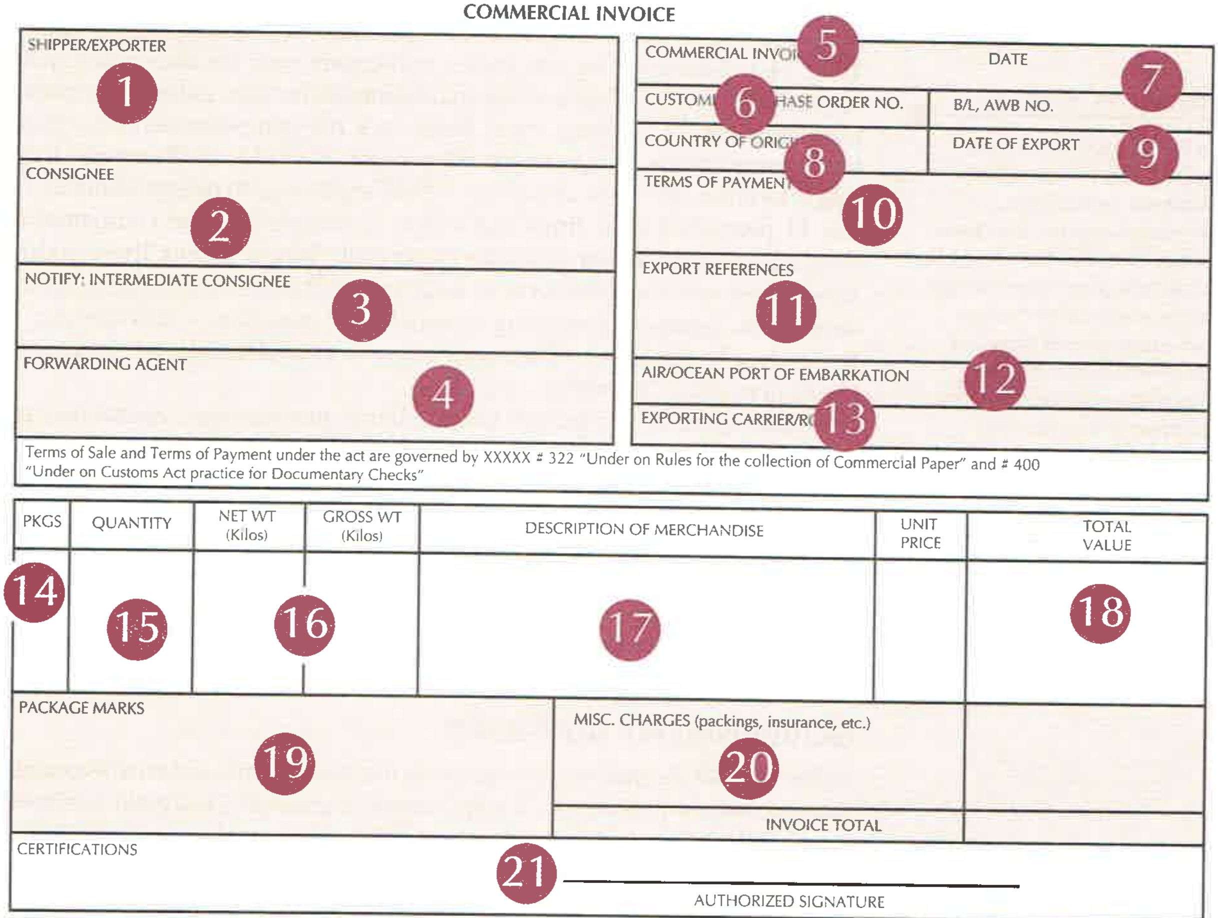
A battery of documents regulates international trade. Duty rates, customs clearance, and entry processes, though overlapping, invariably differ across countries. Tariff classifications, value declarations, and duty management spawn confusion and boost costs. Customs and

FIGURE 14.4 Sample Commercial Invoice

Here we see a sample of the sorts of forms that U.S. exporters routinely face. In this case, the form is a commercial invoice, a bill for the goods from the foreign buyer to the U.S. seller. Completing this form correctly makes for efficient transfers. Completing it incorrectly results in costly delays and often higher duty charges.

Source: Based on data reported in the WorldBank's World Development Indicators, in particular *Trade* (percent of *GDP*) (Series NE_TRD_GNFS_ZS), retrieved June 15, 2013, from data.worldbank.org/data-catalog/world-development-indicators.

COMMERCIAL INVOICE



1.	EXPORTER	The name and address of the principal party responsible for effecting export from the United States. The exporter as named on the Export License.
2.	CONSIGNEE	The name and address of the person/company to whom the goods are shipped for the designated end use, or the party so designated on the Export License
3.	INTERMEDIATE CONSIGNEE	The name and address of the party who effects delivery of the merchandise to the ultimate consignee, or the party so named on the Export License.
4.	FORWARDING AGENT	The name and address of the duly authorized forwarder acting as agent for the exporter.
5.	COMMERCIAL INVOICE NO.	Commercial Invoice number assigned by the exporter
6.	CUSTOMER PURCHASE ORDER NO	Overseas customer's reference of order number
7.	B/L, AWB NO.	Bill of Lading, or Air Waybill number, if known
8.	COUNTRY OF ORIGIN	Country of origin of shipment
9.	DATE OF EXPORT	Actual date of export of merchandise
10.	TERMS OF PAYMENT	Describe the terms, conditions, and currency of settlement as agreed upon by the vendor and purchaser per the Pro Forma Invoice, customer Purchase Order, and/or Letter of Credit
11.	EXPORT REFERENCES	May be used to record other useful information, e.g. - other reference numbers, special handling requirements, routing requirements, etc.
12.	AIR/OCEAN PORT OF EMBARKATION	Ocean port/pier, or airport to be used for embarkation of merchandise
13.	EXPORTING CARRIER/ROUTE	Record airline carrier/flight number or vessel name/shipping line to be used for the shipment of merchandise
14.	PACKAGES	Record number of packages, cartons, or containers per description line
15.	QUANTITY	Record total number of units per description line.
16.	NET WEIGHT/GROSS WEIGHT	Record total net weight and total gross weight (includes weight of container) in kilograms per description line.
17.	DESCRIPTION OF MERCHANDISE	Provide a full description of items shipped, the type of container (carton, box, pack, etc.), the gross weight per container, and the quantity and unit of measure of the merchandise.
18.	UNIT PRICE/TOTAL VALUE	Record the unit price of the merchandise per the unit of measure, compute the extended total value of the line.
19.	PACKAGE MARKS	Record in this Field, as well as on each package, the package number (e.g. - 1 of 7, 3 of 7, etc.), shippers company name, country of origin (e.g. - made in USA), destination port of entry, package weight in kilograms, package size (length x width x height), and shipper's control number (e.g. - C/I number; optional).
20.	MISC. CHARGES	Record any miscellaneous charges which are to be paid for by the customer - export transportation, insurance, export packaging, inland freight to pier, etc.
21.	CERTIFICATIONS	Any certifications or declarations required of the shipper regarding any information recorded on the commercial invoice.

Source: http://www.unzco.com/basicguide/figure2.html Accessed March 19, 2009.

TABLE 14.4 Trade Assistance by Type and Source

If your company is thinking about initiating or escalating international trade activity, the following organizations and agencies offer assistance on a host of issues.

Source	Nature of Assistance
Government Agencies	Market demographics, product demand, and competition
	Complying with domestic and foreign trade regulations
	Customs, regulatory, and tax issues
	Sales financing, credit, and insurance
	Trade data analysis
	Licenses and regulations
	International financing
	International sales and marketing
	Trade events, partners, and trade leads
	Shipping documentation and requirements
	Pricing, quotes, and negotiations
Trade Associations	Market demographics, product demand, and competition
	Export training seminars online and on-site
	Advertising and sales promotion alternatives
	Profile distribution channels and logistics networks
	Customs regulations and tax issues; compliance with global trade laws
	Navigating homeland security programs
	Standardizing and streamlining trade processes
Trade Intermediaries	Customs management system and tariff classification
	Online trade infrastructures and virtual trade shows
	Legal, accounting, security, and tax compliance
	Secure electronic procurement and automated supply chain processes
	Trade finance, credit-scoring, and insurance
	Exporting training and trade strategies
	Transport and logistics management

industry, promote trade and investment, help U.S. companies compete at home and abroad, and ensure fair trade through the rigorous enforcement of trade laws and agreements.[102]

Similarly, most states and many cities run export financing programs, including pre- and post-shipment working-capital loans and guarantees, accounts receivable financing, and export insurance. The limited reserves of some agencies requires proof of adequate safeguards from the exporter. For instance, authorities usually require a letter of credit or sufficient credit insurance. Often, states and cities stipulate that exporters transact part of the funded activity within their jurisdiction.

CONCEPT CHECK

In Chapter 1, we suggest that **international business** is challenging for people who like to operate solo. Collecting information about foreign markets, navigating export regulations, mastering foreign-exchange procedures, or complying with homeland security policies can prove overwhelming. Consequently, some companies prefer to get help in finding information about potential markers. International trade intermediaries often command sophisticated knowledge of international trade.

EXPORT INTERMEDIARIES

Third-party firms that market products and services abroad on behalf of domestic companies qualify as **export intermediaries.** For many companies, particularly SMEs, they offer an operationally easier and relatively risk-free approach to managing export intricacies.[103] Their expertise and experience provide management skills and economies of scale that are beyond the reach of the typical SME, while their experience with regulations, taxes, duties, insurance, and transportation makes them productive resources. The export management company and the export trading company are prominent types.

Export Management Company (EMC) An EMC, by acting as the international trade arm of a company, helps firms establish overseas markets. An EMC can significantly simplify SMEs' efforts to identify and penetrate foreign markets, thereby reducing key impediments of to develop exports jointly without fear of antitrust action. Dutch, Japanese, and British competitors had long done so profitably.[106] Free of legal barriers that had prevented joining forces with rivals, ETCs boost the export competitiveness of U.S. companies.

ETCs operate based on demand rather than supply. They identify suppliers who can fill orders in overseas markets.

ETCs differ from EMCs in that they operate based on demand rather than supply. An ETC brings buyers and sellers together, functioning as a trade matchmaker. It creates value by determining foreign customers' preferences, identifying domestic suppliers, and expediting transactions between the two parties. Rather than representing a single manufacturer, an ETC works with many. Operating as independent distributors, they avoid carrying inventory in their own name or performing post-sales service.

Fees Trade intermediaries charge for their expertise and services. Commonly, they operate on (1) a commission rate ranging from 10 percent for consumer goods to 15 percent or more for industrial products, (2) a buy-sell basis that asks for a firm's best home country discount plus an extra discount for a product that is marked up when sold abroad, and/or (3) contributions for special events such as exhibiting products in a foreign trade show or an advance payment for advertising and promotion.

Besides payments, hiring a trade intermediary requires that an exporter relinquish some to considerable business control in the matters of buyer segments, price policies, quality of promotion materials, flexibility of delivery schedules, or standards of customer service; these matters are determined by the intermediary. Some companies discover that if an intermediary promotes their products feebly they struggle to generate international sales. To retain control, a company can employ intermediaries less comprehensively. As in any make-vs.-buy situation, companies trade off their preference for control versus the cost of directly managing export activity.[107]

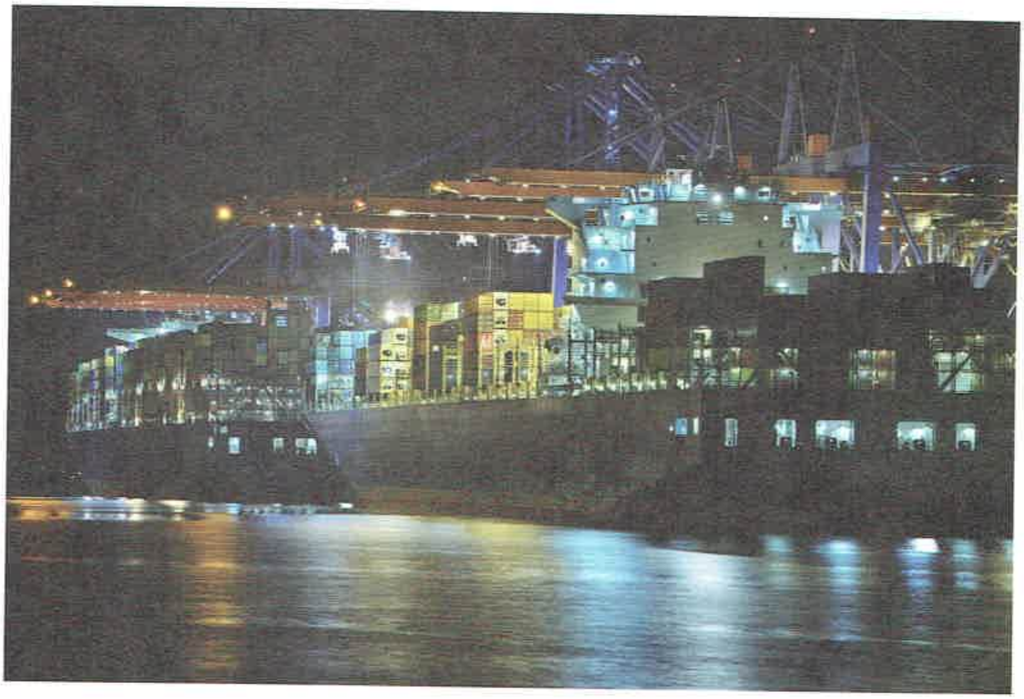
Finally, some feel the fees imposed by EMCs and ETCs reduces their appeal, particularly as language barriers lessen, international communication improves, and trade finance practices harmonize. In response, more intermediaries focus on exporting high-value products within the context of a single industry to select markets, rather than exporting bulk and commodity products. Improving industry expertise boosts effectiveness, whereas offering multiple product lines through foreign distributors improves efficiency. These innovations reduce the time it takes to move SMEs into enter foreign markets, a benefit some see as justifying the corresponding fees.

CUSTOMS BROKERS

Customs agents enforce the rules of trade for a particular country by controlling the flow of goods moving in and out of it. In the United States, for example, the Bureau of Customs and Border Protection (CBP, formerly the U.S. Customs Service) of the Department of Homeland Security monitors imports and exports. The CBP assesses and collects duties, taxes, and fees on imported merchandise, enforces customs and related laws, and administers certain navigation laws and treaties. It also polices smuggling threats and protects the United States from threatening imports.[108]

Countries vary to the degree to which their customs agencies help or hinder international traders (see Table 14.5). Several of the top ten countries on the ease-of-trading list are European. In fact, trading across Europe has become increasingly seamless due to the ongoing market integration efforts of the European Union. Free trade pacts in other parts of the world have similar effects, such as NAFTA expediting trade among Canada, Mexico, and the United States.

In contrast, irregular customs practices in African and South Asian markets routinely hamper exports and imports. Moving from port to port in these markets finds a hodgepodge of arbitrary and often contradictory regulations that can veer toward illegality. One Zambian trader noted, "My cargo of copper wire was held up in Durban, South Africa, for a week. The port authorities required proof that the wooden pallets on which the wire was loaded were free of pests. After a few days, the Ministry of Agriculture's inspector checked that the wood was fumigated—for a $100 fee.[109] No matter the locale, importing requires understanding relevant customs regulations and policies, knowing how to clear goods through customs, assigning the appropriate customs duties, and complying with special procedures.



Container ships are the sure-sailing movers of imports and exports. Pound for pound, they are the most efficient means of transporting goods between countries. Here, we see two container ships being unloaded at the Rotterdam Harbor; 24/7/365 activities like this take place in seaports worldwide.
Source: keller/Fotolia

- *Limiting liability by properly marking an import's country of origin.* Governments assess duties on imports based in part on the country of origin. A mistake in marking the country may increase the import duty. In the United States, if a product or its container is improperly marked when it enters the country, the product may be assigned a marking duty equal to 10 percent of the declared customs value. This charge is tacked onto the normal tariff.[110]

A customs broker helps importers in terms of

- Valuation
- Qualification
- Deferment
- Liability

FREIGHT FORWARDERS

A freight forwarder specializes in moving goods from sellers to buyers.

Freight forwarders, popularly known as the "travel agent of cargo," are the largest export/import intermediary in terms of value and weight of products shipped internationally.[111] Operationally, upon finalizing a foreign sale, an exporter hires a freight forwarder to arrange the fastest, cheapest transportation method. Balancing the constraints of space, speed, and cost, it identifies the optimal path to move the shipment from the manufacturer to an air, land, or ocean terminal, supervises clearing customs, and schedules delivery to the foreign buyer.

In the same process, the freight forwarder arranges storage prior to shipment, verifies letters of credit, obtains export licenses, pays consular fees, processes special documentation, and prepares shipping manifests. It may also advise on packing and labeling, transportation insurance, repacking of shipments damaged en route, and warehousing products. It does not take ownership title or act as a sales representative—that falls in the realm of an EMC or ETC. As a rule, freight forwarders offer fewer services than those agents.

Freight forwarders are particularly important when the cost or timing of freight can make or break a deal. One straightforward solution, advises the director of business development of Certified Worldwide, is "seek out your local Commercial Service office and find a freight forwarder, interview different freight forwarders, and remember that the company chosen will be responsible for shipping your product."[112]

The freight forwarder usually charges the exporter a percentage of the shipment value, plus a minimum charge depending on the number of services provided. It also receives a brokerage fee from the carrier. Most companies, especially SMEs, find it costly to deal with logistics. Freight forwarders' expertise enables them to secure shipping space at better rates and provides the flexibility to consolidate shipments.

FIGURE 14.5 The International Transaction Chain

Between the point at which they negotiate an international sale and the point at which products have been delivered, both the exporter and the importer manage a complex array of financial, logistics, and legal tasks. Each of these tasks defines a link in the transaction chain that reflects the particular elements of each firm's strategy.

Source: Export America 1 (November 1999): 17. Magazine published by the International Trade Administration of the U.S. Dept. of Commerce.

Managers stress test an export plan by consulting trade specialists and public agencies.

Successful exporters note that consulting government agencies and third-party intermediaries helps clarify opportunities and preempt problems. Noted the CEO of Coffee & More, "My advice to other companies considering exporting is to go for it, but be smart and do your homework first. Educate yourself and use your local U.S. Commercial Service office."[114] Added the Manager of International Operations at Analytical Graphics, "Don't just strike out on your own; take advantage of the U.S. Commercial Service. They are familiar with the ways of doing business in your market destination and know how U.S. companies can succeed there. It's saved us valuable time and resources."[115]

The element of an export plan that routinely stymies companies, particularly SMEs, is selecting the "right" foreign market. SMEs are often discouraged when their first foray fails. Instead of applying the standards of sound strategy that made them successful in the first

- Is exporting consistent with our long-term goals?
- What need does my product or service fill in the targeted foreign market?
- Are there competitive products?
- How much will it cost to get the product to the foreign market?
- Will exporting put undue demands on management, production, finance, and marketing?
- Does exporting leverage our core competency?
- Does exporting fit our value chain configuration?
- Do our coordination and control systems support exporting?
- Do the financial and strategic benefits of exporting exceed its direct and indirect costs?

Last, like yin and yang, import and export are complementary opposites within the greater whole of international trade. Strategic and practical aspects of the import process mirror those of the export process. So, just as the international transaction chain includes a sensitivity to those export and import issues, so too with the export plan. Changing the terminology from "export" to "import" does not require changing the contents of the plan. Rather, companies adjust their analytics, interpreting events from the analogous perspective of importing.

Looking to the Future
Technology and International Trade

The transaction costs of international trade steadily decrease. Advances in transportation and communications systems, by making it easier and cheaper to trade, accelerate export and import activity. The Internet helps individuals throughout the world engage each other easily and quickly. Online filing of cargo manifests, customs documents, and transit forms expedites shipments. Customs software that works in Hamburg or Sydney is also used in Hong Kong and Long Beach. Also, more parties track the shipment than not; the originating shipper, transit depots, and other suppliers and customs agents, along with the buyer and seller, monitor the flow. All in all, greater flexibility and improving efficiency let companies engage an expanding range of export and import options.

Synchronizing import or export activities redefines the way companies, both big and small, connect with foreign buyers and sellers. Historically, big companies reaped the biggest rewards. Their superior resources and organizational competencies positioned them to capture advances in moving goods, funds, and information. Now, the technology of trade seems to offer bigger benefits to smaller companies. Improving technologies create online, software, and logistics platforms that blur the distinction between the big, global giant and the small, neighborhood startup. In fact, it has become harder to tell the difference between an SME operating on a shoestring budget and its larger counterpart.

Online Platforms

Increasingly, companies look to online technologies to start or expand exporting. They rely on the Internet as their primary channel for getting information, sourcing products, finding suppliers, marketing products, and tapping new markets. In many cases, companies build a virtual value chain online, running export transactions from start to finish without ever leaving their hometowns. The inexorable expansion of the Internet gives potential and practicing international traders nearly infinite resources. They can browse through catalog archives, business-to-business exchanges, electronic trade boards, consumer surveys, online trade journals, and virtual trade shows to find a product to import or a market for their export.

Increasingly, as SMEs throughout the world gain Internet access for the first time, they use online platforms to build their export businesses. Besides introducing mom-and-pop shops from around the

CONCEPT CHECK

Recall our discussions of poverty in Chapters 4 and 5. Here, we point out that shortages of resources impoverish nations as well as individuals. Some countries struggle to acquire the foreign reserves they need to purchase goods from other nations. If unsuccessful, they may resort to countertrade.

COUNTERTRADE

Currency or credit—easy, fast, and straightforward—are the preferred payment options for export or import transactions. Sometimes, though, companies face the harsh reality that buyers cannot pay in cash because the home country's currency is nonconvertible or the nation holds scant reserves or has insufficient credit. Consequently, if they wish to trade, they must resort to other means.

Consider the following transactions. Coca-Cola has traded its syrup for cheese from the Soviet Union, oranges from Egypt, tomato paste from Turkey, Polish beer, and soft drink bottles from Hungary. Malaysia swapped palm oil for fertilizer and machinery with North Korea, Cuba, and Russia and was negotiating deals with Morocco, Jordan, Syria, and Iran. Thailand, the world's largest exporter of rice, has been negotiating rice-for-oil deals with Middle Eastern countries, whereas the Philippines, the world's largest importer of rice, secured rice supplies through an agreement with Vietnam.[120] Boeing exchanged ten 747s for 34 million barrels of Saudi Arabian oil. Argentina awarded a fertilizer factory to Czechoslovakian firms with the stipulation that suppliers buy vegetables and other agricultural goods produced with fertilizer.[121]

These sorts of trades fall under the umbrella term **countertrade.** Any one of several different arrangements that parties use to trade products via transactions that use limited or no currency or credit qualify as a countertrade. Table 14.7 identifies its principal forms.[122]

Countertrade is an umbrella term for several sorts of trade, such as barter or offset, in which the seller accepts goods or services, rather than currency or credit, as payment.

Inconsistent disclosure hinders estimating the volume of countertrade. Secretive government-to-government deals and disguised transactions are not unusual. Roughly, more than 80 countries nowadays use or require countertrade. These transactions comprise anywhere between 5 to 15 percent of the world trade.[123] Countertrade generally increases in economies that are experiencing economic problems. Since the latter is a seeming inevitability, given the boom-bust market dynamics in many countries, countertrade is likely an enduring feature of international trade.

Countertrade has several disadvantages:

- Inefficiency
- Risk
- Complicated

COSTS

Countertrade, put simply, is an inefficient way of doing business. Companies prefer the efficiency of cash or credit to settle a transaction—all it requires is consulting foreign-exchange tables to set exchange rates. Countertrade, instead, requires buyers and sellers to rely on

TABLE 14.7 Common Forms of Countertrade

The unusual circumstances that surround countertrade transactions leads agents to use different forms in different situations. Here, we see commonly used forms.

Barter	Products are exchanged directly for products of equal value without the use of money as a means of purchase or payment.
Buyback	A supplier of capital or equipment agrees to accept future output generated by the investment as payment. For example: The exporter of equipment to a chemical plant may be repaid with output from the factory to whose owner it "sold" the equipment.
Offset	An exporter sells products for cash and then helps the importer find opportunities to earn hard currency for payment. Offsets are most common when big-ticket products (e.g., military equipment) are involved.
Switch or Swap Trading	One company sells to another its obligation to purchase something in a foreign country. They carry this label because the arrangement often involves switching the documentation and destination of merchandise while it's in transit.
Counter purchase	A company that sells products to a foreign country promises to make a future purchase of a specific product made in that country. A supplier agrees to purchase products from a foreign buyer as a condition of getting the buyer's order.

com; those targeting India can check out www.trade-india.com; those focusing on Europe need only visit www.bizeurope.com to tap into high-quality trade boards. One can also shop the world at www.tradekey.com.

These and similar sites promote the commercial potential of a country or region. They provide direct services to large and small international traders, such as export training, cyber trade infrastructures, international special exhibitions, virtual trade shows, and trade strategies. Conceptually, their mission is direct: connect sellers in one place to buyers in another. Operationally, they provide powerful business-to-business tools that improve the mechanics of trade, creating flexible and dynamic platforms that let buyers and sellers of everything from bamboo toothpicks to industrial equipment find each other, negotiate the terms of trade, and seal the deal.

Alibaba: Opening Global Markets

Spearheading these changes is Alibaba, a Chinese Internet company that specializes in introducing Chinese manufacturers to buyers worldwide. Founded in 1999 by Jack Ma, who has been dubbed "the Father of the Chinese Internet," Alibaba makes international trade cheaper, faster, and easier. Based in Hangzhou, about a two-hour drive south of Shanghai, it began operations with the goal of getting big by staying small. Jack Ma believes that his target customers are SMEs, not MNEs—or, in his words, "shrimps," not "whales."

The Framework

Making this happen is the call of www.alibaba.com, an English-language global trade website that connects international buyers with Chinese sellers. Today, it is the world's largest online business-to-business marketplace, reaching Internet users in more than 240 countries and territories. The site supports an interactive community of millions of buyers and sellers who meet, greet, chat, and trade online. Running an online global trade fair, Alibaba enables "shrimps" with import and export ambition but tight budgets to reach the global market. Alibaba also provides an array of business management software, Internet infrastructure services, payment processing, and export-related services.

Many Alibaba users are SMEs in developing countries around the world, from rural areas to large cities, in countries such as Kyrgyzstan, Sierra Leone, and Peru. Few are glamorous and high-tech; most are low-tech firms making labor-intensive, scale-insensitive products. However, Alibaba provides tools to expand their market reach and grow their businesses. An SME, working from the smallest apartment anywhere in the world, yet on the grid, can conceivably create a global business.

Operations

The mechanics of Alibaba are straightforward: Importers around the world shop the site, looking for potential products from a mind-boggling array of goods—as hinted by the adjacent image of Alibaba's home page. Alibaba has organized more than a thousand product categories, each with many subcategories, and offers new channels to trade services. The classic garage inventor in Caracas or Chicago has the option to design a product and then use Alibaba to find Chinese factories that will make, package, and ship it to customers worldwide.

Operationally, buyers use Alibaba to find potential suppliers, thereby eliminating the need to hire a local representative to negotiate with Chinese manufacturers. For example, an enterprising company in Argentina looking to buy 500 DVD players can visit Alibaba.com, search among the dozens of potential suppliers, learn their terms of trade, contact the preferred vendor, negotiate the specifics, and set the deal in motion. Said the cofounder of www.meetchina.com, a similar e-commerce site, "We want to make buying 1,000 bicycles from China as easy as buying a book from Amazon.com."[126]