

MAKING TRADE MISSIONS WORK

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MAKING TRADE MISSIONS WORK: A BEST PRACTICE GUIDE TO INTERNATIONAL BUSINESS AND COMMERCIAL DIPLOMACY

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This book would not have seen the light of day without the help and support of many others. It is also the outcome of a process that I would call an example for how knowledge and insights can be the result of a gradual but steady and focused approach of students and faculty involvement. It all started in 2011 when I had done quite some work on the cross-over between commercial diplomacy and international business. I observed that one particular commercial diplomacy instrument seemed to have a prominent place as part of the entire set of instruments used by governments, namely trade missions. However, I lacked clear and in-depth knowledge and insights on how trade missions work, whether they are useful and how they are considered to be useful for commercial diplomacy purposes. This notion triggered me to initiate research projects into exactly these questions. I invited two of my graduate students of the International Management program that I was coordinating and content wise responsible for to join this initiative. And as I now can say, the rest is history. Altogether about 15 graduate and undergraduate students, three faculty lecturers, who wanted to get more research experience, and several industry partners joined the trade mission research program, which it turned out to have become. The program started off with basic exploratory questions and moved on to more explanatory questions, such as to what extent do characteristics of participating entrepreneurs have an influence of trade mission outcomes? All the pieces of knowledge and insights resulted in the development of a three-stage models and a perspective that considers trade missions as pre-dominantly a learning experience rather than the “traditional” view of a business deal closing event. The model was then field tested in an action research-based project with real-life companies joining in. Therefore, I am really proud of the entire research journey and its result: a very thorough, underpinned, and in-depth understanding of the phenomenon of trade mission. I even dare to state that the trade mission research program turned my research group at Windesheim University of Applied Sciences into a national and international thought leader on commercial diplomacy and on trade missions in particular. Please note: every year altogether thousands of trade missions are organized by national, regional and local governments, and commercial parties around the world. Millions of tax payers’ money is invested by governments, and millions are paid by companies to commercial parties to join in a trade mission.

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Huub Ruël

Chapter 1

Trade Missions in Today's Global Economy: International Business Meets International Relations

1.1. Introduction

Trade missions are an essential tool for governments around the world to support their national businesses, multinational corporations as well as small- and medium-sized enterprises (SME) in their efforts to internationalize and get access to foreign markets. SMEs sometimes tend to be reluctant to commit themselves to international markets due to lack of knowledge and the perception of risk, which results from the inability to obtain necessary knowledge. The positive effect of export promotion programs on export success is a great concern for both public policy makers and company managers. Nevertheless, trade missions as a popular export promotion service have not gained the academic attention it deserves. Available research and literature deals with trade mission mostly on a macro-level, thereby ignoring the single components of the entire trade mission. Head and Ries (2010), for instance, when discussing the effectiveness of trade missions, investigate a number of Canadian trade missions over years and try to come to a generalized conclusion based on the outcomes of the Canadian trade missions. Martine Spence (2003) is another example of research in which the effectiveness of UK overseas trade mission is investigated upon the data gained from various overseas trade missions around the world. Spence tries to open the “black box” of trade mission by questioning the determinants of a positive outcome of a trade mission but the investigation is carried out on a sample of 190 companies from various industrial sectors around the United Kingdom. This prevents the switch from a macro-level to a micro-level in which the entire organization of a trade mission can be divided into logical and chronological stages and be studied cautiously. Several other scholars have aimed to investigate the effectiveness of trade missions (Francis & Collins-Dodd, 2004; Gençtürk & Kotabe, 2001; Wilkinson & Brouthers, 2000, 2006) but have neglected the micro-level components of a trade mission.

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2 *Making Trade Missions Work*

Dividing the trade mission into three stages and investigating these micro-level components will enable us to understand how each stage is to be designed in order to get tangible but also valuable intangible outcomes at the end of the trade mission. By investigating each phase separately and closely based on an integrated theoretical framework, it is hoped that the “black box” of trade mission will be opened to inspire organizers of trade missions working for or with governments or government agencies that are involved in or responsible for trade missions.

Target Audience

This book targets policy makers and advisors, consultants, business owners, and internationalization specialists. It will help them to organize more effective trade missions in order to spend tax payers money responsibly. Furthermore, scholars, lecturers, and student of international business programs of all sorts should find this book useful since all the content is research-informed content, the result of years of research on trade missions. The text purposefully is limitedly using reference-based writing in order to keep it readable for a broad audience. However, once again all the content is research informed, and a full list of consulted sources can be found at the end of the book.

The Remainder of This Chapter

This chapter describes some of the key characteristics of the current global economy. These affect interactions between organizers of trade missions and businesses that already participate in trade missions or are considering doing so. Furthermore, this chapter discusses the significance and importance of trade missions as an instrument in government-led export promotion programs. The chapter ends by describing the core goals and contribution of this book.

The main aim of this chapter is to create awareness of the importance of trade missions as an instrument used by governments and private sector organizations to promote exports to stimulate the (further) internationalization of companies, to attract foreign direct investment, and to promote the home country in a host country.

This book focuses on outgoing trade missions, so it reasons from home to host, rather than the other way round. It covers trade missions initiated by government (both national and subnational) as well as private sector organizations. The book considers trade missions to be primarily business needs oriented; however, it also covers trade missions that are combined with state visits.

1.2. The Core Characteristics of Today’s Global Economy

Today’s economy, at the end of the second decade of the twenty-first century, is anything but boring for economists, for politicians and economic policy makers, as well as for managers of international business. The aftermath of the global financial crises (2007) is still with us and, according to many observers, policy makers, politicians, and non-governmental organizations, the fundamental causes of these crises have yet to be fixed. As we speak, in 2018, the size of the global economy is

back to its pre-2007 crisis level but still in an unstable mode. What we thought were emerging economies such as Russia, Brazil, and Turkey are shrinking as they face serious growth problems, and a recently emerged economy China is clearly on its way to become the biggest economy in the world, but is very much facing the big issue of the very high private sector debt and the “foam economy,” construction projects without a demand, which are serious issues. If these bubbles burst, then the world economy will feel it. The Chinese government – the dominant actor in that economy – is trying to push through reforms, but has so far not been able to deliver results. The countries of the European Union and the United Kingdom, whose citizens decided to leave the EU in a referendum, present a mixed picture: some are in a steady growth mode while others such as France and Italy are struggling to reform; What will happen once the European Central Bank (ECB) stops its bonds buying program? In Africa, which was described not so long ago as the continent of the future, the economic results are also mixed. The Middle East is a theater of violent conflicts and terrorism and therefore offers little hope of becoming an engine of global growth, despite some small Gulf States that “pimp” their outlook and their global presence with the oil revenues. Latin American countries such as Argentina and Venezuela are on the brink of bankruptcy, and Brazil (once seen as a potential model for the global economy) is in deep crisis.

The US economy (we are writing July 2018) close to overheated and its national political situation is far from stable and offers no good compass to fare by.

These “rough” analyses of countries and continents’ economies come along an international relations situation that is comparable to the days of the “cold war”: Russia and the West have become each other’s enemies again and the USA is in the middle of a trade war with China and the European Union.

It is interesting to note that just a few years ago the picture looked so different. The emerging world (Asia and Africa) was considered to be a source of growth for developed economies. But who could predict that the price of oil would fall so far as it did in 2015?

With this quick sketch of key factors affecting the world in 2016 in mind, I will now zoom in on some key aspects of today’s global economy which are relevant for governments’ economic policy and international business strategy.

We will first list them and then describe them in more detail.

- (1) The economic shift to the East.
- (2) The emergence and significance of post-conflict zones and fragile states.
- (3) The sustainability movement (issues such as green energy, climate change, urbanization, poverty, world population growth, and the shortage of fresh water).
- (4) Combining economic development and aid/trade (international social entrepreneurship).
- (5) Digitization, robotics, and artificial intelligence.
- (6) Disruptiveness.
- (7) State-owned enterprises.
- (8) Global terrorism.
- (9) Global migration issues.
- (10) International relations as they affect international business.

The Economic Shift to the East

The global economy and economic balance of power are totally different now from just 30 years ago. Then the dominant economic powers were the United States, European Union, and Japan. Their economies together accounted for most of the world's GDP (gross domestic product), and even in 2012 these economies together accounted for at least 50% of the world's GDP. But in the second decade of the twenty-first century, the picture is very different. Despite the difficulties facing the economies of China, Brazil, Russia, and Turkey, which can have serious consequences for those of the USA, the EU, Japan, and the UK, the fundamentals have changed. The Chinese economy has overtaken the USA's and the EU's economies in terms of purchasing power and, unless the Chinese economy "implodes" or seriously destabilizes, which is not totally unthinkable, China is well on the way to becoming a leading world economy. The Chinese government is nothing if not ambitious; its target is a doubling of income per head by 2020. The Chinese economy is being transformed from an export-oriented, low labor/manufacturing cost-driven economy into a service/knowledge-driven economy, with a large home consumer base. This clearly cannot be achieved overnight. The structure of the Chinese economy, with the dominant role of government- and state-owned enterprises, needs to change. But the latest signs are not very hopeful since President Xi managed to change the constitution which allows him to stay in his position as long as he pleases. Furthermore, the Chinese government seems to tighten its grip online and becoming more culturally conservative. This makes China to be more on the path of the former Soviet Union with high standards of techno-engineering sciences but not open socio-cultural scientific development. Academic freedom is at stake in China and China's record on cultural diversity and human rights is still one of the poorest in the world. In case of an economic downturn or "implosion," China's low government debt will be able to a large extent to buy out the high corporate debt. The government resources effectively guarantee this corporate debt and it is likely that the government will have to write off much of this debt, which will, of course, raise government debt. The lack of transparency that the Chinese government is known for makes it, however, a risky partner in today's global economy.

The outlook for Brazil, Russia, and Turkey is also not particularly rosy, as the structure of their economies impedes steady progress toward greater wealth. Nevertheless, these economies have grown considerably over the past decades and their economic weight in the global economy has increased significantly. India is a special case – an emerging economy that is steadily growing. With over one billion inhabitants, India aims to compete with China and many predict that it will become a major global economic power. However, India overall governance does not have a track record that can be relied on as stable economic partner in the global economy. Other countries in Asia such as Malaysia have had average economic growth of around 5% for the past five years. Indonesia is on a path to growth and Australia, despite some worries about a real estate bubble, is faring well.

The Middle East, from a European perspective, remains a major source of trouble for the global economy due to its continuous violent conflict, terrorism,

aggressive forms of Islam, repressive regimes, and turbulent societies. Only a few small Gulf States keep on investing abroad in order to turn their huge piles of fossil energy financial resources in profit. These Gulf States aim to present an outlook as very progressive in terms of renewable energy and health care innovations, however underneath societal instabilities are repressed by their governments. These may, however, erupt sooner or later and make them unpleasant places to live and work for the best human talents.

All in all, “the East” is a dominant economic center in the global economy and has become an economic powerhouse. Its societal instabilities make the many countries hard to rely on as long-term partners. On top of that, due to the rise of China, India, and Russia, the international relations in Asia have come under pressure. How this will work out for the coming decade is very hard to predict.

The Emergence and Significance of Post-Conflict Zones/Fragile States

In today's global economy, the impact of post-conflict zones and fragile states on international business is considerable. For example, the post-Ebola countries in West Africa, in particular Sierra Leone, Liberia and Guinea, suffered from years of violent conflicts, but were among the world's fastest growing economies just before Ebola broke out. Now that Ebola has been eradicated; these countries desperately need to return to economic growth. Their governments are welcoming entrepreneurs and businesses from developed economies to help with this process. The Dutch minister of Trade and Development, Mrs Ploumen, was the first foreign minister to organize a trade mission to the post-Ebola countries in July 2015. Her aim was to isolate Ebola, not the countries (where it is found). About 30 Dutch companies and organizations participated in this mission. Interestingly almost all of them were already active in Africa and many had been active in West Africa before participating in the mission. Apparently entrepreneurs and organizations with no Africa experience were not attracted by this mission to seek and explore opportunities for business and collaboration in post-Ebola countries.

In developed economies there is growing interest in business development in post-conflict zones and fragile states. This is due to three reasons: the emerging belief that development and aid can best be combined with business and economic development. To lift people out of poverty entrepreneurship is seen as essential. Also attracting entrepreneurs from abroad and involving them in business opportunities with a social impact is the result of growing awareness of these issues. International social entrepreneurship is moving center stage.

Second, due to the financial crisis of 2007 and the resulting global economic recession, governments and businesses in developed economies have become more outward looking, seeking opportunities for growth in new foreign markets. Currently about 500 million people (or more) (look up data in my proposal) live in countries, areas, regions, and zones that can be described as post-conflict zones and fragile states. Despite the weak institutional development of these regions, the people living there have needs, and they represent a substantial customer base. An even larger proportion of the world's population, who do not necessarily live

in fragile states, form the so-called bottom-of-the-pyramid (BOP). This proportion of the global population with an annual average income of below US\$1,500 amounts to two to three billion people. International businesses such as Unilever have successfully managed to redesign products in such a way that they are within the budget of world citizens who are located at the BOP.

Third, there is one characteristic that all post-conflict zones and fragile states share: a relatively young population and high youth unemployment. Up to 50% of their populations are under 30. And, with high youth unemployment, social and economic stability is at stake. This is a threat to developed economies as well as to post-conflict zones and fragile states. A lack of opportunities creates a breeding ground for extremism and violence (and consequent mass migration), the impact of which is already being felt in developed economies. Therefore, to help and support post-conflict zones and fragile states to prosper and get them on the road to growth is not only an issue for development and foreign aid but also something that will benefit developed economies as well.

Sustainability Movement

There is a core belief emerging around the world that the road to future economic growth must be a sustainable one. This is a route that includes green energy, reduced anthropogenic climate change, sustainable urbanization, poverty reduction, slower global population growth, and fresh water management. The concept of social entrepreneurship is gaining ground. Climate summits the call for sustainable solutions to societal and economic challenges; these are all crucial in today's global economy. International business and trade are influenced by this movement in several ways, one of which is the CO₂ reduction targets set by governments around the world. This has consequences for ways of doing business, including the use of fossil energy and modes of international transportation. It also results in new products and services that are being traded internationally (e.g., the flow of knowledge and solutions related to sustainability).

Digitization, Artificial Intelligence, and Robotics

Clearly technological developments, especially digitization, artificial intelligence, and robotics – alongside the emergence of the digital economy and smart industry, smart cities, and the smart society – are crucial to supply chains, consumer behavior, and finance. These will be profoundly influenced by digital technologies and advanced manufacturing that is based on new technology. But international relations and international security are also being strongly impacted by digitization (think of espionage) and robot technology. Drones and all kinds of autonomous weaponry will continue to spark debate on the boundaries of human–technology interaction. Many are worried about the effects on jobs and the nature of work, while others see opportunities for improving the quality of life. In this respect, science and technology diplomacy will become even more important, as the exchange of cross-border science and technology and trade are essential for economic growth.

Global Startups

We are seeing the emergence of new companies with a global economic impact. Examples of such companies are Twitter, Booking.com, Uber, and Airbnb. But companies such as Google, Alibaba, and Facebook also have global impact and are rapidly building a huge international customer base. Disruptiveness, in combination with an e-commerce-based business model, explains this international impact. Interestingly enough, these companies do not necessarily need to be large in terms of employees or even profits. Of greater importance is the fact that more and more users are using the services they offer and thus creating an extremely rich source of user behavioral data. Furthermore, users are becoming increasingly dependent on such services. This is what makes companies such as Facebook so powerful and perhaps also very vulnerable. The latest revelations of how Facebook poorly dealt with user data and user privacy, and the response of users and governments showed how a powerful company is still at risk of losing much of its customer base, impact, and market value in a short period of time. CEO Mark Zuckerberg responses reflect a predominantly reactive and shareholder interests focused attitude rather than a proactive and stakeholder interests focused attitude.

Silicon Valley, the home base of many global startups, is a model for governments around the world when it comes to creating a breeding ground for entrepreneurship. Many major economies, emerging and developed alike, have investing in triggering an entrepreneurial spirit and mindset among students and especially in spin-off companies from universities.

Global Terrorism

Since the emergence of Al-Qaeda and then Islamic State of Iraq and Syria (ISIS), it has become clear that terrorism-driven non-state actors are here to stay. Failed nation states have fallen into a state of anarchy, with terroristic organizations and guerrilla fighting. This impacts the global economy in many ways, from the need for cybersecurity to the growth of the international arms trade, to oil prices. Global terrorism is an issue that will play a major role in the foreseeable future and it will inevitably further impact international business.

Financial Instabilities of Developed and Emerging Economies

The global economy is out of balance, most developed economies have too much debt – as do many emerging economies – and corporate debt is particularly high. For example, in China corporate debt is about 200% of national GDP. Due to the interconnectedness of business and government, this debt puts a great deal of pressure on the Chinese government.

Global Migration Issues

Although migration has taken place throughout history, in today's global economy human migration – due to the large number of conflict zones in the world – is an urgent reality that economies and societies need to deal with. The violent conflicts

and civil wars in Libya, Syria, Iraq, and Afghanistan resulted in flows of people trying to flee safer and more stable parts of the world. Today, according to numerous sources, there are at least 15 million refugees, but this is probably a very conservative calculation. It does not include all those who do not currently live in an area in conflict but rather live in abject poverty without any prospect of improvement. Many of those that crossed the Mediterranean Sea were not fleeing violence, but looking for a better place to work and live. The target countries, such as Germany, Scandinavia, and the United Kingdom, need to find better and more effective ways of dealing with the influx of newcomers.

1.3. Trade Missions in Today Global Economy: International Relations Meet International Business

In today's global economy the relationship between international business and international relations is stronger and deeper than ever since the end for the "cold war." You only need to think of the conflicts in Ukraine, Russia, Iran, North Korea, China, Taiwan, Myanmar, Syria, Israel, Palestine, and Yemen to realize that we live in an unstable world in which business cannot flourish as well as when there are peaceful relations between countries. Put on top of this the tenuous relations between the West and Russia or the trade relationship between China and the West or the troubling relationship between China and India or the emerging economic and military misbalance the biggest Asian countries. All these put pressure on and affect the way international business is conducted. Governments play an important role in paving ways for or aiming to prevent their national businesses to expand across national borders. Governments of all countries do have policies and practices in place that regulate their international trade; it may be either to prevent specific goods and services to enter the home market or to impose tariffs on imports. But also policies and practices that promote home country businesses, goods, and services abroad, for example, via export support programs. Commercial diplomacy is the word used today for the promotion of the host economy abroad via the network of business and diplomatic actors. Usually this involves an active trade mission agenda. However, whether and how a trade mission works and precisely how a trade mission may positively impact international business and trade is hardly understood. Policy makers and politicians rely on basically anecdotal "evidence" and their own experience and observations. Obviously it is easy to understand that meeting potential business partners and foreign government representatives in person during a trade mission can be positive encounter and may strengthen relationships. However, this is something different from closing a billion-dollar business deal. That requires far more than a meet and greet.

The next chapter will position trade mission at the heart of commercial diplomacy. Chapter 3 will then explain what exactly is a trade mission. These two chapters serve the purpose to better understand how to make trade missions work.