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The Analysis of Critical Factors in the Internationalization Process of Made in Italy

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Al non arrendersi, nonostante tutto.
Ai sacrifici ripagati.
Al futuro.
Ad Alessandro.

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Introduction

Nowadays, modern firms go abroad for different reasons and face different problems related to the introduction of products and services to new customers belonging to distant cultures. Internationalization is not an easy task. Managers and entrepreneurs have to take difficult decisions that may prove to be wrong after the investment. Several reasons may lead to the failure of the strategy: on the one hand, it may be due to unpredictable circumstances, such as the change of macroeconomic factors or the crisis of a specific industry; on the other hand, evaluations on the culture towards which the offer is addressed may reveal to be incorrect, or may not have considered some key cultural elements.

The experience of two companies can help the comprehension.

A well-known medium-sized Italian firm producing strollers proposed a communication campaign in China. One of the images showed a woman of the seventies with her Fiat 500 car and an old-fashioned stroller on the car roof. The aim of the picture was to transmit a sense of Italian vintage style of its products and protection due to the traditional aspect. The reaction of consumers was totally unexpected by the company: Chinese people did not have the same traditional symbols as Italians and they simply saw a not fashionable woman with a grotesque car. Thus, they couldn't understand the message transmitted by the campaign and completely ignore the products, turning out to be a failure of the communication strategy in the country.

Another mid-sized Italian company selling kitchens proposed its offer to the Chinese market. The firm entered the country with a typical Italian kitchen, complete with all the Italian accessories, such as the cookers and the oven. After a short time, it turned out that Chinese people did not cook the same way as Italians do, though. Like in the preceding case, the result was that the offer was not appreciated and the company had to rethink the proposal and reorganize the production.

These mistakes, apparently predictable, are common in internationalization decisions of solid and successful companies and this fact gave the spark for the proposing thesis. Is it possible to avoid these mistakes? Is culture a so important element in these decisions, that if not considered leads to the failure of an investment? Are there any other variables that must be considered and if not lead to failure, as well? Since internationalization

decisions involve the decisions about the entry mode, is entry mode crucial at the same level? What about the country towards which address the offer and the offering one? Do they provide essential variables as well?

The purpose of this thesis will be to define a tractable model, capable to identify the main variables relevant for the internationalization process at hand.

When the idea of this thesis emerged, Made in Italy was the starting point: as a matter of fact, since the beginning, the willing was to study the internationalization decisions of a company producing Made in Italy goods. But Made in Italy does not have a univocal definition and finding a reliable one and an objective measure to construct the model is not an easy task. Moreover, the willing was to analyse the new economies, which, by definition, are the most unknown, but also the ones with the highest potential compared to the developed markets. To solve these problems, the Centro Studi Confindustria and Prometeia's Esportare la Dolce Vita annual report will join perfectly the two necessities: this study analyses the so-called Bello e Ben Fatto goods, the medium-high end consumer goods belonging to Italian food, furniture, fashion, footwear, eyewear, and jewellery. In addition, the 2016 report considers the emerging and new economies as a receiver of the Italian offer and identifies China and the United Arab Emirates as two of the three countries with the highest import potential in the short-medium term, in addition to the Russian Federation.

The following study will begin with the identification of the internationalization phenomenon in the first chapter. The theoretical study will try to understand in what it consists, why companies decide to start an internationalization process, which are the different entry modes among which firms can choose, in addition to some key aspects, such as the internationalization of new markets and the process concerning Italian SMEs.

Afterwards, chapters 2 and 3 will investigate in detail China and the United Arab Emirates to understand which are their characteristics, since these are the countries with the highest potential for Made in Italy firms: here, rough data will be identified from the cumulative World Bank's database, which provides all the rough data concerning all the World Bank Group's researches and projects, used by all the companies and institutions' elaborations.

Another challenge that will emerge consists in finding as many variables as possible

about all the different perspectives: the cultural aspect, the entry mode, the country on the side of the offer, in this case, Italy, and the one on the side of the demand, in this case, the new economies.

Culture is not a quantitative characteristic, thus it is difficult to put it inside an analytical model, and even more in terms of cultural distance between two countries: in this case, the one on the offer side, Italy, and the receiving one. With this purpose, the Hofstede Index will be identified and it will be calculated in differential terms with the Italian culture.

Moreover, as far as the entry modes are concerned, they involve lots of different costs and the purpose of the model will be to include as many as possible. The World Bank's Doing Business Index (DBI) will provide 10 different areas of cost, with ten of other variables per each. The Doing Business Index will be deconstructed to identify the most relevant cost indexes for each entry mode, summarizing them into two categories: export and foreign direct investment/trade agreement. To do so, different datasets will be used because none of the single dataset provides a complete source of all the costs involved in the study: consequently, the official dataset belonging to the Doing Business report will provide a part of the data; the other part will be the rough data provided by the cumulative World Bank database concerning all the projects and researches produced by the World Bank Group. From here, all the missing data of the first dataset will be taken. At the end of the calculation, the DBI will provide a measure of the export costs and a measure of the foreign direct investment/trade agreement costs.

In addition, the necessity of involving as many variables as possible will emerge. In the country analysis that will be proposed in chapter 2 and 3, rough data are used to clarify different characteristics of the countries. But these will not be sufficient to summarize all the different features of a country's economy, to have a complete model. Consequently, the World Economic Forum's Global Competitiveness Index (GCI) and Enabling Trade Index (ETI) will be identified as the most complete indexes to construct the model: the first will be the measure of the productivity of the receiving country and the second will provide a measure of the trade facilities put in place by the country.

Institutions all over the world suggest the Doing Business Index, the Global Competitiveness Index, and the Enabling Trade Index as reliable indexes for a country's analysis.

These four indexes, the Differential Hofstede Index, the Doing Business Index, the Global Competitiveness Index, and the Enabling Trade Index will be described in chapter 4, and a focus on China and on the United Arab Emirates will be proposed.

Finally, on the country's offer perspective, distance in addition to a correct measure of Made in Italy appreciation will be necessary. The level of imports could be a reliable proxy for the country's interest towards these products. Nevertheless, the study will not consider all the Italian imports but the Bello e Ben Fatto (BBF) imports indicated in the Centro Studi Confindustria and Prometeia's 2016 report. This, in addition to another index, the physical distance measure, will be described in the last chapter. The latter will concern the final model, which will have to be simple in the construction to allow all the possible combinations of all the indexes involved: the Differential Hofstede Index, the physical distance, the Doing Business Index for export and for foreign direct investment/trade agreement, the Global Competitiveness Index, the Enabling Trade Index, and the BBF imports. It will have to be clear in the showing of results, providing an immediate image to be easily communicated. The SMART technique will be used for all these reasons: through the use of scatter plots, it will compare on the one hand, costs indexes, the Differential Hofstede Index, the physical distance, and the Doing Business Index for export and the Doing Business Index for foreign direct investment/trade agreement; and on the other hand, benefits indexes, the Global Competitiveness Index, the Enabling Trade Index, and the BBF imports. The scatter plots will show with a curve the best countries, according to the variables involved in each scenario; the analysis will combine different costs and benefits to highlight the differences between the best choices and understand if the variables involved change the suggested countries or not.

1 FRAMING INTERNATIONALIZATION

1.1 What is Internationalization?

International trade is an ancient phenomenon thanks to which enterprises open their offer to new markets. Multinationals choose different types of internationalization over the centuries, involving different activities in the value chain, also as result of the birth of new markets worldwide. Since the ancient times, firms went abroad offering their goods, services or capitals to foreign cultures. As a consequence, international trade is generally perceived as the exchange of the firm's offer across the national borders. Since the managers look more and more towards new countries, scholars have started to increase their interest to the theories and reasons behind this phenomenon. Thanks to the most sophisticated technologies and to the invention of high-speed means of transport, distances are shorter than ever and borders are no more well-defined, so that competition is stronger than ever.

In his "The Globalization of Markets", Theodore Levitt[1] gave his contribution using the term "globalization" to describe the new context the firms and society were living at that time. It's widely recognized that Levitt coined the term for the first time, even though it was in use in the previous decades as well: the merit of Levitt was primarily to have popularized it and proposed a complete analysis of the phenomenon. The obligation for the use of the word was due to the homogenization of the consumers. As a matter of fact, innovation in technologies and communication brought to the standardization of habits and purchasing. At the business level, a need for reorganizing processes emerged. Yet corporations did not have to think at a global scale as an extension of the domestic; rather, to a "new commercial reality" in which innovation was at the basis. In this context, markets were no more unique thanks to their specificity, but there was a single whole global market, which had to offer "high-quality, more or less standardized products at optimally low prices".

[1] Levitt, T. (1983). *The Globaliztion of Markets*. Harvard Business Review, May1983. In Robert Z. Aliber, Reid W. Click (1983). Readings in International Business: A Decision Approach. Cambidge, The MIT Press, pp. 92-102.

The tendency of the economy to have a supranational dimension is the explanation of globalization, a phenomenon that is on the basis of the internationalization of firms. In this context, barriers and obstacles are reduced, when not eliminated, in favour of the free circulation of goods, services, capitals, people, and knowledge. The direct consequence is that each firm has not only to compete with the other in the same territory, but also with the whole global system (Valdani and Bertoli, 2010[2]).

Globalization and internationalization are very close concepts with no defined borders and it can happen to find different authors giving the same definition for different phenomena. It's the case of Riccardo Petrella, who some years before Valdani and Bertoli defined internationalization with the words used by the two authors ten years later (Boyer and Drache, 1996[3]).

In literature, there is not a commonly accepted definition of internationalization but there are many studies with different interpretations, giving a wide contribution to the theme.

The internationalization process requires a complete organization of the firm, which has to be ready to satisfy the market's requests, not only as far as the offer is concerned, but also with efficient processes of production, distribution, logistics and every step of the value chain.

The scholars in the field of internationalization studied the phenomenon considering different aspects. From an external point of view, competition is a way to contextualize the environment in which the firm is integrated. From an internal perspective, operations are one of the subjects considered. Thus "the process of increasing involvement in international operations" is one of the definitions proposed to explain internationalization (Buckley and Ghauri, 1999[4]).

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[2] Valdani, E., Bertoli, G. (2010). *Mercati internazionali e marketing*. Milano, Egea.

[3] Boyer, R., Drache D. (2006). S*tates Against Markets: The Limits of Globalization*. London, Routledge.

[4] Buckley, P. J., Ghauri, P. N. (1999). *The Internationalization of the Firm*. Lodon, Thomson.

1.2 The historical background

As mentioned earlier, both the ancient form of businessmen and the actual ones, always searched for foreign markets to propose their offer.

The very first form of international trade dates back to 150.000 years ago[5]. Starting from that era, some key moments in the history of the world may be fixed to better understand the present situation.

In ancient times Arabians, Egyptians, and Indians traded products from a territory to another of medium distances. Afterward were the Greek populations, followed by Romans, who traveled long distances to find commercial opportunities.

An important role was played by the Mediterranean Sea, which facilitated the movements between far areas and allowed the creation of the Silk Road. Thanks to it, Marco Polo, one of the first European explorers to travel to China, established the connection between the Old World and the Far East in the late XIII century.

In 1492 the perspective moved on the opposite side with the Christopher Columbus discovery of America.

The following two centuries were characterized by the age of merchant capitalism[6]. In this period the first state-supported trading companies born: the British East India Company, the Dutch East India Company, and the Royal African Company.

In the XIX century, the Industrial revolution brought to the era of industrial capitalism. During this period, many British multinational enterprises raised in the previous centuries started to operate in the most remote regions of the globe, including India, China, Latin America, and South Africa. Japan, which had already its quite developed economy with trade policies and cooperation with European countries like Holland and Portugal, with Meiji Restoration at the end of the century involved in multinational enterprises activities.

Finally, the XX was the century in which the major international trade events took place. Henry Ford in 1909: "Any customer can have a car painted any colour that he

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[5] Watson, P. (2005). *Ideas: A History of Thought and Invention from Fire to Freud*. New York: HarperCollins Publishers.

[6] Reinert, K. A. (2012). *An Introduction To International Economics*, New Perspectives on the World Economy, Cambridge University Press.

wants so long as it is black": this was the period of mass production and standardized goods, of Fordism. As a consequence, the economy of scale and the role of production line acquired a key role in the firms' strategic organization. Europe was no more the core of innovation, but the United States started to gain the primacy. The large-scale production led to the inevitable consequence of firm size enlargement; thus the success was based on the ability to coordinate this series of interdependent operations.

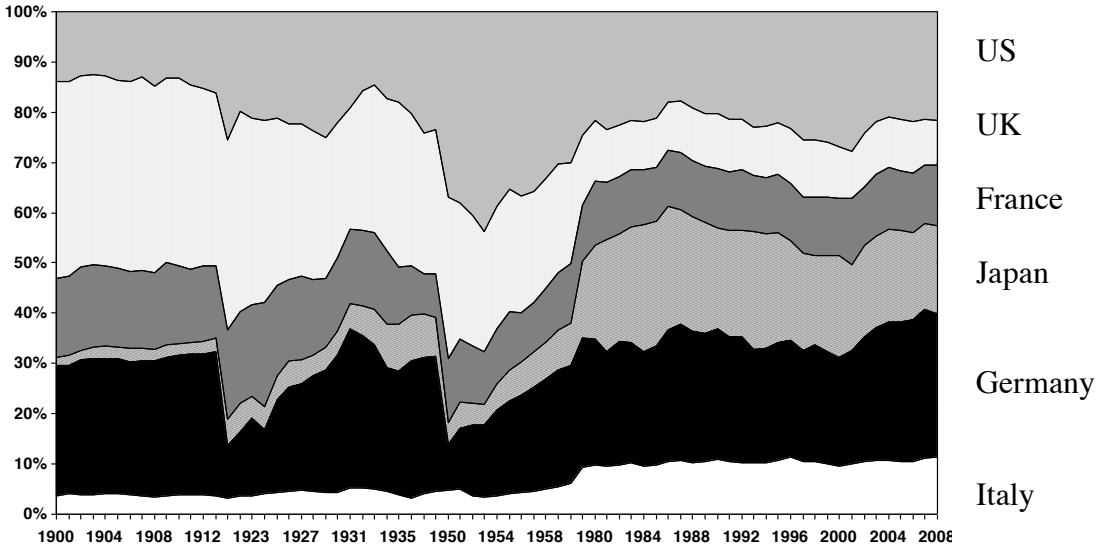


Figure 1.1 Export country share of manufacturing production of G-6: 1900-2008

Source: Fondazione Edison processing on UN data[7].

The role of United States was even more crucial after the two World Wars and was the basis of many important economic theories, such as the product life cycle theory[8].

The 1970s signed a turning point for the world economic equilibrium. In these years new powers started to develop: Japan, Taiwan, and South Korea. In the meantime, global production became more sophisticated due to the introduction of communication technology in the control of production processes, which brought to flexible manufacturing. In his framework the industrial output grew, leading to the effect of a foreign direct investment growth of East-Asian multinationals.

The global crisis of 2008 hit the whole industrialized world. At the same time opened up

[7] Fondazione Edison- Symbola (2009). ITALIA Geografie del nuovo mondo.

[8] For more information, see paragraph 1.3 on theories of internationalization.

opportunities for developing or newly industrialized countries to emerge or consolidate. It's the case of China, which started to be not only a country for the supply of low-cost resources but a real power competing with the biggest one. In 2010 the International Monetary Fund included all the BRICS (Brazil, Russia, India, China, South Africa) among the ten countries in the world with the highest voting rights.

International export is only one of the possible foreign market entries. The excursus has been necessary to frame the importance of the internationalization process during the centuries, concluding that nowadays is an important issue that multinational enterprises have to face since the world is more and more globalized.

1.2.1 Historical background of globalization

"From every perspective the globe is analysed, the perception of its transformation in a global village may be obtained, a village that makes closer to each other the different areas of the world economic system"[9].

Over the centuries the world has seen mainly three steps of globalization[10]:

1. *Globalization 1.0:* the first step dates back from 1492 and lasted until around 1800. It was lead by national-states and powered by the wind. As a matter of fact, the distinction of this period was that countries and governments tried to compete and find a place in the world.
2. *Globalization 2.0:* the following stage lasted until 2000. This was the era of multinational companies, in which the most important inventions took place: steam engine, railroads, and the telegraph. As a consequence, the world became smaller: from one hand, thanks to the falling of transportation costs in the first half; from the other hand, the twentieth century was characterised by the drop in telecommunications costs, which helped people to feel closer than ever.
3. *Globalization 3.0:* the last twenty years represented a turning point that is still lasting. Individuals gained a central position thanks to Internet and communities.

[9] Valdani, E., Adams, P. (1998). *Marketing globale. La gestione strategica nei mercati internazionali*. Milano, Egea.

[10] Friedman, T. L. (2005). *The World is Flat. A Brief History of the Twenty-fist Century*. New York, Farrar, Straus and Giroux.

Both individuals and firms can cooperate and compete at a global level through to the most modern technologies.

As far as the modern world economy is concerned, three are the most important happenings that brought the at the present situation:

1. In 1989 the Berlin wall came down: this event triggered a revolutionary process that interested the whole Central Europe. The effect was the political and economic freedom of the countries affected by the soviet communist regime.
2. In 1995 Netscape went public. Netscape was the very fist search engine of the history. The following years the net saw a proliferation of similar and improved websites that brought the use of the Internet at the massive presence of nowadays.
3. In the recent years, workflow software allowed applications to talk to each other. The interactive application projects the attention to the robots and the future application in which this futuristic and controversial sub-humans, but still machines, may be involved.

This background brought the world to pass from round to flat. Nowadays, many countries once non-competitive are developed and people can "collaborate and compete in real time […] from more different corners of the planet" (Friedman, 2005). As a consequence, it's not surprising to see a specialized Lebanese surgeon operating in Beirut a patient located in Gaza using an iPad, thanks to robot technologies[11]; it's common to receive assistance in Europe from call centres located in India; and for Chinese consumers it's simple to buy an Italian car online or directly from an app on the phone.

In the very last years, different opinions about globalization emerged. In 2014 Philip Stephens gave his influential contribution proposing an opposite point of view to the theme[12]: the Russian crisis and the sanctions given by Europe and US reflected the reversal of the latter's attitudes towards global engagement. This tendency is confirmed by the recent protectionist policies put in place by the new US President Donald J.

[11] East, S. (2016). *Doctor uses iPad to conduct remote surgery in Gaza*. CNN. Available at: http://edition.cnn.com/2016/05/24/health/telesurgery-proximie-beirut-gaza/index.html (last access: 26/07/2017).

[12] Stephens, P. (2014). *The World is Marching Back From Globalisation*. Financial Times.

Trump. The protectionism reflects in the online world, too: Chinese, Russian and Turkish authoritarian measures have demonstrated that there is a new will of not allowing everyone to access to the same information. Yet "globalisation needs an enforcer – a hegemon, a concert of powers or global governance arrangements sufficient to make sure the rules are fairly applied".

1.3 Why internationalize?

There are many reasons that lead a firm to start an internationalization process; many are strictly linked to the specific company, many others are sectorial or related to the product. At any rate, some common traits may be observed.

Firstly, foreign countries are looked with interest to expand sales when in the domestic country is no more possible. This may be due to the fact that the domestic transactions are in decline, or because the domestic market is saturated. Another reason to expand sales is that the company has an excess of capacity that could exploit. This allows the MNEs to catch all the opportunities that a global context can offer.

Secondly, the reason to look at foreign markets is to acquire new different resources. This is due to an opportunity of lower costs or to the will of acquiring better resources. New resources allow the company to access to new capabilities and knowledge.

The third reason for entry in new a market is the principle of differentiation: having many countries for doing business leads to the inevitable consequence of decreasing the risks. If one is a bad performer, the others can balance possible losses or missed profits.

Finally, managing the competition is one of the most important tasks for the corporate environment. Competition brings from one hand to the bandwagon effect, from the other to the exchange of threats. The bandwagon effect occurs when a company follows the steps made by its competitors in order to avoid the loss of market shares in favour of them.

The exchange of threats is typical of strong competition between two or more MNEs. In this case, one firm attacks the other in one country and latter replies in another territory starting a mechanism of reciprocal competition.

Several pushes conduct MNEs towards globalization or localization during their process of internationalization.

From one hand, globalization push is characterized by economies of scale that allow the firm to have lower production costs. Moreover, global sourcing is the best way to have only one supplier and this allows having the maximum contractual power. In addition, convergent consuming tendencies have the advantage of exploiting the synergies of similar production. Finally, global competitors increase the possibilities of being overwhelmed by a growing number of challenges and there is no adaptation of the offer. These pushes oblige the company to coordinate the value chain activities, with the goal of obtaining efficiency and synergies so that all the similarities of different markets are exploited.

On the other hand, localization pushes to conduct the company to the local adaptation and represent all the factors that characterize a specific country. Cultural, commercial, technical and legal are specificities that the company has to evaluate. In this context, differentiation is the solution since the offer considers all the specific necessities of consumers in different markets.

1.4 The main *theories* of internationalization

As the world became more and more global, scholars directed their attention to internationalization and postulated many theories[13].

Classical theories of international trade were based on the assumption that in a certain moment every country has its own resource allocation. As a consequence, the specialization is different and based exactly on the specific resources. The global exchange produces an efficient equilibrium, exploiting the price and the production factors differences so that the advantages are comparative.

In 1960 Stephen Hymer based his doctoral thesis on the internationalization process, opening a radically new perspective on the theme. The revolutionary turning point consisted of looking at the phenomenon from the corporate point of view, instead of a market perspective, as classical theories did in the past. Hymer stated that the firm is an active player of the economic system and uses foreign direct investment as a means to

[13] Grant, R. M., Jordan, J. (2015). *Foundations of strategy*. Chichester, Wiley.

ensure its power in foreign markets. The opening towards foreign countries is seen by the author as a step linked to the maturity of the firm: when the company is in its early stages, it raises its power with dimensional growth thanks to mergers, acquisitions and all the investments suitable to achieve the purpose. This phase causes an industrial concentration that, at a certain level, becomes an obstacle to a further national growth. This is the moment when internationalization is needed as a solution to keep exploiting the advantages. In the new market starts a new concentration process that allows the firm to gain new power and consolidate its global presence[14].

Raymond Vernon in the 1960s gave his influential contribution with the theory of the international product life cycle. He recognized the previous one but add some peculiarities: in his point of view the countries' allocation change over time. Non developed countries look at industrialized ones and want to produce the same goods; this mechanism brings developed economies to change the production letting the non-developed to produce their previous offering. This represents a flow thanks to which the production moves gradually from developed countries to developing ones raising dynamic comparative advantages.

Other theories focus specifically on the firm: the Uppsala model and the eclectic paradigm. The Uppsala model describes the process of internationalization as very gradual and oriented towards learning: going abroad, firms have to understand the market with small increments of experience, only at the end of the process the production could be moved in the foreign country. Uppsala identifies 4 phases of the so called "establishment chain":

1. No regular exports
2. Export via agents
3. Overseas subsidiaries
4. Overseas production

The incremental approach is due to the psychic distance barrier. It represents how the firm approaches the foreign market: "the sum of factors preventing or disturbing the flows of information between firm and market" (Johanson and Vahlne, 1977). Internationalization is oriented firstly to the closer and most similar countries and then

[14] Depperu, D. (1993*). L'internazionalizzazione delle piccole e medie imprese*. Milano Egea.

the farthest ones. Distance is a source of uncertainty that slow the process.

Linked to this is the concept of liability of foreignness: "the inherent disadvantage foreign firms experience in host countries because of their non-native status". As a matter of fact, domestic companies are generally preferred by consumers and take advantage of possible institutional measures. The liability of foreignness is a source of cost for the firm that internationalize and a barrier in choosing the country.

In 1977 Dunning postulate the theory of the eclectic paradigm, outlining three fundamental conditions to choose the proper foreign market:

1. *Ownership advantage*: these are the competitive advantages in terms of competences and proprieties thanks to which capabilities win the foreign resistances.
2. *Location advantage*: the previous competitive advantages may be improved if combined with at least some local production factor. In case of lack of these advantages, export would be always the best solution.
3. *Internalization advantage*: these advantages are even more convenient if no intermediary is employed, but the whole process stays inside the organization itself. This allows the company to have the perfect control of the information that comes to the foreign market and avoid mistakes; moreover, it reduces the transaction costs.

Looking at Dunning's eclectic theory, foreign direct investment is the best strategy concerning the three categories of advantages proposed.

		Categories of advantages		
		Ownership advantages	*Internalization advantages*	*Locational advantages*
Form of market entry	*Licensing*	Yes	No	No
	Export	Yes	Yes	No
	Foreign Direct Investment	**Yes**	**Yes**	**Yes**

Table 1.1 The Eclectic Model

Source: Dunning (1981)[15].

[15] Dunning, J. M. (1981). *The Eclectic Theory of International Production: A case study of the international Hotel Industry*. Managerial and Decision Economics.

1.5 *Types* of internationalization

When the theme is internationalization, some proper clarifications are needed. Opening a new market does not only mean to propose the company's offer to another country, it can involve other activities of the value chain, too.

The XX century was characterized by the use of foreign markets as a source for procurement with the delocalization of productive activity. Since the production was massive, companies had to find all the way to reduce costs, even at the expenses of quality. To survive the competition, the necessity to find new markets with the conditions required to low the costs emerged. The convenience had to be so high to make still profitable employing higher financial resources of logistics and shipping (Valdani and Bertoli, 2010). This strategy allowed the birth of new markets such as China, which could ensure low-cost raw materials and labour. During the last decade, something changed: the global crisis of 2008 made the focus shift towards the quality of goods and consumers prefer to buy less quantity of goods but with more quality. The future is mass customization and production is re-shoring to richer countries: the offer must ensure quality and satisfy the higher expectations of customers. With this goal, the steps of the supply chain have to be shorter and geographically closer to the final customer to respond quickly and efficiently[16].

The same principle of internationalization of procurements may be applied to the internationalization of production. In this case, firms delocalize manufacturing processes, keeping temporally and geographically separated the steps of conception and design of the product without a loss in term of quality efficiency.

Finally, the last activity interested by internationalization during the time is research and development, even though at a lesser extent. This is especially the case of sectors with a high level of technology, know-how, and intangible resources. The reasons of delocalizing R&D are several: firstly, it possible to access to highly specialized technical-scientific skills available in specific locations; moreover, these capabilities may have lower costs with respect to the firm home country. Thirdly, it's possible to monitor the technological developments achieved in certain countries and participate in

[16] The Economist (2012). The third industrial revolution. Available at: http://www.economist.com/node/21553017 (last access: 29/07/2017).

research projects in collaboration with specialized organisms. Finally, the need for a specific response to a local market or the support to productive or commercial units located in a foreign country may be required.

The internationalization categories described above belong to non-commercial activities. To be thorough, they are briefly illustrated; however, this thesis will consider the most widely used and analysed types of entry in a foreign market: the commercial internationalization.

Entry-mode strategies refer to the technical and organizational ways by which the company makes its offer available in the chosen market (Valdani and Bertoli, 2010). The alternatives that companies usually resort to are attributable mainly to three, which in turn may develop into sub-alternatives: exports, production site, and inter-company agreements.

When choosing the entry type, the enterprise has to base on two elements[17]:

1. *The degree of international involvement*: in this case, it's difficult to identify a way to measure the involvement. The representative variable should be the same for the whole set of entry modes considered, which is extremely heterogeneous. As a consequence, a generic level of investment it's defined: it considers both the financial and the human resource investment required for the entrance in the foreign market.
2. *The degree of control*: it refers to the control exercised by the company over the activities performed in the foreign country. Here the entry modes are split into two groups: those in which company controls the activities and the ones in which the company significantly delegates.

[17] De Leersnyder, J. C. (1982). *Marketing International*. Paris, Dalloz.

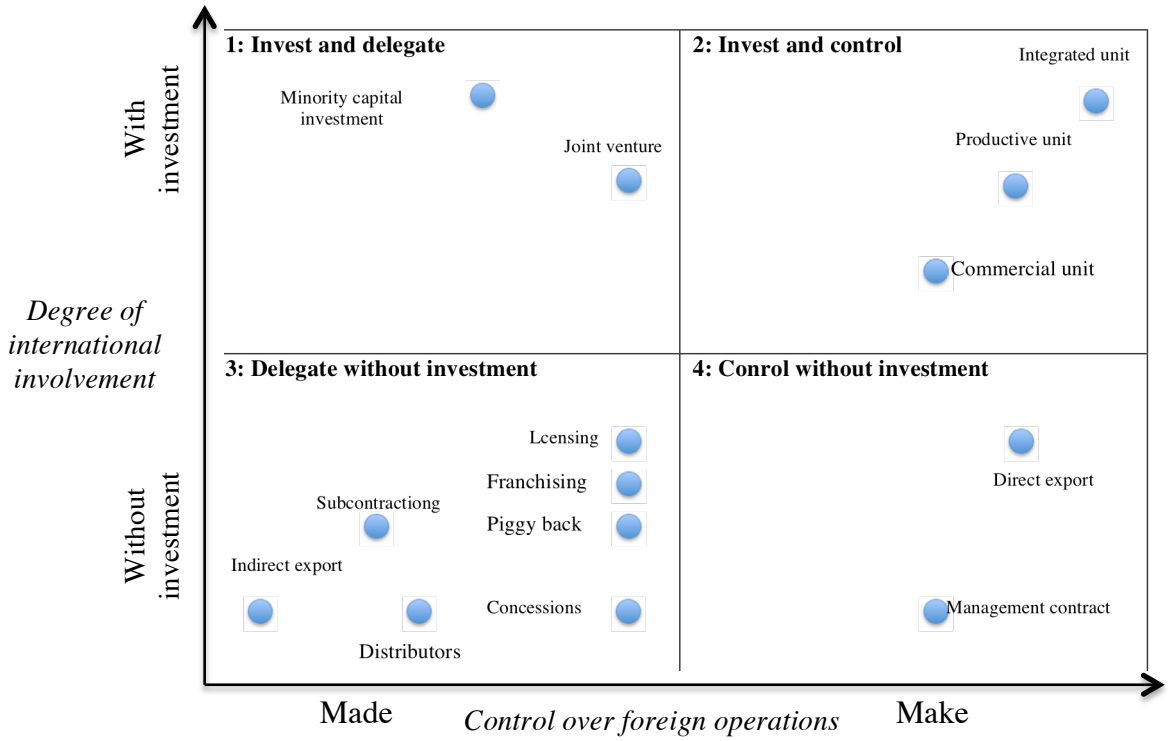


Figure 1.2 Entry-modes in the foreign market

Source: De Leersnyder, J. C. (1982).

The first quarter of the matrix above is represented by the entry modes in which the company invests but delegates. In this context, the enterprise has an organizational unit in the foreign country, as it happens in the case of international joint ventures or when the investment is in non-controlling participations in foreign companies.

In the second quarter are represented those entry modes in which the company both invests and controls the activities with the construction of an organizational unit abroad: this is the situation in which the enterprise makes one kind of foreign direct investment in the chosen countries: commercial, productive or both of them.

The third quarter summarizes all the entry modes in which the company, on the one hand, has a high level of control over the activities established abroad; on the other hand, the enterprise has made a limited investment. This is the case of direct exports and its most advanced forms, such as direct trading with foreign clients and the establishment of a local sales network. In addition to the cited kind of entry modes, to this category belong management contracts, too.

Finally, in the last quarter are summarized the types of entry in which the firm has a low degree of control and has invested a few resources. In this quarter there are indirect exports, through the use of every type of intermediary; trade agreements, including franchising and piggy back; all the technical and organizational agreements, such as licensing and subcontracting; and the most simple forms of direct exports, as relationships with importers and service providers.
Going more in detail with the analysis, here is the description of the most relevant entry-mode strategies.

1.5.1 Export

The first entry-mode strategy considered in this study is export.
Export occurs when a company based in one country open its borders to sell its goods or services abroad. At the early stages of a new market development, this is the alternative with the lowest degree of risk. In addition, it requires a smaller investment in terms of capital and human resources compared to the other typologies and consequently, it possesses a high level of reversibility. For these reasons, export, in its simplest forms, it's the suitable mode for exploring an unknown market to get in touch with the culture and the competitive environment.
When dealing with export, the company has to decide between two sub categories: direct and indirect export.

- **Direct export**: this is the case of trade through structures owned by the organization itself. Here, the producer deals with the foreign market personally, since his buyer is located in the chosen country. As a consequence, the firm tries to get close to the potential client with the direct contact, gaining a high level of control in international operations. Moreover, it's the company itself that chooses the marketing strategies of the exported products. This is the best way to acquire data on the new market and therefore the company can adapt the offer on specific needs. Disadvantages of direct exports concern the amount of capital needed and the rigidity resulting from the investment, which is profitable only after a certain amount of sales; in addition, if not reach the amount required, the company has to reduce the channels and this can lead to considerable losses.

Finally, a qualified personnel is essential for the success of international operations.

In direct exports, the company has an active role in the internationalization process, since it's a one-to-one relationship without mediators. The alternatives through which direct exports can develop are:

- *Establishing relationships with importers*: this is the case of retailers and exclusive or sole dealers.
- *Direct trading with foreign clients*: this category includes those who work on sub contracted orders and the large commercial distribution groups.
- *Local sales network creation*: traveling salesperson or self-employed sellers, in form of sales representative with or without a deposit, or organized agency, can compose the network.
- *Establishment of a sales unit in the chosen country*: this is the strongest demonstration of the company's will to invest in the market in a long-term perspective. Moreover, it's typical of the well-known brands and in highly competitive environments.

- **Indirect export**: on the other hand, indirect export concerns trade through intermediaries. In this situation, the corporation resorts using specialized operators, with a high level of experience in international trade. The operators are home country based and have the task of finding the right foreign market. Furthermore, they have to manage relationships with foreign clients, whether they are intermediate or final ones.

  In indirect exports the company does not have an active role in the process of internationalization: the intermediaries structure their own goals and marketing policies since they have the complete management of the contacts with the remote market. This is the reason why indirect export is the most used entry-mode of the smallest firms, which do not have resources and willingness enough to risk developing a successful international strategy. It is not necessarily a first way to approach a new market, but it represents an autonomous means to enter the market as well.

The operators have a basic role in the success of the process and are independent sources of services between supply and demand. For this reason, it's important that the firm chooses properly the type of intermediary among the possible ones, even if the boundaries among them are not always clearly defined as theory suggests.

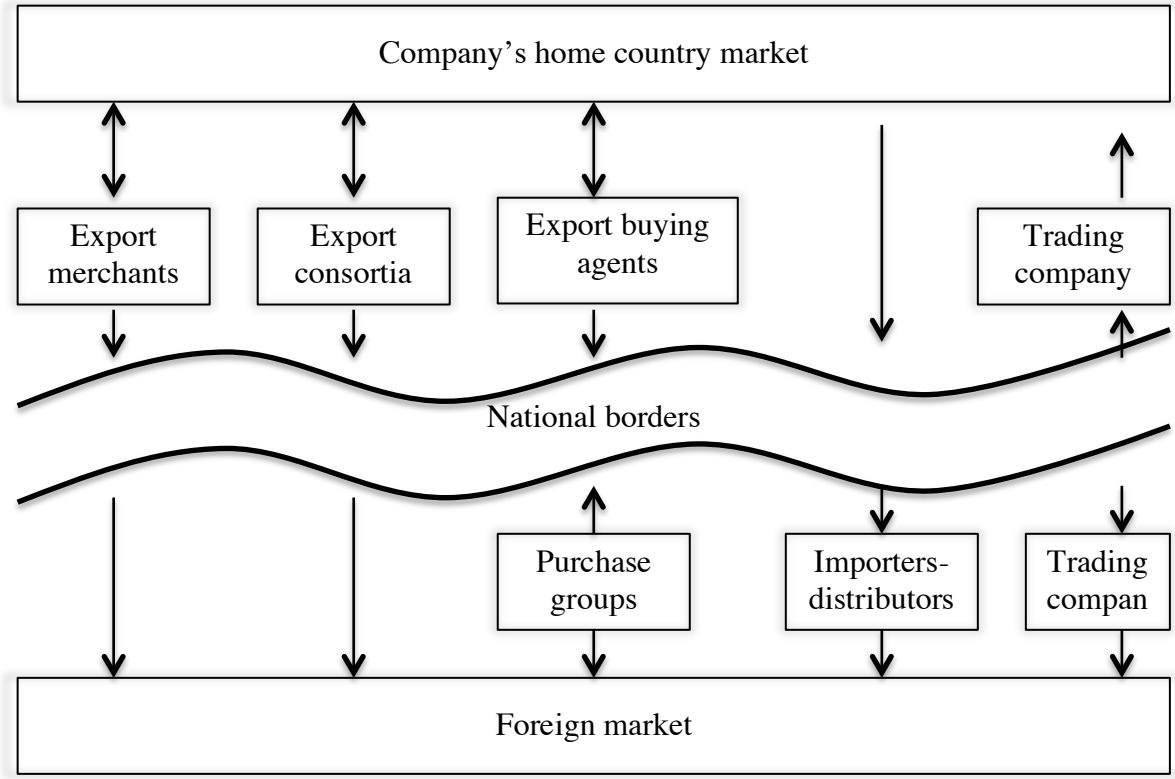


Figure 1.3 Foreign trade operator

Source: adapted from Valdani and Bertoli (2010).

- *Trading company:* it organizes both import and export and all the related services and, most of all, it is capable to be an internationalization partner in all its most advanced forms[18].
- *Export consortium*: it represents a particular type of aggregation between companies. It realizes when two or more firms decide to legally discipline and do some specific activities together[19].

[18] Caselli C. (1994). *L'avventura dell'internazionalizzazione*. Torino, Giappichelli.
[19] Art. 2602 Codice Civile.

- *Export buying agents*: all the previous operators buy the propriety of the product that is commercialized. On the contrary, export buying agents do not take the ownership, since they buy the good in their proper name but on behalf of others.
- *Broker*: this is the typical figure that links supply and demand. The broker is an independent actor like buyers, but unlike them, it can represent either the importer or the exporter[20].
- *Export management company*: it's a large and independent firm that has the task of buying products from the producer and sell them in the chosen market. It first identifies the needs of the foreign market and then chooses the producers to which propose the deal. Moreover, the export company manages the whole logistic process.

1.5.2 Agreements

When the company wants from the one hand to invest a limited amount of resource and from the other hand maintaining the control over foreign operations, agreements are the best solution.

- *International franchising*: this is a form of continuous collaboration between two companies regulated by a contract. With the agreement of international franchising, the company that wants to establish in a foreign country, the franchisor, gives its organizational and commercial formula to one or more independent affiliates, the franchisees, in each foreign market. The latter acquire the know-how of the franchisor, its brand and signs, and all the assistance required to represent the image and strategic goals of the franchisor in the best way as possible. All these concessions are given in exchange for periodic royalties from the franchisee, which have to bear the costs for all the investments needed to realize the agreement. The two parts act like a single vertically integrated company.

[20] Lasserre, P. (2002). *Global Strategic Management*. London, Palgrave Macmillan.

- *International licensing*: in this type of agreement an enterprise, the licensor, agrees that another company, the licensee, uses in a specific area and time its intangible property, which can concretize in a specific technology, copyright, trademarks or patented production process. The licensee can produce or commercialize a good and, in turn, has to pay recurrent fees to the licensor for the whole duration of the agreement. The reason behind the agreement is often the need for a faster start-up, lower costs or the desire to access to additional resources.
- *Piggy back*: it's an agreement between the carrier, an importer distributor, and the rider, the exporter company. The enterprise interested in placing its products in a new market finds a local producer, which, due to the agreement of piggy back, has the duty to manage the commercial organization. The best results verify when the two companies are allied, and then can sell the goods reciprocally, and not competitors.
- *Joint venture*: with this agreement, the businesses involved desire to establish a longer collaboration, comparing to the other forms of alliances. Joint venture splits up into two subcategories: equity and non-equity joint venture. From the one hand, with the first type, the two companies create a new corporate structure, which both of them control together in a long-term perspective. On the other hand, the second type is considered occasional since concerns a single deal and it's regulated by a contract between the parties.

1.5.3 Foreign Direct Investments (FDI)

As mentioned above, foreign direct investments are the entry-mode strategy with the highest degree of control on international activities by the firm. This is not without a great effort: as a matter of fact, the mother company has to invest a large amount of both financial and human resources. FDI can realize mainly in two ways, which require different levels of investment: through the acquisition of an existing firm in the new country, or by establishing a company ex novo. Nevertheless, the choice between the two solutions is not possible everywhere: in some countries, such as China, United Arab Emirates and India, the government forbids the creation of a wholly foreign owned

enterprise, that is a company in which the foreign party owns the total capital stock.
Motives that conduct the company to choose a FDI instead of other entry-modes strategies are several, but they often have the common trait of the need of research: natural resource seeking, when resources are located in specific locations; market seeking, in case of need of following clients in foreign markets, or for adaptation needs, or supplying the local markets more efficiently; efficiency seeking, when costs of resources are lower in the foreign market; finally, strategic asset seeking, typically knowledge.
FDI may be either horizontal, in the case of investment in the same industry in which the firm operates in the home country, or vertical when the investment is upstream or downstream of the original supply chain.

- *Greenfield*: this is the situation in which the company creates its own subsidiary in a foreign market ex novo, from the ground up. An additional auxiliary is suggested in case of absence of appropriate targets and when risks of overpayment happen. Moreover, acquisitions require the will of integration with all the related complications that may occur; with greenfield, these problems are avoided since the branch do not come from another firm and everything may be organized following a new strategy.
- *Acquisitions*: it occurs when the enterprise purchases an existing company in the foreign market. The mother company acquires another firm for different reasons. Firstly, there may be the need to have resources quickly; acquisitions allow the firm to get it in a short time compared to the level of assets earned. Secondly, this is a good way to avoid adding production capacity in a foreign country. In addition, acquisitions bypass the typical problems due to the creation of a start-up. Finally, it's the best way to exploit possible synergies between the mother and the acquired company.

1.6 Internationalization in the *new markets*

As stated in the previous paragraphs, the last decade has been affected by the birth of new markets and many countries became the land of imports of Made in Italy products.

As a consequence, the firms' value chains became more and more global, opening possibilities both in closest and in farthest countries.

Multinational enterprises have always searched for finding new markets since customers change their preferences, but also because of aspirational reasons of the firm itself[21]. As a matter of fact, every market expresses three different typologies of geographical region and segment: the existing, the emerging and finally the imaginable market.

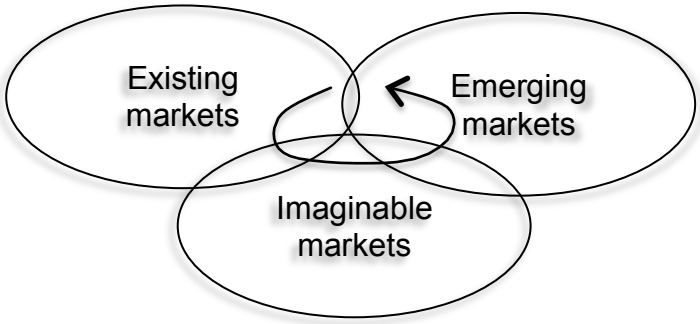


Figure 1.4 Figure 1.5 Existing, emerging and imaginable markets

Source: Valdani and Arbore (2008).

Market segments are different concerning the type of offer considered; as far as geographical markets are concerned, it's possible to define some common traits, though:

- *Existing markets:* these are the most evolved markets and those with the highest incomes; usually this category includes the triad US, Europe, and Japan, which represent the 14 per cent of the world population with the highest economic value. Nowadays, in these markets operates the largest number of companies; as a consequence, competition is at the highest levels and the markets are saturated. Moreover, here the offer has a middle-high level of quality and a consequent middle-high level of prices.
- *Emerging markets*: these are the answer to the saturation of the existing markets and consist in the remaining 86 per cent of the global population. The emerging markets concentrate in Asia, Africa, and South America. The countries that are part of this group are characterized by having a growing middle class, which possesses less purchasing power than developed countries and different needs.

[21] Valdani, E., Arbore, A. (2008). *Strategie competitive*. Milano, Egea.

Furthermore, in these regions infrastructures are poor, when not inexistent and distribution is localized and not specialized. Therefore, the firms that want to deal with those markets have to study the specific peculiarities and project the offer accordingly; but most of all, enterprises must study the future customers because they are the representative buyers towards whom address the offer. Due to low incomes, here the typical offer is low cost, which will involve all the industries of goods and services.

- *Imaginable markets*: market boundaries are dynamical thus the imaginable markets of today are the emerging ones of tomorrow and the existing of the future.

The company must have the ability to look at the three at the same time and manage the existing, be ready to develop the emerging and project the imaginable markets: only in this way it will be able to compete in a global environment which previews more and more the future.

At the end of 1970s China introduced the Open Door Policy, which allowed the country to open its national borders to the rest of the world[22]. This marked the beginning of the fastest and massive growth that the world has ever seen. China is the most relevant example; actually in the very last decades new economies have demonstrated high-speed rates of internationalization. Accelerated internationalization of latecomer economies and firms is especially remarkable if considering the disadvantaged conditions in which they operate and the degree of advanced technology needed for these processes. The success of these economies is due to "managerial, organizational novelties well suited to the evolving new conditions of the global economy" (Marinov and Marinova, 2012). Moreover, firms which manifested accelerated internationalization in emerging economies have demonstrated flexibility as a strategic move to reduce costs of facing international conditions; cooperation with others economies, both advanced and emerging ones; in addition, imitation, control and risk avoidance proved to be key successful factors in overcoming international risks for

[22] Marinov, M., Marinova, S. (2012). *Internationalization of Emerging Economies and Firms*. London, Palgrave.

emerging economies and firms engaged in accelerated internationalization [23].

Looking at outward foreign direct investment (OFDI) of emerging economies from 1990s until the global crisis is even clearer the great jump they made in internationalization processes. In 2008 the total amount of OFDI from these economies was of US$220 billion, with a high concentration, since BRIC countries recorded almost 70 per cent and seven nations gathered 89 per cent.

These are relevant data to understand the growth of these countries, which in the last years followed the same curve of developed economies, but registered stronger rates, confirming the outstanding performances and their growing power in the global economy.

Variable	Region	2015	2016	2017	2018
GDP growth rate	World	2.5	2.2	2.7	2.9
	Developed economies	2.1	1.5	1.7	1.8
	Developing economies	3.8	3.6	4.4	4.7
	Transition economies	-2.8	-0.2	1.4	2.0
GFCF growth rate	World	2.8	1.9	4.3	4.7
	Advanced economies[a]	2.6	1.5	2.8	3.5
	Emerging and developing economies[a]	3.0	2.2	5.4	5.4

Source: ©UNCTAD, based on United Nations (2017) for GDP and IMF (2017) for GFCF.
Note: GFCF = gross fixed capital formation.
[a] IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

Figure 1.6 Real growth rates of GDP and gross fixed capital formation, 2015-2016 (%)

Source: UNCTAD (2017).

For example, in 2017 when advanced economies grew of the 1.3% compared to the previous year, emerging and developing economies grew of the 3.2%, passing from 2.2% to 5.4% vis-à-vis the 1.5% to 2.8 of the other countries[24].

[23] Miller, K.D. (1992). *A framework for integrated risk management in international business*. Journal of International Business Studies, 23, 311-31.
[24] UNCTAD (2017). World Investment Report.

1.7 Italian SMEs and Made in Italy in the global context

During the last decades of the twentieth century Italy was living the outstanding performances of small and medium-sized firms. The dominating sectors were the typical of Made in Italy, the so-called "4F's": food, fashion, furniture and automation. The success of firms was not due to entrepreneurship, though: industrial districts were the formula for the growth of the network, allowing the advancement of the whole system, thanks to strong relationships and the great knowledge of craftsmanship[25].

Nevertheless, with the beginning of the new millennium the country had to face important shocks underestimated by the economy, which brought the whole industry to a change as rapid as radical in the way to think at business. The SMEs had to completely reorganize the corporate processes, which had been successful until those years.

The first shock that the Italian firms had to face was the introduction of the Euro, which imposed the enterprises to innovate and search for new strategies in an international arena. Secondly, China's entry into the global market made Italian firms suffering its power more than others European countries. Finally, the technological revolution that changed radically the management of industrial processes was not internalized by Italian SMEs, which, on the contrary, preferred informal coordination methods close to their philosophy.

In the years preceding the crisis, Italy was a well performer, being the fifth manufacturing country in the world and second in Europe, after Germany.

[25] Micelli, S. (2011). *Futuro artigiano*. Venezia, Marsilio Editori.

Paesi produttori		Quote % dei primi 20 produttori mondiali in dollari correnti		
		2000	2007	2009
1	Cina	8,3	15,4	21,5
2	Stati Uniti	24,8	17,4	15,1
3	Giappone	15,8	8,9	8,5
4	Germania	6,6	7,5	6,5
5	**Italia**	**4,1**	**4,5**	**3,9**
6	Corea del Sud	3,1	3,9	3,6
7	Francia	4,0	3,9	3,6
8	India	1,8	2,7	2,9
9	Brasile	2,0	2,6	2,7
10	Regno Unito	3,5	3,0	2,3
11	Russia	0,7	2,1	2,2
12	Spagna	2,0	2,5	2,2
13	Canada	2,3	2,2	1,8
14	Messico	2,3	1,8	1,6
15	Turchia	0,9	1,1	1,3
16	Taiwan	1,7	1,4	1,3
17	Paesi Bassi	1,1	1,2	1,2
18	Polonia	0,6	0,9	0,9
19	Belgio	0,9	1,0	0,9
20	Svizzera	0,7	0,8	0,8
	UE 15	25,7	27,6	24,0
	BRIC	12,8	22,7	29,3
	Nuovi-UE	1,4	2,6	2,5

Figure 1.7 Made in Italy before the crisis: global production country shares

Source: Traù, CSC (2010)[26].

Starting form 2008 innovation acquired a key role in the process of internationalization, testified from the different weight of the 4A export: if in the years at the beginning of the decade food, fashion and furniture counterbalanced automation, after 2008 the latter raised considerably at the expenses of the others. The capability of selling technology was at the basis of the export growth of automation, which realized both in the final product and the machineries to produce it.

The legal protection of creations is extremely important for preventing the production of counterfeit products. Intellectual propriety of Italian products and in particular Made in Italy, is still a debated topic but a legislation ad hoc is required, in particular since when China has imposed in the global market and traded copied Italian goods worldwide. At any rate, something has been done with the introduction of the Reguzzoni-Versace law

[26] Centro Studi Confindustria (2010). Scenari industriali. Nuovi produttori, mercati e filiere globali. Le imprese italiane cambiano assetto.

in 2010. With this measure shoes, textile and leather goods may have the label of Made in Italy if some typical phases of the creation indicated in the text took place mostly in Italy. Even though some limits are set, the legislator left open the possibility to produce Made in Italy products even outside the national borders. Still much has to be done and should include the whole process, starting from the raw material and passing through every process of the value chain, as many entrepreneurs auspicate.

In a global context new economies need our expertise because we have competences on the consumption they are realizing. But the craftsmanship has to be enhanced, combining the savoir-faire with innovation and industrialization: "the artisan knowledge, in his capability of being culture, creativity and personalization, is complementary to the knowledge of the industrial world, not antagonist" (Micelli, 2011).

1.8 Innovation in the internationalization process

As seen in the historical paragraph, new technologies played a key role in innovation during centuries. Globalization of the last hundred years pushed countries to feel close to each other but globalization of markets and advances in information technology increased the importance of corporate improvements[27].

Innovation always led consequences either at a customer and a business level. With the iPhone invention, everyday life is changed and consequently purchasing methods and processes: people buy products faster and everywhere with Internet and apps on smartphones. It's estimated that nowadays in developed and emerging economies up to two thirds of people shop online[28] and about 75 per cent of the population use internet, whereas the same statistic reach up to the half in developing countries[29].

From the corporate point of view, new technologies affected both product and process innovation, at a national and a global scale. Technological innovation, known as "the act

[27] Schilling, M. A. (2013). *Strategic Management of Technological Innovation*. New york, Mc Graw-Hill Irwin.

[28] Statista and Eurostat, E-Commerce Statistics for Individuals, http://ec.europa.eu

[29] ITU, World Telecommunication/ICT Indicators database, released January 2017.

of introducing a new device, method, or material for application to commercial or practical objectives" (Schilling, 203), increased the output achievable from a single quantity of resource implied, especially when computer-aided design and computer-aided manufacturing have been introduced. Innovation brought an increasing number of new ideas but only one out of 3,000 raw ideas turns to be a successful new product.

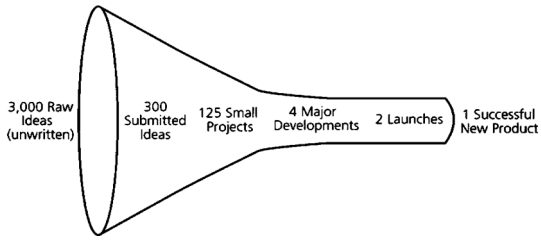


Figure 1.8 The innovation funnel

Thus, innovation requires clear corporate strategies to support the whole process of creation: to be successful it must knock down entry barriers, fulfil the customers' needs, whether they are manifest or hidden, and overcome their resistance to change.

In a global context, information and communication technology plays a key role to grant the success of the international operations since the value chains are no more limited to national borders but are more and more global. As a matter of fact, ICT innovation develops inside the company the capability to coordinate suppliers, organize efficiently the distribution processes and manage the relationships with partners in the research and development processes.[30]

Even though ICT technologies are improved and have seen a great diffusion in the Italian small and medium enterprises (SMEs) during the last decades, the gap with competitor countries is still meaningful. This disparity is due to a lack of ICT technologies oriented to SMEs: during the time, software and infrastructure technology has been too much focus on big firms, instead of catching the possibilities that a large

[30] Chiarvesio M., Di Maria E., Micelli S. (2006). *Global value chains and open networks: the case of Italian industrial districts*. Università di Treviri, paper SASE 2006.

number of small and medium companies could represent[31]. Secondly, the investment needed for ICT improvement requires planning and development processes in a long-term perspective that Italian firms have not in common with others advanced economies. In addition, technology innovation obliges SMEs to dedicate large amount of resources, representing a great obstacle to the final decision of the investment realization.

While on the one hand a group of companies is still below the average for investment in ICT innovation, another group has understood the importance of possessing advanced technologies in worldwide processes. These SMEs, in particular leader brands, in the last fifteen years have started to be more competitive in the global arena thanks to upgrades in technological assets[32].

Digitalization affected the whole supply chain and customer interaction of MNEs. Digital adoption is a means for the company to ensure that the quality of its goods reaches high standards and to trace products' provenance. It is often used as a strategy to improve customer services and gain competitive advantage, but also to reduce the company's environmental impact[33].

[31] Bramanti A., Ordanini A. (2004). *ICT e distretti industriali, Una governance per la competitività di imprese e territori*. Milano, Etas.

[32] AA.VV. (2007). *Internazionalizzazione e nuove leve per la competitività*. Quaderni Formez, n.69. Roma, Formez.

[33] UNCTAD (2017). World Investment Report.

2 China

2.1 Introduction

When not explicitly indicated, data in this chapter concern a personal processing of the 67 World Bank databases, updated to 2016, when available. The World Bank provides all its rough data produced by the World Bank group in all its researches and projects. These will be used in this chapter and the most used are[34]:

- *World Development Indicators* database: composed by 1519 series of data for 264 among single countries and aggregates, over 50 years, when available;
- *Doing Business* database: this includes 58 series of data, concerning 258 countries, over 12 years, when available.

2.2 The country's development

"When you multiply any problem by China's population, it's a very big problem. But when you divide it by China's population, it becomes very small". These are the words pronounced by one of the China's leading economists Justin Lin talking to Premier Wen Jiabao. The meaning of the sentence is that any challenge the country faces, it is on an enormous scale, but the existing resources to solve it are just as great; the most challenging task is to manage them efficiently and effectively to overcome even the biggest difficulties.

With its nearly 1.4 billion people in 2016, China is the world's largest country by population and the fourth largest area, with a geographic size almost equal to the US; this represents a set of restrictions and possibilities for the government[35]. The nation's dimension gave the opportunity for a high-speed growth rate, which has always been based on quantity instead of quality. Moreover, the nation's largeness has represented a big opportunity for government to apply a mechanism of trial-and-error on its policies:

[34] Data available at: http://databank.worldbank.org/data/home.aspx last access: 25/08/2017

[35] Kroeber, A. R. (2016). China's Economy. What everyone needs to know. Oxford University Press.

since there are 31 province-level jurisdictions, with Tibet the smallest of 3 million people, and the largest Guangdong with 104 million, about the same of Mexico, regulations can be applied in one or few territories and in case of success they can be adopted on a national scale. As a consequence, China can be defined "as a continent-sized assemblage of countries" (Kroeber, 2016).

From 2013 until today the president of People Republic of China is Xi Jinping and his government system present three main features emblematic of the country's history:

1. *The Chinese system is bureaucratic-authoritarian*: it consists neither in a democracy nor in a dictatorship. It's a mixture of the typical forms of government of both advanced and developing economies, since most of the high-income developed countries are governed by the first, whereas a dictator guides most developing countries. The Communist Party takes the last decisions and direct military and government operations, since it's at the top of the political system. The party always search for the consensus of the senior leadership group on major policy decisions, and to achieve the goal it selects leaders who are subject to term limits, mandatory retirement ages, and formal requirements. These constraints are not formally recognized but it is well-known to work that way most of the time.
2. *China is a one-party state*: the Communist Party is the sole legal party, but more than that, the nature of the party is important. It consists in a vast organization of nearly eighty-six million members, representing more than five per cent of the national population. The party spreads into every organized sector of life including governments, courts, the media, companies, whether they are private or state-owned, universities and religious organizations. The party no longer control every sphere of daily life, as it was during the Maoist era, but do control or heavily influence every organized activity. Finally, the party constantly impose restrictions on media, including censorship on the Internet. Nevertheless, it's necessary to precise that it has tolerated an explosion of conventional and online media and invested in Internet infrastructures.
3. *China is formally centralized, but in practice highly decentralized*: centralization occurs because in the country's government there is no division of powers between the central and provincial authorities. But actually, local governments

have a high level of discretion and autonomy, thus a high level of decentralization. For example, as far as the share of government expenditure that takes place at a subnational level is concerned, the International Monetary Fund found that it reached the 85 per cent in 2014 in contrast to 25 per cent of democracies and 18 per cent of non-democracies. This is visible looking at the past of the country, too. For example, from 1956 until 1979, it formally was a centrally planned Communist economy, but going deeply it emerges that local governments allocated up to the half of some industries resources, when in the Soviet Union, centrally planned par excellence, completely managed the same resources by the central government.

For many years, Mao Zedong governed China with a formal centrally planned economy[36]. The leader, atop the Communist Party, imposed his dictatorship on the population, controlled most of the country's production and established the output goals. In addition, he imposed restrictions on resources and prices, which obliged people to live under the living standards comparing to the others developing economies. It's only after his death, in 1976, that the country started to experience the most rapid growth the world has ever seen and brought it to be at the leading position of nowadays. As a matter of fact, since the early 1980s, thanks to the newly established government, China opened up its frontiers and started to have a constant positive high-speed rate that conducted the nation from a position of underdeveloped country to overtake the largest economies.

[36] Cheung, Y.-W., De Haan, Jakob (2013). *The Evolving Role of China in the Global Economy*. Cambridge, Massachusetts: Massachusetts Institute of Technology (MIT) Press.

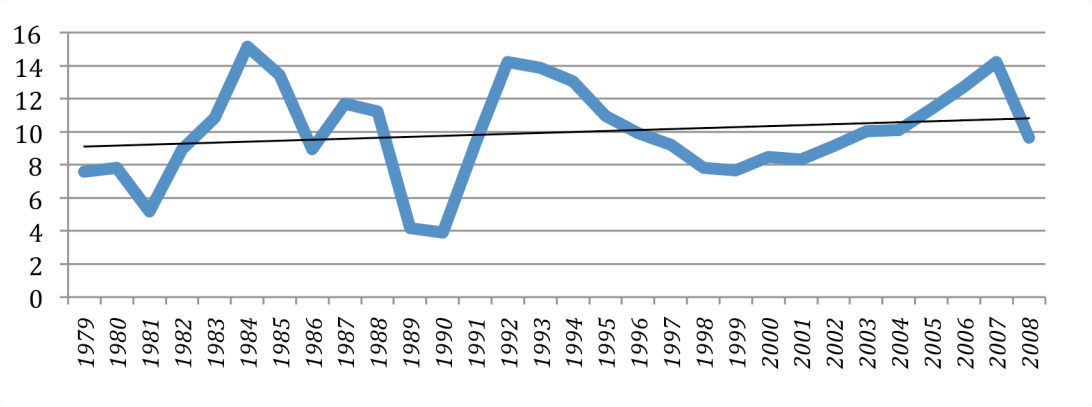


Figure 2.1 Chinese GDP growth: 1979-2008 (Annual%)

Source: personal processing on World Bank rough data.

From the graph, the tendency is clear (green line): from the establishment of the new government until the global crisis of 2008, the country grew its GDP at an average rate of 10 per cent. This was due to the reforms that followed Mao's dictatorship, which were based on the free-market principles: with the goal of increase substantially China's growth and improve people living conditions, the government opened up trade and investment with the Western countries. Nevertheless, the country still considers itself as a "socialist-market economy", since the government plays a major role in the nation's development, although the reforms (Cheung, De Haan, 2013).

2.3 The economic context

The last ten years played a key role for the Chinese position in the world economy. In 2010 the country registered a total amount of GDP of 6.100 billion dollars[37], whereas the second largest economy of that time, Japan, reached 400 billion dollars less: this was the turning point for the dragon's country, which became the second world economic power. Nevertheless, the government did not stop its race to the top and kept investing with the goal of becoming the most powerful country, overtaking the US. The gap between them is slowly but steadily becoming smaller since in 2016 the discrepancy was fewer than 7.400 billion dollars, comparing to more than 11.100 billion dollars of ten years before. The improvement has been permitted in particular by the government

[37] World Bank.

efforts to reduce manufacturing in favour of a service-based economy[38]. Moreover, the accelerated internationalization contributed, too: after a period of intensive growth of foreign direct investment net outflows, in 2016 they reached the goal set by the government and surpassed net inflows with a discrepancy of almost 47 billion dollars.

In a total amount of about 11.200 billion dollars in 2016, looking at the internal composition of Chinese GDP emerges that services dominated the richness of the country; but what is more unusual is the amount of 8 per cent of agricultural activities. This is because of the huge rural areas, which are still an important issue of the development process: the US, with about the same size of the Chinese lands, count only 1 per cent of their GDP composition in the primary sector. Generally, the trend of all the categories involved is positive, but going in detail some disparities appear. Firstly, in the long period, agriculture grew constantly but in 2012 it slowed its speed for three years and in 2016 it registered a countertrend of about 958 billion dollars vis-à-vis the 977 of the previous year. In addition, services started to grow faster than industry, overtaking it in 2012 for all the following years; looking at the rate of GDP, services grew from the 48 per cent of 2014 up to the almost 52 per cent of two years later, whereas industry decreased from 43 to 40 per cent during the same period. Finally, the overview shows that gap between, from the one hand the primary and the secondary sector and from the other hand the tertiary, grew more and more in the last five years.

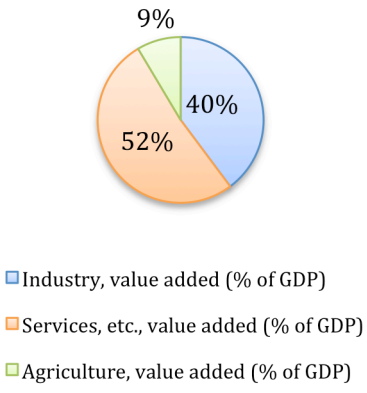


Figure 2.2 Chinese GDP composition (2016)

[38] Hsu, S. (2017). China takes another step towards a service economy. Forbes (available at: https://www.forbes.com/sites/sarahsu/2017/02/21/china-takes-another-step-towards-a-service-economy/ last access: 9/08/2017).

Source: personal processing on World Bank rough data.

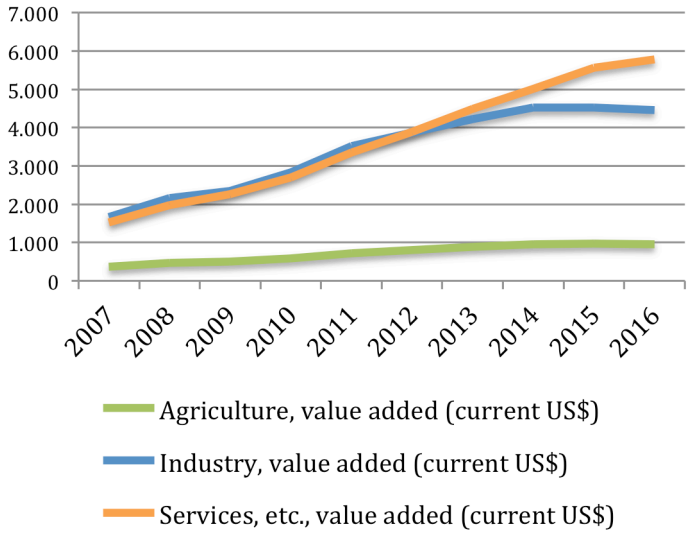


Figure 2.3 Trend of Chinese GDP composition: 2007-2016 (Billion $)

Source: personal processing on World Bank rough data.

To improve even more services in the next years, in February 2017 the government announced to set up a 30 billion yuan ($ 4.37 billion) fund to encourage high value-added service exports for both state-owned and private enterprises: "The fund will give support mainly to high value-added service exports, such as the technological and financial industry, as well as intellectual property and cultural works with Chinese characteristics" (Cui Yanxin, senior researcher at the Chinese Academy of International Trade and Economic Cooperation, under the Ministry of Commerce)[39]. The set of reforms that took place in the country had as the major goal to improve non-traditional sectors, such as e-commerce and technology, sectors that could bring higher growth to the nation and higher incomes to the population, and consequently consumptions, due to the increased employment (Hsu, 2017).

Nevertheless, Chinese growth is not as bright as fifteen years ago as the country is

[39] Shuiyu, J. (18/02/20917). Nation plans $4b fund for services. China Daily (available at: http://www.chinadaily.com.cn/business/2017-02/18/content_28249795.htm last access: 9/08/2017).

experiencing a slowdown in its rates. As a matter of fact, in 2010 its GDP growth rate reached 10.64 percentage-point of annual growth but decreased all the following years, arriving to register 6.70 per cent in 2016. Moreover, both import and export of goods and services registered a contraction but the rate of exports of high-tech and ICT goods increased their percentage in the total amount of manufactured exports, proving the willingness of the institutions to work towards having technology as peak industry of the future.

Despite the decreased imports, China will be one of the most chosen destination for doing business: as far as the foreign direct investments destinations are concerned, the 2017 World Investment Report, declared that China will be the second preferred nation after United Stated for the biennium 2017-2019, and the first as home economy in the same period[40].

Series Name	*2016*
GDP (current US$)	11.200.000.000.000
Agriculture, value added (current US$)	958.250.000.000
Industry, value added (current US$)	4.458.365.000.000
Services, etc., value added (current US$)	5.782.535.000.000

Table 2.1 Main economic indexes

Source: personal processing on World Bank rough data.

2.3.1 China & Italy

In the last years, and in particular since 2014, China signed specific trade agreements to enhance the exchanges between the two countries[41]. In that year both the Italian Minister for economic development and the Prime Minister went to visit the Asian

[40] UNCTAD (2017). *World Investment Report*.

[41] Italian Chamber of Commerce in China, Beijing (2017). Business Atlas 2017. Scheda paese China (available at: http://www.assocamerestero.it/default.asp?idtema=1&idtemacat=1&page=informazioni&action=read&index=1&idcategoria=25206&idinformazione=109593 last access: 31/08/2017).

country and subscribed firstly several collaborations concerning environment, urbanization, health, and agriculture; in a second time, the highest state offices concluded ten cooperation agreements with the goal of making easier the mutual markets penetration and investments for 3 billion euros for the following five years, in addition to one billion euros for the Italian companies willing to expand their business in Asia. Moreover, thanks to the digital solutions it has been possible for the Italian Chamber of Commerce in China to allow the Italian enterprises to sell their products to Chinese consumers without being physically located in the country, thus avoiding all the related costs and risks. Also in 2014, the Business Forum Italy/China was established, thanks to which the business communities can exchange information, knowledge, industrial proposals, and reciprocal investments even with third markets: this represents an innovative platform of interaction for the companies interested in dealing with the country, and a permanent facilitation that is added to the traditional government tools.

In 2016 China imported goods for a total amount of €1.433 billion, with a decrease of 5.5 per cent comparing to the previous year. The country experienced its major increase in some sectors that outdid the 100%, such as art and collector items that grew two times and a half, perfumes and cosmetics, which as and meat and butchery grew of about 150 per cent comparing to the previous year. In the context of goods coming from abroad, the country that sold the highest amount of products is Korea, followed by Japan and Taiwan, counting almost a third of the total Emirati imports.

Currently, Italy represents the 15th partner for Chinese commercial exchanges worldwide and the fourth at a European level[42]. Automation is the sector with the highest interest, followed by fashion and automotive. After a reduction of Chinese imports from Italy in 2013, the figure has kept raising with a growth of more than €660 million in 2016 from the previous year. Moreover, the Italian companies in China are about 2 thousand, for a total amount of 60 thousand jobs and a revenue of €5 billion.

Considering high-end Made in Italy, the annual report of "Esportare la Dolce Vita" realized by Italian Confindustria and the consulting firm Prometeia provides a lot of

[42] Ambasciata d'Italia (2017). Rapporto Cina. InfoMercatiEsteri (available at: http://www.infomercatiesteri.it/paese.php?id_paesi=122 last access:1/09/2017).

information[43]. The analysis considers the high-end manufacture sectors, called "Bello e ben fatto" (BBF) with the goal of finding the attractiveness for these categories in each of the 30 economies under inspection. What emerges from the study is that in 2015 China imported BBF for a total amount of more than €13 billion; moreover, it's estimated that in 2021 the same figure will reach €19.5 million, with a cumulated increase of 48 per cent from 2016 to 2021. In this context, the total amount of BBF imported from Italy in 2015 was €1.7 million, and an estimated growth of about 50 per cent, reaching €2.5 million in 2021. The Chinese imports of BBF from Italy will count for about the 4 per cent on Italian export in 2021.

Series	*2016*
Total imports of goods (billion €)	1.430
Total exports of goods (billion €)	1.390
Total imports of goods from Italy (billion €)	11
Total exports of goods to Italy (billion €)	27
Total imports of BBF from the world (billion €, 2015)	13.100
Total imports of BBF from Italy (billion €, 2015)	1.700

Table 2.2 Main trade figures

Source: Italian Chamber of Commerce in China, Beijing (2017); Confindustria, Prometeia (2016).

2.4 Chinese population and society

Today China is the most populous country in the world with its 1.4 billion people and a small but continuous annual growth of 0.5 per cent; in spite of this, it is still struggling

[43] Confindustria, Prometeia (2016). Esportare la dolce vita. Il bello e ben fatto italiano nei nuovi mercati: le forze che trasformano i consumi (available at: https://d3alc7xa4w7z55.cloudfront.net/upload/images/05_2016/160503151910.pdf last access: 16/09/2017).

to emerge from poverty[44]: with its just over 8.000$ GDP per capita, and 15 thousand of international dollars of GDP per capita based on purchasing power parity in 2016[45], a growth of 6%, and a household final consumption expenditure per capita of 2.400 US$, it is far lower than its direct competitor USA, with its almost 57.500$ of GDP per capita and an expenditure of more than 35 thousand dollars, and all the advanced economies. Such a low level is due to the gigantic rural areas and the extreme conditions of certain territories, such as Tibet. In these lands "peasants struggle on the margin of subsistence […] and in the biggest cities (Beijing, Shanghai, Guangdong) the modern information economy is taking root" (Naughton, 2007). All these evidence show that the nation has not completed two transitional processes, yet: first, the transition from bureaucratic socialism toward a market economy and it is still in the middle of the industrialization process, from a rural society to an urban modernity. As a matter of fact, on the one hand, there are the bureaucratic state-owned firms that compete on the other hand with hard-working households and multinationals with the highest educated managers (Naughton, 2007).

Education and literacy are signs of the national development. In fact, statistics show that the literacy rate is increasing more and more and if in the adults the level reaches only the 96 per cent of the total population with the same age, the same figure for youngest generations facing the world of work arrives at the 99.7 per cent. Moreover, the employment data confirm the tendency of development of the country and the policies actuated: the unemployment is only at 4.6 per cent of the total labour forces, even though it's increasing, according to ILO estimates; in addition, since agriculture is still relevant in some territories, in 2015 employment in this sector was decreasing but still counted more than a quarter of the total employment; people working in industry were decreasing too, registering about the 29 per cent in the same year; finally, the highest rate is in favour of the tertiary sector with its growing 42.4 per cent. Although tendencies for employment are well performing, disparities between genders still exist, in a context where females are the 49 per cent of the total population: in a total labour force of more than 807 million people, the 44 per cent of them is female, which is an

[44] Naughton, B. (2007). *The Chinese Economy. Transition and Growth*. Cambridge, Massachusetts: Massachusetts Institute of Technology (MIT) Press.

[45] World Bank data 2016.

encouraging figure, but in institutions, the percentage of women seating at the national parliaments does not reach the 24 per cent of the total. The legislator in China does not preserve women to keep an equivalent position after the maternity leave but does protect mothers to have their maternity leave paid, workers in non-discrimination of genders in hiring and defend on domestic violence.

The industrialization process is visible in the rates of urban and rural population: after a long period of growth, in 2011 the urban population passed to be the majority, continuing a never stopping growth even in the following years until 2016, in which it was the about 57 per cent of the total population, counting about 783 million people versus the 596 billion of rural areas. The population in the largest cities grew accordingly but counting only the 3.13 per cent of the urban population and a density of 147 people per square km of a total land area of 9.4 million of square km. Moreover, the percentage of the population that had access to improved water sources in rural areas grew accordingly and in twenty years, from 1995 until 2015, it passed from 63 per cent to the 93 per of the population living in those territories.

The process of urbanization nowadays has also forced the use of technologies by the population. As a matter of fact, fixed broadband and mobile cellular subscriptions, and the percentage of the population using the Internet increased, whereas the fixed telephone subscriptions decreased, as a sign of obsolescence of technology; this is improved by the increase of secure internet servers to make transactions, too. From a business point of view, the process of development brought to an increasing of patent subscription from both resident and non-resident whereas trademark applications have undergone an arrest.

Series Name	*2016*
Land area (sq. km)	9.388.000
GDP per capita (current US$)	8.100
GDP per capita, PPP (current international $)	15.500
Household final consumption expenditure per capita (constant 2010 US$)	2.600
Population, total	1.378.665.000

Population, female (% of total)	48
Labour force, total	807.138.00
Labour force, female (% of total labour force)	43
Rural population	595.887.000
Urban population	782.778.000
Population in largest city	24.484.000
Secure Internet servers	28.300
Mobile cellular subscriptions (2015)	1.291.984.200
Individuals using the Internet (% of population, 2015)	50
Fixed broadband subscriptions (2015)	277.046.000

Table 2.3 Main society indexes

Source: personal processing on World Bank rough data.

2.5 Chinese culture

According to the Oxford English Dictionary culture is "The arts and other manifestations of human intellectual achievement regarded collectively" and "the ideas, customs, and social behaviour of a particular people or society"[46]: this means that each culture has its own specificities that a company willing to doing business with, have to consider carefully.

Professor Geert Hofstede defined culture as "the collective programming of the mind distinguishing the members of one group or category of people from others" and proposed one of the most influential studies on the theme with his book Culture's Consequence[47]. The author introduces six dimensions to explain how cultural values affected the working environment and social behaviours:

[46] Oxford Dictionary Online (2017). Available at: https://en.oxforddictionaries.com/definition/culture (Last access:25/08/2017).

[47] Hofstede, G. (2001). Culture's Consequence: Comparing values, behaviors, institutions, and organization across nations. Thousand Oaks: Sage Publication.

1. *High vs. low power distance*: this dimension concerns whether there are equalities or inequalities in interpersonal interactions and distribution of power, thus whether a society is hierarchical or egalitarian. China has a value of 80 over 100: this means that there is high hierarchy and inequalities among people are accepted. In the working context, superiors have the power and can abuse of it on their subordinates. People in the society are influenced by the authorities and sanctions, they are well-disposed in people's capability of leadership and initiative but think that individuals should have modest aspirations.
2. *Individualism vs. collectivism*: in this case, the nature of relationships and the boundaries between people and the group are involved. In individualist cultures (high scores), a person should look after his immediate family and nobody else. China has a value of 20: thus Chinese people are highly collectivists and act in the interest of the group and not necessarily for themselves. In jobs, they favourite their group, both in hiring and promotions and the commitment to the company is low by the employees. In relationships, they are friendly and cooperative with their in-group but cold with the out-group. Finally, the importance of people of he in-group implies that personal relationships prevail on tasks.
3. *Masculinity vs. femininity*: masculinity (high scores) is related to the assertiveness and achievement orientation, whereas femininity to caring of others and it emphasizes the quality of life. In this category, China has a score of 66: this means that it is a masculine society oriented towards success and accomplishment, even sacrificing family and leisure: services are provided until late and people living in the countryside move to the cities leaving their families to have better jobs.
4. *High vs. low uncertainty avoidance*: is the extent to which people avoid ambiguous situations since, in the case of high avoidance, they consider uncertainty as a negative thing that society should reduce. Here, China has a value of 30: this implies that Chinese people are comfortable with ambiguity and even their language not so clear for Western people to understand, since many words have a plurality of meanings. A low level of uncertainty avoidance brings to the fact that individuals are very adaptable and entrepreneurial.

5. *Long-term vs. short-term orientation*: is the focus of people to think about future or present in the way to act. China has a score of 87 in this dimension. As a matter of fact, Chinese people are very future-oriented and have a pragmatic approach to life: in pragmatic societies, people think that truth is relative and it depends on the situation and time. Moreover, they adapt their traditions to evolving times, are highly savers and investors and persevere to achieve their goals.
6. *Indulgence vs. restraint*: indulgence (high scores) concerns enjoying life or controlling desires. China has a score of 24: this means that the culture is very pessimistic and cynical; in addition, Chinese people prefer work instead of leisure time and put much control on their desires and impulses. Restraint societies think that their actions are controlled by social norms and perceive leisure and indulgence as wrong.

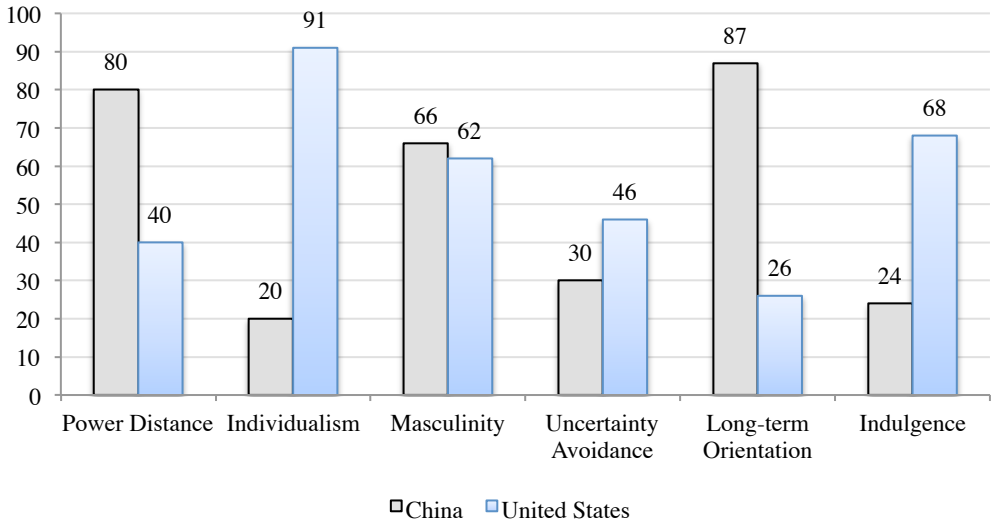


Figure 2.4 Cultural dimension comparison: China and United States

Source: personal processing on data taken from: https://geert-hofstede.com/china.html

Languages and religion influence the culture in its habits and way of thinking.
In China the main language is Chinese Mandarin but four relevant dialects still survive, Yue (Guangzhou its province), Wu (Shanghai), Minbei (Fuzhou), Minnan (Taiwan), and two less spoken, Hakka, Gan, Xiang. Moreover, in the farthest territories are preserved the Miao dialect spoken by the homonymous ethnic minority and Dongba that

is a still used pictogram of the minority of Naxi. Nevertheless, English is the language preferred by the economic and commercial activities and Chinese remains the preferred language used for government and the highest corporate charges[48].

As far as religions are concerned, in the country are actively practiced Confucianism, Taoism, Buddhism, and Christianity even though at a lesser extent.

Information	*Value*
Languages	6
Religions	4
Power Distance	80
Individualism/Collectivism	20
Masculinity/Femininity	66
Uncertainty avoidance	30
Long/Short-term orientation	87
Indulgence/ Restraint	24

Table 2.4 China: Main cultural information

Source: personal processing.

2.6 Chinese consumer

Chinese preferences in consuming goods and services changed in the last years. Consumers are aware of the changing conditions of their economy and consequently, they are trying more and more to invest for the future and save in view of possible needs. Nonetheless, higher incomes allow them to keep increasing their spending but changing preferences compared to the past. Nowadays, consumers are more careful and their shopping follows the tendency of the whole national economy: they are passing

[48] Source: http://www.schedeflash.it/index.php?option=com_schedepaese&task=scheda_flash&articles=484%7C22858%7C22897%7C22863%7C22864%7C22873%7C22890%7C22891&paese=720&interscambio=7&Itemid=3809&lang=it

more and more from goods to services and from mass to premium categories[49]. Four main trends are visible in Chinese consuming experiences: loyalty to brands, healthy living, family focus and experiences and international travel. Firstly, Chinese consumers are more and more loyal to few brands and are less open to try new ones, even though encouraged by promotions: in all the consuming categories only an average of 20% is open to buy products that do not become from their consideration set, resulting more challenging for companies to enter in this group of privileged brands. As far as goods are concerned, consumers prefer premium products instead of mass segments as it was in the past, and half of them are seeking for the "best and most expensive product" (McKinsey & Co., 2016) in which they choose foreign brands over the domestic; the latter gain higher markets shares in the mass segments, though. Secondly, growing incomes and improving standards of life brought in the consumers the need of having a healthier and balanced life: as a matter of fact, they are more attentive to food choices, they practice sports at a higher extent and engage in healthcare prevention. Thirdly, the family is becoming always more important and in 2015 75% of consumers, from the 62 per cent of 2011, declared that having a happy family was meaningful of success instead of being rich. Finally, travel is increasing its importance and in 2015 70 million of Chinese travelled overseas; moreover, during their travels they go shopping, being a huge potential consumers pool for the companies located in the travels destinations, such Italy is. Experiences follow the same trend and consumers declared that if their income will increase, and it's very likely that will be the case, they would spend more for spas, leisure, and entertainment. This is a relevant change compared to the previous years, especially if considered the tendency of the Chinese culture to prefer work and achievements instead of leisure and family as seen in the previous paragraph.

Companies willing to deal with China have to consider the increasing rate of use of online stores, since China e-commerce market in 2014 generated RMB 4 trillion, around the same as the US and Europe. In addition, the population is very technological-oriented, as it adopts easily new solutions like mobile payments[50].

The importance of understanding Chinese consumers trend is crucial to catch the great

[49] Zipser, D., Chen Y., Gong F. (2016). 2016 China Consumer Report. The modernization of the Chinese consumer. McKinsey & Company.

[50] See the paragraph about the online world.

possibilities that the numbers of this markets can offer and win the global and domestic competition; moreover, it will make the difference between being among the companies loved by consumers or among the ones that make huge difficulties to be appreciated.

2.6.1 The raise of Chinese Middle Class

The Chinese consuming habits are driven by the growing phenomenon of the emerging middle class. A McKinsey & Company study estimates that Chinese consumers earning from RMB 60.000 to 229.000 ($ 9.000 to $34.000) per year will pass from the 4 per cent of urban Chinese households of 2000 to 75 per cent by 2022[51]. This growth will be stronger in smaller inland cities, than in the biggest metropolis, and it will be fuelled by the wages that will see an increase due to the initiatives concerning the labour market. As a matter of fact, the government is growing its attention to the labour field since the private sector is raising its relevance in the national economy, and consequently it is realizing financial reforms that will impact on incomes. In this race, the Internet will play a key role since it will expand even more the purchasing power of this generation, which it consists in a new bourgeoisie with a global perspective and passionate for technology. Moreover, the upper middle class, with income starting from RMB 106.000, will guide the phenomenon spending more than the half of urban private consumption and will drive the sophisticated and seasonal shopping: the discretionary goods and the ones with a higher price due to quality.

Information	*2012*
Chinese middle class	174.080.000
Chinese middle class consumption (RMB)	7.435.520.000.000

Table 2.5 Main information about the Cinese middle class

Source: personal processing.

[51] Barton, D., Chen, Y., Jin, A. (2013). Mapping China's middle class. McKinsey & Company (available at: http://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class last access 14/08/2017).

2.6.2 The relevance of online world

Chinese huge numbers of the real world reflect on the Internet phenomenon giving to the country the record for Internet users worldwide for many years, followed by India and United States in 2016[52]. China currently reaches more than 731 million Internet users[53] with a penetration of 53 per cent of the total population, almost 43 millions more than 2015; but the highest penetration rate is in mobile Internet users with an incredible escalation in ten years: in 2016 people using Internet from their mobile phones were more than 695 million, which consists of more than the 95 per cent of the total Internet users; whereas in 2006 they were only 50 million with a penetration of 24%. Consequently, the device more used for Internet access is the mobile phone (95%), followed by desktop computers (60%) and laptops (37%), both in old and in new users. The age is equally distributed between 10 and 49 years old, with a slight peak among the young of about twenty years old; thus, the highest users education reported is high school and student plus self-employed freelancers represent the half of the occupational structure using Internet. Half of the users earn a monthly personal income of less than 500 yuan or between 2000 and 5000 yuan; while the other half have a remuneration equally distributed among the other bands.

According to statistics[54], the regions with the highest number of Internet users are Guangdong, Shandong, and Jiangsu respectively with 80.24, 52.07, and 45.13 million people, and the provinces of Jiangxi and Anhui registered the highest rates of growth comparing to 2015, with 15.7 and 13.6 per cent. Moreover, the urban areas predictably have the largest use of Internet, counting more than the 72 per cent of all the people using Internet.

As far as Internet applications are concerned, instant messengers, news, and search

[52] Source: http://www.internetlivestats.com/internet-users-by-country/ last access: 13/08/2017.

[53] Whitepaper: China Internet Statistics 2017 (available at: https://www.chinainternetwatch.com/whitepaper/china-internet-statistics/ last access: 13/08/2017).

[54] Number of Internet users in China in 2016, by region (in millions) https://www.statista.com/statistics/277259/number-of-internet-users-in-china-by-province/ last access: 13/08/2017.

engines are the most used; nevertheless, mobile online payments users grew consistently from the 2015 either online and offline: the Internet users paying online via mobile reached up to the 67 per cent of all the users, and half of the Internet users use mobile payments even for purchasing in offline retail stores. McKinsey[55] estimated that China's e-commerce transactions are equal to the ones of France, Germany, Japan, the United Kingdom and the United States combined, and the value of mobile payments of private consumption in 2016 was of $790 billion, that means 11 times the one of United States. Moreover, the potential for the future is great: "In digital payments, a 1 percentage point conversion into mobile of bank-card transactions (again related to consumption by individuals) can boost their value by more than $80 billion" (McKinsey Global Institute, 2017).

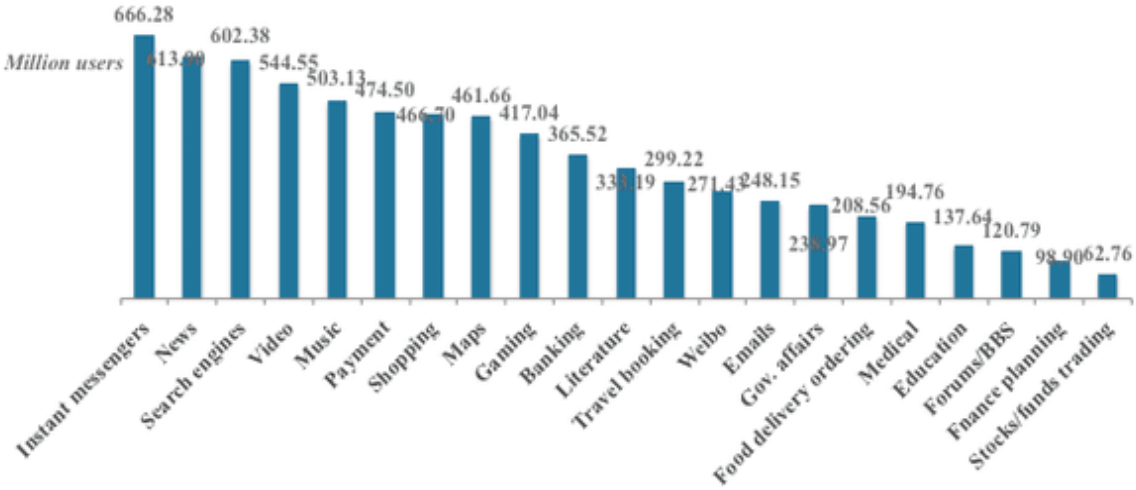


Figure 2.5 Top categories of Internet applications by total users in China

Source: CNNIC, January 2017.

From a business point of view, the Internet is used on an increasingly large scale even if not at its highest potential for external activities. Even though almost all the Chinese companies use computers and Internet, the tools online used to purchase and offer sales activities do not reach the half of the total, and the percentage goes down to the 39 for

[55] Woetzei J., Seong J., Wei Wang K., Manyika J., Chui M., Wong W. (2017). China's digital economy. Aleading global force. McKinsei Global Institute. (Available at: http://www.mckinsey.com/global-themes/china/chinas-digital-economy-a-leading-global-force last access: 13/08/2017)

the companies doing marketing activities through the Internet, even though is increasing[56]. The Internet is very used as a tool for acquiring and publishing information on products and services. As the mobile Internet is increasing among the population, the enterprises are following the trend and among the ones having experience in e-marketing, the vast majority of them do so via mobile, preferring WeChat, a mobile application halfway between Facebook and Whatsapp, as the main channel to reach consumers.

Information	*2016*
Internet users	731.250.000
Mobile Internet users	695.310.000
Age of Internet users	10-49
Monthly income of Internet users	<500; 2000≤ i≥5000 RMB

Table 2.6 Main Internet users information

Source: personal processing.

[56] CNNIC, Statistical Report on Internet Development in China (2017). Available at: https://cnnic.com.cn/IDR/ReportDownloads/201706/P020170608523740585924.pdf (last access: 13/08/2017).

3 United Arab Emirates

3.1 Introduction

When not explicitly indicated, data in this chapter concern a personal processing of the 67 World Bank databases, updated to 2016, when available. The World Bank provides all its rough data produced by the World Bank group in all its researches and projects. These will be used in this chapter and the most used are[57]:

- *World Development Indicators* database: composed by 1519 series of data for 264 among single countries and aggregates, over 50 years, when available;
- *Doing Business* database: this includes 58 series of data, concerning 258 countries, over 12 years, when available.

3.2 The country's development

The United Arab Emirates (UAE) are a relatively "young" state since they became independent in 1971 and since then this is the most enduring and successful example of a federal union in the Arab world[58]. As a matter of fact, the UAE are composed by seven Emirates, of which Abu Dhabi, the capital, and Dubai are the most powerful especially after the financial crisis of 2008, which has concentrated even more the power in the two territories; followed by Sharjah, Ajman, Ras al-Khaimah, Umm al-Quwain, and Fujairah. Thanks to the strategic location at the end of the Gulf, between Asia, Europe and Africa, and the possession of the seventh largest oil reserve in the world along with many other natural gases, the country has been able to develop and create its position in the worldwide context, having as peak related sectors finance, trade, logistics, aviation and consequently labour migration flows.

The process of the nation formation was not easy and started at the beginning of 1968

[57] Data available at: http://databank.worldbank.org/data/home.aspx last access: 25/08/2017

[58] Ulrichsen, K.C. (2017). *The United Arab Emirates: Power, Politics and Policy-Making*. New York, Routledge.

with the declaration of the British government to end the treaty relations with the Trucial States, the seven emirates before unification, and with the other sheikhdoms of Qatar and Bahrain, as part of the retirement operations from east of Suez by the United Kingdom[59]. It followed four years of difficult negotiations among the families who ruled the emirates and their advisors, with the support and mediation of the United Kingdom and the close Arabian Gulf states of Kuwait and Saudi Arabia, to establish the best political and institutional solutions for the territories involved. The willingness was of creating a nine state federation, composed of the Trucial States with Qatar and Bahrain: the possibility of independent states or smaller groups formation would not have been a successful solution, due to the weakness of most of the single emirate, even though some elements such as religion, culture, and society were the trait d'union of some of them. After long consultations and debates, Bahrain first and Qatar then embraced the independence, and the 2nd of December of 1971 six emirates constituted in the United Arab Emirates and two months later also the emirate of Ras al-Khaimah acceded.

The process of UAE creation involved two main personalities: Sheikh Zayed bin Sultan Al Nahyan, the ruler of Abu Dhabi from 1966 until 2004 and revered "founding father" of UAE, and Sheikh Rashid bin Saeed Al Maktoum, the ruler of Dubai from 1958 until 1990. They were the most relevant leaders, over the other rulers, in the process of constitution of what the Emirates are nowadays. Historically, the two sheiks had many contrasts in decision-making processes, but they kept the equilibrium in the most important periods of transition: when the nation established and at the beginning of the oil era. This was an essential issue since during the country formation difficulties in aligning the policies to all the different needs required diplomacy and cooperation to succeed in the federation establishment.

Another characteristic typical of the United Arab Emirates is that, as seen before, individual families rule every single emirate that constitutes the country, who alternated during times moments of détente and agreement to others of tension and dissents. Consequently, the process of the state formation was about creating bureaucratic and political institutions on the basis of "traditional patterns of tribal legitimacy" (Ulrichsen,

[59] Abed, I. (2001). The Historical Background and Constitutional Basis to the Federation. In Abed I., Hellyer P., *United Arab Emirates: A New Perspective* (121-144). London, Trident Press Ltd.

2017). The result is a country that combines hereditary principles to bureaucratic rules in the refined areas of integration.

Starting from the moment of the national constitution, the future of the country changed. From the following years, the UAE incremented their production and export of oil, which was discovered in the late 1950s but not yet exploited to its maximum potential; so as they changed their preceding economy based on subsistence activities and extraction and trade of pearls: this shift was on the basis of the country's development[60]. In the meantime, during the last decades of the XX century, the country experienced a continually increasing rate of the manufacturing sector value added and the agricultural one, the latter with a very low impact on the GDP, though. The service sector is the one that saw the highest growth rates, arriving almost to double its impact on GDP in thirty years.

As said, oil and natural gas reserves exploitation are the highest sources of national income for the UAE nonetheless, the government has tried to be increasingly independent of them, working towards industrialization, since the years following the discovery of oil[61]. In this period, all type of infrastructures developed in the country at a private level, from the physical to the social ones, and consequently recalled all the categories of workers from outside the national borders; this led to an increasing population, thus a higher demand for buildings, products, and services, such as banking and insurances. Therefore, the government decided to play an active role in the country's development, which since then was mainly due to the private companies investments; the state started to invest in high capital intensive industries, such as cement factories, and the manufacturing sectors related to oil and gas, like refineries, fostering even more the country's growth. In this way the nation diversified its economy and, even though incomes becoming from oil and gases still count for the major part of GDP, the country can rely on different types of production.

This, joined with the achieved political stability, was what made the success of the United Arab Emirates, which in contrast with their close nations, have been able not to

[60] Shihab, M. (2001). Economic Development in UAE. In Abed I., Hellyer P., *United Arab Emirates: A New Perspective* (249-259). London, Trident Press Ltd.

[61] Ghanem, S.M. (2001). Industrialization in the UAE. In Abed I., Hellyer P., *United Arab Emirates: A New Perspective* (260-276). London, Trident Press Ltd.

base their economy only at the mercy of the oil prices fluctuations but balancing them with the other sectors profits[62]. As a matter of fact, many are the example of similar countries that slowed their economy because the waste of oil reserves and civil struggles brought to poor economic performances. On the contrary, UAE's GDP grew at an average rate of 5 per cent in the last forty years, proving that the resource-based industry (RBI) strategy adopted, along with industrialization, urbanization, a modest population, and a long-term perspective was actually successful. This is especially relevant if considered the poverty of the region and the sparse population that preceded the unification of the federations, factor that does not enhance the growth.

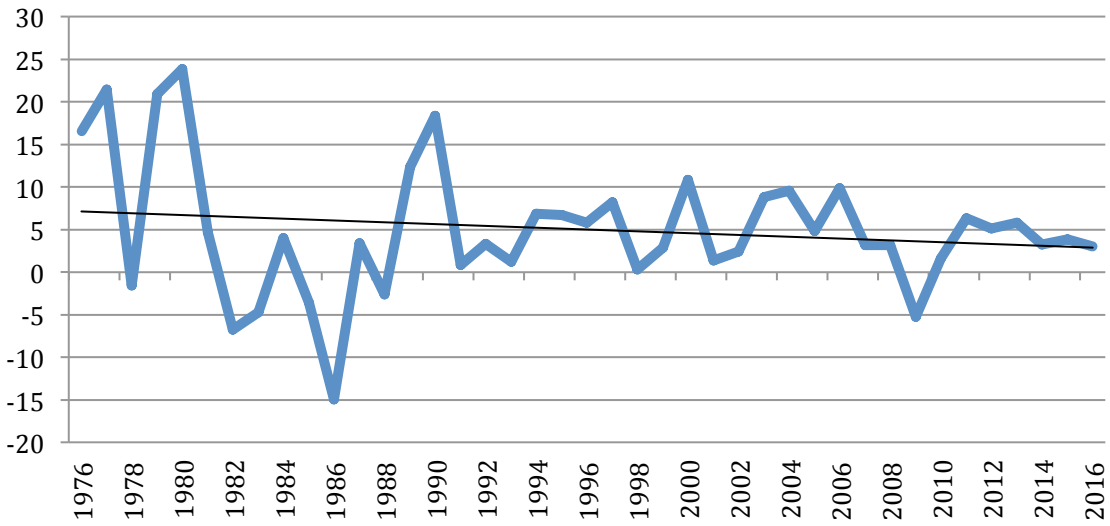


Figure 3.1 United Arab Emirates GDP growth: 1976-2016 (Annual %)

Source: personal processing on World Bank rough data.

From the graph the tendency is clear (green line): the United Arab Emirates have a slightly decreasing growth rate around 5 per cent, despite the ups and downs, which reached very high and low peaks, such as the one in 1980 when the GDP almost touched the 24 per cent of growth compared to the previous year; or six years later, when the decrease attained the 15 per cent. Also in the period of the global crisis of

[62] Nyarko, Y. (2010). The United Arab Emirates: some lessons in economic development. Working paper No. 2010, 11. New York, World Institute for Development Economics Research.

2008 it's visible a countertrend respect to the previous periods, but it is as much verifiable that, a part from the intense collapse of the beginning of the crisis that affected also the public holding Dubai World and the whole real estate sector, the country has been able to lift up quickly, from the very following year, returning to the average.

3.3 The economic context

Nowadays the political stability of the past is preserved by the ruling family, who has the support of the whole population thanks to the generous distribution of the oil incomes and the social policies that are very attentive to the welfare of the emirate citizens[63]. The government approach to the citizen of emirate nationality is very customer-centric and replicates, when not exceeds, the performances of client satisfaction of the private sector.

Even though the oil industry has been one of the most relevant for the country's development, the long-term orientation of the ruling family made the original planning of resource-based industry change towards the exploitation of multiple peak sectors. The government strategy of diversification its production has revealed a winning approach and made the country suffer less than its competitor the negative decline of the oil sector, especially starting from 2013[64]. The latter passed from the 60 per cent of national GDP in 1980s to the current 30 per cent, with the goal of reaching the 20 per cent by 2021, in favour of other businesses strategic for the future progress, such as alternative and renewable energies, tourism, logistics, infrastructures, transports, health services, education, finance and the development of new technologies. Moreover, the foreign direct investments in the free zones of the country are contributing to the improvement of the economic performances: in these areas, several are the advantages, such as the total tax exemption and the fact that the corporations can be totally owned by overseas entrepreneurs, on the contrary of the mainland[65].

The GDP rate slowdown of the very last years is due, on the one hand, to the stagnation

[63] Emirati Arabi Uniti: Nota paese (2017). Italian Trade Agency.
[64] Emirati Arabi Uniti. Guida al mercato (2017). Italian Trade Agency.
[65] For further information, see the paragraph Doing business in the UAE.

of the oil market but on the other hand to the diminished tax revenues, in addition to the limited bank liquidity. Nevertheless, the country's economy will continue to heighten in the future at a slow but still positive rate: the International Monetary Fund estimates that it will be little over the one per cent for 2017 with positive expectations for the following ones.

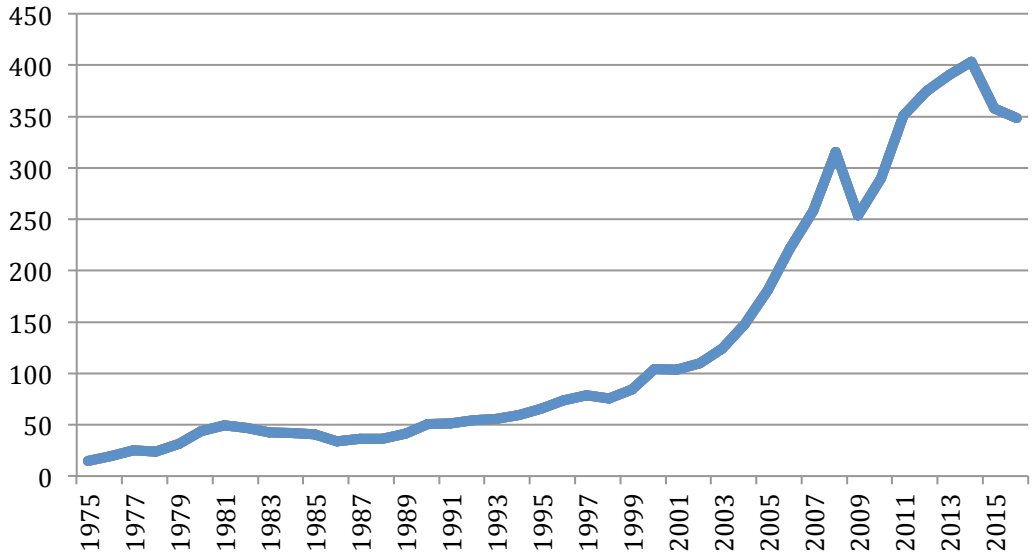


Figure 3.2 United Arab Emirates GDP evolution: 1975-2016 (Current billion $)

Source: personal processing on World Bank rough data.

The economic context in 2016 was dominated by the services sector: as it can be noticed from the graph, the secondary and tertiary developed in parallel in the last ten years, even though with some gaps between them. At the beginning of the period, the industry was more relevant, reaching the highest peak over services in 2008 with more than $53 billion of surplus. It is only starting from 2010 that the sectors switched their performances, with an escalation of divergence, arriving at the last data recorded in 2016, which amounted in an advantage of more the $202 billion in favour of services. The latter counted 4 times the secondary sector, coherently with the government policies of reducing manufactory; manufacturing counted for the 9.5 per cent of the GDP in 2016, but the economy is becoming more and more independent from the oil revenues, thanks to the vast urbanization process of the main emirates of Abu Dhabi and Dubai.

As far as agriculture is concerned, it is the very smallest part of the economy, even though growing at a slow pace.

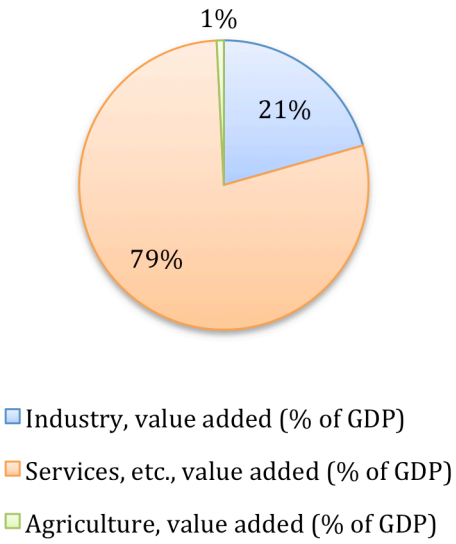


Figure 3.3 United Arab Emirates GDP composition (2016)

Source: personal processing on World Bank rough data.

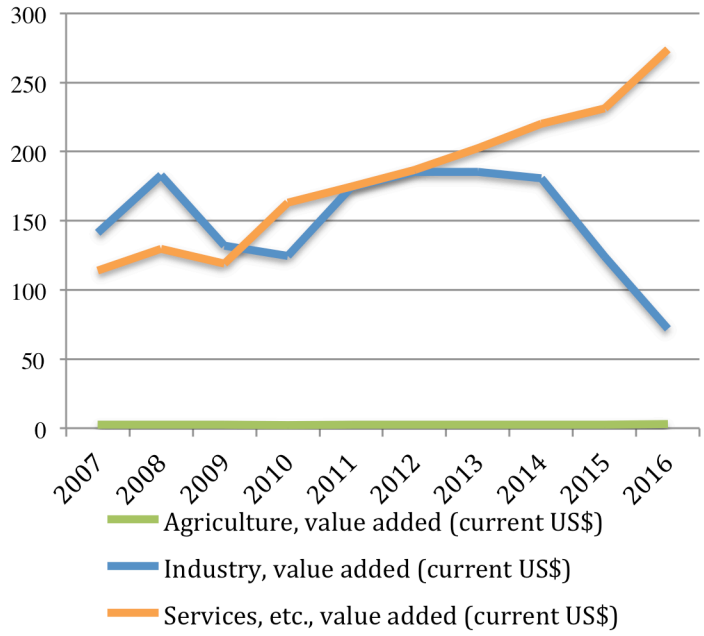


Figure 3.4 Trend of UAE GDP composition: 2007-2016 (Billion $)

Source: personal processing on World Bank rough data.

Series Name	*2016*
GDP (current US$)	348.743.000.000
Agriculture, value added (current US$)	2.795.000.000
Industry, value added (current US$)	71.832.000.000
Services, etc., value added (current US$)	274.116.000.000

Table 3.1 Main economic indexes

Source: personal processing on World Bank rough data.

3.3.1 UAE & Italy

Since 1997 until nowadays, the United Arab Emirates established different agreements with the Italian government with the aim of enforcing trade and institutional relationships between the two countries. The main agreements concerned the promotion of reciprocal investments, the strengthening of Italian-Emirati Bilateral Cooperation in political affairs, in addition to the establishment of the Memorandum of Understanding on cooperation about SMEs, and the Memorandum of Understanding between Italian Customs Authority and Free Zones Corporation in sight of EXPO 2015 and EXPO 2020[66].

In 2016 the UAE imported products for a total amount of about €230 billion mainly from China, which counted for the 16 per cent of the total, and with the Indian and American rates, reaches one-third of the total imports. It's only at the third and fourth positions that European countries play their game, respectively with Germany and United Kingdom. The most appreciated goods coming from these countries are machinery and equipment, added to chemicals and food. In this context, Italy is placed at the ninth ranking position, with a loss of two positions from 2015, but keeping its

[66] Italian Industry & Commerce office in the UAE, Dubai (2017). Business Atlas 2017. Scheda paese Emirati Arabi Uniti (available at: http://www.assocamerestero.it/download.asp?ln=&idtema=1&idtemacat=1&file=Informazioni/Files/109593/Emirati%20Arabi%20Uniti_2017.pdf last access: 18/09/2017).

third place among the European economies that sell goods to the Emirati country[67]. The loss of two positions is due to the crisis of oil prices, which lead to negative consequences on public and private expenses in the UAE, added to the slowdown of the global economy, resulting in a decrease of 3.5 per cent of the total exchanges between Italy and the Emirati country. Nonetheless, these performances are not an exception, since only three among all the first ten export countries in the UAE have recorded positive export rates. During the last year, Italy registers a total amount of €5.41 billion of exports to the Emirates and total Italian investments of €1.3 billion. These figures are due in particular to the performance of machinery, jewellery, and fashion, which in aggregate counts for more than the half of the UAE rates of products imported from Italy; the following sectors are the means of transport, furniture, metals, and food. Moreover, the sectors with the highest results in terms of foreign direct investments towards the UAE are insurance and financial services, real estate, automotive, and the manufacturing industry, counting for more than the 70 per cent of the total. On the other hand, Italian FDIs are centred on wholesale, professional, scientific and technical activities, construction, iron and steel industry, and only as last, insurance and financial activities. Finally, looking at the whole trend of 2016, Italian exports have recorded better results in the last quarter of the year, and some of the typical sectors of Made in Italy, such as fashion and automation, registered positive rates in the whole year, to testify the vitality and appreciation of Made in Italy inside the Emirati borders.

Considering high-end Made in Italy, the annual report of "Esportare la Dolce Vita" realized by Italian Confindustria and the consulting firm Prometeia provides a lot of information[68]. The analysis considers the high-end manufacture sectors, called "Bello e ben fatto" (BBF) with the goal of understanding the attractiveness of these categories in each of the 30 economies under inspection. What emerges from the study is that in 2015 the United Arab Emirates imported BBF from the world for a total amount of €16.8

[67] Ambasciata d'Italia (2017). Rapporto Emirati Arabi Uniti. InfoMercatiEsteri (available at: http://www.infomercatiesteri.it/public/rapporti/r_102_emiratiarabiuniti.pdf last access:18/09/2017).

[68] Confindustria, Prometeia (2016). Esportare la dolce vita. Il bello e ben fatto italiano nei nuovi mercati: le forze che trasformano i consumi (available at: https://d3alc7xa4w7z55.cloudfront.net/upload/images/05_2016/160503151910.pdf last access: 16/09/2017)

million, figure that is expected to grow up to €25.5 million in 2021. The cumulated rise from 2016 to 2021 is estimated at 52 per cent, for a total amount of €8.7 million. Italian exports of BBF in the UAE in 2015 counted for about 1 per cent of the worldwide BBF imports, reaching €1.9 billion, with an expected rise at €2.9 million in 2021. The cumulated growth from 2016 to 2021 is estimated in about one million and 52 per cent, counting the 4.5 per cent of total Italian export expected in 2021.

Series	*2016*
Total imports of goods (billion €)	230
Total exports of goods (billion €)	294
Total imports of goods from Italy (billion €)	5
Total exports of goods to Italy (billion €)	0,95
Total imports of BBF from the world (billion €, 2015)	16.800
Total imports of BBF from Italy (billion €, 2015)	1.900

Table 3.2 Main trade figures

Source: Italian Industry & Commerce office in the UAE, Dubai (2017); Confindustria, Prometeia (2016).

3.4 United Arab Emirate population and society

The United Arab Emirates are an uncommon country as far as population and society are concerned, as result of the massive urbanization and infrastructure that, as said in the previous paragraph, has recall many workers from abroad: the small territory, comparable to the Austrian, with its little more than 83 thousand square meters, hosts more than 9 million people, of which not even the 12 per cent represents the native population and experienced an exponential growth during the first decade of 2000 and then stabilized in a slow but still positive advancement; on the other hand, the vast majority comes from outside the national borders, primarily for working reasons and

comes from all around the world, with a preponderance of Asian countries[69]. In particular, the Central Intelligence Agency (CIA) estimates that in 2015 the non-Emirati population counted for the about the 88 per cent of the total, mainly coming from South Asia (60%), with a majority of Indians (38%), Egypt (10%), Philippine (6%) and the smallest minority with differentiate origins (13%)[70]. In addition, the UAE has the sixth higher GDP per capita based on purchasing power parity, with an amount of more than 72 thousand international dollars; this is due from the one hand to the oil revenues, and from the other hand to the related highly profitable sectors, such as real estate. As a consequence, the whole employment has positive performances, recording not even the 4 per cent of unemployment, and a total labour force of more than 6 million people. As predictable, the population is concentrated in the urban areas with a total of almost 8 million people, of which 2 and a half in the largest cities, in contrast to the rural territories which count a little more than 1 million people.

What is typical of the country, and its culture, but differentiate it from the high-income ones, is the female presence inside the national territories: with a total amount of only a little more than a quarter of the total population, this minority unbalances, and it's even more dramatic, with the participation to the working life: in this context it does not even reach 13 percentage points. What makes hoping for a change is the proportion of women who sits in national parliaments, that reach almost the quarter of the total, and there are forms of female legal protection, such as the paid maternity leave, but still miss some basic ones, such as the legislation about domestic violence and the non-discrimination based on genre in hiring, nor it exists a legal guaranty of maintaining an equivalent position after the maternity leave. Some progress started in the last years, though: the government made massive investments in education, especially the female one, and the 77 per cent of women can count in a secondary level instruction, in contrast to the other Arab countries, which count only the 41 per cent.

As part of the development and modernization process, the use of the Internet and

[69] Emirati Arabi Uniti. Rapporto congiunto ambasciate/consolati/ENIT 2017. Available at: http://enit.it/it/studi/focus-paese/category/9-rapporti-enitmae-rapporti-enitmae-medio-oriente.html?download=178:emirati-arabi-uniti last access: 24/08/2017.

[70] Central Intelligence Agency (2017). The World Factbook (available at: https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ae.html last access: 19/09/2017).

mobile phone is massive: the latter counts nearly 18 million subscriptions, which amounts to an average of two per person. As far as the Internet is concerned, in the country 91 per cent of the total population uses the web, with a total fixed broadband subscriptions of more than 1.2 million and an amount of more than 3.600 Internet server that provides security to its users.

Series Name	*2016*
Land area (sq. km)	83.600
GDP per capita (current US$)	37.600
GPD per capita PPP (current international dollars)	72.400
Household final consumption expenditure per capita (constant 2010 US$)	22.100
Population, total	9.270.000
Population, female (% of total)	27
Labour force, total	6.330.000
Labour force, female (% of total labour force)	12
Rural population	1.316.000
Urban population	7.954.000
Population in largest city	2.504.000
Secure Internet servers	3.600
Mobile cellular subscriptions (2015)	17.943.000
Individuals using the Internet (% of population, 2015)	91
Fixed broadband subscriptions (2015)	1.234.000

Table 3.3 Main society indexes

Source: personal processing on World Bank rough data.

3.5 The United Arab Emirate culture

Following the Hofstede dimensions, here is described the analysis of the cultural

environment in the United Arab Emirates:

1. *High vs. low power distance*: the UAE record a very high level in this dimension, reaching the value of 90. This testifies the high power distance that concerns the country, thus hierarchy is well accepted, in particular as a sign of order and explanation of things. As far as the business environment is concerned, the ideal leader is a benevolent autocrat and subordinates expect to be told which their tasks are.
2. *Individualism vs. collectivism:* in this case the UAE reach a level of 25. This makes the country to be part of the collectivist societies: in this context, the commitment to the "group" and its members is absolute with the consequence of an extreme loyalty, even in contrast with the other principles and regulations of the nation. Being part of a steady group means that everyone has to take care of the other members and offense leads to a loss of face. Moreover, in an organization, relationships are perceived as familiar and career decisions are influenced by the presence of the in-group members.
3. *Masculinity vs. femininity*: in this dimension the UAE reach a level of 50, stopping in the middle between masculinity and femininity: the consequence is that the emirate society can be defined neither as one extreme nor as the opposite.
4. *High vs. low uncertainty avoidance:* uncertainty avoidance in the country is very high and scores 80: unpredictable events here are disliked and as a reflection of the religion, in the society, unorthodox behaviours and ideas are not accepted and there are strict rules to respect. In this culture there is a high economicity of time, thus workers tend to organize in very busy working lives, guided by precision and security; as a consequence, innovation is usually avoided, since it represents a sign of unconventional attitude.
5. *Long-term vs. short-term orientation:* at the moment of writing there are no data available for this dimension. Nevertheless, in his Culture and Organizations[71], Hofstede states that the Arab countries have in common the short-term orientation. As a consequence, here is assumed a median value of short-term orientation of 25: in the range of 100, the higher 50 concerns long-term

[71] Hofstede, G., et al. (2010): Cultures and Organizations. New York, McGraw-Hill.

orientation, the lower 50 short-term, so the median value of short-term orientation is 25. With a medium score of short-term orientation, the society is normative, search for absolute Truth and respect traditions; moreover, being short-term oriented, savings are not common are results must be achieved quickly.

6. *Indulgence vs. restraint:* at the moment of writing there are no data available for this dimension. Nevertheless, in his Culture and Organizations[72], Hofstede states that the Arab countries have in common the tendency for restraint. As a consequence, here is assumed a median value of indulgence of 25: in the range of 100, the higher 50 concerns indulgence, the lower 50 restraint, so the median value of indulgence is 25. This score is related to restraint societies, with a tendency of cynicism and pessimism; in addition, leisure time is not preferred and the impulses to desires are controlled: Finally, indulgence is considered as something wrong that must be avoided.

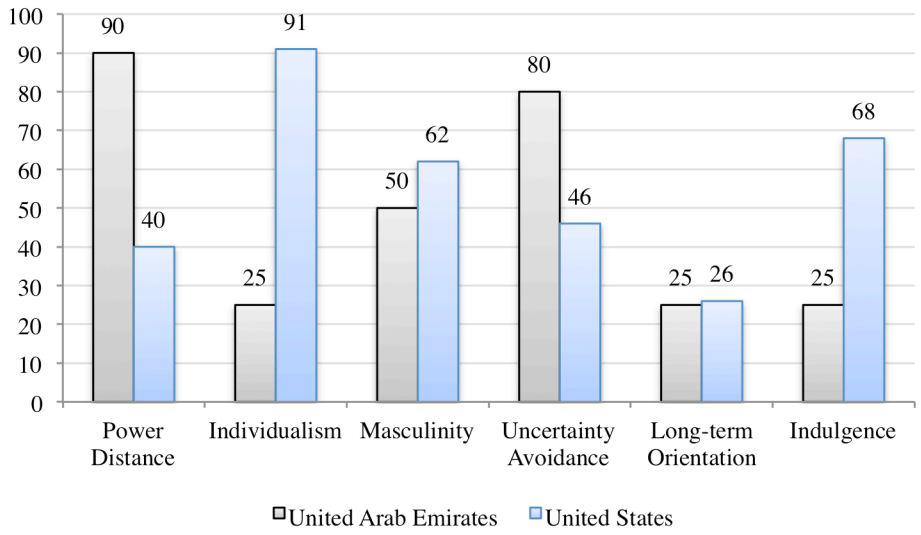


Figure 3.5 Cultural dimensions comparision: United Arab Emirates and United States

Source: personal processing on data taken from: https://geert-hofstede.com/arab-emirates.html

Religion in the country is deeply rooted, as in all the Muslim societies. In the UAE

[72] Hofstede, G., et al. (2010): Cultures and Organizations. New York, McGraw-Hill.

Muslims are the vast majority (76%), who split in Sunni (85%) and Shiite (15%); the remaining quarter is dominated by Hindus and Buddhists (15%) and a minority of Christians (9%)[73]. Even though it adopts many Western habits, the country has an Arab culture and an Islamic religion, thus, due to the rigidity of its codes of conducts, it's of extreme importance to respect the traditions and rules, if not, foreigners can be punished even with penitentiary arrests. As a consequence, a company wanting to deal with the UAE have to deeply understand and honour its culture and practices.

The emirate society is very differentiated in its nationalities, as seen in the previous paragraph. Thus, the languages spoken in the country reflect this heterogeneity: the original language of the UAE is Arabic, which is the official one, too. In addition, English is adopted for trade and business relationships and a minority of people speak Hindi, Persian and Urdu[74].

Information	*Value*
Languages	5
Religions	5
Power Distance	90
Individualism/Collectivism	25
Masculinity/Femininity	50
Uncertainty avoidance	80
Long/Short-term orientation	25
Indulgence/ Restraint	25

Table 3.4 United Arab Emirates: Main cultural information

Source: personal processing.

[73] Italian Industry & Commerce office in the UAE (Dubai). Business Atlas 2017. Scheda paese Emirati Arabi Uniti. Available at: http://www.assocamerestero.it/default.asp?idtema=1&idtemacat=1&page=informazioni&action=read&index=1&idinformazione=109593 last access: 24/08/2017.

[74] World-Pass. Scheda flash: Emirati Arabi Uniti. Available at: http://www.schedeflash.it/index.php?option=com_schedepaese&task=scheda_flash&articles=796%7C24091%7C24085%7C24096%7C24097%7C24106%7C24123%7C24124&paese=647&interscambio=7&Itemid=3822&lang=it last access: 24/08/2017.

3.6 The United Arab Emirate consumer

The consumers in the United Arab Emirates are as differentiated as the nationalities that characterize the country. As a matter of fact, as seen the paragraph concerning the UAE society, in the country the vast majority of the citizens is coming from abroad and this is both an advantage and a disadvantage for a company willing to sell its goods or services inside the nation. On the one hand, the fact that inside the economy there is a variety of people having different nationalities allows the organization to propose an offer for a consumer who may be already known, such as the Indians or the Westerns; on the other hand, having such a different scenario complicates the production and operations directed to the country and implies a deep analysis of the population to understand the evolution of the consumers' origins and preferences.

Nowadays, the Emirati consumers are not widely studied as the Chinese described in the previous chapter, but some trends may be identified. According to a study about the UAE market commissioned by Santander[75], the Emirati consumers are sensitive to prices with differences among the population: the low-income population is very price-driven, basing their choices on the cost they pay for the purchase; the high-income segments are less influenced by the cost of goods, instead, and they pay more attention to other factors. In addition, what emerges from the analysis of the UAE market is that consumers are very sophisticated since they pay attention to additional factors from prices, such as the quality of the goods bought and after-sales services; moreover, the innovative side of products is a driver in the choice of purchasing, as well. Furthermore, customers are sensitive to the cultural aspects supported by the companies towards which they focus their attention. As a matter of fact, the use of Arabic language in the package goods is proved to be an advantage in the choice; but also, it is primarily for the population to be respectful and conscious of the religious beliefs and the eradicated local traditions, when an enterprise decides to open its offer to the Emirati domestic market. Finally, the typical consumer of the country is a relatively young person, who enjoys high standards of living. This fact has as a consequence that the more interesting

[75] Export Entreprises SA (2017). United Arab Emirates: Reaching the Consumer (available at: https://en.portal.santandertrade.com/analyse-markets/united-arab-emirates/reaching-the-consumers#consumer last access: 19/09/2017).

categories of products are the ones that bring status and recognizable image to the purchaser. Thus, the consumer segments with the financial availability prefer fashion and luxury products; for these categories, the brand image is also of primary importance. Moreover, the population is very interested in new technologies for the recognisability the products lend to them, in particular in the purchasing of mobile phones and information technology.

4 The analytical model for internationalization: *the indexes*

4.1 Introduction

This chapter goes deeper in the analysis of the internationalization process: here, the indexes considered as the most relevant for the analysis that will take place in the fifth chapter are described. The writing considers, firstly each single index per se, and then the analysis of China and the United Arab Emirates takes place, including also a comparison of each of them with the United States; the latter is chosen for their leading position in the global economy, thus it is considered as the competitor belonging to the consolidated markets for the economies analysed.

The study considers these indexes because institutions all over the world suggest the Global Competitiveness Index, and the Enabling Trade Index, and the Doing Business Index as reliable indexes during a country's analysis.

4.2 The Global Competitiveness Index (GCI)

This indicator has been selected because it considers the whole country in its ability to be competitive on a global scale, studying economic, political, social, labour, financial, market, and technological factors of the economy inspected.

Nowadays, global economies are changing rapidly especially in the very last years, and two opposite situations are verifying: on the one hand, developed economies are facing slower rates of production comparing to the previous years, due to a lower demand; in the meantime, the population in these countries is aging more and more and its income is diverging with the same rate of speed. On the other hand, developing economies are experiencing a drastic deceleration, with low, and sometimes negative, productivity growth rates. In this context, the World Economic Forum highlights that "progress in building an enabling environment for innovation remains the advantage of only a few economies"; moreover, "future growth will also depend on the ability of economies to

safeguard the benefits of openness to trade and investment that has led to record reductions in poverty rates in recent decades"[76].

When looking at the worldwide framework, the key for survive in the arena and put the basis for the a prosperous future is competitiveness, intended "as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can achieve" (Schwab K. et al., 2016). This is the aim of the Global Competitiveness Index (GCI), introduced firstly by Klaus Schwab in 1979, and adopted by the World Economic Forum since 2005, in the annual "The Global Competitiveness Report".

The index is reported for 138 economies, and it is composed by 114 indicators concerning productivity and long-term prosperity, grouped in 12 pillars: institutions, infrastructure, macroeconomic environment, health, primary education, higher education, training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. The pillars are in turn resumed by three sub-indexes: basic requirements, efficiency enhancers, and innovation and sophistication factors; different weights are assigned to them, based on each country's development, considered as a proxy of its GDP per capita and the share of exports represented by raw materials.

Two sources of data are used to compose the index:

- *Hard data*: statistical data included in the GCI are detected by internationally recognized organizations, mainly the International Monetary Fund (IMF) and the World Bank, in addition to the United Nations' specialized agency, such as the International Telecommunication Union, UNESCO, and the World Health Organization. Some indicators belong to the World Bank Doing Business project discussed in the paragraph concerning the Doing Business Index.
- *Survey data*: to complete the GCI sources, some indicators, gathered through the World Economic Forum's Executive Opinion Survey, are reported; these concern qualitative issues of competitiveness and are used when comparable

[76] Schwab, K. et al. (2016). The Global Competitiveness Report 2016-2017. Geneva, The World Economic Forum (available at: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf last access: 04/09/2017).

statistical data were not available. The survey includes about 14 thousand business leaders responses in 141 economies and the indicators derived are used not only to compose the GCI but also the list of the most problematic factors for doing business, as well as other World Economic Forum indexes, as the Enabling Trade Index discussed in the paragraphs concerning this index.

What emerged from the whole report are three key conclusions for worldwide business and economies:

1. *Monetary stimulus is not enough*: in economies that do not possess strong competitive conditions, monetary policies alone are less effective, failing to reignite growth. Thus, countries must adopt competitiveness agendas.
2. *Technology and innovation are increasingly driving development*: the Fourth Industrial Revolution is bringing unprecedented change to the nature of work and productivity. Thus, countries must boost innovation to increase their competitive power.
3. *Declining openness is putting future growth and prosperity at risk*: openness to trade and foreign investment generates incentives for businesses to innovate. Thus, countries must have as top priority inclusive growth strategies.

4.2.1 The index structure and calculation

The GCI is published for each country, including the ranking position, both as far as the GCI is concerned and the single pillars, and the score on a 1 to 7 basis, where 7 is the best result achievable by the economy. In addition, a list of the most problematic factors for doing business is registered separately, with the score of each factor ordered by relevance.

The GCI pillars:

1. *Institutions*: the first pillar concerns the efficiency of institutions, which depend on both public and private performance. All the components of the society have to deal with the administrative and legal side, which, consequently, they are a measure of public institution efficiency. This, in turn, reflects on corporate decisions about investments and production, having effects on the development strategies and benefits.

2. *Infrastructure*: infrastructures play a critical role in the efficiency of goods and services delivery, in addition to the human resources employment, thus involving the whole economy. Infrastructures concern each type of transport, but also issues that are not related to the distribution but to the concrete functioning of enterprises, such as electricity and telecommunications.
3. *Macroeconomic environment*: competitiveness stands on the business efficiency, as saw in the previous pillars. Macroeconomic stability is one of the main bases of the sustainable economic growth, due to the great obstacles and limits that occur when the government and its policies are unstable.
4. *Health and primary education*: on the one hand, this pillar takes into account health as a crucial aspect of the workforce productivity and its related lower cost when healthy people work in corporations. On the other hand, primary education is examined, considered as a sign of higher efficiency individual workers.
5. *Higher education and training*: secondary and tertiary enrolments in addition to the quality of education as evaluated by business leaders, are considered in the fifth pillar. This is because higher education allows workers to complete more complex tasks and to be more adaptable as the corporations operating in improving environments change and evolve rapidly.
6. *Goods market efficiency*: an effective goods market facilitates the companies' offer production, both concerning goods and services. In this context, healthy market competition is required since it grants that only the most efficient companies lead the competitive arena. Moreover, the efficiency is driven also by the demand conditions, whether they come from buyers or directly from customers.
7. *Labour market efficiency*: labour market is another indicator of the country's competitiveness. As a matter of fact, when workers are employed in their most effective jobs the production is at its highest performances. Moreover, the efficient labour market ensures meritocracy, equality, and incentives to the best results, so as the workforce is stimulated to accomplish the maximum efforts, and it is flexible to reallocate workers rapidly and at low cost, without social tensions.

8. *Financial market development*: productivity, thus competitiveness, depends on business investments; as a consequence, when the financial market is efficient, resources are allocated to those projects with the highest return on investment, and not to politically linked businesses, as in the case of financial market inefficiency.
9. *Technological readiness*: technologies make production more efficient in terms of timing and quality; moreover, when information and communication technologies are well exploited inside the organization, innovation occurs and competitiveness is increased, improving the performance of the entire business system. The ninth pillar measures the economy's ability to implement and exploit technologies and make them available to its enterprises.
10. *Market size*: market size, here, is considered both as the domestic and foreign market. As a matter of fact, nowadays exports are thought as an alternative to the local demand, especially for small countries. In this context, the market size helps the productivity thanks to economies of scale and a large set of business opportunities.
11. *Business sophistication*: business sophistication is related to the quality of a country's overall business networks and the quality of individual firms' operations and strategy. These elements take a higher relevance in developed economies, where usually, basic production sources have been totally depleted.
12. *Innovation*: innovation ensures a significant level of competition and high value-added activities and products. Innovation must be boosted not only by private enterprises but also by the public sector as a mean to enhance production, thus competitiveness.

The complete GCI structure is computed as follows:

- *The GCI*: is composed by the three sub-indexes that are weighted differently depending on the stage of development of the economy under evaluation: after having listed the whole set of indicators, the table of the development stages partition and their weights is reported, with also the list of the specific countries divided by group.

- *Sub-indexes*: each of them is computed as the arithmetic mean of the pillars that compose it; thus, the latter are weighted equally;
- *Indicators*: every indicator has the same weight inside the same pillar, resulting as the arithmetic mean, as well. Some indicators occur in two different pillars: in this case, they are half-weighted to avoid double counting.

Here the whole list of indicators is reported, with the indication of each weight.

BASIC REQUIREMENTS 20–60%

1st pillar: Institutions.....25%

A. Public institutions.....75%

1. Property rights.....20%

1.01 Property rights

1.02 Intellectual property protection

2. Ethics and corruption 20%

1.03 Diversion of public funds

1.04 Public trust in politicians

1.05 Irregular payments and bribes

3. Undue influence.....20%

1.06 Judicial independence

1.07 Favouritism in decisions of government officials

4. Public-sector performance 20%

1.08 Wastefulness of government spending

1.09 Burden of government regulation

1.10 Efficiency of legal framework in settling disputes

1.11 Efficiency of legal framework in challenging regulations

1.12 Transparency of government policymaking

5.Security.....20%

1.13 Business costs of terrorism

1.14 Business costs of crime and violence 1.15 Organized crime

1.16 Reliability of police services

B. Private institutions 25%

1. Corporate ethics 50%

1.17 Ethical behaviour of firms

2. Accountability 50%

1.18 Strength of auditing and reporting standards

1.19 Efficacy of corporate boards

1.20 Protection of minority shareholders' interests

1.21 Strength of investor protection

2nd pillar: Infrastructure.....25%

A. Transport infrastructure.....50%

2.01 Quality of overall infrastructure

2.02 Quality of roads

2.03 Quality of railroad infrastructure

2.04 Quality of port infrastructure

2.05 Quality of air transport infrastructure

2.06 Available airline seat kilometres

B. Electricity and telephony infrastructure 50%

2.07 Quality of electricity supply

2.08 Mobile telephone subscriptions

2.09 Fixed telephone lines

3rd pillar: Macroeconomic environment 25%

3.01 Government budget balance

3.02 Gross national savings

3.03 Inflation

3.04 Government debt

3.05 Country credit rating

4th pillar: Health and primary education.....25%

A. Health..... 50%

4.01 Business impact of malaria

4.02 Malaria incidence

4.03 Business impact of tuberculosis

4.04 Tuberculosis incidence

4.05 Business impact of HIV/AIDS

4.06 HIV prevalence

4.07 Infant mortality

4.08 Life expectancy

B. Primary education.....50%

4.09 Quality of primary education

4.10 Primary education enrolment rate

EFFICIENCY ENHANCERS 35–50%

5th pillar: Higher education and training.....17%

A. Quantity of education.....33%

5.01 Secondary education enrolment rate

5.02 Tertiary education enrolment rate

B. Quality of education 33%

5.03 Quality of the educational system

5.04 Quality of math and science education

5.05 Quality of management schools

5.06 Internet access in schools

C. On-the-job training.....33%

5.07 Local availability of specialized research and training services

5.08 Extent of staff training

6th pillar: Goods market efficiency 17%

A. Competition 67%

1. Domestic competition .....variable

6.01 Intensity of local competition

6.02 Extent of market dominance

6.03 Effectiveness of anti-monopoly policy

6.04 Effect of taxation on incentives to invest

6.05 Total tax rate

6.06 Number of procedures required to start a business

6.07 Time required to start a business

6.08 Agricultural policy costs

2. Foreign competition variable

6.09 Prevalence of trade barriers

6.10 Trade tariffs

6.11 Prevalence of foreign ownership

6.12 Business impact of rules on FDI

6.13 Burden of customs procedures

6.14 Imports as a percentage of GDP

B. Quality of demand conditions 33%

6.15 Degree of customer orientation

6.16 Buyer sophistication

7th pillar: Labour market efficiency 17%

A. Flexibility 50%

7.01 Cooperation in labour-employer relations

7.02 Flexibility of wage determination

7.03 Hiring and firing practices

7.04 Redundancy costs

7.05 Effect of taxation on incentives to work

B. Efficient use of talent.....50%

7.06 Pay and productivity

7.07 Reliance on professional management

7.08 Country capacity to retain talent

7.09 Country capacity to attract talent

7.10 Female participation in labour force

8th pillar: Financial market development.....17%

A. Efficiency.....50%

8.01 Financial services meeting business needs

8.02 Affordability of financial services

8.03 Financing through local equity market

8.04 Ease of access to loans

8.05 Venture capital availability

B. Trustworthiness and confidence 50%

8.06 Soundness of banks

8.07 Regulation of securities exchanges

8.08 Legal rights index

9th pillar: Technological readiness 17%

A. Technological adoption.....50%

9.01 Availability of latest technologies

9.02 Firm-level technology absorption

9.03 FDI and technology transfer

B. ICT use.....50%

9.04 Internet users

9.05 Broadband Internet subscriptions

9.06 Internet bandwidth

9.07 Mobile broadband subscriptions

2.08 Mobile telephone subscriptions

2.09 Fixed telephone lines

10th pillar: Market size.....17%

A. Domestic market size 75%

10.01 Domestic market size index

B. Foreign market size 25%

10.02 Foreign market size index

INNOVATION AND SOPHISTICATION FACTORS.....5–30%

11th pillar: Business sophistication 50%

11.01 Local supplier quantity

11.02 Local supplier quality

11.03 State of cluster development

11.04 Nature of competitive advantage

11.05 Value chain breadth

11.06 Control of international distribution

11.07 Production process sophistication

11.08 Extent of marketing

11.09 Willingness to delegate authority

7.07 Reliance on professional management

12th pillar: R&D Innovation.....50%

12.01 Capacity for innovation

12.02 Quality of scientific research institutions

12.03 Company spending on R&D

12.04 University-industry collaboration in R&D

12.05 Government procurement of advanced technology products

12.06 Availability of scientists and engineers

12.07 PCT patent applications

1.02 Intellectual property protection

Economies are partitioned in three stages of development:

1. *Factor-driven economies*: these are the countries that compete only on the basis of their factors equipment, mainly unskilled labour and natural resources. Competitiveness here stands on the optimal functioning of the first sub-index of basic requirements, with pillars 1 to 4: institutions, infrastructure, macroeconomic environment, and health and primary education.
2. *Efficiency-driven economies*: in the second stage of development, countries have higher competition and wages, thus they have to raise their production levels having more efficient processes and improving products quality. The pillars with the greatest importance for these countries are from 5 to 10, consequently the second sub-index of efficiency enhancer indicators: higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, and market size.
3. *Innovation-driven economies*: finally, these are the most developed countries, represented by the third pillar: innovation. The businesses have to compete on the last two pillars: business sophistication and innovation. Here, wages reach the highest levels and the living standards of population develop accordingly.

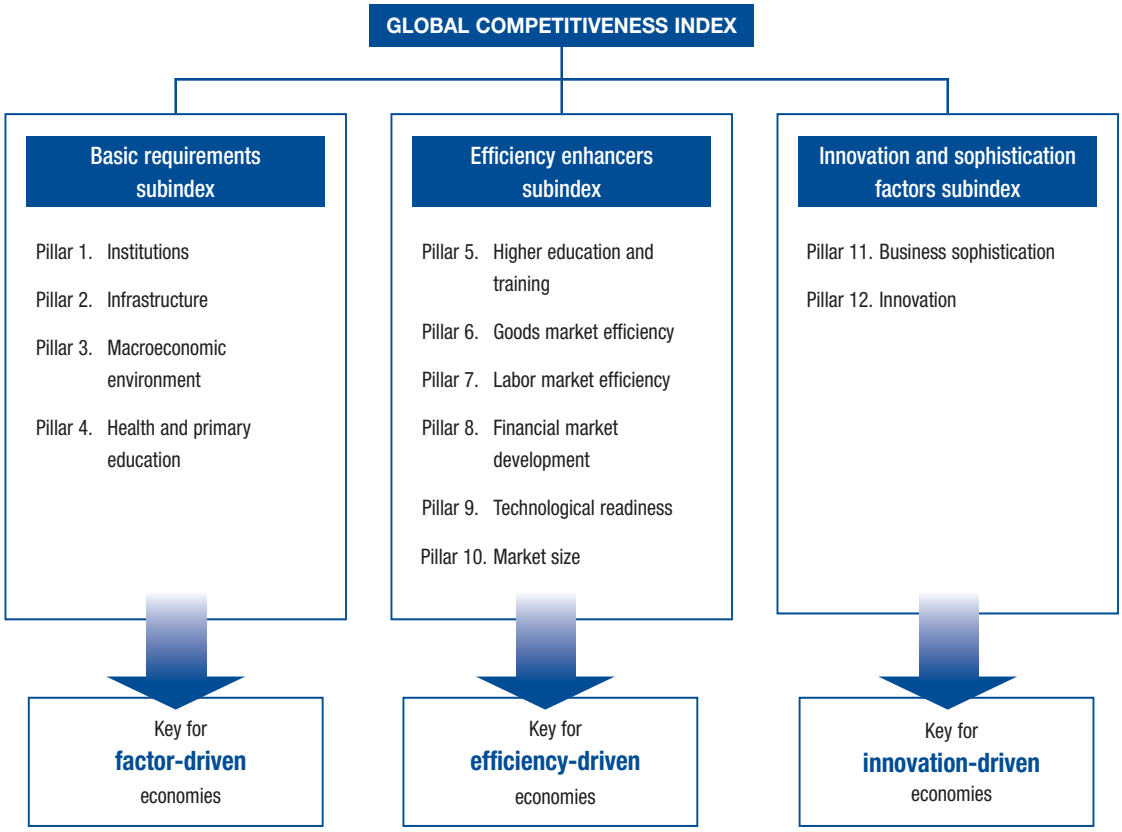


Figure 4.1 The Global Competitiveness Index framework

Source: Schwab K. et al. (2016).

The countries' allocation into each stage of development is based on two criteria: firstly, the country's GDP per capita at market exchange rates; secondly, the economy's share of exports of mineral goods in total exports. This second criterion is used because some economies have the income of the second stage but actually they based their development on the extraction of resources, thus they are factor-driven economies and should fall into the first category of development: with the use of both criteria, any ambiguity is solved. Every country that falls into two stages is considered as "in transition": in this stage, the World Economic Forum provides a range and not a specific percentage threshold as for the other stages. This fact leads to ambiguity in the calculation since it is not specified how the final weight is assigned to the transitional economies.

Stage 1: Factor-driven (35 economies)	Transition from stage 1 to stage 2 (17 economies)	Stage 2: Efficiency-driven (30 economies)	Transition from stage 2 to stage 3 (19 economies)	Stage 3: Innovation-driven (37 economies)
Bangladesh	Algeria	Albania	Argentina	Australia
Benin	Azerbaijan	Armenia	Barbados	Austria
Burundi	Bhutan	Bosnia and Herzegovina	Chile	Bahrain
Cambodia	Bolivia	Brazil	Costa Rica	Belgium
Cameroon	Botswana	Bulgaria	Croatia	Canada
Chad	Brunei Darussalam	Cape Verde	Hungary	Cyprus
Congo, Democratic Rep.	Gabon	China	Latvia	Czech Republic
Côte d'Ivoire	Honduras	Colombia	Lebanon	Denmark
Ethiopia	Kazakhstan	Dominican Republic	Lithuania	Estonia
Gambia, The	Kuwait	Ecuador	Malaysia	Finland
Ghana	Mongolia	Egypt	Mauritius	France
India	Nigeria	El Salvador	Mexico	Germany
Kenya	Philippines	Georgia	Oman	Greece
Kyrgyz Republic	Russian Federation	Guatemala	Panama	Hong Kong SAR
Lao PDR	Ukraine	Indonesia	Poland	Iceland
Lesotho	Venezuela	Iran, Islamic rep.	Saudi Arabia	Ireland
Liberia	Vietnam	Jamaica	Slovak Republic	Israel
Madagascar		Jordan	Turkey	Italy
Malawi		Macedonia, FYR	Uruguay	Japan
Mali		Montenegro		Korea, Rep.
Mauritania		Morocco		Luxembourg
Moldova		Namibia		Malta
Mozambique		Paraguay		Netherlands
Nepal		Peru		New Zealand
Nicaragua		Romania		Norway
Pakistan		Serbia		Portugal
Rwanda		South Africa		Qatar
Senegal		Sri Lanka		Singapore
Sierra Leone		Thailand		Slovenia
Tajikistan		Tunisia		Spain
Tanzania				Sweden
Uganda				Switzerland
Yemen				Taiwan, China
Zambia				Trinidad and Tobago
Zimbabwe				United Arab Emirates
				United Kingdom
				United States

Figure 4.2 Classification by each stage of development

Source: Schwab K. et al. (2016).

In the calculation of the overall GCI, the relative sub-indexes weight considers this partition of stages of development: each economy gains a higher weight in its most relevant sub-index.

	STAGE OF DEVELOPMENT				
	Stage 1: Factor-driven	Transition from stage 1 to stage 2	Stage 2: Efficiency-driven	Transition from stage 2 to stage 3	Stage 3: Innovation-driven
GDP per capita (US$) thresholds*	<2,000	2,000–2,999	3,000–8,999	9,000–17,000	>17,000
Weight for basic requirements	60%	40–60%	40%	20–40%	20%
Weight for efficiency enhancers	35%	35–50%	50%	50%	50%
Weight for innovation and sophistication factors	5%	5–10%	10%	10–30%	30%

Table 4.1 Sub-index weights and income thresholds for stage of development

Source: Schwab K. et al. (2016).

4.2.2 Global competitiveness in China

In the Global Competitiveness Report of 2016-2017, China is ranked 28 out of the 138 countries studied, maintaining the same position for three years. With a total GCI score of 5 out of 7, where the maximum score is the best suitable, the Chinese economy improved of 0.1 points compared to the previous two years and 0.2 vis-à-vis 2013.

This small but relevant growth is due to the progress in some areas that are critical for the competitive environment, in particular innovation, one of the most decisive indicator of economic growth and competitiveness. Sophisticated areas concern both pillars included in the third sub-index of innovation and sophistication factors, but also higher education: in particular, business sophistication reaches the 34th position worldwide with an increase of 4 places compared to the previous year and a score of 4.4; innovation gains one position with a current rank of 30 and 4 in the value registration. Finally, higher education is 54th at a global level, gaining the highest number of positions, as in 2015 it was ranked 68th, with a value of 4.6, even if it is still too low in the global rank, due mainly to the low secondary and tertiary education enrolment rates.

Nevertheless, key indicators for the transition to an improved growth model don't obtain the relevance and improvements that would be suitable for the country. The macroeconomic pillar provides the second strength of the country, after the market size ranked first globally and a score of 7, with its 8th position and a score of 6.2, but the fiscal situation is worsening: the budget deficit grew more than two times from 2014 to 2015, counting the 2.7% of GDP. Also, goods market efficiency and the financial market development did not advance enough comparing to the previous years and these

are relevant indicators of the country's advancement. The first gained only two places from 2015, ranking 56th with a score of 4.4, but this data is distorted by the lack of competition due to high entry barriers and long timing to start a new business; the second was 54th last year and lost two positions, with a current value of 4.2 due to inefficiencies, lack of competition, and to the non-optimal allocation of capital. Furthermore, China does not improve its technological readiness, keeping the 74th position and a score of 4: "a more widespread adoption of technology by business and the population at large will increase productivity and create a more fertile innovation ecosystem" (Schwab K. et al., 2016). As a matter of fact, if on the one hand, the youngest generations in the biggest cities are adopting largely new technologies as saw in paragraph 2.6.2, on the other hand, oldest generations and the large rural areas make the rate of Internet users and mobile-broadband subscriptions reaching just the half of the total population. In addition, the availability of latest technologies and the Internet bandwidth leads China to stay in the lowest position of the ranking in this pillar.

Indicator	*Score* (1-7) (7=the best)	*Rank* (1-138) (1= the best)
Global Competitiveness Index	**5.0**	**28**
Basic requirements	*5.3*	*30*
1st pillar: Institutions 25%	4.3	45
2nd pillar: Infrastructure 25%	4.7	42
3rd pillar: Macroeconomic environment 25%	6.2	8
4th pillar: Health and primary education 25%	6.2	41
Efficiency enhancers	*4.8*	*30*
5th pillar: Higher education and training 17%	4.6	54
6th pillar: Goods market efficiency 17%	4.4	56
7th pillar: Labour market efficiency 17%	4.5	39

8th pillar: Financial market development 17%	4.2	56
9th pillar: Technological readiness 17%	4.0	74
10th pillar: Market size 17%	7.0	1
Innovation and sophistication factors	*4.2*	*29*
11th pillar: Business sophistication 50%	4.4	34
12th pillar: Innovation 50%	4.0	30

Table 4.2 China: Global Competitiveness Index and pillars (2016)

Source: Schwab K. et al. (2016).

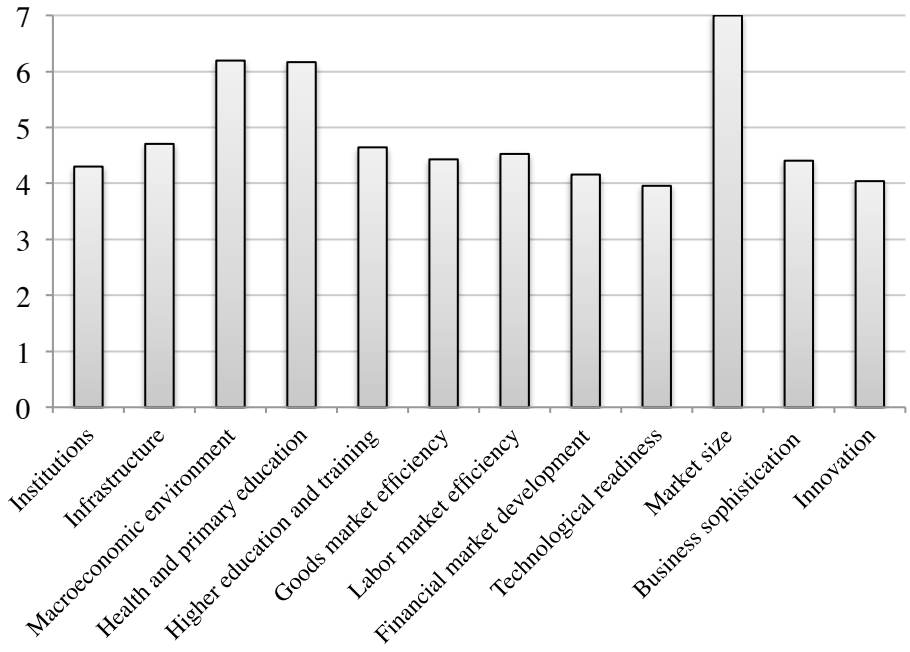


Figure 4.3 China: Global Competitiveness pillars score overview (2016)

Source: personal processing on data taken from The Global Competitiveness Report 2016-2017.

In order to better understand the strength or weakness of the competitive environment in China, a comparison with the United States is proposed. As seen in the analysis about the country, China is growing fast with the goal of achieving United States

performances, but currently many are still the gaps between them. As far as competition is concerned, the 28th position on a global scale of the Chinese GCI is not enough, and its competitor is still too far with its third position in the whole set of the 138 countries under inspection. But this is only the summary of the differences that separate them. As a matter of fact, looking at the detail of the single pillars that compose the GCI, China is behind in the global ranking for all the indicators, except for two: the third pillar of macroeconomic environment, with 63 countries between them, and the market size, in which the US is the following nation, though. The highest difference is the weakest point for China, the technological readiness, with 60 places of distance; on the other hand, in health and primary education they reach similar ranking, with the Chinese 41st place and the American 39th. In all the other pillars, the United States arrive at much higher positions in the worldwide context, entering in the top 20 in 9 pillars out of 12.

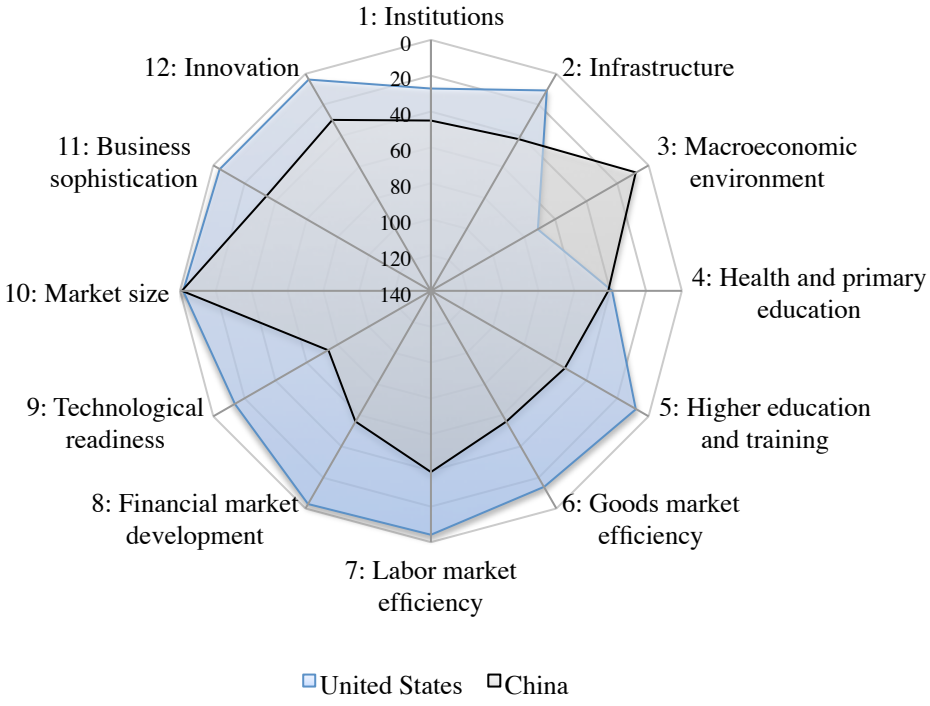


Figure 4.4 Global Competitiveness pillars ranking comparison: China and United States (2016)

Source: personal processing on data taken from The Global Competitiveness Report 2016-2017.

In addition to the indicators included in the GCI, some extra factors emerged from the World Economic Forum's Executive Opinion Survey. The most problematic factors for doing business in the respondents' opinion are listed below: it emerges that the highest barrier for doing business is the access to financing, followed by policy instability, inefficient government bureaucracy and inflation with about the same score. On the other hand, China is perceived as a safe country with an adequate public health.

Factor	*Score* (0= the best)
Access to financing	10.8
Policy instability	8.8
Inefficient government bureaucracy	8.7
Inflation	8.4
Corruption	7.9
Tax rates	7.8
Tax regulations	7.5
Inadequate supply of infrastructure	6.8
Insufficient capacity to innovate	6.7
Poor work ethic in national labour force	5.0
Inadequately educated workforce	4.8
Government instability	4.0
Restrictive labour regulations	4.0
Foreign currency regulations	4.0
Poor public health	2.8
Crime and theft	1.9

Table 4.3 China: Most problematic factors for doing business (2016)

Source: Schwab K. et al. (2016).

4.2.3 Global competitiveness in the United Arab Emirates

In the Global Competitiveness Report of 2016-2017, the United Arab Emirates are ranked 16 out of the 183 countries, with a score of 5.3 out of 7. The ranking has been scaled of one place in the global context compared to the previous year, thanks to the 0.1 points more, even though in the previous years the country reached higher positions, with the maximum of 12th in 2014. Currently, the UAE keep leading their region performing the highest rates in all the areas involved in the study. Nevertheless, the deterioration of the macroeconomic environment affects the Emirates: this is due to the rise of energy prices, which led consequences in the overall economic stability inside the national borders, as saw in the previous chapter, from the inflation growth and public debt to the emergence of a fiscal deficit.

The United Arab Emirates have many competitive strengths on which they can count, though: an excellent set of infrastructures, ranked 4th worldwide, with the score of 6.3, and institutions, with their 7th position and a score of 5.8, thanks to respectively the quality of roads and air transport infrastructure, and the business costs of crime and violence for the first pillar. Consequently, the first sub-index of basic requirements is the best performer, with the value of 5.9, ranked 11th at a global scale. This also boosts the labour and goods markets, reaching respectively the 11th and the third place out of the 138 countries studied, with the values of 5.2 and 5.6; the latter is also the country's best pillar in the ranking values thanks to the effect of taxation on incentives to invest, to agricultural policy costs, to the prevalence of non-tariff barriers, and to the burden of customs procedures. On the other hand, the fourth pillar of health and primary education is the worse for the UAE, being ranked 40th worldwide with a score of 6.2, due mainly to the low primary education enrolment rate.

Indicator	*Score* (1-7) (7=the best)	*Rank* (1-138) (1= the best)
Global Competitiveness Index	**5.3**	**16**
Basic requirements	*5.9*	*11*
1st pillar: Institutions	5.8	7
2nd pillar: Infrastructure	6.3	4
3rd pillar: Macroeconomic environment	5.3	38
4th pillar: Health and primary education	6.2	40
Efficiency enhancers	*5.2*	*15*
5th pillar: Higher education and training	5.1	34
6th pillar: Goods market efficiency	5.6	3
7th pillar: Labour market efficiency	5.2	11
8th pillar: Financial market development	4.7	28
9th pillar: Technological readiness	5.8	18
10th pillar: Market size	4.9	27
Innovation and sophistication factors	*4.9*	*21*
11th pillar: Business sophistication	5.2	13
12th pillar: Innovation	4.6	25

Table 4.4 United Arab Emirates: Global Competitiveness Index and pillars (2016)

Source: Schwab K. et al. (2016).

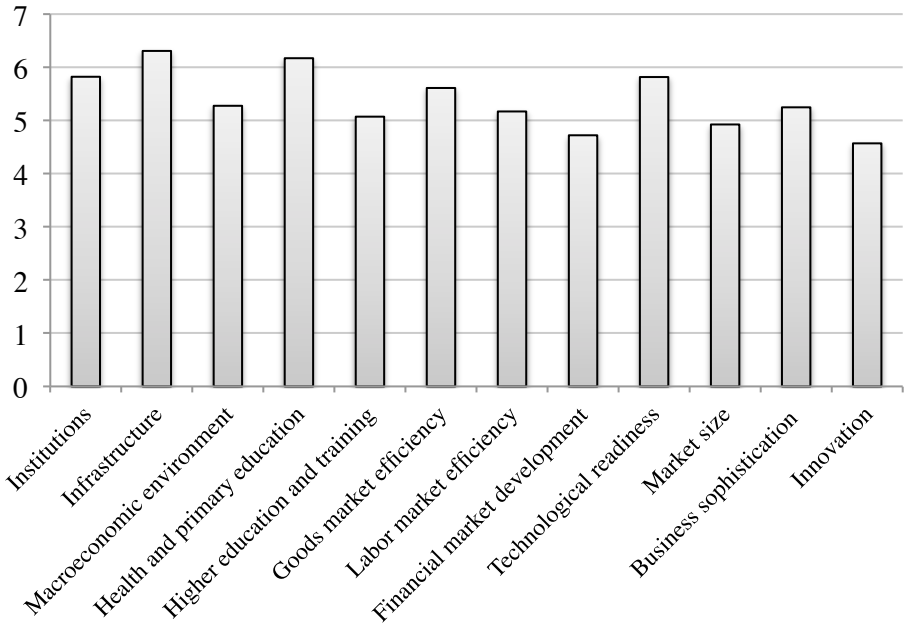


Figure 4.5 United Arab Emirates: Global Competitiveness pillars score overview (2016)

Source: personal processing on data taken from The Global Competitiveness Report 2016-2017.

A comparison between the United Arab Emirates and the Unites States is now proposed, in order to better understand the key points of the economy. As saw in the overview of the pillars, the United Arab Emirates are performing well, being at the 16th position as far as the GCI is concerned. The comparison with the American country highlights this tendency. In particular, the Arab country performs better than US in four pillars: institutions, infrastructure, macroeconomic environment, and goods market efficiency, leaving behind the American country by even more than 30 positions. The highest gap is in higher and primary education, in which US are ahead of 26 places. Nevertheless, the United States reach better ranking positions then UAE in all the other pillars, but the gap between them is not so high, since they are ranked in the overall top 30 for 9 pillars out of 12.

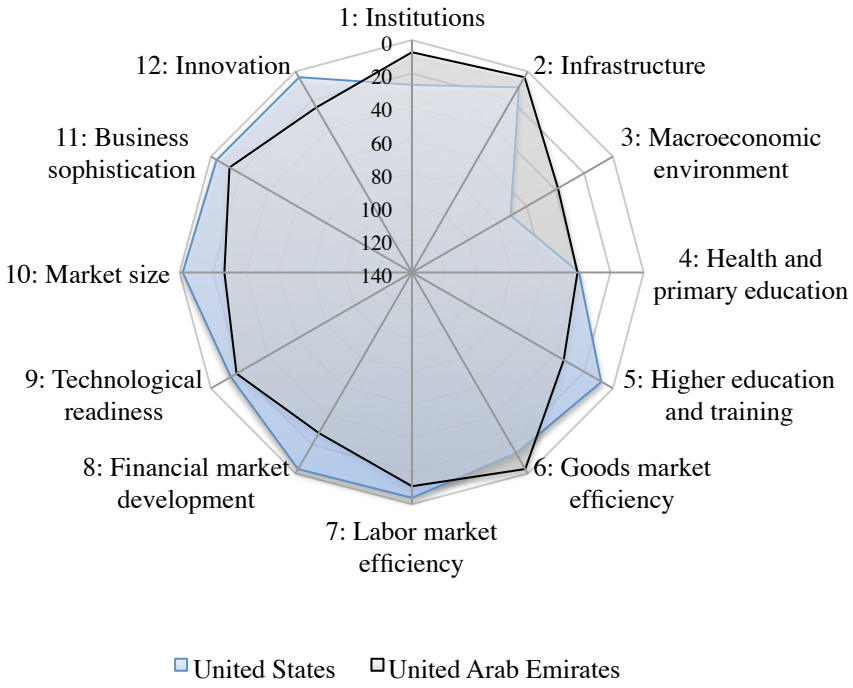


Figure 4.6 Global Competitiveness pillars ranking comparison: United Arab Emirates and United States (2016)

Source: personal processing on data taken from The Global Competitiveness Report 2016-2017.

In addition to the indicators included in the GCI, some extra factors emerged from the World Economic Forum's Executive Opinion Survey. The most problematic factors for doing business in the respondents' opinion are listed below: it emerges that the highest barriers for doing business in the United Arab Emirates are the restrictive labour regulations and, as it was for China, the access to financing, both gaining highest scores compared to the previous example, though. As in the previous case, the country is perceived as safe, and in addition here tax regulations are favourable, as both the factors gain a score of 0.6. Finally, the government is felt as stable, thanks to the hereditary mechanism of government described when the country has been analysed in the previous chapter.

Factor	*Score* (0= the best)
Restrictive labour regulations	18.1
Access to financing	18.0
Inflation	12.0
Inadequately educated workforce	12.0
Poor work ethic in national labour force	7.4
Inefficient government bureaucracy	7.1
Insufficient capacity to innovate	5.8
Foreign currency regulations	5.6
Policy instability	5.2
Inadequate supply of infrastructure	2.6
Corruption	1.6
Poor public health	1.4
Tax rates	1.2
Government instability	0.8
Tax regulations	0.6
Crime and theft	0.6

Table 4.5 United Arab Emirates: Most problematic factors for doing business (2016)

Source: Schwab K. et al. (2016).

4.3 The Enabling Trade Index (ETI)

The Enabling Trade Index (ETI)[77] provides a deep inspection of the facilities executed by each country in favour of trade: this is a primary aspect when considering dealing with a country, consequently, it has been selected among the indexes considered

[77] Geiger, T., et al. (2016). The Global Enabling Trade Report 2016. The World Economic Forum, The Global Alliance for Trade Facilitation (available at: http://reports.weforum.org/global-enabling-trade-report-2016/ last access:15/09/2017).

relevant for this study. On the one hand, the GCI measures the competitiveness of the country in terms of factors that facilitate the productivity of the economy under inspection, which determines the level of prosperity achievable; on the other hand, the ETI determines if the economy has in place the facilities for the free flow of goods over the borders. Finally, the Ease of Doing Business differentiates from the ETI because it measures the aspects of regulation that make easier or more difficult private businesses from start, operate, and expand.

Trade is more and more determinant for the country's growth since it allows economies to specialize, technology to diffuse, workers to move from one country to another increasing the spread of know-how and favours companies to exploit economies of scale, driving to best performances. Moreover, trade contributed to reducing extreme poverty between 1990 and 2015, reaching the half on a global scale.

The World Economic Forum in cooperation with the Global Alliance for Trade Facilitation published the Global Enabling Trade Report since 2008. The aim of the report is to study the trend of the global trade, analysing the economies through the Enabling Trade Index. The index establishes the level of institutions, policies, infrastructures, and services put in place to make the exchange of goods easier to their destination, both inside and outside the national borders.

Four sub-indexes and seven pillars compose the ETI: market access, which resume the pillars: domestic market access, foreign market access; border administration, with efficiency and transparency of border administration as unique pillar; infrastructure, including availability and quality of transport infrastructure, availability and quality of transport services, and availability and use of ICTs; and finally, operating environment which includes the only operating environment pillar. The 2016 report edition includes 79 indicators for 136 economies, counting together the 98 per cent of the global GDP and the 98.3 per cent of world merchandise trade.

Two sources of data are used to compose the index:

- *Hard data*: internationally recognized organizations provide statistical data included in the ETI, mainly the Global Express Association, the International Trade Centre, UNCTAD, and the World Bank, in addition to the World Trade Organization. Some indicators belong to the World Bank Doing Business project discussed in the paragraphs concerning the Ease of Doing Business Index.

- *Survey data*: to complete the ETI sources, the World Economic Forum's Executive Opinion Survey implement some indicators; these concern 22 indicators, for a total of 36 per cent of the ETI, included in the information of the most problematic factors for importing and the most problematic factors for exporting. The survey includes about 14 thousand business leaders responses in 141 economies and the indicators derived are used not only to compose the ETI but also the list of the most problematic factors for doing business, as well as other World Economic Forum indexes, as the Global Competitiveness Report discussed in the paragraphs concerning the Global Competitiveness Index.

What emerged from the whole report are three key conclusions for worldwide business and economies:

1. *A large part of the world is still excluded from globalization*: the ETI shows that more than half of the global population live in countries ranked in the bottom half of the overall ETI and the top ten economies count only the three per cent of the world population.
2. *Some of the world's largest economies offer limited market access*: the ETI records that the 10 largest developing economies offer limited access to their market and most of them are ranked among the lowest 40 economies concerning the Domestic market pillar of the ETI; these are relevant findings since a greater trade liberalization would yield sizeable welfare improvements.
3. *The untapped potential of border administration*: reforming border administration require little investments according to OECD and a combination of political feasibility, affordability, and resource availability, that make the border administration affordable to a wide range of economies. Nevertheless, the ETI shows that its potential still remains linked to the level of development of the country and not exploited, but if it would, it would guarantee additional revenues to the country.

4.3.1 The index structure and calculation

The ETI and the GCI have the same structure and computation, as the World Economic Forum produces both of them.

Three sub-indexes compose the ETI and involve seven pillars for each economy under inspection. Moreover, the report ranks the economies both on the ETI basis and one the single pillars, to study which economy is the best performer at the aggregate level and for each aspect studied. In addition to the rank, the report provides the score for every measure on a 1 to 7 basis, where 7 is the best result achievable by the country.

In addition, a list of the most problematic factors for import and the most problematic factors for export is registered separately, with the score of each factor ordered by relevance.

The GCI sub-indexes and pillars:

A. *Sub-index- Market access:* this sub-index provides a measure of the complexity of the tariff regime and barriers:
    1. *Domestic market access:* the first pillar establishes the complexity of the country's tariff protection as a result of its trade policy.
    2. *Foreign market access:* this pillar shows the tariff barriers that country's exporters have to face in order to enter in the destination markets.

B. *Sub-index- Border administration:* the border administration sub-index includes only one pillar:
    3. *Efficiency and transparency of border administration:* this pillar highlights the efficiency of the border administration as far as transparency, efficiency and costs related to importing and exporting goods are concerned.

C. *Sub-index- Infrastructure:* the third sub-index determines the quality of transport infrastructure and related services and communication that facilitate the flow of goods inside and outside the national borders:
    4. *Availability and quality of transport infrastructure:* the availability and quality of local infrastructure for the main transports are measured here.
    5. *Availability and quality of transport services:* the availability and quality of transport services are measured in the fifth pillar.
    6. *Availability and use of ICTs:* this pillar measures the availability and quality of information and communication technologies (ICTs) and of Internet access.

D. *Sub-index- Operating environment:* the operating environment has a unique pillar:

7. *Operating environment:* the last pillar shows the extent to which the country's operating environment impacts on companies that trade and/or transport merchandise.

The complete ETI structure is computed as follows:

- *The GCI*: it is composed by the four sub-indexes with an equal weight.
- *Sub-indexes*: each of them is computed as the arithmetic mean of the pillars that compose it; thus, the latter are weighted equally;
- *Indicators*: every indicator has the same weight inside the same pillar, resulting as the arithmetic mean, as well. Some indicators occur in two or more times in different pillars: in this case, they are weighted depending on the times that they occur, to avoid multiple counting.

Here the whole list of indicators is reported, with the indication of each weight.

SUBINDEX A: MARKET ACCESS 25%

Pillar 1: Domestic market access 50%

1.01 Tariff rate

1.02 Complexity of tariffs index

Tariff dispersion

Tariff peaks

Specific tariffs

Number of distinct tariffs

1.03 Share of duty-free imports

Pillar 2: Foreign market access 50%

2.01 Tariffs faced

2.02 Index of margin of preference in destination markets

SUBINDEX B: BORDER ADMINISTRATION..... 25%

Pillar 3: Efficiency and transparency of border administration 100%

3.01 Customs services index

3.02 Efficiency of the clearance process

3.03 Time to import: documentary compliance

3.04 Time to import: border compliance

3.05 Cost to import: documentary compliance

3.06 Cost to import: border compliance

3.07 Time to export: documentary compliance

3.08 Time to export: border compliance

3.09 Cost to export: documentary compliance

3.10 Cost to export: border compliance

3.11 Irregular payments in exports and imports

3.12 Time predictability of import procedures

3.13 Customs transparency index

SUBINDEX C: INFRASTRUCTURE 25%

Pillar 4: Availability and quality of transport infrastructure..... 33%

Sub-pillar 4a: Availability and quality of air transport infrastructure.....25%

4.01 Available international airline seats kilometres/week

4.02 Quality of air transport infrastructure

Sub-pillar 4b: Availability and quality of railroad infrastructure.....25%

4.03 Quality of railroad infrastructure

Sub-pillar 4c: Availability and quality of port infrastructure.....25%

4.04 Liner Shipping Connectivity Index

4.05 Quality of port infrastructure

Sub-pillar 4d: Availability and quality of road infrastructure 25%

4.06 Road quality index

4.07 Quality of roads

Pillar 5: Availability and quality of transport services 33%

5.01 Ease and affordability of shipment

5.02 Logistics competence

5.03 Tracking and tracing ability

5.04 Timeliness of shipments in reaching destination

5.05 Postal services efficiency

5.06 Efficiency of transport mode change

Pillar 6: Availability and use of ICTs 33%

6.01 Mobile phone subscriptions

6.02 Individuals using Internet

6.03 Fixed broadband Internet subscriptions

6.04 Active mobile broadband Internet subscriptions

6.05 ICT use for business-to-business transactions

6.06 Internet use for business-to-consumer transactions

6.07 Government Online Service Index

SUBINDEX D: OPERATING ENVIRONMENT 25%

Pillar 7: Operating environment.....100%

7.01 Protection of property index9 Property rights

Intellectual property protection

7.02 Efficiency and accountability of public institutions index

Enforcing contracts

Diversion of public funds

Ease of compliance with government regulation

7.03 Access to finance index

Financial services meeting business needs

Affordability of financial services

Ease of access to loans

7.04 Openness to foreign participation index

Ease of hiring foreign labour

Business impact of rules on FDI

Openness to multilateral trade rules

7.05 Index of physical security

Reliability of police service

Business costs of crime and violence

Business costs of terrorism

Homicide rate

Index of terrorism incidence

4.3.2 Enabling Trade Index in China

In 2016 China records a score of 4.5 of ETI, ranking 61st globally, with a better performance compared to the other BRICs (Brazil, Russia, India, China), but with great differences among the different pillars. The overall last Chinese performance is improved from the previous edition of The Global Enabling Trade Report of 2014, as at that time it gained the 63rd place on a total of 134 economies studied, with a score of 4.4, registering 0.1 of improvement.

Looking at the single pillars performances, the best performer is the fourth, concerning the availability and quality of transport infrastructure, which recorded a score of 5.6 and is 12th in the global ranking, ahead of the average of the East and Asia Pacific region, thanks mainly to shipping connections and to the available airline seat kilometres. Another well-performing area is the availability and quality of transport services, which records a 32nd position in the global ranking, with a score of 4.9, meaning that China is a well-connected economy in terms of shipping. The good scores of the pillars composing the infrastructure sub-index allow the latter to have a 27th position worldwide and a score of 5.1. On the other hand, the area that registered the worst ranking is the second pillar of foreign market access, being at the 124th position out of 136, with a score of only 2.4 out of 7; moreover, both this and the first pillar of domestic market access have lower performances than the ones recorded for the whole region, due to the high tariff rates: they lead the market access sub-index to have the worst ranking position among the others, being at the 126th place globally, with a score of 3.4. The other pillars follow the same trend of the region, without great both differences in positive and in negative. Finally, border administration and operating environment sub-indexes are in the highest half of the ranking, being respectively at the 52nd and 42nd places, with good scores of 4.9 and 4.6 due to the efficiency of the clearance processes for the border administration and to the efficiency and accountability of public institutions for the operating environment.

Indicator	*Rank* (1-138) (1= the best)	*Score* (1-7) (7=the best)
Enabling Trade Index	**61**	**4.5**
Sub-index A: Market access	*126*	*3.4*
Pillar 1: Domestic market access	101	4.3
Pillar 2: Foreign market access	124	2.4
Sub-index B: Border administration	*52*	*4.9*
Pillar 3: Efficiency and transparency of border administration	52	4.9
Sub-index C: Infrastructure	*27*	*5.1*
Pillar 4: Availability and quality of transport infrastructure	12	5.6
Pillar 5: Availability and quality of transport services	32	4.9
Pillar 6: Availability and use of ICTs	64	4.7
Sub-index D: Operating environment	*42*	*4.6*
Pillar 7: Operating environment	42	4.6

Table 4.6 China: Enabling Trade Index and pillars (2016)

Source: Thierry Geiger et al. (2016).

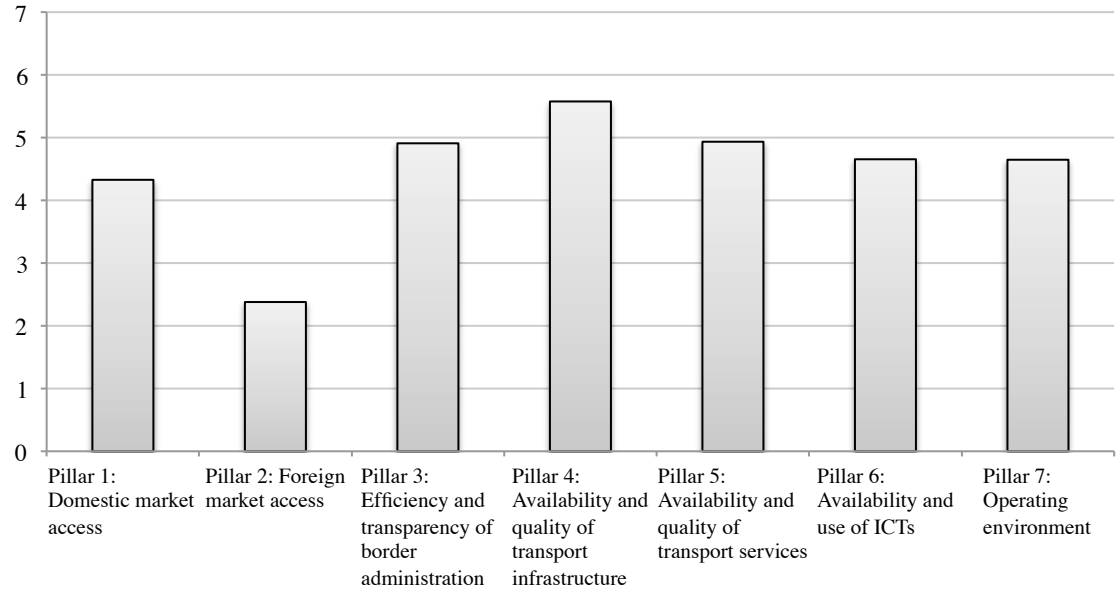


Figure 4.7 China: Enabling Trade pillars score overview (2016)

Source: personal processing on data taken from The Global Enabling Trade Report 2016.

In a comparison with the Chinese competitor country, the United States, all the differences in terms of trade between the two superpowers emerge. The smallest gap between China and the United States is in the Chinese worst performer pillar of foreign market access: as a matter of fact, in this topic the two powers have fours countries that separate them; this is also the worst performer for the United States, but China has 2 out of seven pillars that pass the 100th position, whereas the US has only the foreign market access. On the other hand, the greatest gap between them is in the availability and use of ICTs, where the difference is of almost 50 countries, being the US inside the top 15 of the ranking. Looking at the bigger picture, China has only one pillar in the top 20, the fourth; differently, the US have four out of seven in the first 20 positions and another one in the 22nd. In addition, five Chinese pillars have at least 18 countries that separate the Asian economy from the American. In conclusion, the US is better ranked compared to China in all the pillars involved in the study.

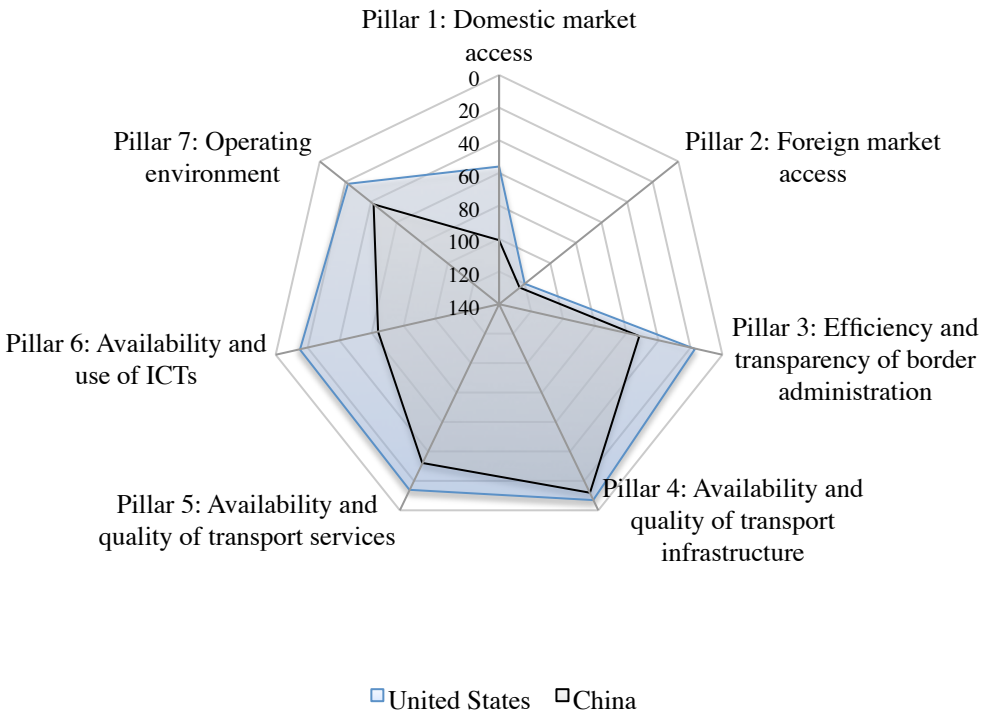


Figure 4.8 Enabling Trade pillars ranking comparison: China and United States (2016)

Source: personal processing on data taken from The Global Enabling Trade Report 2016.

The Global Enabling Trade Report provides two types of information, in addition to the ETI and its pillars: the most problematic factors for importing and the most problematic factors for exporting. This information is derived from the World Economic Forum's Executive Opinion Survey, the same used for the most problematic factors for doing business in the GCI discussed in the paragraphs concerning the Global Competitiveness Index. The business leaders across the world declared that tariffs and non-tariffs berries, added to the burdensome import procedures are the highest difficulties for importing in China. On the other hand, crime and theft are not considered as a problem and telecommunication infrastructures are considered appropriate.

Factor	*Score* (0= the best)
Tariffs and non-tariff barriers	22.5
Burdensome import procedures	20.5
High cost or delays caused by international transportation	15.3
Domestic technical requirements and standards	14.4
High cost or delays caused by domestic transportation	13.0
Corruption at the border	7.1
Inappropriate telecommunications infrastructure	4.6
Crime and theft	2.7

Table 4.7 China: Most problematic factors for importing

Source: Thierry Geiger et al. (2016).

As far as the most problematic factors for exporting are concerned, the survey's respondents declared that technical requirements and standards abroad are a problematic factor when they sell their products outside the national borders, added to the difficulty in identifying potential markets and buyers. What is not perceived as a problem is corruption at the foreign border, though.

Factor	*Score* (0= the best)
Technical requirements and standards abroad	13.4
Identifying potential markets and buyers	11.8
Burdensome procedures at foreign borders	10.6
Tariff barriers abroad	9.8
Access to imported inputs at competitive prices	9.2
Access to trade finance	8.6
High cost or delays caused by international transportation	8.2
Inappropriate production technology and skills	7.9

Difficulties in meeting quality/quantity requirements of buyers	6.7
High cost or delays caused by domestic transportation	5.8
Rules of origin requirements abroad	4.9
Corruption at foreign borders	3.0

Table 4.8 China: Most problematic factor for exporting

Source: Thierry Geiger et al. (2016).

4.3.3 Enabling Trade Index in the United Arab Emirates

The Global Enabling Trade Report 2016 ranked the United Arab Emirates in the 23rd position out of 136, the same as the previous edition of 2014, which analysed 134 countries of the world. The overall ETI score is of 5.2, 0.1 more than the 2014 edition, due to a rise of various pillars. The UAE is well performing and leads its Middle East and North Africa region, recording higher scores for 6 out of 7 pillars involved in the study. The great performances of the country are mostly due to the infrastructure, with excellent scores for air, port, and road infrastructures. As a matter of fact, the UAE is ranked sixth worldwide in the third sub-index, with the highest score of 6 among the sub-indexes: this result is boosted by the fourth pillar of availability and quality of transport infrastructure, ranked second in the world and having the highest score of 6.3 among the pillars. On the other hand, the worst sub-index is the market access, ranked 118th with a score of 3.6, due to the high tariff faces abroad: this is testified by the worst pillar performance concerning foreign market access, with a 131st position globally and a score of 2.1. Moreover, the operating environment also records very good performances since the UAE are at the ninth position globally, with a score of 5.6 out of seven. Finally, the border administration is increasing from the previous years and reaches a value of 5.7 with the 25th position at a global level.

Indicator	*Rank* (1-138) (1= the best)	*Score* (1-7) (7=the best)
Enabling Trade Index	**23**	**5.2**
Sub-index A: Market access	*118*	*3.6*
Pillar 1: Domestic market access	70	5.1
Pillar 2: Foreign market access	131	2.1
Sub-index B: Border administration	*25*	*5.7*
Pillar 3: Efficiency and transparency of border administration	25	5.7
Sub-index C: Infrastructure	*6*	*6.0*
Pillar 4: Availability and quality of transport infrastructure	2	6.3
Pillar 5: Availability and quality of transport services	13	5.6
Pillar 6: Availability and use of ICTs	19	6.1
Sub-index D: Operating environment	*9*	*5.6*
Pillar 7: Operating environment	9	5.6

Table 4.9 United Arab Emirates: Enabling Trade Index and pillars (2016)

Source: Thierry Geiger et al. (2016).

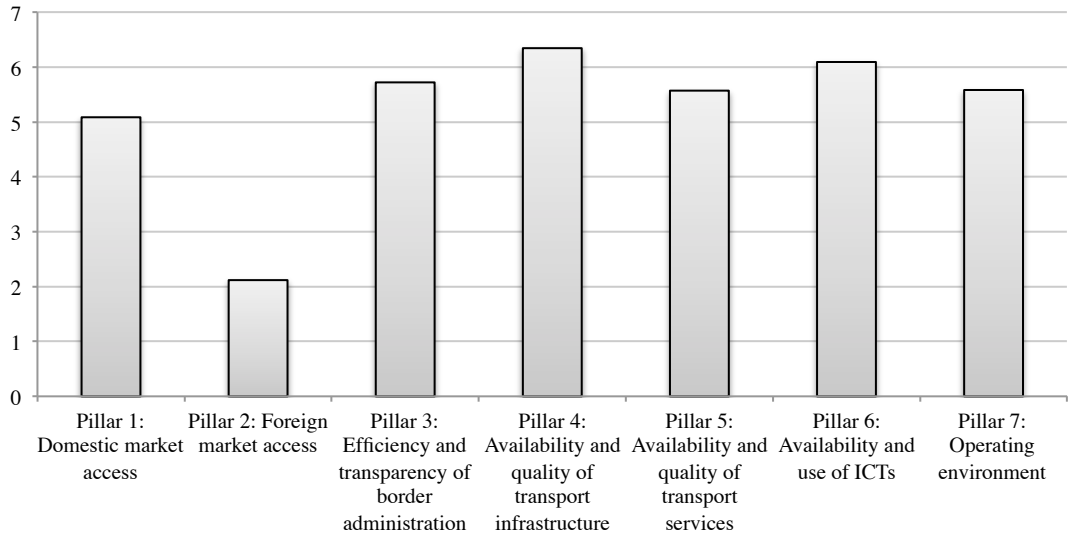


Figure 4.9 United Arab Emirates: Enabling Trade pillars score overview (2016)

Source: personal processing on data taken from The Global Enabling Trade Report 2016.

When looking at the comparison between the UAE and the US concerning the performances of the pillars ranking, it emerges that the two economies have very similar positions. As a matter of fact, the greatest gap between them is of only of 14 places in favour of the US and 13 in favour of the UAE. The domestic market access is the pillar in which the US perform better, compared to the UAE, having exactly 14 countries that separate them, being the first at the 56th place and the second at the 70th out of 136 countries studied. Similarly, in the second pillar of foreign market access, the UAE is ranked 131st and the US 120th. On the other hand, the highest gap in favour of the UAE is in the operating environment, where the Arab country is ranked 9th and the American one 22nd. In all the other pillars the two economies are very close in the ranking positions. The similarity between the two country's performances is confirmed by the overall ETI: the UAE occupies the 23rd place in the global ranking and the US is in the previous position, the 22nd.

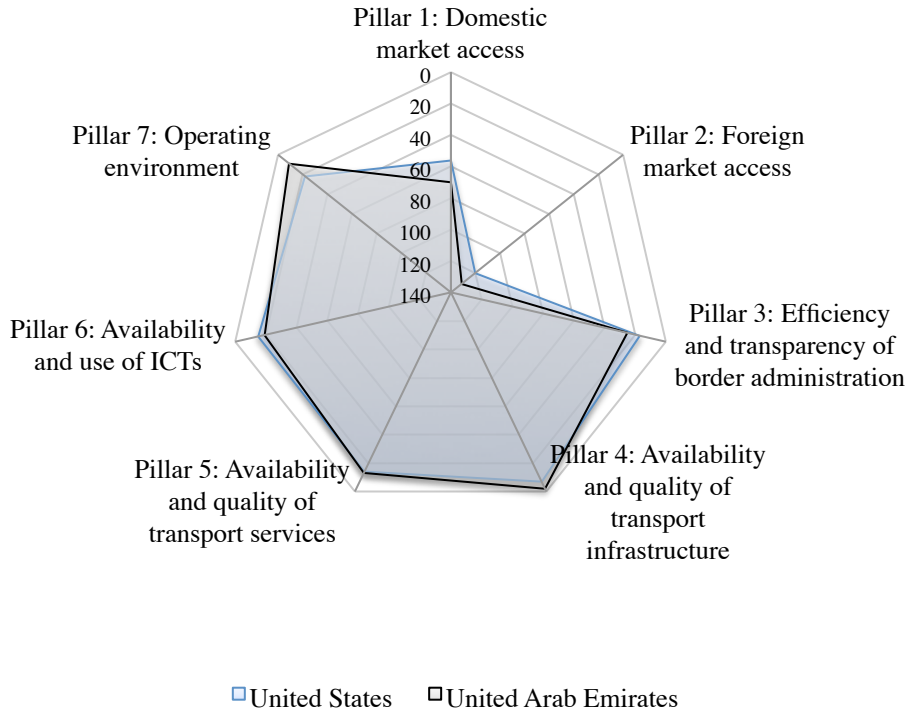


Figure 4.10 Enabling Trade pillars ranking comparison: United Arab Emirates and United States (2016)

Source: personal processing on data taken from The Global Enabling Trade Report 2016.

The World Economic Forum's Executive Opinion Survey provides information about the most problematic factors for importing and the most problematic factors for exporting, as described for China. In the Emirati context, the high cost of delay caused by international transportation is the highest problem when importing in the UAE, as well as the burdensome import procedures, like it was for China. Even the Arab country is perceived as safe since crime and theft are not a problem for imports and the telecommunication infrastructures are considered appropriate for trade.

Factor	*Score* (0= the best)
High cost or delays caused by international transportation	21.8
Burdensome import procedures	19.9

Domestic technical requirements and standards	15.7
High cost or delays caused by domestic transportation	15.6
Tariffs and non-tariff barriers	12.1
Corruption at the border	9.5
Inappropriate telecommunications infrastructure	4.5
Crime and theft	0.9

Table 4.10 United Arab Emirates: Most problematic factors for importing

Source: Thierry Geiger et al. (2016).

As far as the most problematic factors for exporting are concerned, the difficulties are in identifying potential markets and buyers and, as it is for imports, the burdensome procedures at foreign borders. Instead, the business leaders do not consider as obstacles to exports the cost or delays caused by the domestic transportation, or the corruption at foreign borders. Moreover, the production of technology and skills is considered appropriate.

Factor	*Score* (0= the best)
Identifying potential markets and buyers	16.2
Burdensome procedures at foreign borders	13.0
Access to trade finance	12.1
Access to imported inputs at competitive prices	11.1
High cost or delays caused by international transportation	10.4
Technical requirements and standards abroad	7.4
Rules of origin requirements abroad	7.2
Tariff barriers abroad	6.7
Difficulties in meeting quality/quantity requirements of buyers	6.2
Inappropriate production technology and skills	4.5

Corruption at foreign borders	3.6
High cost or delays caused by domestic transportation	1.6

Table 4.11 United Arab Emirates: Most problematic factor for exporting

Source: Thierry Geiger et al. (2016).

4.4 The Doing Business Index (DBI)

This index has been selected because it considers the business regulation system, with the ease of doing business ranking and the distance to frontier score for each economy: even though some of the aspects treated here are included in the GCI index, the whole topic is not deepened but it is considered of primary relevance in the choice of the country towards which address the offer. The Ease of Doing business is a measure of the regulation facilities for the private sector to live, whereas the ETI looks at both the physical and policies means concerning the flow of goods. Finally, the GCI determines the level of competitiveness, in terms of productivity and prosperity of the economy under inspection.

Doing Business is a project launched in 2002 by the World Bank Group in order to yearly measure all the aspects of the business legislation that affect small and medium-sized companies in 190 economies[78]. The economic environment is enhanced by clear rules that make doing business easier, clarifying property rights, facilitating the resolution of disputes, and offering protection to business partners to avoid arbitrariness and abuses.

The Doing Business project creates two types of indicators:

1. *The Ease of doing business ranking*: the 190 countries are ranked on the basis of their ease of doing business: the highest distance to frontier scores correspond to the best positions in the ranking, and consequently a favourable regulatory

[78] World Bank (2017). Doing Business 2017: Equal Opportunity for All. Washington DC, World Bank (available at: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf last access: 09/09/2017)

environment for operating in the country with those levels. Ranking position is based on the aggregate distance to the frontier in the 10 areas of study.

2. *Distance to the frontier*: this indicator provides the performance of the regulatory environment over time. The frontier, with the value of 100, is the best performance registered on each indicator from 2005 across the whole set of economies: thus, the distance from the frontier measures the distance of the economy analysed from the best performer; in particular, the distance to frontier scores closest to 100 correspond to the countries closest to the best.

The sources that compose the indicators are of four types:

1. Laws and regulations
2. The governments of the economies studied
3. The World Bank Group regional staff
4. Doing business respondents: 12.500 respondents in 2017 edition.

Doing business treats 10 areas of business regulation composed by a set of indicators. Some indicators composing the index are used in other organizations indexes, such as the World Economic Forum GCI analysed in the related chapter.

The 2017 Doing Business report highlights some key conclusion for the whole global business:

1. Most of the economies had improvements in their local regulatory framework form 2015 to 2016, in particular, 283 business reforms in 137 countries, mostly with the aim of reducing complexity and cost of regulatory processes in the area of starting a business, followed by the areas of paying taxes, getting credit and international trade.
2. Europe and Central Asia are the economies that are implementing the most reforms in the ease of doing business.

4.4.1 The index structure and calculation

The areas studied by the project are the following:

1. *Starting a business*: it concerns all the procedures, timing, costs, and paid-in minimum capital to start a limited liability company.

2. *Dealing with construction permits*: procedure, timing, and costs to complete procedures to build a warehouse are part of the second area, as well as the quality control and safety mechanisms in the construction permitting system.
3. *Getting electricity*: it includes all the procedures, timing, and costs to get the connection to electricity. In addition, it is evaluated the reliability of the electricity system and the transparency of tariffs.
4. *Registering property*: in this area are included all the procedures, timing, and costs to transfer a property, as well as the quality of the land administration system.
5. *Getting credit*: it includes the movable collateral laws and credit information system.
6. *Protecting minority investors*: this area studies the protection of minority shareholder's rights in related-party transactions and in corporate governance.
7. *Paying taxes*: this includes all the payments, timing, and total tax rate for a firm to comply with all the tax regulations as well as post-filling processes.
8. *Trading across borders*: it concerns the costs and timing to export the product of comparative advantage and import auto parts.
9. *Enforcing contracts*: these are the costs and timing to solve a commercial dispute, as well as the quality of juridical processes.
10. *Resolving insolvency*: this area includes the costs, timing, outcome, and recovery for a commercial insolvency and the strength of the legal framework for insolvency.
11. *Labour market regulation*: this area is neither included in the ease of doing business ranking, nor in the distance to the frontier. This concerns the flexibility in employment regulation and aspects of job quality.

The calculation of the distance to frontier score and of doing business ranking is the following:

- *Distance to frontier score:* the distance to frontier score reflects the gap between the performance of the economy under inspection and the best one achieved over time for the whole set of indicators, both individually for each area, and in aggregate for the final index: the distance is on a 0 to 100 basis, where 0 is the worst performance and 100 the best, thus the frontier. The comparison between

the performances in the previous years illustrates the economy's improvement in the regulatory environment.

The distance to frontier score is computed in two steps:

1. All the components of single areas are rescaled using the linear transformation, to have a common comparable unit.

   The frontier is the best result achieved across all the economies during the time, since 2005 or the third year in which data for the indicator were collected. Moreover, the best and the worst performer are determined every five years and stay even though data change. At any rate, the frontier is set coherently with the meaning of the indicator: for example, as far as the time to pay taxes is concerned, the frontier is not the highest record, rather the lowest time registered since this is the best result for this indicator. Furthermore, when extreme outliers occurred, they have been removed before the calculation of the worst performance. Finally, the total tax rate frontier is set at the 15th percentile of the overall distribution over the time until 2015.
2. The single indicator scores obtained for each economy are aggregated through a simple averaging, since more sophisticated methods brought to similar results. The result is firstly the one unique distance to frontier score for each area and then a unique one across all the areas studied.

- *Doing business ranking*: the ranking scales all the countries and it is on a 1 to 190 scale, as these are the economies involved in the study. The position in the ranking of an economy is based on the aggregate distance to frontier scores.

Doing business areas and indicators:

Ease of starting a business

- Procedures (number)
- Time (days)
- Cost (% of income per capita)
- Minimum capital (% of income per capita)

Ease of dealing with construction permits

- Procedures (number)

- Time (days)
- Cost (% of warehouse value)
- Building quality control index (0-15)

Ease of getting electricity

- Procedures (number)
- Time (days)
- Cost (% of income per capita)
- Reliability of supply and transparency of tariff index (0–8)

Ease of registering property

- Procedures (number)
- Time (days)
- Cost (% of property value)
- Quality of land administration index (0-30)

Ease of getting credit

- Credit information index
- Legal rights index
- Private credit bureau coverage (% of adults)
- Public credit registry coverage (% of adults)

Strength of minority investors protection

- Disclosure index (0-10)
- Director liability index (0-10)
- Shareholder suits index (0-10)
- Shareholder rights index (0-10)
- Ownership and control index (0-10)
- Corporate transparency index (0-10)

Ease of paying taxes

- Payments (number)
- Time (hours)
- Total tax rate (% of profit)
- Postfiling index (0-100)

Ease of trading across borders

- Time to export: Border compliance (hours)
- Time to export: Documentary compliance (hours)
- Cost to export: Border compliance (US$)
- Cost to export: Documentary compliance (US$)
- Time to import: Border compliance (hours)
- Time to import: Documentary compliance (hours)
- Cost to import: Border compliance (US$)
- Cost to import: Documentary compliance (US$)

Ease of enforcing contracts

- Quality of judicial processes index (0-18)
- Time (days)
- Cost (% of claim)

Ease of resolving insolvency

- Resolving Insolvency: cost (% of estate)
- Time to resolve insolvency (years)
- Recovery rate (cents on the dollar)
- Strength of insolvency framework index (0-16)

4.4.2 Doing business in China

Doing business in China is calculated for the two major cities: Beijing and Shanghai. When data are collected for the two largest cities of an economy, the final scores, included the distance to frontier, are the weighted average of the distance to frontier scores for the two cities, weighted considering the population living in each city. In particular, as far as China is concerned, Beijing has a weight of 45 and Shanghai of 55[79]. In 2017 China is ranked 78 globally, gaining two places from the previous year, whereas the distance to the frontier is 64.28 with an increase of 1.42 points comparing

[79] World Bank (2017). Economy Profile 2017: China. Washington DC, World Bank (available at: http://www.doingbusiness.org/~/media/wbg/doingbusiness/documents/profiles/country/chn.pdf last access: 11/09/2017).

to 2016. China is performing better than its region, the East Asia and Pacific since the regional average is not reaching 62 points in the distance to frontier score. Looking at the topics more in detail, it emerges that the area that grew the most from the previous year is getting credit. As a matter of fact, the distance to frontier score increased by 10 percentage points in 2017, with a final score of 60 per cent; the subsequent ranking improvement is of 16 places, reaching the 62nd position worldwide. This large improvement is due also to the last reform that applies to both Beijing and Shanghai, thanks to which payment histories from utility companies are reported and credit scores are provided to banks and financial institutions.

Looking at the global ranking, the best performer is the enforcing contract area, with its fifth place due to its costs, even though it decreased of one position comparing to 2016. On the other hand, the topic that has the highest distance to frontier score is starting a business, due to the calculation of costs and minimum capital as percentage of income per capita. In fact, the first topic studied has seen improvements, increasing of three points and half from the previous year, reaching a distance to frontier score of 81.02 but the ranking position reached only the 127th position in the global ranking, with an increase of seven positions from 2016. The improvement is due to the reforms actuated with the goal of making it easier to start a business, such as the last introduction to a single form to obtain a business license, organization code and tax registration, both for Beijing and for Shanghai. Nevertheless, China is still behind of one point from the regional average for this area.

Topics	*Distance to frontier* (100= the best)	*Rank* (1= the best)
Doing Business	**64.28**	**78**
Starting a business	81.02	127
Dealing with construction permits	48.52	177
Getting electricity	68.73	97
Registering property	76.15	42
Getting credit	60.00	62

Protecting minority investors	45.00	123
Paying taxes	60.46	131
Trading across borders	69.13	96
Enforcing contracts	77.98	5
Resolving insolvency	55.82	53

Table 4.12 China: Doing Business and topics (2017)

Source: World Bank, 2017.

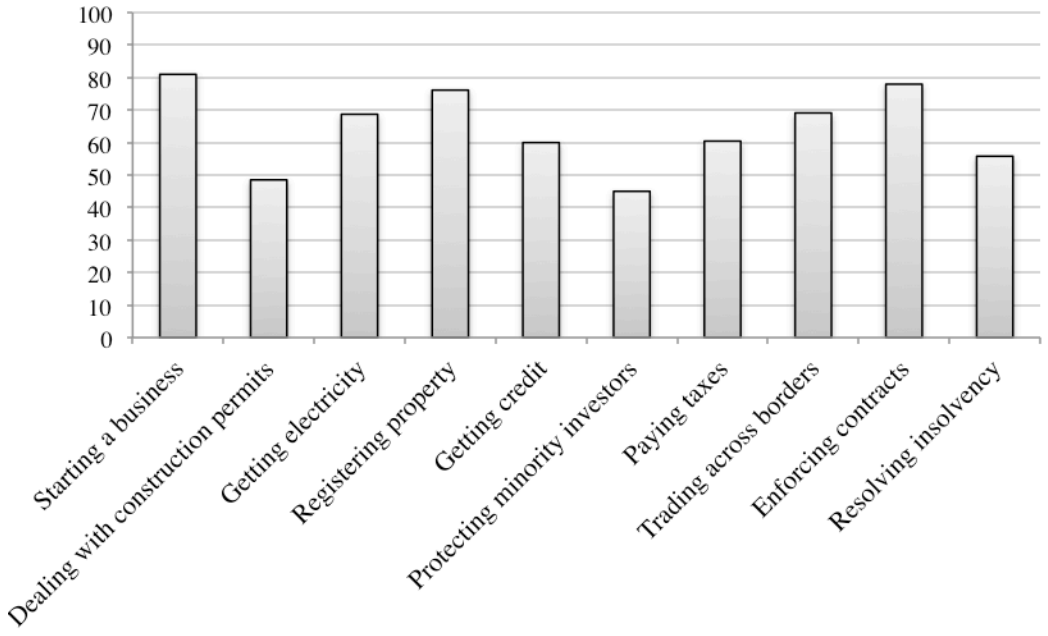


Figure 4.11 China: Doing business topics distance to frontier score overview (2017)

Source: personal processing on data taken from Doing Business 2017 report.

If from the one hand China is registering better performance than those in the previous years and also comparing to its region, these are still far away from the American ones. As a matter of fact, the United States is at the 8th position at the worldwide level, with a distance to frontier score of 82.45, more than 22 points more than the Asian country and an advantage of 70 places in the global ranking. The greatest gap is registered in the dealing with construction permits area, in which China is ranked 177 and the US are 138 positions higher; in addition, in other 6 topics the Asian country is behind the

American of more than 60 places: starting a business, getting electricity, getting credit, protecting minority investors, paying taxes, and trading across borders. There is only one topic in which China is performing better than the US and it is enforcing contracts with the fifth position worldwide vis-à-vis 20 of the US; whereas as far as registering property they are pretty close, being China 42nd and the US 36th globally.

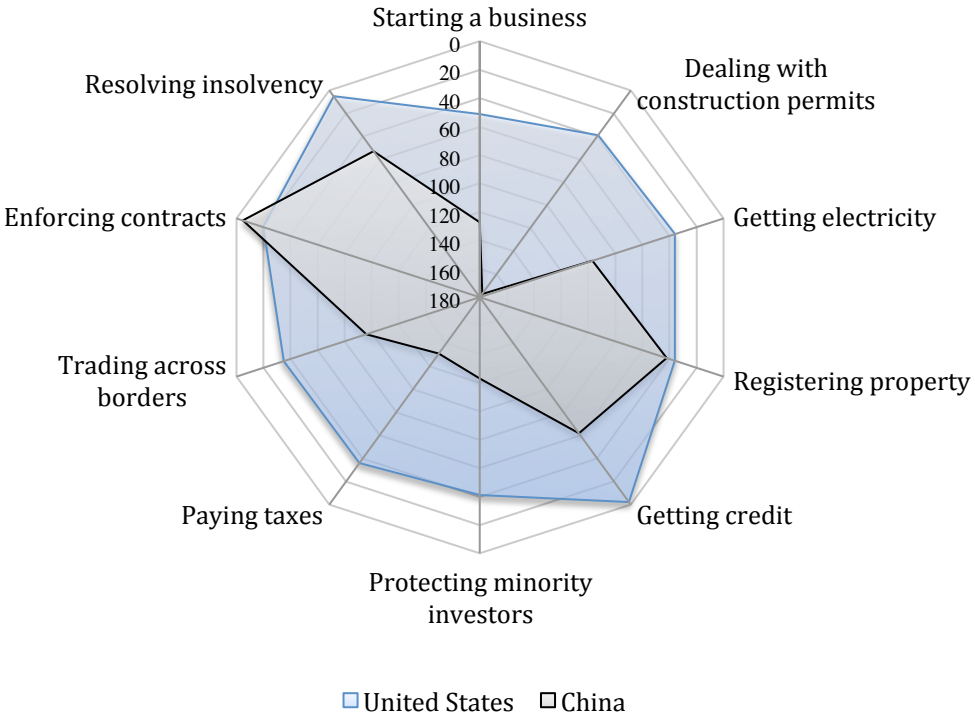


Figure 4.12 Doing Business topic ranking comparison: China and United States (2017)

Source: personal processing on data taken from Doing Business 2017 report.

4.4.3 Doing business in the United Arab Emirates

The overall performances of doing business in the United Arab Emirates are higher than the Chinese ones in the single topics and consequently in the final scores since they are closer to the frontier and better positioned globally. Doing business in the UAE is computed for the whole economy without distinction of cities; in particular, the topics concern the city of Dubai. The overall distance to frontier score is 76.89, with 26th position worldwide and an increase of 8 places compared to 2016. The UAE is the best

performer of their Middle East & North Africa region since the average distance to frontier score is 56.36 and all the neighbouring countries are behind in the ranking. Looking more in detail at the topics of doing business, it emerges that half of them recorded increases in distance to frontier scores and two of them also in the ranking position. Starting a business recorded 91.21 points of gaps from the frontier, with an increase of 2.71 and a 53rd place in the global ranking with a growth of 12 positions compared to 2016. This happened thanks to the recent reform "by streamlining name reservation and articles of association notarization and merging registration procedures with the Ministry of Human Resources and General Pensions and Social Security Authority"[80]. Dealing with construction permits is stable in the global ranking but raise of half a point reaching 86.15 of distance to frontier score thanks to the 2017 reform that implemented risk-based inspections and obtaining a completion certificate that involves the final inspection. Also getting electricity is stable in the ranking but recorded 98.84 in the distance to frontier score, 3.56 percentage points more than the previous year; this is due to the last reform that implemented strict deadlines for technical practices and introduced compensation for power outages. Registering a property gain the eleventh position worldwide with a decrease of one place but an increase of almost one percentage point in the distance to frontier score, reaching 90.04 by the increasing the transparency at its land registry. Finally, protecting minority investors is the topic that grew the most in the points of gap from the frontier, recording 75 points and an increase of more than 13 points; the 2017 reform made it grow up to the ninth place worldwide from the 48th of 2016 thanks to the increase of shareholders rights and role in major corporate decisions and a greater corporate transparency. Looking at the best performer in global terms, it is paying taxes, in which the UAE is the leading state worldwide, with only half a point that separate their performance to the frontier, thanks to payments and time per year and total tax rate as a percentage of profit. This is due to the modern government, which enables procedures with digitalized processes and promotes a customer-centric approach. On the other hand, resolving insolvency is the hardest

[8080] World Bank (2017). Economy Profile 2017: United Arab Emirates. Washington DC, World Bank (available at: http://www.doingbusiness.org/~/media/wbg/doingbusiness/documents/profiles/country/are.pdf last access: 13/09/2017).

practice among the ones studied, both in terms of ranking with its 104th place and a loss of 5 positions, and in terms of points that separate them from the frontier since they registered 40.61 points, stable form the last year.

Topic	*Distance to frontier* (100= the best)	*Rank* (1= the best)
Doing Business	**76.89**	**26**
Starting a business	91.21	53
Dealing with construction permits	86.15	4
Getting electricity	98.84	4
Registering property	90.04	11
Getting credit	45.00	101
Protecting minority investors	75.00	9
Paying taxes	99.44	1
Trading across borders	71.50	85
Enforcing contracts	71.14	25
Resolving insolvency	40.61	104

Table 4.13 United Arab Emirates: Doing Business and topics (2017)

Source: World Bank, 2017.

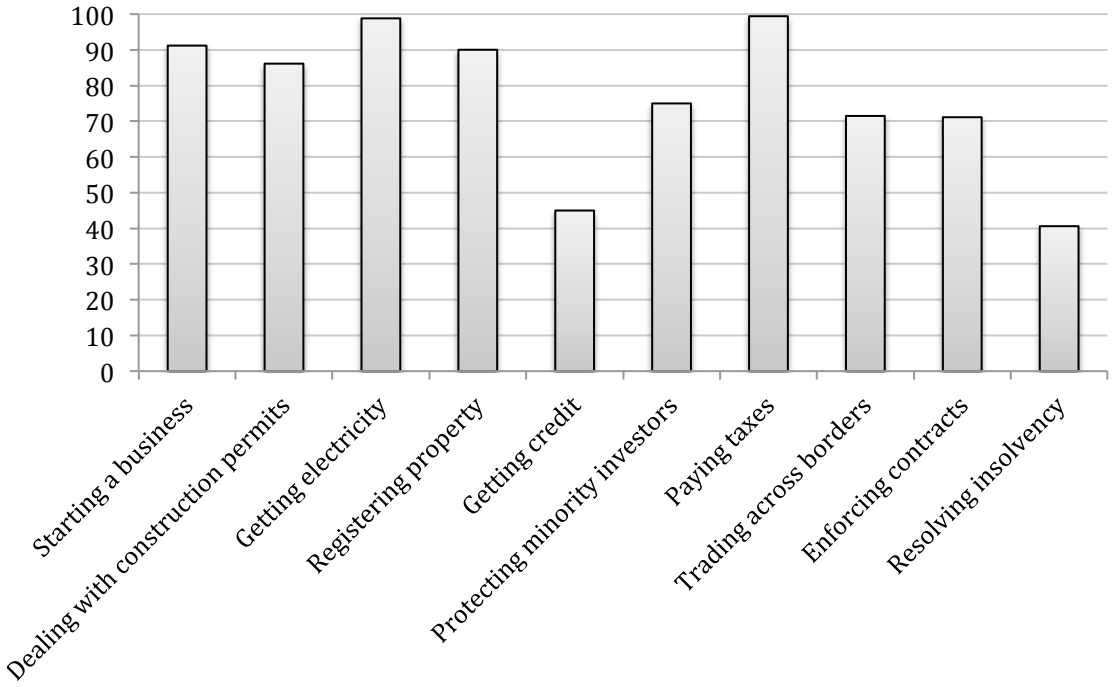


Figure 4.13 United Arab Emirates: Doing business topics distance to frontier score overview (2017)

Source: personal processing on data taken from Doing Business 2017 report.

Looking at the comparison between the United Arab Emirates and the United States ranking positions, the gaps are closer than the one with China and the US and mostly in favour of the UAE. As far as the overall values are concerned, the gap between the two countries is of 18 places since the US are ranked 8th and the UAE 26th; in terms of performance, they are close with only about 5 percentage points that separate each others' distance to frontier score. Concerning topics, in five out of ten the UAE are better placed than the US, in particular in dealing with construction permits, getting electricity, registering property, protecting minority investors, and paying taxes, where the countries that separate them are more than 32, except for registering property where they are 25. On the other hand, the highest gap in favour of the US is in the resolving insolvency area with its 99 places of difference, as well as the one concerning getting credit.

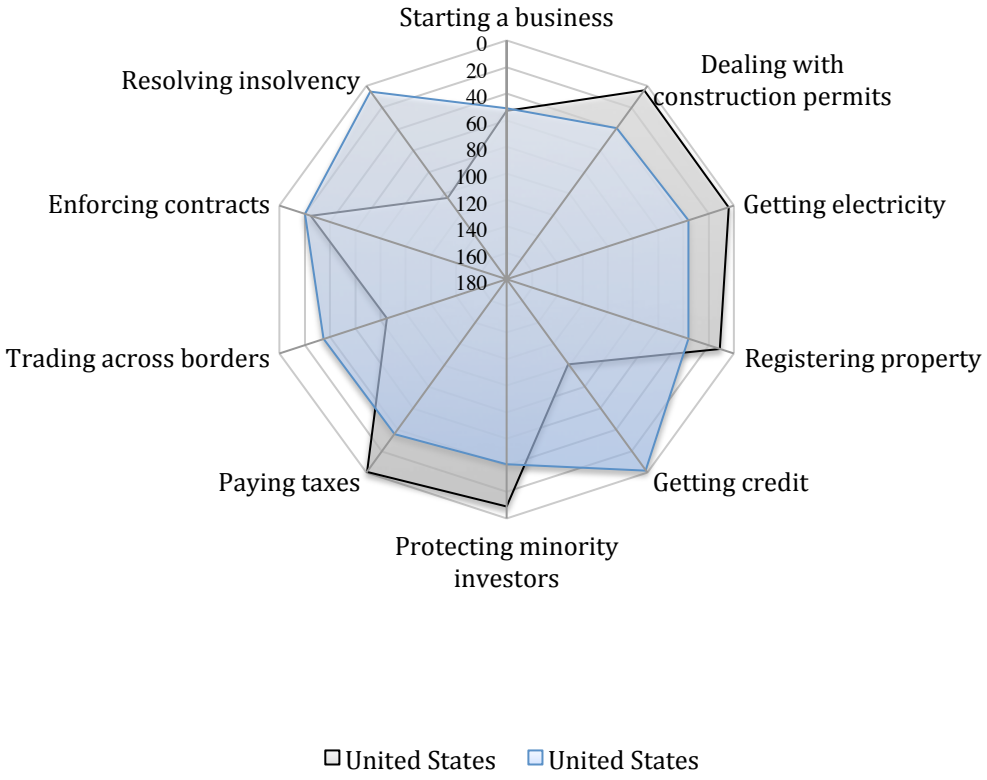


Figure 4.14 Doing Business topic ranking comparison: United Arab Emirates and United States (2017)

Source: personal processing on data taken from Doing Business 2017 report.

4.5 The Differential Hofstede Index (DHI)

In the analysis of the cultural aspect of each country[81], the Hofstede cultural dimensions have been introduced. This index is considered because culture influences individual behaviour, thus consumers' behaviour, and it is of primary relevance for decision makers to consider it at the same level as hard data, such as the ones concerning the macroeconomic environment, or trade.

This index has not the goal of deeply understand the culture since it would take way more study and this is not the main propose of this thesis. Rather, it is a proxy of the

[81] Paragraphs 2.5 and 3.5.

whole culture of the countries involved, with the aim of having an index that considers this perspective.

The aim of the index here proposed is to have a comparable measure of all the countries studied, so to use it in the final model analysed in the following chapter. This index represents the cultural difference that exists between the Italian culture and the others analysed, to understand the difficulties that the companies have to face in these terms. The cultural dimension here is considered at the same level of the other indexes but companies facing foreign countries often underestimate it: this highlighted the necessity to find a dimension to complete the final model.

4.5.1 The index structure and calculation

The entire 6 dimensions[82] composing the final index will be computed with the same weight since here it is considered that none of them has a higher influence on the consumers' behaviour. Consequently, the "differential Hofstede index" (DHI), as it will be called from now on, will be computed with the Euclidean distance formula to have a precise measure of the cultural distance:

$$d\,(p,q) = \sqrt{(q_1 - p_1)^2 + (q_2 - p_2)^2 + \cdots + (q_n - p_n)^2} = \sqrt{\sum_{i=1}^{n} (q_i - p_i)^2}$$

Where:

- i: cultural dimension
- q: Italy
- p: other country

The final result is the difference between the Italian culture and the one of the country under analysis, thus their cultural distance.

The United Arab Emirates are treated slightly differently since, as saw in paragraph 3.4 about the Emirati society, in the country only the 12% of the total is autochthonous and

[82] Power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long/short-term orientation, indulgence/ restraint.

the rest 88% comes from different nations. This fact has an undeniable impact on a company willing to consider the UAE as the receiver of its offer and analysing only the Emirati culture in the UAE would be erroneous. As a consequence, the UAE dimensions are weighted on the basis of each culture's rate of the total population.

To compute the differential index, firstly the Italian dimensions and scores have to be described. Considering the Hofstede cultural dimensions Italy gains the following scores:

1. *High vs. low power distance*: Italy gains a score of 50. There is a clear distinction between north and south: Northern Italy has a preference for equality and a decentralized power in decision-making; moreover, younger generations prefer having no formal supervision and control, because they favour teamwork and open management, instead. In Southern Italy, the PDI scores are high, thus opposite compared to the North.
2. *Individualism vs. collectivism*: Italy has a score of 76 in individualism: this means that it is an individualist country, especially in the biggest cities. Consequently, family and friendship gain a relevant role as an antidote to loneliness. Happiness is linked to personal fulfilment and it is important for Italians to have their personal ideas and goals. Also in this dimension, it is recorded a difference in Southern areas, in which less individualistic behaviours occur and ritual aspects and relationships acquire a higher value.
3. *Masculinity vs. femininity:* Italy has a score of 70, meaning that this is a masculinity society, thus success oriented and driven. Competition in the workplace can be very strong as a mean to achieve success. Starting from a young age is thought that competition is good and being a winner is important in life; as a symbol of success, Italians choose expensive goods and travels.
4. *High vs. low uncertainty avoidance:* here the score recorded is 75. This score shows that Italians are not comfortable with ambiguous situations. Formality in Italian culture is important and what usually surprise the foreigner is the apparent contradiction between the great set of rules and the fact that Italians do not have to comply with them. The work approach in high UA countries reflects

in high planning procedures. Due to the high score in UA, Italians express feelings clearly, especially through the use of body language.

5. *Long-term vs. short-term orientation:* in this dimensions Italy has a score of 61. This means that Italians are pragmatic, and think that truth is relative and depends on time and situation. Italian culture adapts the traditions easily and has a propensity to save and invest. Finally, Italians are perseverant in achieving results.
6. *Indulgence vs. restraint:* Italy gains a value of 30, meaning that this is a restraint culture. Societies that have low scores of indulgence are usually cynics and pessimistic; moreover, leisure time is not appreciated and is a form of indulging in something wrong.

Power Distance	50
Individualism/Collectivism	76
Masculinity/Femininity	70
Uncertainty avoidance	75
Long/Short term orientation	61
Indulgence/ Restraint	30

Table 4.14 Italy: Hofstede's cultural dimensions

Source: personal processing on data taken from: https://geert-hofstede.com/italy.html

4.5.2 The Differential Hofstede Index for China

In the analysis of the Chinese culture in paragraph 2.5, the following cultural values emerged:

Power Distance	80
Individualism/Collectivism	20
Masculinity/Femininity	66
Uncertainty avoidance	30
Long/Short term orientation	87
Indulgence/ Restraint	24

Table 4.15China: Hofstede's cultural dimensions

Source: personal processing on data taken from: https://geert-hofstede.com/china.html

The differential Hofstede index is computed with the Euclidean distance formula described in paragraph 4.5.1; for China, the values are:

$$DHI = \sqrt{(50-80)^2 + (76-20)^2 + (70-66)^2 + (75-30)^2 + (61-87)^2 + (30-24)^2}$$

$$= \sqrt{6789} = 82$$

This is the cultural distance between Italy and China. The maximum cultural distance potentially reachable between Italy and another country is 153[83] and the minimum is 0[84]: this means that China has a median value of cultural distance from Italy, with its value of 82. In particular, the highest cultural distance between the two countries is in the individualism dimension: here, Italy has a score of 76 and China of 20 and consequently, the difference is of 56 points. This means that if on the one hand, Italy is an individualist country in which people act for their own advantage, on the other hand, China is the opposite, being a highly collectivist culture and acting in the interest of the group. In terms of consumers' behaviour this translate in the first case in the choice of small packaging and goods designed for one or very few people; in the second case, family packs and goods designed for being shared among many people are preferred. Conversely, the lowest cultural distance between China and Italy is in the third dimension of masculinity/femininity: this is the dimension in which the two cultures under inspection are the most similar. With a score of 70 for Italy and of 66 for China, they both are masculine cultures, oriented towards success and accomplishment. The choice in terms of buying behaviours is oriented in both the countries towards goods that give a status symbol to the owners and linked to appearance; these goods are preferred due to the aim of showing the accomplishments reached, even at the expenses

[83] This is the potential distance computed as if a country had 0 in all the dimensions.

[84] This is the potential distance computed as if a country had the same values as Italy in all the dimensions.

of the real necessities[85].

Index	*Value*
DHI	82

Table 4.16 China: DHI summary table

Source: personal processing.

4.5.3 The Differential Hofstede Index for the United Arab Emirates

In the analysis of the United Arab Emirates culture in paragraph 3.5, the following cultural values emerged:

Power Distance	90
Individualism/Collectivism	25
Masculinity/Femininity	50
Uncertainty avoidance	80
Long/Short-term orientation	25
Indulgence/ Restraint	25

Table 4.17 United Arab Emirates: Hofstede's cultural dimensions

Source: personal processing on data taken from[86]: https://geert-hofstede.com/arab-emirates.html

As seen in paragraph 3.4, the population living in the UAE is very heterogeneous and

[85] These considerations analyse the culture as a whole, thus exception exists in particular, between Northern and Southern Italy, and rural and urban areas in China.
[86] Long/Short-term orientation and Indulgence/ Restraint dimensions are assessed in paragraph 3.5.

the Central Intelligence Agency (CIA)[87] estimates that only the 11.6% of the total population has Emirati origins. Thus, it is appropriate to compute the cultural dimensions weighting the scores according to the different ethnic groups that compose the demography of the UAE in order to understand the potential consumers' behaviour.

The government agency estimates that the Emirati population in 2015 was composed of:

- Emirati 11.6%,
- South Asian 59.4% (includes Indian 38.2%, Bangladeshi 9.5%, Pakistani 9.4%, other 2.3%),
- Egyptian 10.2%,
- Philippine 6.1%,
- Other 12.8%

In the computation of both the Hofstede index and the differential Hofstede index, the clusters named "other" are not included for the dispersion of the countries composing these rates.

The cultural dimensions for the countries involved are[88]:

Country	*Power Distance*	*Individualism/ Collectivism*	*Masculinity/ Femininity*	*Uncertainty Avoidance*	*Long/ Short-term orientation*	*Indulgence/ Restraint*
United Arab Emirates	90	25	50	80	25	25
India	77	48	56	40	51	26
Bangladesh	80	20	55	60	47	20
Pakistan	55	14	50	70	50	0
Egypt	70	25	45	80	7	4
Philippine	94	32	64	44	27	42

Consequently, each Hofstede's dimension of the final UEA results as the weighted

[87] Central Intelligence Agency (2015). The World Factbook, available at: https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ae.html last access: 14/09/2017.

[88] Source: personal processing on data taken from https://geert-hofstede.com/countries.html

average of the populations' corresponding dimensions, weighted for their rate in the total Emirati population:

Power Distance:

$$UAE_{weighted}$$
$$= (90 * 0{,}114) + (77 * 0{,}382) + (80 * 0{,}095) + (55 * 0{,}094) + (70 * 0{,}102) + (94 * 0{,}061) = 65$$

Individualism:

$$UAE_{weighted}$$
$$= (25 * 0{,}114) + (48 * 0{,}382) + (20 * 0{,}095) + (14 * 0{,}094) + (25 * 0{,}102) + (32 * 0{,}061) = 29$$

Masculinity:

$$UAE_{weighted}$$
$$= (50 * 0{,}114) + (56 * 0{,}382) + (55 * 0{,}095) + (50 * 0{,}094) + (45 * 0{,}102) + (64 * 0{,}061) = 46$$

Uncertainty avoidance:

$$UAE_{weighted}$$
$$= (80 * 0{,}114) + (40 * 0{,}382) + (60 * 0{,}095) + (70 * 0{,}094) + (80 * 0{,}102) + (44 * 0{,}061) = 48$$

Long-term orientation:

$$UAE_{weighted}$$
$$= (25 * 0{,}114) + (51 * 0{,}382) + (47 * 0{,}095) + (50 * 0{,}094) + (7 * 0{,}102) + (27 * 0{,}061) = 34$$

Indulgence:

$$UAE_{weighted}$$
$$= (25 * 0{,}114) + (26 * 0{,}382) + (20 * 0{,}095) + (0 * 0{,}094) + (4 * 0{,}102) + (42 * 0{,}061) = 18$$

The final weighted UAE dimensions are:

Power Distance	65
Individualism/Collectivism	29
Masculinity/Femininity	46
Uncertainty avoidance	48
Long/Short term orientation	34
Indulgence/ Restraint	18

Table 4.18 Weighted United Arab Emirates: Hofstede's cultural dimensions

Source: personal processing.

At this point, the same computation as the other countries is applied. The differential Hofstede index is computed with the Euclidean distance formula described in paragraph 4.5.1; for the UAE, the values are:

$$DHI = \sqrt{(50-65)^2 + (76-29)^2 + (70-46)^2 + (75-48)^2 + (61-34)^2 + (30-18)^2}$$

$$= \sqrt{4696} = 69$$

This is the cultural distance between Italy and the UAE. The maximum cultural distance potentially reachable between Italy and another country is 153[89] and the minimum is 0[90]: this means that the UAE has a median value of cultural distance from Italy, as it was in the case of the cultural distance between Italy and China, but lower. In particular, the highest cultural distance between Italy and the UAE is in the individualism dimension, as it was for China: here, Italy has a score of 76 and the UAE of 29 and consequently, the difference is of 47 points. As seen in paragraph 4.5.2, this means that Italy has an individualist culture and conversely, the people living in the UAE are collectivists. In terms of consuming behaviour, Italian customers prefer choosing small packages because big ones would be wasted due to the consuming of one or very few people and durable goods should be proportionate to the dimensions of houses for single or for small families. On the other hand, collectivist cultures prefer sharing goods and spaces; thus, they choose familiar packs and durable goods designed for being shared among many people. Conversely, the lowest cultural distance between Italy and the UAE is the last dimension of indulgence: this is the dimension in which the two cultures under inspection are the most similar. Italy has a score of 30 and the UAE of 18, resulting in a difference of 12 points. This means that both the Italian and the Emirati cultures prefer restraint rather than indulgence, thus they avoid leisure time and control impulses to desire. In terms of consuming behaviours this translates in avoiding purchasing linked

[89] This is the potential distance computed as if a country had 0 in all the dimensions.
[90] This is the potential distance computed as if a country had the same values as Italy in all the dimensions.

to relaxation and recreation; moreover, they usually do not make purchases on impulse[91].

Index	*Value*
DHI	69

Table 4.19 United Arab Emirates: DHI summary table

Source: personal processing.

[91] These considerations analyse the culture as a whole, thus exception exists, in particular between Northern and Southern Italy, and rural and urban areas in the United Arab Emirates.

5 The analytical model for internationalization: the SMART model

5.1 Introduction

This chapter goes deeply into the analysis, proposing the SMART technique to understand how the different variables impact in the choice of the country towards which address the offer of a company willing to sell Made in Italy goods in the new markets. Paragraph 5.2 describes the choice of the countries and the meaning of Made in Italy in this thesis. Paragraph 5.3 explains the SMART technique construction. Afterwards, paragraph 5.3.1 and following describe the computation of the single indexes used in the SMART. The indexes are analysed in detail in chapter 4 and here they are elaborated with the aim of constructing the final model with the SMART technique. The chapter provides the detailed computation of each index, 5 of which are rescaled using the linear transformation and the sixth, the Doing Business Index (DBI), had additional computations. Three cost indexes are identified: the differential Hofstede index (DHI) as a measure of the cultural distance, the physical distance, and the Doing Business Index is deconstructed to shape two individual ones: the first that represents the costs of exports, and the second the costs of foreign direct investment (FDI) and trade agreements (TA). Moreover, three indexes describe the benefits related to trade in the countries involved in the study: the prosperity of the country, with the Global Competitiveness Index (GCI), the trade facilities, with the Enabling Trade Index (ETI), and the Made in Italy imports, with the Bello e Ben Fatto (BBF) imports from Italy. Finally, paragraph 5.4 and following report the results of different scenarios analysis and the last paragraph summarize the main results emerged in the data analysis.

5.2 Made in Italy and the new economies

The purpose of this thesis is to understand which are the countries towards which address the company's offer, evaluating different variables. The selling companies considered here are the Italian firms producing high-end goods belonging to the typical

Made in Italy manufacturer industries: food, furniture, fashion, footwear, eyewear, and jewellery. On the other hand, the receivers are the new and emerging economies since these are the countries with highest Made in Italy import potential in the medium-long term according to Centro Studi Confindustria and Prometeia: with this goal, the 2016 "Esportare la dolce vita: il bello e ben fatto italiano nei nuovi mercati. Le forze che trasformano i consumi" of Centro Studi Confindustria and Prometeia[92] provides relevant information. The publication considers the so-called "Bello e Ben Fatto" (BBF), which consists of the medium-high end consumer goods belonging to the categories listed above, and are unique for their design and the quality of materials and manufacture. The study identifies 30 countries, over a list of 168, as the most attractive for these products considering the average of 5 dimensions: the rate of Italian BBF export in 2013, the dynamics of Italian BBF export from 2009 until 2013 for each country, the size of GDP in 2013 and prospects for GDP growth from 2014 until 2019, previewed by the International Monetary Fund; and finally, the expected size of the middle class: the number of people with a per capita GDP of $35 thousand in 2030 in the country, as this is the consumers target of BBF products. These countries are taken as the list of new economies for this thesis; five of these economies did not have sufficient data of different indexes, consequently, they have been excluded from the final list of economies analysed in the following paragraphs.
The final list of 25 new economies studied in this thesis is:

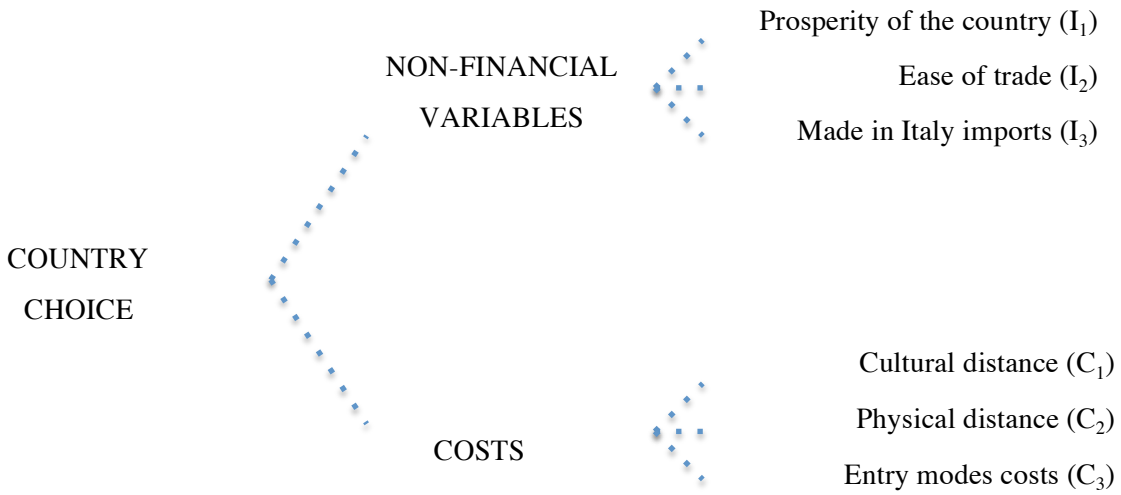
[92] Centro Studi Confindustria, Prometeia (2016). Esportare la dolce vita: il bello e ben fatto italiano nei nuovi mercati. Le forze che trasformano i consumi (available at: https://d3alc7xa4w7z55.cloudfront.net/upload/images/05_2016/160503151910.pdf last access: 29/09/2017).

Argentina	Indonesia	Russian Federation
Brazil	Malaysia	Saudi Arabia
Chile	Mexico	South Africa
China	Morocco	Thailand
Colombia	Nigeria	Turkey
Egypt	Pakistan	United Arab Emirates
Ghana	Peru	Vietnam
Hungary	Philippines	
India	Poland	

In addition to this list of countries, the Centro Studi Confindustria and Prometeia report provides the information about the BBF import from Italy discussed in paragraph 5.3.6.

5.3 The SMART technique

As previously said, the goal of this thesis is to understand which is the best country choice that a manager can make, when looking at the new markets to propose the Made in Italy goods. This choice is simplified because the variables involved in the internationalization decisions are umpteen and linked to the company's strategy. Nevertheless, the most relevant aspects are taken into consideration in the model, involving different perspectives, and trying to consider as many variables as possible.
At this purpose, decision-making techniques help managers to formalize the method and take the best decision. Consequently, the necessity to find a technique that included several criteria with conflicting objectives emerged: the SMART (Simple Multi-Attribute Rating Technique) technique, developed by Edwards (1971), is chosen among the multi-criteria decision-making methods, due to its simplicity in the use and in the description of results.
To construct the model, firstly, the most important criteria involved in the problem have to be identified. The value tree helps to visualize and summarize the different variables among the various levels:



Each criterion is considered for each country involved in the study. To give a hierarchy to the economies analysed, the linear transformation is computed on data available, and in case of need, it is joined to other computation; the specific calculation is described in the paragraphs concerning each index. After that the criteria are identified and the countries put in hierarchical order, the indexes are weighted equally, for the simplicity of the following combination and aggregation: the final model compare on the one hand costs, and on the other, benefits of the problem, both at a single and an aggregate level, computed as the average in the last case.

The final results are shown in a scatter plot reporting all the countries with a point having coordinates that change depending on the different scenarios: costs are on the horizontal axis in decreasing order and benefits on the vertical axis in increasing order. The countries with the maximized benefits and the minimized costs are located on the efficient frontier: these are the countries that should be chosen to satisfy the variables taken into consideration.

The following paragraphs describe the computation of the final values used in the SMART technique and paragraph 5.4 reports the results.

5.3.1 Costs: C_1- Differential Hofstede Index (DHI)

The first cost index is the differential Hofstede Index (DHI), which is the measure of the cultural distance that occurs between Italy and the country under inspection. As the cultural distance grows, it leads to higher costs for a company willing to propose its products to the consumers of that nation, in terms of understanding the habits and values, and adapting the offer: this is the reason why the DHI is considered as a cost in the analysis.

Its computation is described in paragraph 4.5.1 and here are listed the results of all the countries, using the same calculation.

Country	*C_1: DHI (Lowest =the best)*
Argentina	63
Brazil	58
Chile	85
China	82
Colombia	97
Egypt	85
Ghana	103
Hungary	20
India	55
Indonesia	77
Malaysia	90
Mexico	95
Morocco	62
Nigeria	93
Pakistan	73
Peru	79
Philippine	79

Poland	38
Russian Federation	73
Saudi Arabia	77
South Africa	52
Thailand	76
Turkey	56
United Arab Emirates	69
Vietnam	81

Table 5.1 Differential Hofstede Index (DHI)

Source: personal processing.

These data have been subsequently elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is Hungary, with the lowest value of 20. This is the country that is culturally closest to Italy among the economies under inspection, thus, in which the consumers are more understandable for the company.
- x_{worst}: is the worst data available; in this case, it is Ghana, with the highest value of 103. This is the country that is culturally farthest to Italy among the economies under inspection, thus, in which the consumers are less understandable for the company.

The result provides the best country with the value of 100, progressively reaching the worst country with the value of 0. Nevertheless, since this is a cost, the purpose is to have 0 assigned to the best performer and 100 to the worst: after the linear transformation calculation, the values are computed as:

$$100 - value\ after\ the\ linear\ transformation$$

The same result could have been reached switching the best and the worst value in the linear transformation computation, but for reasons of clarity of the explanation, this is the procedure adopted.

The final results are:

Country	*C_1: DHI (0=the best)*
Argentina	51
Brazil	46
Chile	78
China	75
Colombia	93
Egypt	78
Ghana	100
Hungary	0
India	42
Indonesia	69
Malaysia	84
Mexico	90
Morocco	51
Nigeria	88
Pakistan	63
Peru	71
Philippines	70
Poland	22
Russian Federation	63
Saudi Arabia	68
South Africa	38

Thailand	68
Turkey	43
United Arab Emirates	58
Vietnam	73

Table 5.2 Final Differential Hofstede Index (DHI)

Source: personal processing.

5.3.2 Costs: C_2- Physical distance from Italy

This second costs index provides the physical air distance that exists between Italy and the country under inspection, expressed in kilometres and considering the countries' capitals. As the physical distance grows, it leads to higher costs for a company willing to propose its products to the country, in terms of shipping and transportation of resources costs: this is the reason why the physical distance is considered as a cost in the analysis.

Here it is the list of all the distances of the countries analysed from Italy:

Country	*C_2: Physical Distance Italy-country (km) (Lowest=the best)*
Argentina	11.798
Brazil	9.080
Chile	12.145
China	7.575
Colombia	9.420
Egypt	2.360
Ghana	4.006
Hungary	806
India	6.576
Indonesia	11.016
Malaysia	9.657
Mexico	10.159
Morocco	2.073

Nigeria	3.670
Pakistan	5.166
Peru	10.501
Philippines	10.594
Poland	1.224
Russian Federation	6.153
Saudi Arabia	3.606
South Africa	8.133
Thailand	8.270
Turkey	1.943
United Arab Emirates	4.325
Vietnam	9.442

Table 5.3 Physical distance from Italy to the country

Source: personal processing.

These data have been subsequently elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is Hungary, with the lowest distance of 806 km. This is the closest country to Italy among the economies under inspection, thus, the one in which trade costs due to distance are the lowest.
- x_{worst}: is the worst data available; in this case, it is Chile, with the highest value of 12.145 km. This is the farthest country from Italy among the economies under inspection, thus, the one in which trade costs due to distance are the highest.

The result provides the best country with the value of 100, progressively reaching the worst country with the value of 0. Nevertheless, since this is a cost, the purpose is to have 0 assigned to the best performer and 100 to the worst: after the linear transformation calculation, the values are computed as:

$$100 - value\ after\ the\ linear\ transformation$$

The same result could have been reached switching the best and the worst value in the linear transformation computation, but for reasons of clarity of the explanation this is the procedure adopted.

The final results are:

Country	*C_2: Physical Distance Italy-country (km) (0=the best)*
Argentina	97
Brazil	73
Chile	100
China	60
Colombia	76
Egypt	14
Ghana	28
Hungary	0
India	51
Indonesia	90
Malaysia	78
Mexico	82
Morocco	11
Nigeria	25
Pakistan	38
Peru	86
Philippines	86
Poland	4
Russian Federation	47
Saudi Arabia	25

South Africa	65
Thailand	66
Turkey	10
United Arab Emirates	31
Vietnam	76

Table 5.4 Final physical distance from Italy to the country

Source: personal processing.

5.3.3 Costs: C_3- Doing Business Index (DBI)

The third cost index is the Doing Business Index (DBI), which is the measure of the procedures, time and costs that the private small and medium-sized firms have to face to start and grow inside the country under inspection. As these elements grow, it is more difficult for a company to start and develop its business due to tariff and non-tariff barriers: this is the reason why the DBI is considered as a cost in the model.

The Doing Business Index is illustrated in paragraph 4.4 and following. Nevertheless, the application of the DBI inside the model is different from the index as the World Bank constructed it per se. As explained, the original DBI provides two measures, for each indicator, area, and for the overall index: firstly, the distance to frontier (DTF), which is the distance from the best performer, where 100 is the best performer, thus, the frontier and 0 is the worst; and secondly, the ranking of all the studied economies, where the 1st position is the best worldwide and the 190th is the last economy in the rank. Analysing each single indicator and area, it emerged that they provide an objective source of costs, which considered the most relevant variables in the internationalization process: taking ad hoc indicators and areas could provide an interesting source of costs for different types of entry modes, for each country.

Data used to construct the DBI of the final model are taken from two different datasets, since none of them was complete with all the indicators involved in the study: firstly, the distance to frontier calculator of the Doing Business website provides the dataset

concerning the specific Doing Business project[93]; then, all the missing components are integrated by single data provided by the World Bank, which make available all the rough data produced by the World Bank Group[94].

To have a comparable measure, the trading across borders area have been decomposed and from the final distance to frontier score, the single indicators that did not fit with the purpose of the model have been subtracted: the export indicators of each country. The result is a trading across borders area concerning only imports, which can be computed with the other areas.

Finally, a unique distance to frontier score is computed as the average of all the distance from the frontier scores of the areas selected for each type of entry modes.

For simplicity of the model, the entry modes are summarised in two main categories: export (C_{3A}) and foreign direct investments/trade agreements (FDI/TA: C_{3B}). The ratio behind this distinction is that in the first case, the physical headquarters are located in Italy, and goods are shipped and sold in the foreign country, both with or without intermediaries; in the second case, there is a branch in the foreign country, owned by the company itself or given in concession, depending on the typology of internationalization.

Three areas are in common to both the entry modes since these are considered as common costs that verify in all the situations: paying taxes, enforcing contracts, and resolving insolvency.

The different indicators and areas chosen are the following:

A. *Export*: to identify the costs of export three complete areas and four single indicators are considered:
    - Ease of paying taxes;
    - Ease of enforcing contracts;
    - Ease of resolving insolvency;

[93] Dataset is available at: http://www.doingbusiness.org/data/~/media/WBG/DoingBusiness/Documents/DTF-Calculator/DB/DB17-DTF-Calculator.xlsx last access:29/09/2017.

[94] Databases are available at: http://databank.worldbank.org/data/reports.aspx?source=doing-business last access: 29/09/2017.

- Ease of trading across borders: this area is not taken as a whole, but the most relevant indicators have been selected:
    - Time to import: Border compliance (hours)
    - Time to import: Documentary compliance (hours)
    - Cost to import: Border compliance (US$)
    - Cost to import: Documentary compliance (US$)

B. *Foreign direct investments (FDI) and trade agreements (TA)*:

- Ease of paying taxes;
- Ease of enforcing contracts;
- Ease of resolving insolvency;
- Ease of starting a business;
- Ease of dealing with construction permits;
- Ease of getting electricity;
- Ease of registering property;
- Ease of getting credit;
- Strength of minority investors protection

The result is a DTF score for the DBI-export and a DTF score for the DBI- FDI/TA for each country, in which 100 is the frontier, thus the best performer of all the economies analysed by the original Doing Business study.

C_{3A}- DBI- Export

The fist cluster of costs concerning the Doing Business Index (DBI) is export. Here are listed the distance to frontier (DTF) scores for all the 25 countries considered in this model, after the computation described in paragraph 5.3.3:

Country	*C_{3A}: DBI- Export DTF (Highest= the best)*
Argentina	48

Brazil	52
Chile	66
China	64
Colombia	59
Egypt	37
Ghana	49
Hungary	75
India	42
Indonesia	54
Malaysia	73
Mexico	72
Morocco	65
Nigeria	30
Pakistan	43
Peru	62
Philippines	60
Poland	81
Russian Federation	68
Saudi Arabia	42
South Africa	64
Thailand	75
Turkey	60
United Arab Emirates	70
Vietnam	54

Table 5.5 Doing Business Index (DBI)- Export Distance to Frontier (DTF)

Source: personal processing.

These results are computed taking into account all the countries studied by the original DB report: thus, the scores have been elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is Poland, with the highest DTF score of 81[95]. This is the country with the lowest export costs among the countries studied, thus, the potentially most attractive in these terms.
- x_{worst}: is the worst data available; in this case, it is Nigeria, with the lowest DTF score of 30[96]. This is the country with the highest export costs among the countries studied, thus, the potentially less attractive in these terms.

The result after the linear transformation provides the best country with the value of 100, progressively reaching the worst country with the value of 0. Nevertheless, since this is a cost, the purpose is to have 0 assigned to the best performer and 100 to the worst: after the linear transformation calculation, the values are computed as:

$$100 - value\ after\ the\ linear\ \text{transformation}$$

The same result could have been reached switching the best and the worst value in the linear transformation computation, but for reasons of clarity of the explanation this is the procedure adopted.
The final results are:

Country	*C_{3A}: DB EXPORT (0= the best)*

[95] The frontier is the best performer; consequently a higher DTF result means a higher performance, in this case in terms of costs, thus lower costs. See paragraphs 4.4 and followings for further explanation.
[96] The frontier is the best performer; consequently a lower DTF result means a lower performance, in this case in terms of costs, thus higher costs. See paragraphs 4.4 and followings for further explanation.

Argentina	65
Brazil	57
Chile	28
China	33
Colombia	43
Egypt	86
Ghana	62
Hungary	10
India	77
Indonesia	52
Malaysia	15
Mexico	18
Morocco	32
Nigeria	100
Pakistan	76
Peru	38
Philippines	41
Poland	0
Russian Federation	25
Saudi Arabia	77
South Africa	33
Thailand	12
Turkey	40
United Arab Emirates	21
Vietnam	53

Table 5.6 Final Doing Business Index (DBI)- Export

Source: personal processing.

C_{3B}: DBI- Foreign Direct Investments/Trade Agreements (FDI/TA)

The second cluster of costs concerning the Doing Business Index (DBI) is foreign direct investment/trade agreements (FDI/TA). Here are listed the distance to frontier (DTF) scores for all the 25 countries considered in this model, after the computation described in paragraph 5.3.3:

Country	*C_{3B}: DBI FDI/TA DTF (Highest= the best)*
Argentina	57
Brazil	57
Chile	68
China	64
Colombia	72
Egypt	58
Ghana	60
Hungary	70
India	55
Indonesia	61
Malaysia	78
Mexico	71
Morocco	66
Nigeria	47
Pakistan	53
Peru	70
Philippines	59
Poland	75
Russian Federation	75
Saudi Arabia	62

South Africa	66
Thailand	71
Turkey	66
United Arab Emirates	77
Vietnam	63

Table 5.7 Doing Business Index- Foreign Direct Investment/Trade Agreement Distance to Frontier (DBI-FDI/TA DTF)

Source: personal processing.

These results are computed taking into account all the countries studied by the original DB report: thus, the scores have been elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is Malaysia with the highest DTF score of 78[97]. This is the country with the lowest FDI/TA costs among the countries studied, thus, the potentially most attractive in these terms.
- x_{worst}: is the worst data available; in this case, it is Nigeria, with the lowest DTF score of 47[98]. This is the country with the highest FDI/TA costs among the countries studied, thus, the potentially less attractive in these terms.

The result after the linear transformation provides the best country with the value of 100, progressively reaching the worst country with the value of 0. Nevertheless, since this is a cost, the purpose is to have 0 assigned to the best performer and 100 to the

[97] The frontier is the best performer; consequently a higher DTF result means a higher performance, in this case in terms of costs, thus lower costs. See paragraphs 4.4 and followings for further explanation.

[98] The frontier is the best performer; consequently a lower DTF result means a lower performance, in this case in terms of costs, thus higher costs. See paragraphs 4.4 and followings for further explanation.

worst: after the linear transformation calculation, the values are computed as:

$$100 - value\ after\ the\ linear\ transformation$$

The same result could have been reached switching the best and the worst value in the linear transformation computation, but for reasons of clarity of the explanation this is the procedure adopted.

The final results are:

Country	*C_{3B}: DB FDI/TA (0=the best)*
Argentina	69.6
Brazil	69.4
Chile	30.7
China	45.9
Colombia	19.2
Egypt	64.1
Ghana	59.8
Hungary	25.0
India	74.8
Indonesia	54.9
Malaysia	0.0
Mexico	21.3
Morocco	38.5
Nigeria	100.0
Pakistan	81.0
Peru	24.8
Philippines	60.2
Poland	7.6
Russian Federation	9.1

Saudi Arabia	50.4
South Africa	38.4
Thailand	21.1
Turkey	39.1
United Arab Emirates	0.5
Vietnam	47.9

Table 5.8 Final Doing Business Index- Foreign Direct Investment/Trade Agreement (DBI-FDI/TA)

Source: personal processing.

5.3.4 Benefits: I_1- Global Competitiveness Index (GCI)

The first benefit is the Global Competitiveness Index (GCI), which is the measure of the competitiveness, thus prosperity, of the country under inspection. As the prosperity grows, the country is more attractive for companies willing to propose their products to the consumers. This is the reason why the GCI is considered as a benefit in the model. The GCI is described in paragraphs 4.2 and following, and here are listed the scores for all the economies[99]:

Country	*I_1: GCI Score (Highest= the best)*
Argentina	3.8
Brazil	4.1
Chile	4.6
China	5.0
Colombia	4.3
Egypt	3.7

[99] Complete datasets are available at: http://reports.weforum.org/global-competitiveness-index-2016-2017/downloads/ last access: 04/09/2017.

Ghana	3.7
Hungary	4.2
India	4.5
Indonesia	4.5
Malaysia	5.2
Mexico	4.4
Morocco	4.2
Nigeria	3.4
Pakistan	3.5
Peru	4.2
Philippines	4.4
Poland	4.6
Russian Federation	4.5
Saudi Arabia	4.8
South Africa	4.5
Thailand	4.6
Turkey	4.4
United Arab Emirates	5.3
Vietnam	4.3

Table 5.9 Global Competitiveness Index (GCI) score

Source: personal processing.

These data have been subsequently elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is the United Arab Emirates, with the highest value of 5.3. This is the country with the highest prosperity among

the economies under inspection, thus, the potentially most interesting, in terms of GCI, for a company willing to propose its offer there.

- x_{worst}: is the worst data available; in this case, it is Nigeria, with the lowest value of 3.4. This is the country with the lowest prosperity among the economies under inspection, thus, the potentially less interesting, in terms of GCI, for a company willing to propose its offer there.

The result provides the best country with the value of 100, progressively reaching the worst country with the value of 0.
The final results are:

Country	*I_1: GCI Score (100=the best)*
Argentina	22
Brazil	35
Chile	67
China	83
Colombia	48
Egypt	15
Ghana	15
Hungary	43
India	61
Indonesia	60
Malaysia	95
Mexico	54
Morocco	43
Nigeria	0
Pakistan	5
Peru	45
Philippines	51

Poland	62
Russian Federation	60
Saudi Arabia	77
South Africa	58
Thailand	67
Turkey	53
United Arab Emirates	100
Vietnam	49

Table 5.10 Global Competitiveness Index (GCI) score

Source: personal processing.

5.3.5 Benefits: I_2- Enabling Trade Index (ETI)

The second benefit of the model is the Enabling Trade Index (ETI), which is the measure of trade facilities put in place by the country under inspection. As the trade facilities grow, commerce in the country is promoted, thus, companies are encouraged to exchange their offer in the economy. This is the reason why the ETI is considered as a benefit in the model.

The ETI is described in paragraphs 4.3 and following, and here are listed the scores for all the economies[100]:

Country	*I_2: ETI Score (Highest= the best)*
Argentina	4.0
Brazil	3.8
Chile	5.3
China	4.5

[100] Complete datasets are available at: http://reports.weforum.org/global-enabling-trade-report-2016/downloads-page/ last access: 15/09/2017.

Colombia	4.1
Egypt	3.7
Ghana	3.9
Hungary	4.9
India	3.9
Indonesia	4.3
Malaysia	4.9
Mexico	4,6
Morocco	4.6
Nigeria	3.2
Pakistan	3.5
Peru	4.5
Philippines	4.1
Poland	5.0
Russian Federation	3.8
Saudi Arabia	4.3
South Africa	4.5
Thailand	4.4
Turkey	4.5
United Arab Emirates	5.2
Vietnam	4.3

Table 5.11 Enabling Trade Index (ETI) score

Source: personal processing.

These data have been subsequently elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.

- x_{best}: is the best data available; in this case, it is Chile, with the highest value of 5.3. This is the country with the highest trade facilities among the economies under inspection, thus, the potentially most interesting, in terms of ETI, for a company willing to propose its offer there.
- x_{worst}: is the worst data available; in this case, it is Nigeria, with the lowest value of 3.2. This is the country with the lowest trade facilities among the economies under inspection, thus, the potentially less interesting, in terms of ETI, for a company willing to propose its offer there.

The result provides the best country with the value of 100, progressively reaching the worst country with the value of 0.
The final results are:

Country	*I_2: ETI Score (100=the best)*
Argentina	36
Brazil	27
Chile	100
China	62
Colombia	42
Egypt	24
Ghana	34
Hungary	82
India	33
Indonesia	52
Malaysia	82
Mexico	65
Morocco	67
Nigeria	0
Pakistan	13

Peru	64
Philippines	44
Poland	85
Russian Federation	27
Saudi Arabia	54
South Africa	63
Thailand	59
Turkey	63
United Arab Emirates	98
Vietnam	50

Table 5.12 Enabling Trade Index (ETI) score

Source: personal processing.

5.3.6 Benefits: I_3- Bello e Ben Fatto (BBF) import from Italy

This last benefit index provides the measure of the Made In Italy imports of the countries under inspection: this is used as a proxy for a country's interest towards Made in Italy goods, to understand whether the consumers in that nation can appreciate them or not. At this purpose data available in the Centro Studi Confindustria and Prometeia report described in 5.2 paragraph are used: data concern the Bello e Ben Fatto (BBF)[101] products imported in each country in 2015[102]. A higher level of imports is considered here as a higher level of interest towards Made in Italy products, thus, a more attractive market for the Italian companies trading these categories of goods. This is the reason why the BBF import from Italy is considered as a benefit in the model.
Here it is the list of all the economies:

[101] Medium-high end consumer goods belonging to food, furniture, fashion, footwear, eyewear, and jewellery categories.
[102] At 2015 prices.

Country	*I_3: BBF Import from Italy 2015 (Million €) (Highest=the best)*
Argentina	25
Brazil	258
Chile	85
China	1.677
Colombia	58
Egypt	111
Ghana	19
Hungary	251
India	142
Indonesia	37
Malaysia	96
Mexico	404
Morocco	110
Nigeria	81
Pakistan	16
Peru	36
Philippines	59
Poland	826
Russian Federation	1.963
Saudi Arabia	620
South Africa	241
Thailand	121
Turkey	774
United Arab Emirates	1.907
Vietnam	46

Table 5.13 Bello e Ben Fatto (BBF) Import from Italy 2015

Source: personal processing.

These data have been subsequently elaborated using the linear transformation:

$$100 * \frac{x - x_{worst}}{x_{best} - x_{worst}}$$

In which:

- x: is the data about the single country.
- x_{best}: is the best data available; in this case, it is the Russian Federation, with the highest value of €1.963 million. This is the country with the highest BBF imports from Italy in 2015, thus, the potentially most interesting, in these terms, for a company willing to propose its offer there.
- x_{worst}: is the worst data available; in this case, it is Pakistan, with the lowest value of €16 million. This is the country with the lowest BBF imports from Italy in 2015, thus, the potentially less interesting, in these terms, for a company willing to propose its offer there.

The result provides the best country with the value of 100, progressively reaching the worst country with the value of 0.
The final results are:

Country	*I_3: BBF Import from Italy 2015 (Million €) (100=the best)*
Argentina	0.5
Brazil	12.4
Chile	3.5
China	85.3
Colombia	2.2
Egypt	4.9
Ghana	0.2

Hungary	12.1
India	6.5
Indonesia	1.1
Malaysia	4.1
Mexico	19.9
Morocco	4.8
Nigeria	3.3
Pakistan	0.0
Peru	1.0
Philippines	2.2
Poland	41.6
Russian Federation	100.0
Saudi Arabia	31,0
South Africa	11.6
Thailand	5.4
Turkey	38.9
United Arab Emirates	97.1
Vietnam	1.5

Table 5.14 Bello e Ben Fatto (BBF) Import from Italy 2015

Source: personal processing.

5.4 Data Analysis

The following paragraphs report the result of the SMART technique[103], applied to the 25 countries[104]. The model compares four costs indexes and three benefits indexes:

- Costs indexes:

[103] For further information about the SMART see paragraph 5.3.
[104] For further information about the countries involved see paragraph 5.2.

- C_1: Differential Hofstede Index (DHI)[105];
- C_2: Physical distance between Italy and the country analysed[106];
- C_{3A}: Doing Business Index (DBI)- Export[107];
- C_{3B}: Doing Business Index (DBI)- Foreign Direct Investments/Trade Agreements (FDI/TA)[108];

- Benefits indexes:
  - I_1: Global Competitiveness Index (GCI)[109];
  - I_2: Enabling Trade Index (ETI)[110];
  - I_3: BBF Import from Italy[111].

This technique compares costs and benefits in a scatter plot, in which the points represent all the countries involved. The countries that maximize the benefits and minimize the costs are represented with the efficient frontier, a curve that passes among all of them: these are the suggested choices for variables considered. After the construction of the SMART model with the indexes described in the preceding paragraphs, the data analysis starts considering all the possible reasonable combinations of the indexes, to highlight the main consequences when different variables are involved. The result is the creation of about 80 scatter plots comparing both individual and aggregate indexes, 26 of which are summarized in the appendix to show the most relevant results.

The following paragraphs try to answer to the questions at the basis of this thesis: the main purpose of this study was to understand how several variables change the

[105] This is the measure of the cultural distance between Italy and the country under inspection. For further information see paragraphs 4.5 and following.
[106] For further information see paragraph 5.3.2.
[107] This is the measure of the costs related to export activities in the country under inspection. For further information see paragraph 5.3.3.
[108] This is the measure of the costs related to foreign direct investment/trade agreements activities in the country under inspection. For further information see paragraph 5.3.3.
[109] This is the measure of the productivity and competitiveness of the country under inspection. For further information see paragraphs 4.2 and following.
[110] This is the measure of the trade facilities put in place by the country under inspection. For further information see paragraphs 4.3 and following.
[111] This is the measure of the Made in Italy imports in the country under inspection. For further information see paragraph 5.2.

internationalization decisions, whether considered or not. In particular, the focus was on the cultural aspects, on the distinction between the entry modes, on the variables directly linked to the country's economy[112], and on the role of China and of the United Arab Emirates, studied in detail in chapter 2 and 3.

The following paragraphs concern:

1. *Research question n°1*: the role of culture in the internationalization decisions. The scatter plots compare:
    - The Differential Hofstede Index (C1) and export costs (C3A) with Global Competitiveness Index (GCI)[113];
    - The physical distance (C2) and export costs (C3A) with Global Competitiveness Index (GCI) [114].
2. *Research question n°2*: the role of entry modes in the internationalization decisions. The scatter plots compare:
    - The Differential Hofstede Index (C1), the physical distance (C2) and export costs (C3A) with the Global Competitiveness Index (I1), the Enabling Trade Index (I2) and the BBF imports (I3) [115].
    - The Differential Hofstede Index (C1), the physical distance (C2) and foreign direct investment/trade agreements costs (C3B) with the Global Competitiveness Index (I1), the Enabling Trade Index (I2) and the BBF imports (I3) [116].
3. *Research question n°3*: t: the role of country variables and Made in Italy in the internationalization decisions. The scatter plots compare:
    - Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with Global Competitiveness Index (GCI) [117];

[112] For simplicity of the model, the entry modes are summarised into two categories: export and foreign direct investments, treated at the same level as trade agreements. For further information about the entry modes distinction see paragraph 5.3.3.
[113] Figure 5.1.
[114] Figure 5.2.
[115] Figure 5.3.
[116] Figure 5.4.
[117] Figure 5.5.

- Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with Enabling Trade Index (ETI) [118];
- Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with BBF imports (BBF) [119];
- Global Competitiveness Index (GCI) and Enabling Trade Index (ETI) correlation[120].

4. *Research question n°4*: the role of China and of the United Arab Emirates in the internationalization decisions. The table reported is:
   - China and United Arab Emirates index scores summary[121].

5.4.1 Research question n°1: the role of culture in the internationalization decisions

The first research question is the one that gave origin to this thesis. It concerns the role of culture in the internationalization decisions: does consider the culture change the country choice comparing to not considering it?

The main challenge, in this case, was to find an objective measure of culture, which could be inserted in the SMART model. At this purpose, the Hofstede Index has been identified and calculated as a differential measure to determine the distance from the Italian culture, with the Differential Hofstede Index, since Italy is the origin of the offer considered in this thesis[122].

The analysis concerns the comparison between the cultural and the physical distance when the other conditions stay unchanged.

Firstly, the analysis involves the cultural distance[123] in comparison with one by one the single benefits[124]: when the cultural distance is considered, this stays unchanged and

[118] Figure 5.6.
[119] Figure 5.7.
[120] Figure 5.8.
[121] Table 5.14.
[122] For further information about the Differential Hofstede Index see paragraphs 4.5 and following.
[123] The cultural distance is measured with the Differential Hofstede Index.
[124] Global Competitiveness Index, Enabling Trade Index and BBF import.

benefits change one by one. Afterwards, the cultural distance is substituted with the physical distance to highlight the possible differences concerning the efficient frontiers.
The second analysis considers the cultural distance, as before, but here it is compared with the all the possible aggregations of benefits: when the cultural distance is analysed, this stays unchanged and the benefits aggregations change one by one, considering all the possible combinations. Afterwards, the cultural distance is substituted with the physical distance to highlight the possible differences concerning the efficient frontiers.
The third analysis considers, on the one hand, the cultural distance aggregated with one by one the other costs[125]; on the other hand, benefits are considered one by one: when a combination of costs is considered, this stays unchanged and benefits change one by one. Afterwards, the cultural distance is substituted with the physical distance to highlight the possible differences concerning the efficient frontiers.
The last analysis considers the on the one hand, the cultural distance aggregated with one by one the other costs, as before; but on the other hand, here benefits are aggregated in all their possible combinations: when a combination of costs is analysed, this stays unchanged and the benefits aggregations change one by one, considering all the possible combinations. Afterwards, the cultural distance is substituted with the physical distance to highlight the possible differences concerning the efficient frontiers.
What emerged from these analyses, is that ceteris paribus, comparing, on the one hand, the cultural distance and on the other hand the physical distance, the results are different. If costs stay unchanged, results are different both if benefits are aggregated and are different also if benefits are considered individually: ceteris paribus, considering the cultural distance and considering the physical distance leads to different results.
In addition, if the entry mode and benefits stay unchanged, considering, on the one hand, only the cultural distance and on the other hand, the cultural with the physical distance in aggregate[126], lead to the same result: ceteris paribus, considering the cultural distance or the cultural distance with the physical distance, leads to the same result. This means that the analysis between the culture and the culture combined with the physical

[125] Firstly, the cultural distance is compared to the export costs or the foreign direct investment/trade agreement costs; and then the cultural distance is compared with the physical distance and the export costs or the foreign direct investment/trade agreement costs.
[126] Aggregation is made with equal weights.

distance is solid and even if they are combined together with other costs indexes[127], they lead to the same result. The cultural distance is, in a certain way, inclusive of the physical distance, even though if taken individually, they lead to different results.

Consequently, when the other variables stay unchanged, considering the cultural or the physical distance leads to different results; whereas, considering the cultural distance or the cultural and the physical distance together leads to the same result.

Here, it is reported an example of combination with a simple average: firstly, the cultural distance, the Differential Hofstede Index (C1), with the export costs (C3A), are compared with the Global Competitiveness Index (GCI)[128]: in this case, if the cultural distance and the export costs are compared with the productivity of the country, the suggested countries are the United Arab Emirates, Poland, and Hungary.

Secondly, the physical distance (C2), with the export costs (C3A), are compared with the Global Competitiveness Index (GCI)[129]: in this case, if the physical distance and the export costs are compared with the productivity of the country, the suggested countries are the United Arab Emirates and Poland.

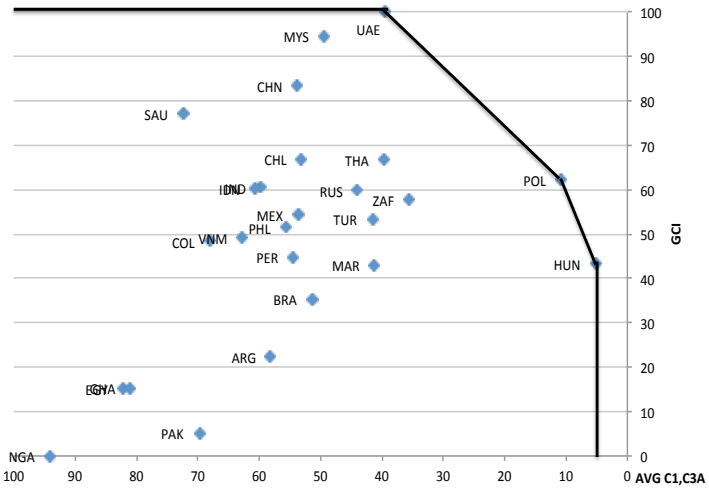


Figure 5.1 Differential Hofstede Index (C1), export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

[127] Export costs or foreign direct investment/trade agreement costs.
[128] Figure 5.1.
[129] Figure 5.2.

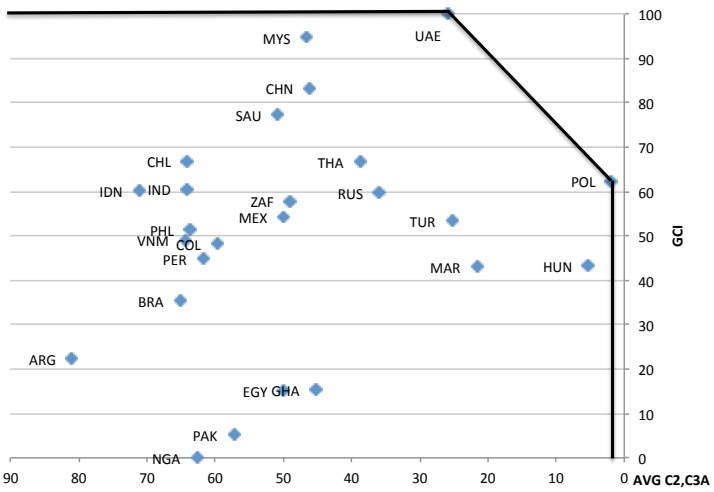


Figure 5.2 Physical distance (C2), export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

5.4.2 Research question n°2: the role of entry modes in the internationalization decisions

The second research question concerns the entry mode: how the efficient frontier changes considering export or foreign direct investment/trade agreement, instead, when the other conditions stay unchanged?

As seen in paragraph 5.3.3, the entry modes are divided into, on the one hand, export and on the other, foreign direct investments, at the same level as trade agreements. To compose these costs, the World Bank's Doing Business Index has been identified and deconstructed and the pillars concerning each entry modes have been chosen[130].

The analysis concerns the comparison between the exports costs and the foreign direct investment/trade agreements costs, when the other conditions stay unchanged.

Firstly, the analysis considers, on the one hand, export costs in aggregation[131] with one by one the other costs[132]; and on the other hand, benefits one by one[133]: when a

[130] For further information about the construction of the indexes see paragraph 5.3.3.

[131] Through a simple average, considering that each cost have the same relevance in the model.

[132] Differential Hofstede Index and physical distance.

combination of costs is analysed, this stays unchanged and benefits change one by one. Afterwards, the export costs are substituted with foreign direct investment/trade agreements costs to compare all the efficient frontiers.

The second analysis considers export costs in aggregation with one by one the other costs, as before; but on the other hand, benefits are aggregated[134]: when a combination of costs is analysed, this stays unchanged and benefits aggregations change one by one, considering all the possible combinations. Afterwards, the export costs are substituted with foreign direct investment/trade agreements costs to compare all the efficient frontiers.

The third analysis considers the export costs aggregated with all the other[135] costs indexes at the same time; on the other hand, benefits are considered one by one: when the combination of costs is analysed, this stays unchanged and benefits change one by one. Afterwards, the export costs are substituted with foreign direct investment/trade agreements costs to compare all the efficient frontiers.

The last analysis considers the export costs aggregated with all the other[136] costs indexes at the same time, as before; but on the other hand, benefits are considered in aggregate: when the combination of costs is analysed, this stays unchanged and benefits aggregations change one by one, considering all the possible combinations. Afterwards, the export costs are substituted with foreign direct investment/trade agreements costs to compare all the efficient frontiers.

What unexpectedly emerged during all these analyses is that, ceteris paribus, comparing on the one hand, the frontier with the export costs and on the other, the frontier with the foreign direct investment/trade agreements, the frontiers are equals: ceteris paribus, considering exports costs or foreign direct investment/trade agreements do not change the frontier; thus, the suggested countries are the same independently by the entry mode considered.

Here are reported the examples of frontiers considering firstly, the Differential Hofstede Index (C1), the physical distance (C2) and the export costs (C3A) with the Global

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[133] Global Competitiveness Index, Enabling Trade Index and BBF import.

[134] Through a simple average, considering that each benefit have the same relevance in the model.

[135] Differential Hofstede Index and physical distance.

[136] Differential Hofstede Index and physical distance.

Competitiveness Index (I1), the Enabling Trade Index (I2) and the BBF imports (I3)[137]. Secondly, the export costs are substituted with the foreign direct investment/trade agreements costs (C3B)[138]. In both the cases, the frontiers are equals and the suggested countries are the United Arab Emirates, Poland, and Hungary: if the productivity, the trade facilities and the Made in Italy imports in the country are considered with the cultural and physical distance, deciding to invest in export or in foreign direct investment/trade agreements don't change the suggested countries, which are the United Arab Emirates, Poland, and Hungary.

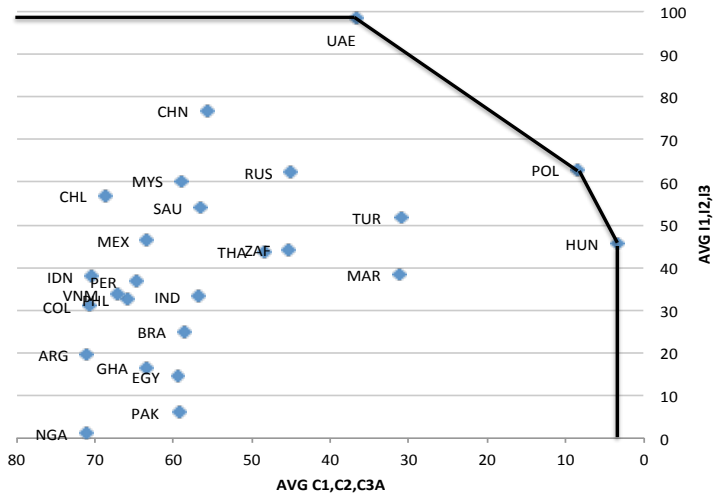

Figure 5.3 Differential Hofstede Index (C1), physical distance (C2) and *export* costts (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and BBF imports (I3)

Source: personal processing.

[137] Figure 5.3.
[138] Figure 5.4.

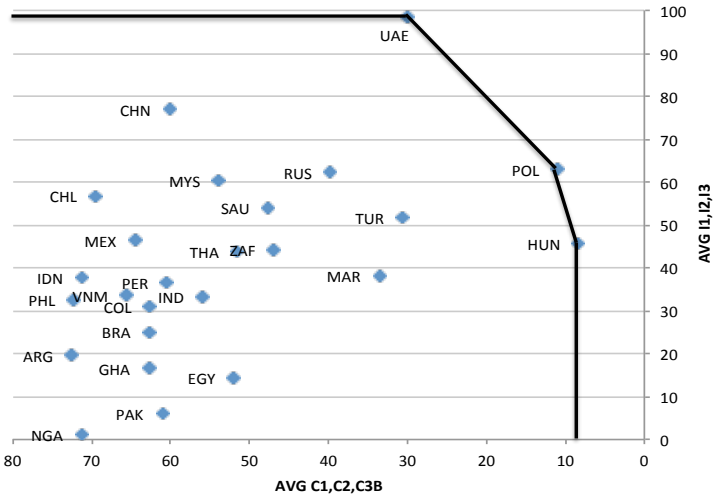

Figure 5.4 Differential Hofstede Index (C1), physical distance (C2) and *foreign direct investment/trade agreement* costts (C3B) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and BBF imports (I3)

Source: personal processing.

5.4.3 Research question n°3: the role of country variables and Made in Italy in the internationalization decisions

The third research question concerns the indexes strictly related to the country's economy and the Made in Italy appreciation: how the efficient frontier changes considering the different variables about the country's economy? What about considering the Made in Italy appreciation in the country under inspection?

In this case, the challenge was to find firstly, one or few indexes that summarized in an objective way as many economic variables as possible. To solve the problem, two indexes have been identified: firstly the World Economic Forum's Global Competitiveness Index, which involves all the variables related to the competitiveness and the productivity of the country, such as institutions, macroeconomic environment, and efficiency of the goods, labour and financial markets[139]. Secondly, the World Economic Forum's Enabling Trade Index has been chosen as a measure of the trade facilities put in place by the economy, such as the market access, the border

[139] For further information see paragraphs 4.2 and following.

administration, and the operating environment[140].

Secondly, the problem was to find a reliable measure of the Made in Italy appreciation in the country. Imports could be a solution, but they did not have to consider all the Italian imports but specific categories typical of Made in Italy manufacture. At this purpose, the Centro Studi Confindustria and Prometeia's Bello e Ben Fatto imports have been identified: these are the medium-high end consumer goods representative of Made in Italy around the world[141]: here, this is the considered as a proxy of the Made in Italy appreciation in the country under inspection.

The analysis concerns the comparison of the single benefit with aggregate benefits, when the other conditions stay unchanged.

The first analysis involves firstly, each single benefit[142] compared with one by one each single cost[143]: when a benefit is considered, this stays unchanged, and the costs change one by one. Afterwards, the same individual costs are compared with one by one all the possible aggregations of benefits, opposing the efficient frontiers with the previous ones: when an aggregation of benefits is considered, this stays unchanged, and the costs change one by one.

The second analysis considers each single benefit with the each possible aggregation of costs: when a benefit is considered, this stays unchanged, and costs aggregations change one by one, considering all the possible combinations. Afterwards, the same aggregations of costs are compared with one by one all the possible aggregations of benefits, opposing the efficient frontiers with the previous ones: when an aggregation of benefits is considered, this stays unchanged, and the costs aggregations change one by one, considering all the possible combinations.

What emerged from the analysis, as expected, is that if the benefits are considered individually, ceteris paribus, they lead to different results. Results are different both if benefits are compared with the same single costs and are also different if they are compared with the same aggregations of costs.

Here it is reported an example of single benefit compared with the aggregation of costs:

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[140] For further information see paragraphs 4.3 and following.

[141] For further information see paragraph 5.2.

[142] Global Competitiveness Index, Enabling Trade Index and BBF imports.

[143] Differential Hofstede Index, physical distance, and Doing Business- Export, or Doing Business foreign direct investments/trade agreement.

firstly, the Global Competitiveness Index (GCI) is compared with the Differential Hofstede Index (C1), the physical distance (C2), and the export costs (C3A)[144]: in this case, if export is the entry mode and if the cultural and physical distance are considered with the productivity of the country, the United Arab Emirates, Poland and Hungary are the suggested countries.

Secondly, the Enabling Trade Index (ETI) is compared with the Differential Hofstede Index (C1), the physical distance (C2), and the export costs (C3A)[145]: in this case, if export is the entry mode and if the cultural and physical distance are considered with the trade facilities put in place by the country, Chile, the United Arab Emirates, Poland, and Hungary are the suggested countries.

And finally, the BBF imports (BBF) are compared with the Differential Hofstede Index (C1), the physical distance (C2), and the export costs (C3A)[146]: in this case, if export is the entry mode and if the cultural and physical distance are considered with the Made in Italy imports in the country, the Russian Federation, the United Arab Emirates, Poland, and Hungary are the suggested countries.

As it could be foreseeable, ceteris paribus, all the three frontiers suggest different countries, even though three countries appear in all the frontiers considered here.

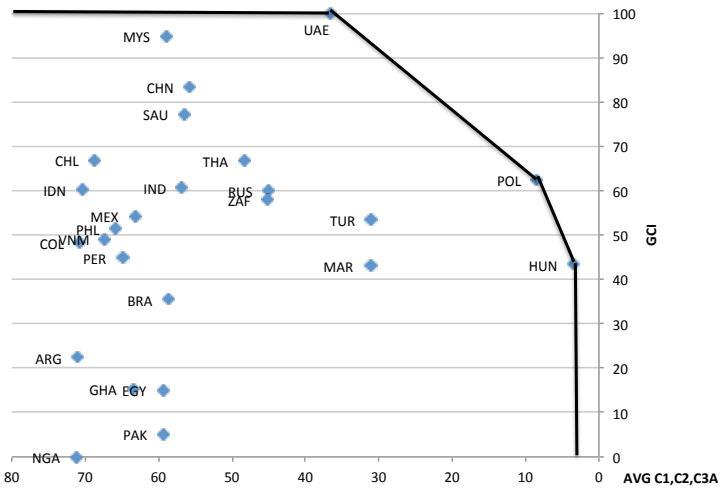

Figure 5.5 Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with Global Competitiveness Index (GCI)

[144] Figure 5.5.
[145] Figure 5.6.
[146] Figure 5.7.

Source: personal processing.

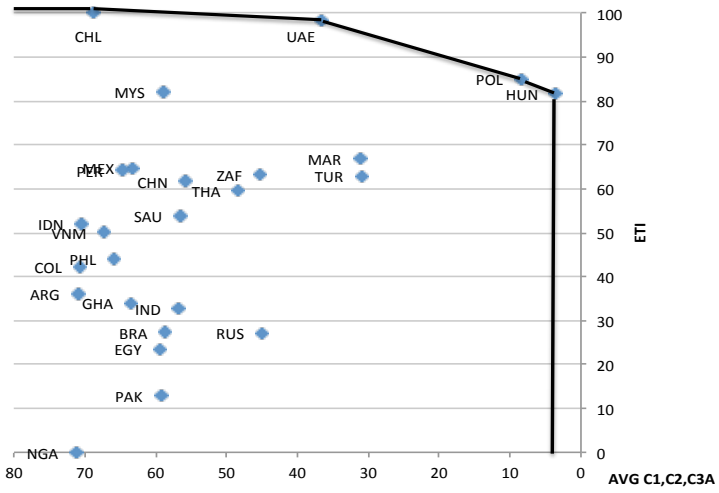

Figure 5.6 Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with Enabling Trade Index (ETI)

Source: personal processing.

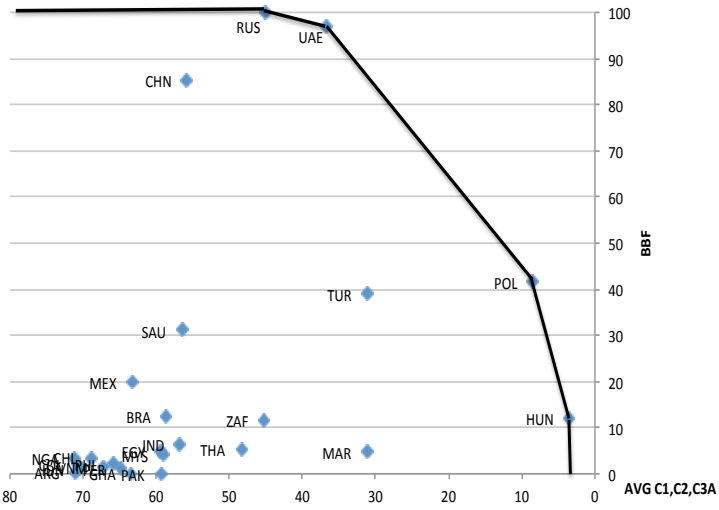

Figure 5.7 Differential Hofstede Index (C1), physical distance (C2), export costs (C3A) with BBF imports (BBF)

Source: personal processing.

Nevertheless, unexpectedly, from the analysis emerged also that all the possible

aggregations[147] of benefits, ceteris paribus, lead to the same result: if compared with the same costs, all the different aggregations of benefits lead to the same efficient frontier when indexes in the aggregations are equally weighted. Moreover, if compared to the same costs, this frontier is the same as considering only the Global Competitiveness Index as a benefit[148]: unpredictably, if compared with the same costs, considering all the different aggregations of benefits or considering only the Global Competitiveness Index, lead to the same result. If the costs are the same, considering the productivity of the country, the trade facilities or the Made in Italy imports in their possible combinations with the same weight, leads to the same result as considering only the productivity of the country.

This means that the analysis is solid and even if the combinations of benefits change, the final result doesn't change. The Global Competitiveness Index, in a certain way, is inclusive of the others, even if taken individually, they lead to different results.

Small differences in the results could be predictable, but not the perfect equality of the frontiers, though. With the goal of predicting ex-ante possible analogies in the results, the correlation between all the indexes has been studied before all the analysis. During the computation, it emerged that only the Global Competitiveness Index (GCI) and the Enabling Trade Index (ETI) are correlated, having a value of 0,74. This means that if the ETI grows, the GCI grows too, and vice versa. This result was predictable since the World Economic Forum created both of them and they have some variables in common, even though the two indexes give different information about the countries. Nevertheless, the perfect equality is unexpected. The following graph shows with a scatter plot the correlation between the two indexes, with the GCI on the horizontal axis and the ETI on the vertical axis. Moreover, the line helps to visualize the tendency of the ETI changes when the GCI increase.

[147] Aggregations are made with simple average, considering that all the indexes have the same relevance in the model.

[148] Figure 5.5.

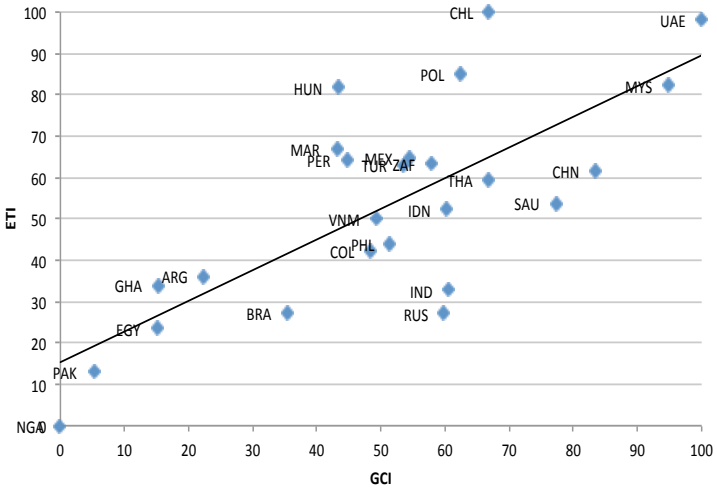

Figure 5.8 Global Competitiveness Index (GCI) and Enabling Trade Index (ETI) correlation

Source: personal processing.

5.4.4 Research question n°4: the role of China and of the United Arab Emirates in the internationalization decisions

The last research question concerns the specific countries studied deeply in the chapters of this thesis: which is the role of China and of the United Arab Emirates in the internationalization decisions?

From the whole data analysis, concerning all the scenarios, it is relevant to highlight that the United Arab Emirates are on the efficient frontier in the 100% of the cases and combinations analysed. On the other hand, China is not on the efficient frontier in the 100% of the cases studied. This fact is because the United Arab Emirates has excellent values in all the benefits and low costs, except for the cultural distance. Whereas China has very good scores in 2 out of 3 benefits, the country's productivity and Made in Italy imports[149]; but costs are very high in 2 out of 4 cases, in the cultural and physical distance; in addition, the Asian country does not excel in any dimension, consequently can not level the disparities of the unfavourable scores.

This means that the United Arab Emirates are an extremely favourable country,

[149] These concern the Global Competitiveness Index (GCI) and the BBF imports from Italy.

according to the variables involved in the analysis, both on the side of costs and on the side of benefits. As a matter of fact, as seen in the country analysis, the Arab country is facilitating trade and transactions in its economy each year more and more, both in terms of infrastructures and of policies in favour of foreign investor who want to start investing in the country.

On the other hand, China is very disadvantaged in many dimensions: on the side of the costs considered for an Italian company, distance, both cultural and physical, is an unavoidable obstacle. As far as the costs related to the entry modes are concerned, China has not extreme costs but these could be minimized. Moreover, as seen in the country analysis, the weak point for China is the trade barriers: as a superpower, the Asian country has to do a lot in order to align with its competitors, both in terms of policies and of facilitations. Nevertheless, even though China is never suggested among the best countries emerged in this study, the economy is still attractive for investors due to its numbers in terms of size, consumers, and costs and it is one of the most preferred countries in which invest.

	COSTS				BENEFITS		
Country	*C1: DHI (0=the best)*	*C2: Physical Distance Italy-country (km) (0=the best)*	*C3A: DBI-Export (0= the best)*	*C3B: DBI-FDI/TA (0=the best)*	*I1: GCI Score (100=the best)*	*I2: ETI Score (100=the best)*	*I3: BBF Import from Italy (million €, 2015) (100=the best)*
China	75	60	33	46	83	62	85
United Arab Emirates	58	31	21	0	100	98	97

Table 5.15 China and United Arab Emirates index scores summary

Source: personal processing.

Conclusions

The purpose of this thesis was to understand whether some specific variables were determinant in the country choice when internationalization decisions concerned Made in Italy goods addressed to the new economies.

With the results of chapter 5, some interesting findings emerged.

Firstly, the cultural aspect has proved to be relevant in the country choice: if the decision involves culture the result is different comparing to involving distance; the result is not drastically different, but the proportion of one country out of three or four of difference increase the possibilities of choosing the right or the wrong market. As saw in the introduction, is not infrequent that successful companies do not consider habits and traditions when they face a new market. In my opinion, culture is an essential aspect: when someone goes in a new country for a travel, especially if this nation is far away from the origin of the traveller, the first thing to do is to take information about the cultural habits and main traditions to avoid difficult situations or being disrespectful. For a company, which invest a considerable amount of money, this should be one of the first things to do, like the traveller, and probably more. From the result we can say that the cultural distance involves the physical distance but not vice versa: if the culture is considered with the physical distance this leads to the same result as considering only the culture; the physical distance, in aggregate, results to be superfluous, but if considered alone leads to different results. This may be predictable since a distant culture usually means a far distance, I think about South Africa, China or South America; but a distant country does not always mean a distant culture, I think about Australia or the US.

Concerning the entry modes, what was unexpected is that the entry mode does not change the country choice, ceteris paribus. This is probably a limitation of the model, which involves a limited amount of costs and a simple average of the computation. Probably, further cost indexes and different weights may have changed the frontier. Nevertheless, some analogies could be expected, but the perfect equality of the frontiers is still an unexpected result.

As far as the country's variables are concerned, the productivity and the trade facilities of the country, ceteris paribus, the combinations of them lead to the same result. This

could be predictable since the correlation between the indexes is high but also here, the perfect equality of results is unexpected. Moreover, these results are equal to aggregate also the Bello e Ben Fatto imports and the result is also equal to considering only the Global Competitiveness Index (GCI). It can be concluded that the GCI includes the other indexes, even if, when considered alone, they lead to different results. The GCI is the measure of the productivity of the country; actually, if a country is productive, usually it has also trade facilities put in place and probably, companies producing Made in Italy goods have already approached the consumers, exactly for the attraction of this economy in a global scale. Nevertheless, even after these considerations, the perfect equality is unexpected.

Probably, the most interesting results are the facts that China never appears as a suggested country, as well as the United Arab Emirates always does. As saw in a deeper analysis in paragraph 5.4.4 and in the countries' analysis, China has very low values as far as benefits are concerned, and high costs. Oppositely, the United Arab Emirates have favourable dimensions in all the areas, due to the government's reform and policies. In both the cases, the governments play a determinant role on the final scores, but many are still the reasons why China is a good investment, starting from the numbers that the country has in terms of potential consumers, different type of markets, and the willingness of the population to be as westernized as possible, with the result that Made in Italy goods are among their preferred choices. As a matter of fact, China is the third country for amount of BBF imports among the markets studied, after the United Arab Emirates and the Russian Federation.

The goal of this study was not to solve internationalization decisions with the analytical model. Rather, to highlight the differences when the variables involved change, considering as many variables as possible. Of course, this is a simplification, but it still can be a starting point for further studies.

Appendix

The following paragraphs describe the main evidence emerged in the data analysis concerning all the indexes:

- Costs indexes:
  - C_1: Differential Hofstede Index (DHI)[150];
  - C_2: Physical distance between Italy and the country analysed[151];
  - C_{3A}: Doing Business Index (DBI)- Export[152];
  - C_{3B}: Doing Business Index (DBI)- Foreign Direct Investments/Trade Agreements (FDI/TA)[153];
- Benefits indexes:
  - I_1: Global Competitiveness Index (GCI)[154];
  - I_2: Enabling Trade Index (ETI)[155];
  - I_3: BBF Import from Italy[156].

The most relevant combinations are reported here. The focus is on the differences between considering the cultural or the physical distance between Italy and the country under inspection, in order to understand if managers taking for internationalization decisions should consider this distinction. With the SMART technique are illustrated:

- *The costs perspective*: in order to highlight the differences between various scenarios, changing the costs and the benefits being equal; this is computed both considering the single benefit and aggregating them with the average of different

[150] This is the measure of the cultural distance between Italy and the country under inspection. For further information see paragraphs 4.5 and following.
[151] For further information see paragraph 5.3.2.
[152] This is the measure of the costs related to export activities in the country under inspection. For further information see paragraph 5.3.3.
[153] This is the measure of the costs related to foreign direct investment/trade agreements activities in the country under inspection. For further information see paragraph 5.3.3.
[154] This is the measure of the productivity and competitiveness of the country under inspection. For further information see paragraphs 4.2 and following.
[155] This is the measure of the trade facilities put in place by the country under inspection. For further information see paragraphs 4.3 and following.
[156] This is the measure of the Made in Italy imports in the country under inspection. For further information see paragraph 5.2.

indexes according to the goal of the analysis, to study any possible difference. The costs stand on the horizontal axis in decreasing order.

- *The benefits perspective*: in order to highlight the differences between various scenarios, changing the benefits and the costs being equal; this is computed both considering the single cost and aggregating them with the average of different indexes according to the goal of the analysis, to study any possible difference. The benefits stand on the vertical axis in increasing order.
- For both the costs and the benefits perspectives it is reported:
    - *A general overview*: the first results do not consider the distinction between export and foreign direct investment/trade agreements to highlight the main results, without the influence of the entry mode;
    - *The export analysis*: to highlight the results for a company willing to export its offer;
    - *The foreign direct investment/trade agreements (FDI/TA)*: to highlight the results for a company willing to have physical headquarters in the foreign country[157].

The following scatter plots are illustrated in these paragraphs:

[157] The ratio under the distinction between export and FDI/TA is that, in the first case goods are only shipped to the foreign country, whereas in the second case there is a physical headquarter in the foreign country. Further information are described in paragraph 5.3.3.

The cost perspective

This paragraph concerns the cost perspective and it highlights the differences between various scenarios, changing the costs and the benefits being equal.
Without considering the entry mode, thus export or the foreign direct investment/trade agreement, analysing the cultural and the physical distance separately, in comparison with the prosperity of the country, leads to different results.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates and Hungary. Moreover, Poland is extremely close to the efficient frontier, the frontier that determines whether a country should be chosen or not, but it does not stand on the frontier, thus the manager should exclude it.

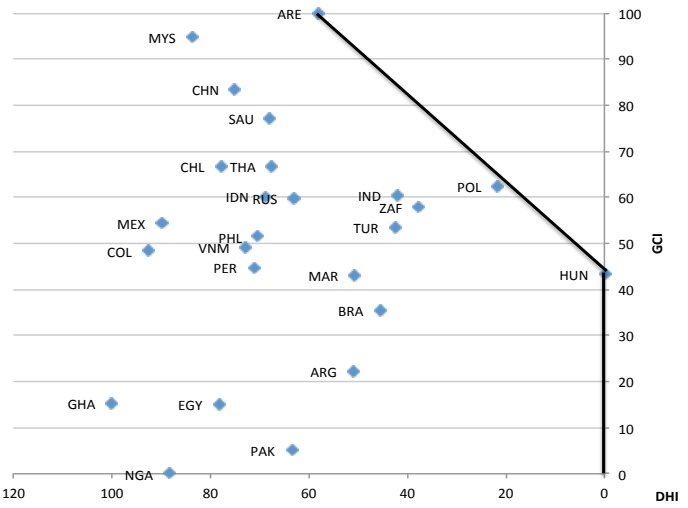

Figure 1 Differential Hofstede Index (DHI) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- If the manager of a company selling Made in Italy goods considers the physical distance between Italy and the country on the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary: in this case Poland stands on the frontier and all the three countries are suggested.

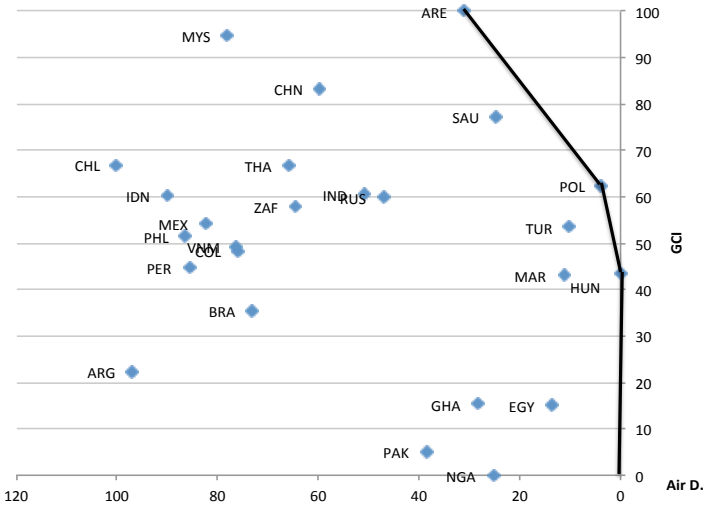

Figure 2 Air distance with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

Without considering the entry mode, analysing the cultural and the physical distance separately, in comparison with the prosperity of the country, the trade facilities, and the Made in Italy imports in aggregate, leads to different results. Moreover, these results are respectively equal to the previous ones, when only the prosperity of the country on the side of benefits was analysed. Here, the benefit indexes are aggregated through a simple average.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the prosperity of the economy, with the global competitiveness index, the trade facilities, with the enabling trade index, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits, he should choose the United Arab Emirates and Hungary. Moreover, Poland is extremely close to the efficient frontier but it does not stand on the frontier, thus the manager should exclude it.

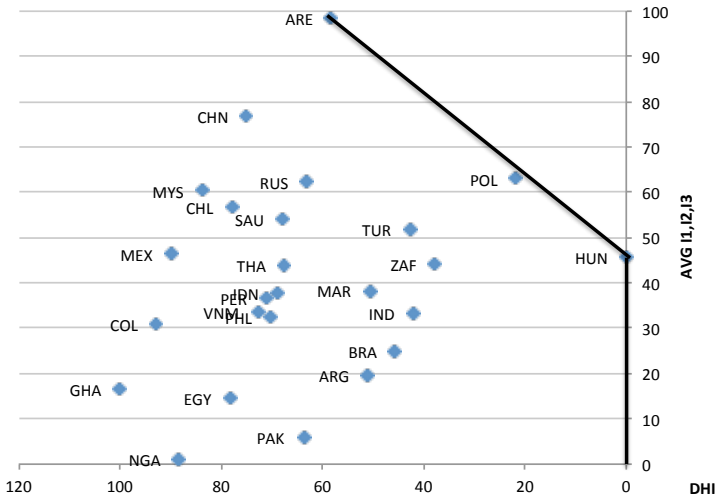

Figure 3 Aggregate benefits: Differential Hofstede Index (DHI) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- If the manager of a company selling Made in Italy goods considers the physical distance between Italy and the country on the side of costs, and the prosperity of

the economy, with the global competitiveness index, the trade facilities, with the enabling trade index, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary: in this case Poland stands on the frontier and all the three countries are suggested.

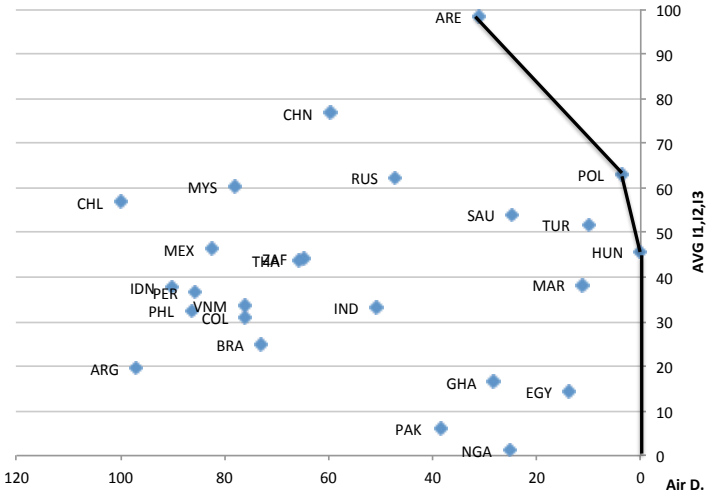

Figure 4 Aggregate benefits: Air distance with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

EXPORT:

Here, the costs indexes are aggregated through a simple average.

Considering export as entry mode with the cultural and physical distance separately, in comparison with the prosperity of the country, leads to different results. Moreover, these results are equal to the previous ones, when no entry mode was considered, but with the cultural and physical distance switched.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose

the United Arab Emirates, Poland, and Hungary. This result is equal to considering the physical distance, without considering export.

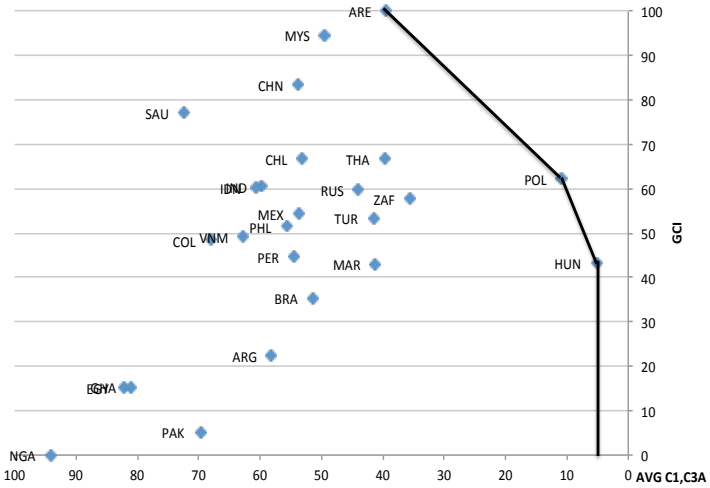

Figure 5 Differential Hofstede Index (C1) and export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- If the manager of a company exporting Made in Italy goods considers the physical distance between Italy and the country, the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates and Poland. In this case, Hungary is excluded from the list of suggested countries, even if it is close to the efficient frontier, but it does not stand on the frontier. This result is equal to considering the cultural distance, without considering export.

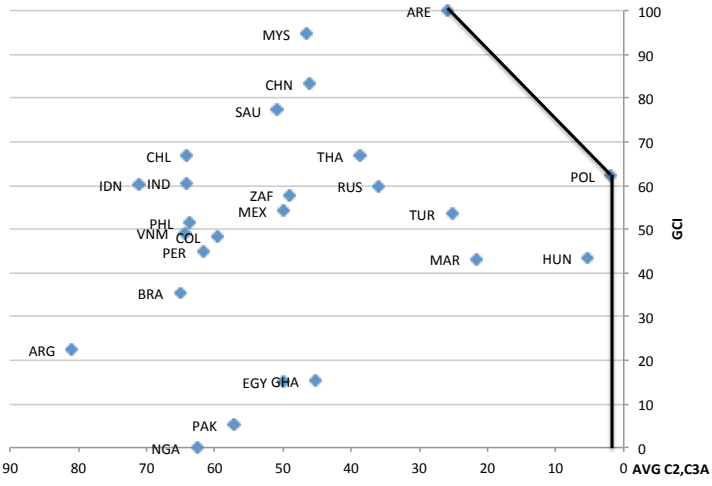

Figure 6 Physical distance (C2) and export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland}.

Considering export as entry mode with the cultural and physical distance separately, in comparison with the prosperity of the country, the trade facilities, and the Made in Italy imports in aggregate leads to different results. Moreover, these results are equal to the previous ones, when only the prosperity of the country on the side of benefits was analysed. Here, the benefit indexes are aggregated through a simple average.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index, the trade facilities with the enabling trade index, and the Made in Italy imports with the Bello e Ben Fatto imports on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary. This result is equal to considering the physical distance, without considering export; it is also equal to consider only the prosperity as a benefit.

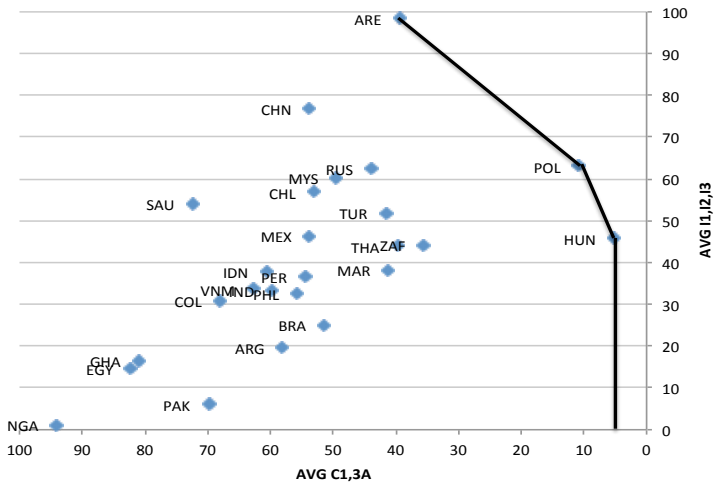

Figure 7 Aggregate benefits: Differential Hofstede Index (C1) and export costs (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- If the manager of a company exporting Made in Italy goods considers the physical distance between Italy and the country, the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index, the trade facilities with the enabling trade index, and the Made in Italy imports with the Bello e Ben Fatto imports on the side of benefits, he should choose the United Arab Emirates and Poland.

  This result is equal to considering the physical distance, without considering export; it is also equal to consider only the prosperity as a benefit. In this case, Hungary is excluded from the list of suggested countries, even if it is close to the efficient frontier, but it does not stand on the frontier. This result is equal to considering the cultural distance, without considering export; it is also equal to consider only the prosperity as a benefit.

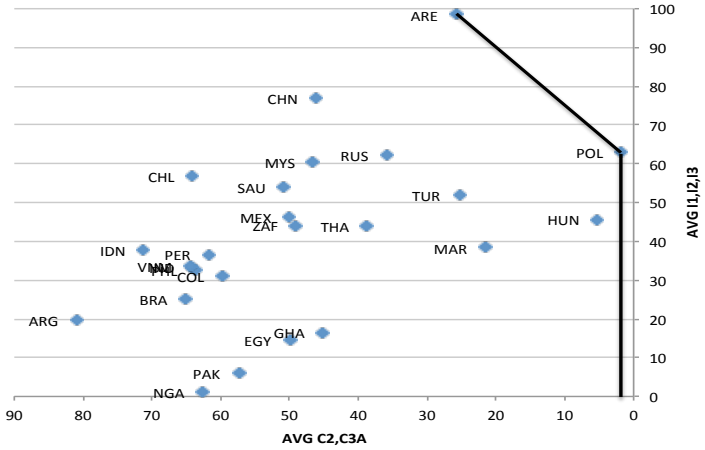

Figure 8 Aggregate benefits: Physical distance (C2) and export costs (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland}.

Considering export as entry mode with the cultural and physical distance in aggregate, in comparison with the prosperity of the country, leads to the same results as considering only the cultural distance and export costs. The result is also equal to considering the cultural and physical distance in aggregate, in comparison with the prosperity of the country, the trade facilities, and the Made in Italy imports.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede

index, the physical distance, the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary. This result is also equal to considering the physical distance, without considering export.

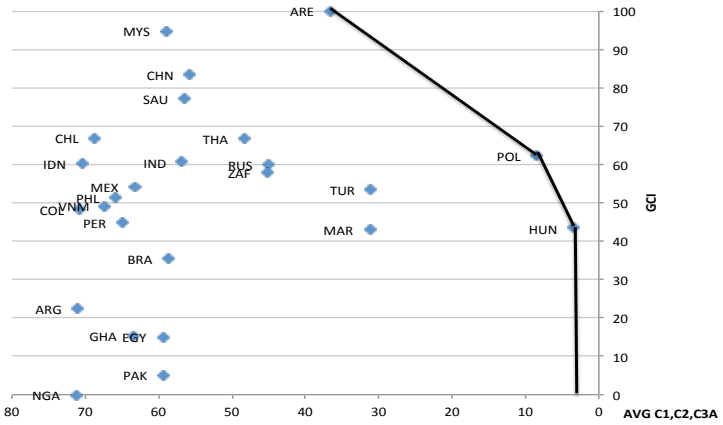

Figure 9 Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers only the cultural distance, with the differential Hofstede index, the export costs on the side of costs, and the prosperity of the country with the global competitiveness index on the side of benefits, without considering the physical distance. This result is also equal to considering the physical distance, without considering export.

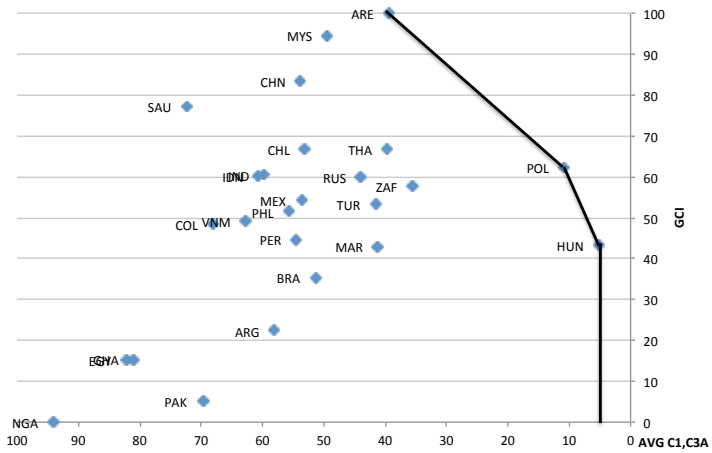

Figure 10 Differential Hofstede Index (C1) and export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers only the cultural distance, with the differential Hofstede index, the export costs on the side of costs, and the prosperity of the country with the global competitiveness index, the trade facilities, with the enabling trade index, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits. This result is also equal to considering the physical distance, without considering export. Here, the benefit indexes are aggregated through a simple average.

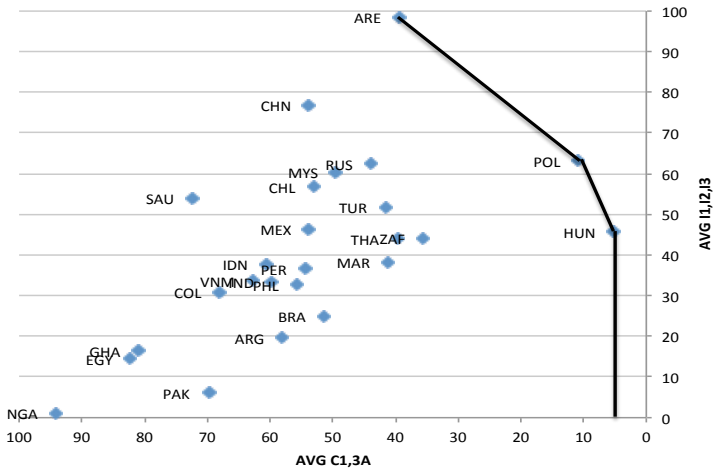

Figure 11 Aggregate benefits: Differential Hofstede Index (C1) and export costs (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers the cultural distance, with the differential Hofstede index, the physical distance, the export costs on the side of costs, and the prosperity of the country with the global competitiveness index, the trade facilities, with the enabling trade index, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits. This result is also equal to considering the physical distance, without considering export. Here, the benefit indexes are aggregated through a simple average.

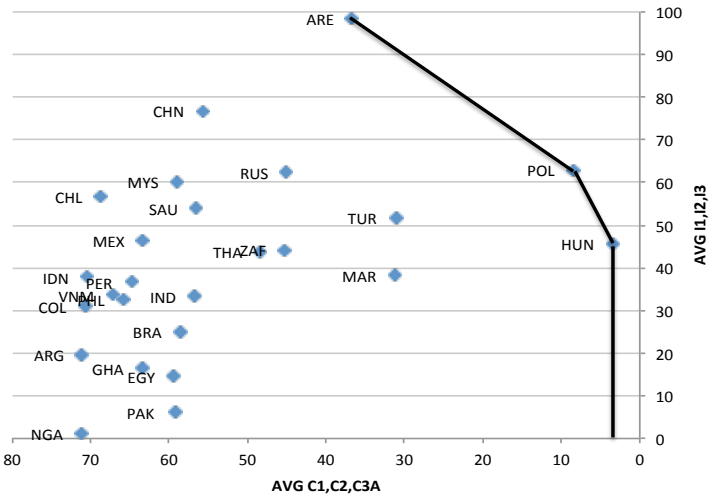

Figure 12 Aggregate benefits: Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

FOREIGN DIRECT INVESTMENT/TRADE AGREEMENTS

The same results emerging for export are also emerging for the foreign direct investments/trade agreements. Moreover, the countries in the efficient frontier are the same.

The benefit perspective

This paragraph concerns the benefit perspective and it highlights the differences between various scenarios, changing the benefits and the costs being equal.
Without considering the entry mode, thus export or the foreign direct investment/trade agreement, analysing the cultural distance, in comparison with the prosperity of the country, the trade facilities, and the Made in Italy imports separately, leads to different results.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on

the side of costs, and the prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates and Hungary. Moreover, Poland is extremely close to the efficient frontier, the frontier that determines whether a country should be chosen or not, but it does not stand on the frontier, thus the manager should exclude it.

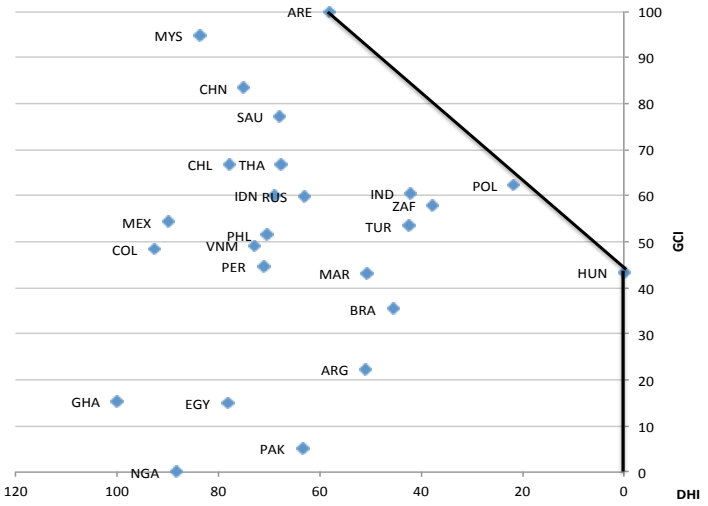

Figure 13 Differential Hofstede Index (DHI) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the trade facilities of the economy, with the enabling trade index on the side of benefits, he should choose Chile, the United Arab Emirates, and Hungary. Moreover, Poland is extremely close to the efficient frontier, the frontier that determines whether a country should be chosen or not, but it does not stand on the frontier, thus the manager should exclude it.

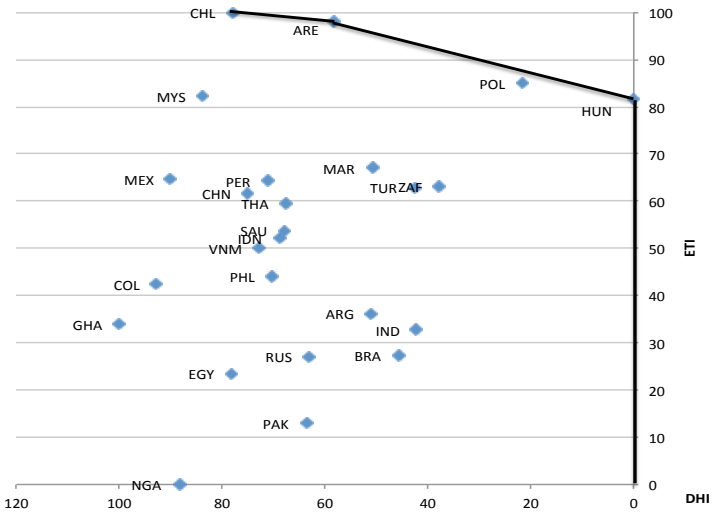

Figure 14 Differential Hofstede Index (DHI) with Enabling Trade Index (ETI)

Source: personal processing.

The efficient frontier is: {Chile, United Arab Emirates, Hungary}.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits, he should choose the Russian Federation, the United Arab Emirates, Poland, and Hungary.

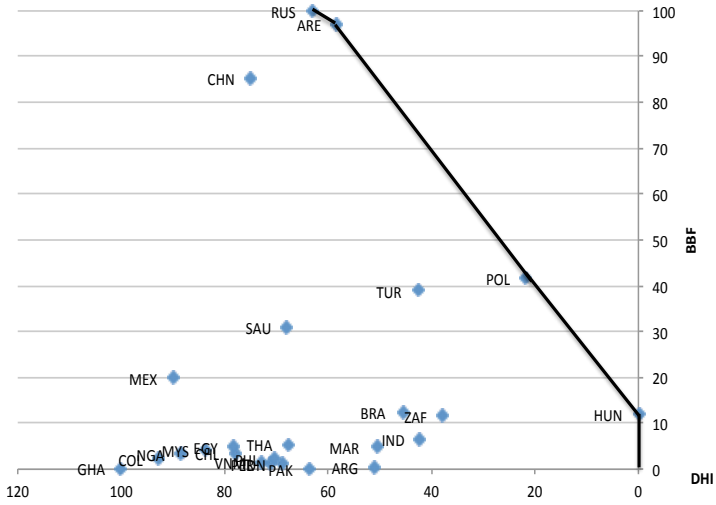

Figure15 Differential Hofstede Index (DHI) with Bello e Ben Fatto imports (BBF):

Source: personal processing.

The efficient frontier is: {Russian Federation, United Arab Emirates, Poland,

Hungary}.

Without considering the entry mode, thus export or the foreign direct investment/trade agreement, analysing the cultural distance, in comparison with the prosperity of the country, the trade facilities, and the Made in Italy imports in aggregate, different combinations of benefits lead to the same result. Moreover, this result is equal to consider only the prosperity as a benefit. Here, the benefit indexes are aggregated through a simple average.

- If the manager of a company selling Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the prosperity of the economy, with the global competitiveness index and the trade facilities, with the enabling trade index on the side of benefits, he should choose the United Arab Emirates and Hungary. Moreover, Poland is extremely close to the efficient frontier but it does not stand on the frontier, thus the manager should exclude it.

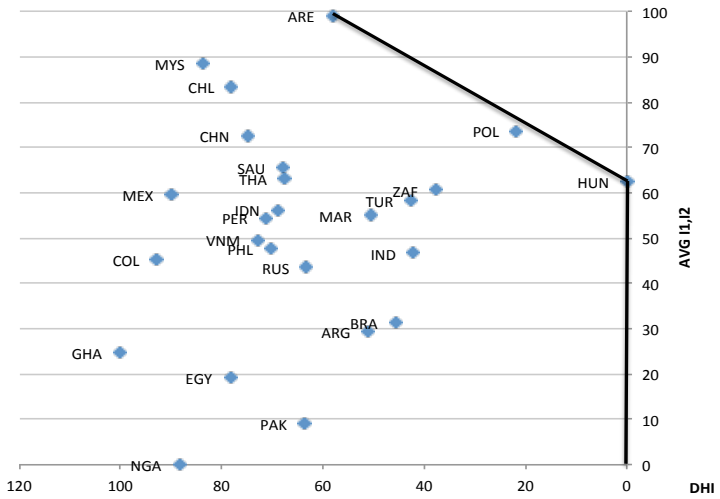

Figure 16 Aggregate benefits: Differential Hofstede Index (DHI) with Global Competitiveness Index (I1) and Enabling Trade Index (I2):

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the prosperity of the economy, with the global competitiveness index

and Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits.

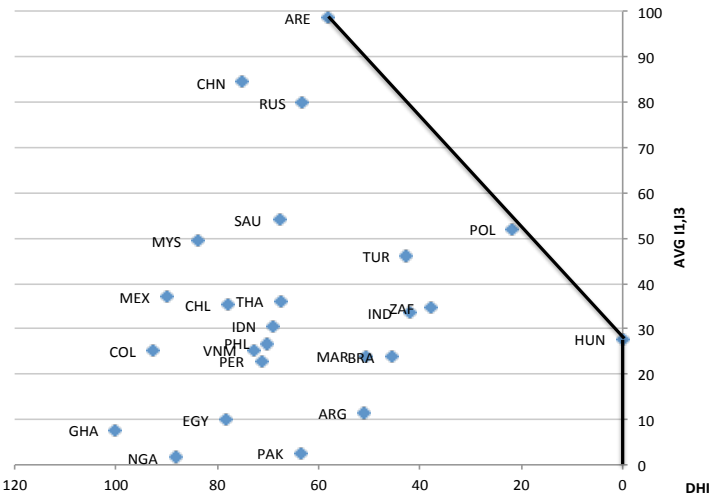

Figure 17 Aggregate benefits: Differential Hofstede Index (DHI) with Global Competitiveness Index (I1) Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the trade facilities, with the enabling trade index and Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits.

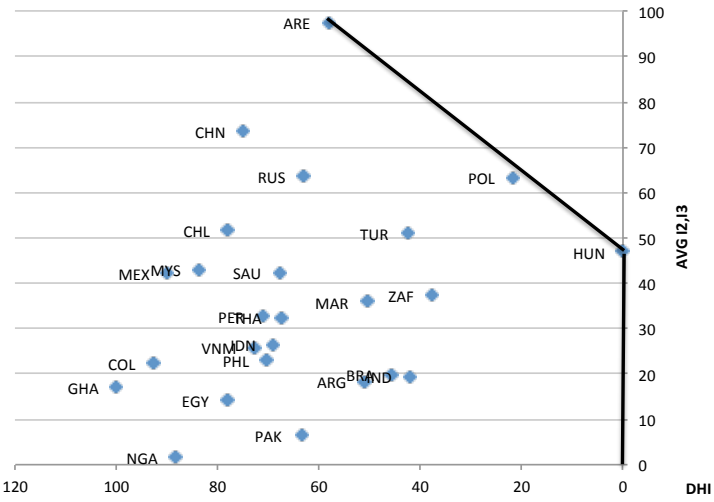

Figure 18 Aggregate benefits: Differential Hofstede Index (DHI) Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index on the side of costs, and the prosperity of the economy, with the global competitiveness index, the trade facilities, with the enabling trade index and Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits.

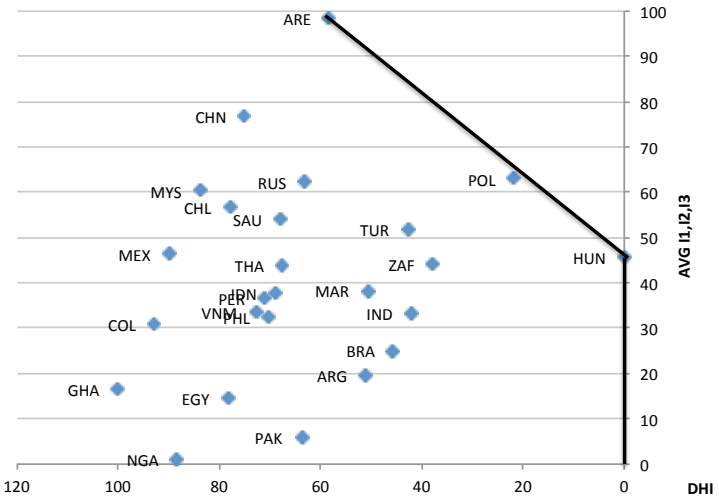

Figure 19 Aggregate benefits: Differential Hofstede Index (DHI) with Global Competitiveness Index (I1), Enabling Trade Index (I2) and Bello e Ben Fatto imports (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Hungary}.

EXPORT

Here, the costs indexes are aggregated through a simple average.

Considering export as entry mode with the cultural and physical distance, in comparison with the prosperity of the economy, the trade facilities, and Made in Italy imports separately, leads to different results.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, and the export costs on the side of costs, and the

prosperity of the economy, with the global competitiveness index on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary.

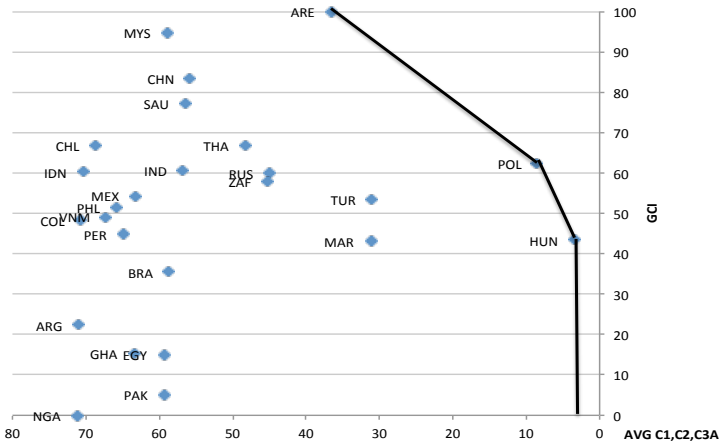

Figure 20 Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (GCI)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, and the export costs on the side of costs, and the trade facilities, with the enabling trade index on the side of benefits, he should choose Chile, the United Arab Emirates, Poland, and Hungary.

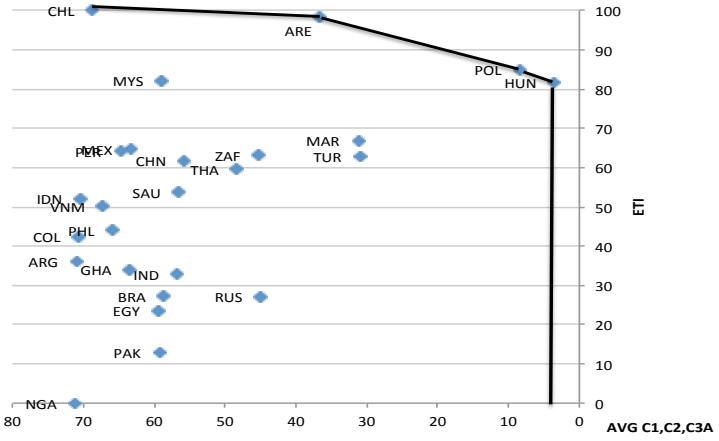

Figure 21 Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Enabling Trade Index (ETI):

Source: personal processing.

The efficient frontier is: {Chile, United Arab Emirates, Poland, Hungary}.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, and the export costs on the side of costs, and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits, he should choose the Russian Federation, the United Arab Emirates, Poland, and Hungary.

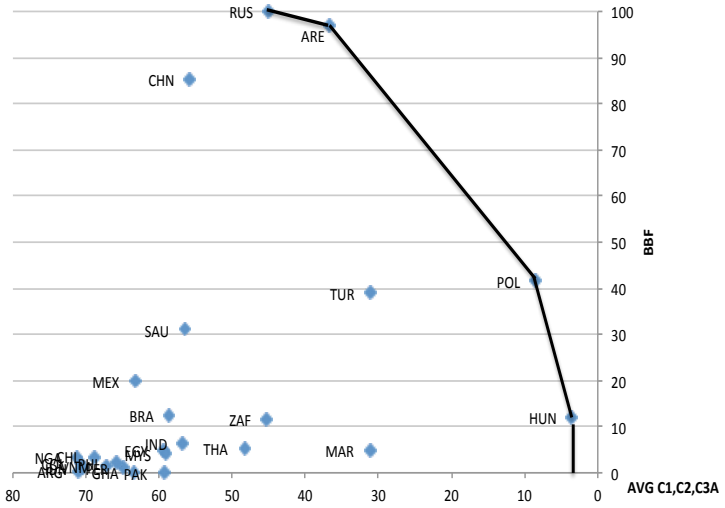

Figure 22 Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Bello e Ben Fatto imports (BBF):

Source: personal processing.

The efficient frontier is: {Russian Federation, United Arab Emirates, Poland, Hungary}.

Considering export as entry mode with the cultural and physical distance, in comparison with the prosperity of the economy, the trade facilities, and Made in Italy imports in aggregate, all their combinations provide the same result. Moreover, this result is equal to consider only the prosperity as a benefit. Here, the benefit indexes are aggregated through a simple average.

- If the manager of a company exporting Made in Italy goods considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, and the export costs on the side of costs, and the prosperity of the economy, with the global competitiveness index, and the trade facilities, with the enabling trade index on the side of benefits, he should choose the United Arab Emirates, Poland, and Hungary.

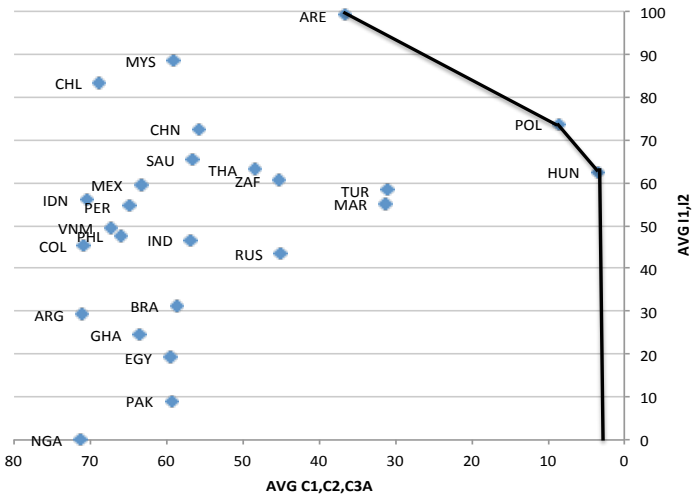

Figure 23 Aggregate benefits: Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (I1) and Enabling Trade Index (I2)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, the export costs on the side of costs, the prosperity of the country, with the global competitiveness index and the Made in Italy imports, with the Bello e Ben Fatto imports on the side of benefits. This result is also equal to consider only the prosperity as a benefit.

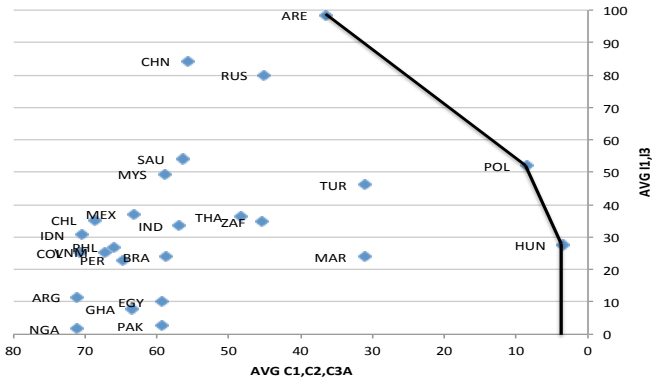

Figure 24 Aggregate benefits: Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (I1) Bello e Ben Fatto (13) imports

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, the export costs on the side of costs, and the trade facilities, with the enabling trade index and the Made in Italy imports, with the Bello e Ben Fatto imports. This result is also equal to consider only the prosperity as a benefit.

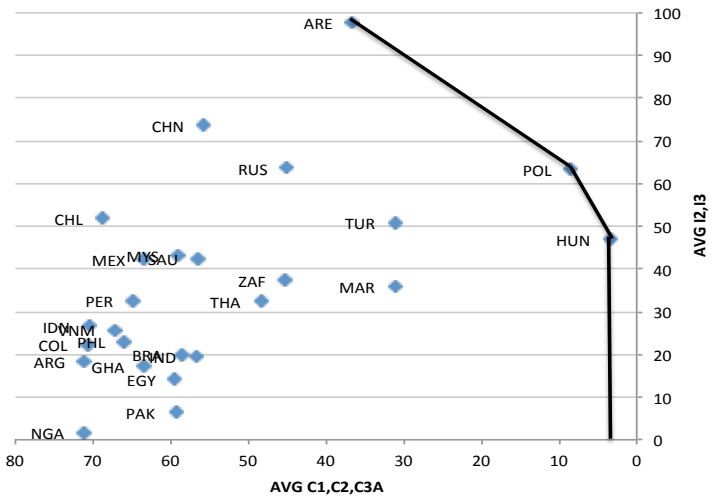

Figure 25 Aggregate benefits: Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Enabling Trade Index (I2) and Bello e Ben Fatto (I3) imports

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

- The manager should take the same decision if he considers the cultural distance between Italy and the country, with the differential Hofstede index, the physical distance, the export costs on the side of costs, and the prosperity of the country, with the global competitiveness index, the trade facilities, with the enabling trade index and the Made in Italy imports, with the Bello e Ben Fatto imports. This result is also equal to consider only the prosperity as a benefit.

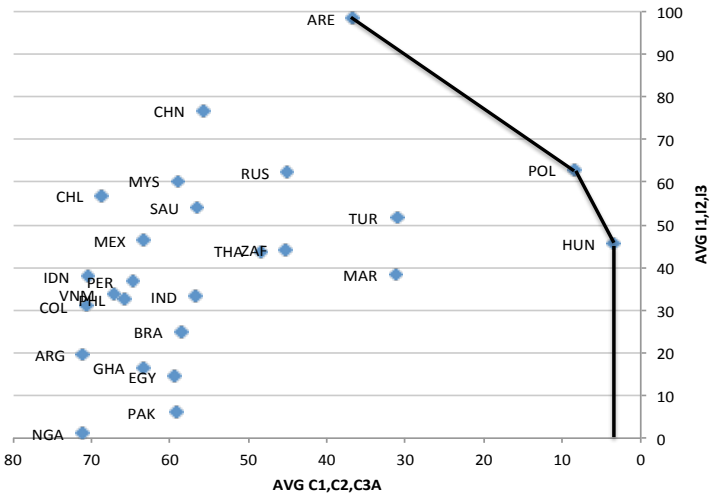

Figure 26 Aggregate benefits: Differential Hofstede Index (C1), physical distance (C2) and export costs (C3A) with Global Competitiveness Index (I1), Enabling Trade Index (I2), and Enabling Trade Index (I3)

Source: personal processing.

The efficient frontier is: {United Arab Emirates, Poland, Hungary}.

FOREIGN DIRECT INVESTMENT/TRADE AGREEMENTS

The same events happening for export are also happening for the foreign direct investments/trade agreements. Moreover, the countries in the efficient frontier are the same.

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