MSc in

International and European Economic Studies

INTERNATIONAL BUSINESS ECONOMIC

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Introduction

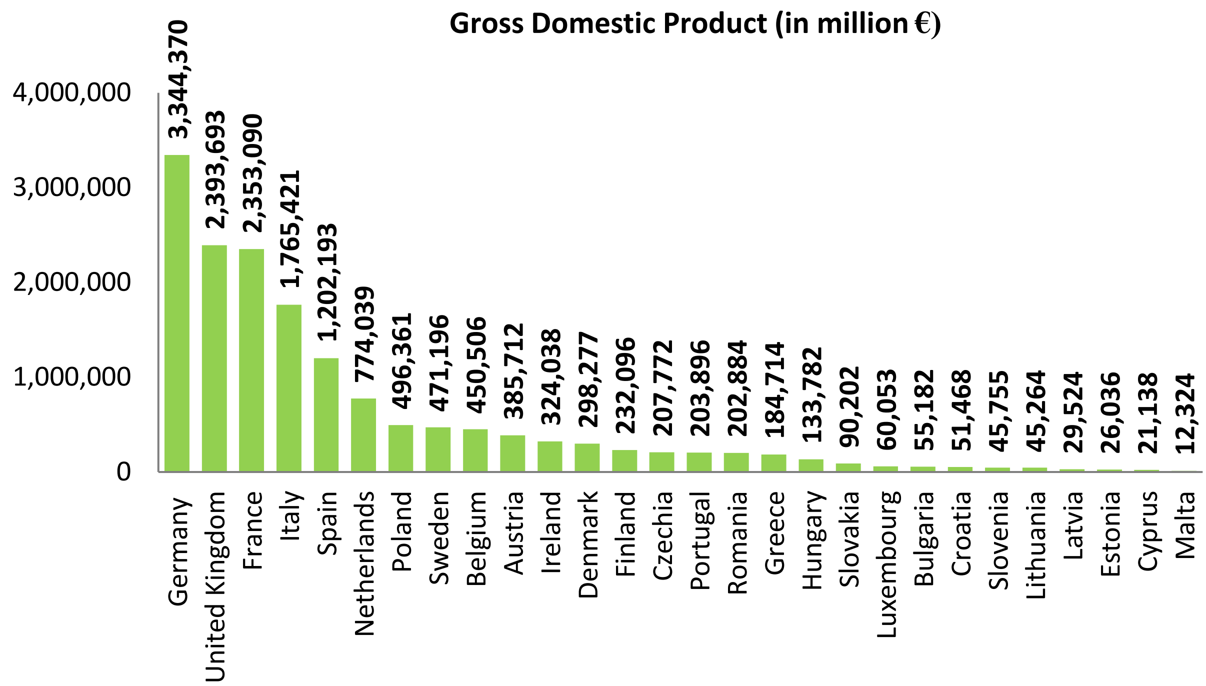
Most people think, that to accomplish a successful investment is something easy. The following research which assign Mr Hatzipanagiotou to mr Tsalamatas and Mr Tsolakis to find which markets in European Union have the best potentials in order to achieve the biggest profit growth of this expansion. Mr. Hatzipanagiotou as the CEO of a small high-quality clothing company of Greece assign us a research about a potential investment in the Europe Union. The aim of research is to study about the statistic data of the structural economic data of European Union as well all the clothing's market data of European Union. So, in this report we analyze all important factors the firm will face such as the potential benefits, costs (both fixed and variable), the trade barriers, transport cost, the political, economic and legal risks. Finally, we will suggest the most promising export strategy our firm should follow as well as the strategy alliances if that is necessary. When we complete the research, and after comparison of the previous data, we agree of which country or countries have the potential to fulfil a profitable investment for our company.

Market of clothing in European Union

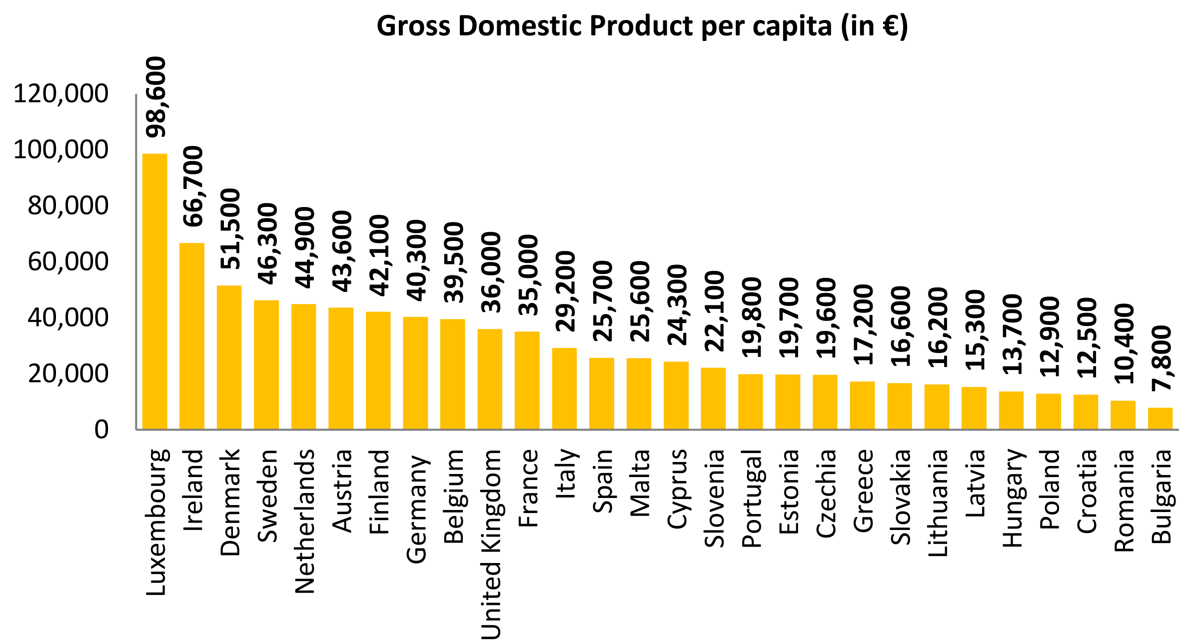
Potential markets and benefits

The long run benefits of doing business in a country is a function of the size of the market, the present wealth of consumers in that market, and the likely future wealth of consumers. Our research is count on depiction of the indicators changes, to find out which country allow our company to find out the best opportunities in order to invest in a foreign market in the EU. The long run benefits of doing business in a country is a function of the size of the market, the present wealth of consumers in that market, and the likely future wealth of consumers.

The first indicator which we are looking for is Gross Domestic product (**GDP)** and **GDP per capita** in current prices in order to find the strongest economies in EU. National accounts are a coherent and consistent set of macroeconomic indicators, which provide an overall picture of the economic situation and are widely used for economic analysis and forecasting. The following two graphs give us the first taste of which countries have strong economies and which have the biggest average income.

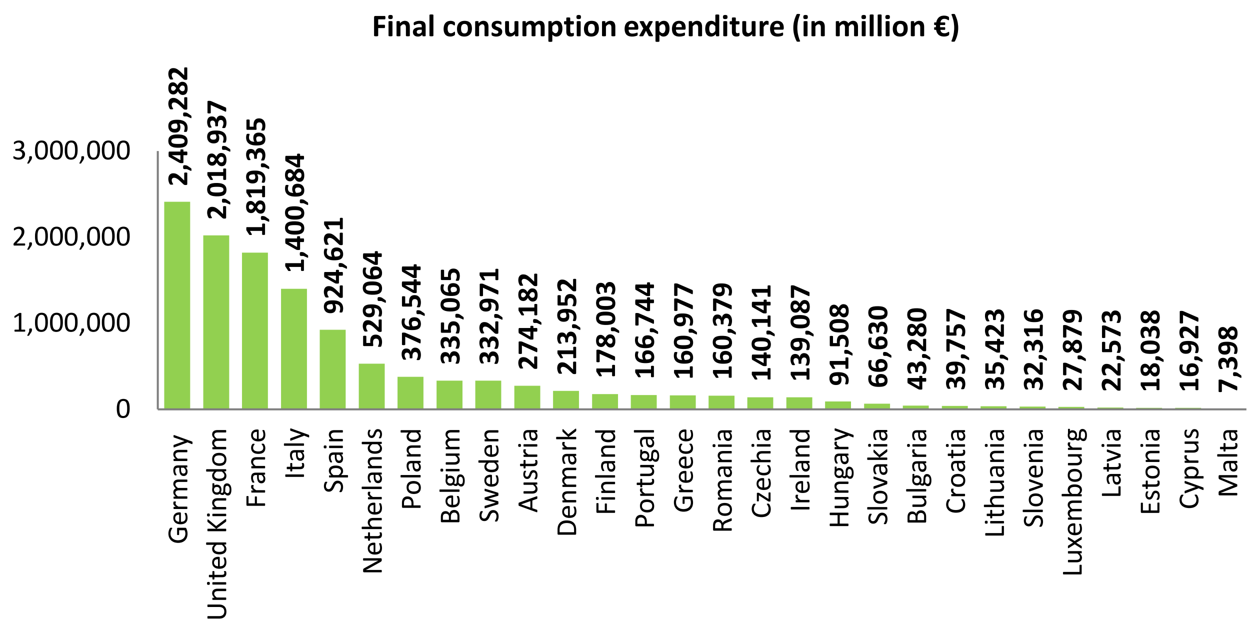


Germany is by far the best economy in EU. Germany, United Kingdom, France, Italy and Spain are the only ones that have GDP over 1 trillion €.

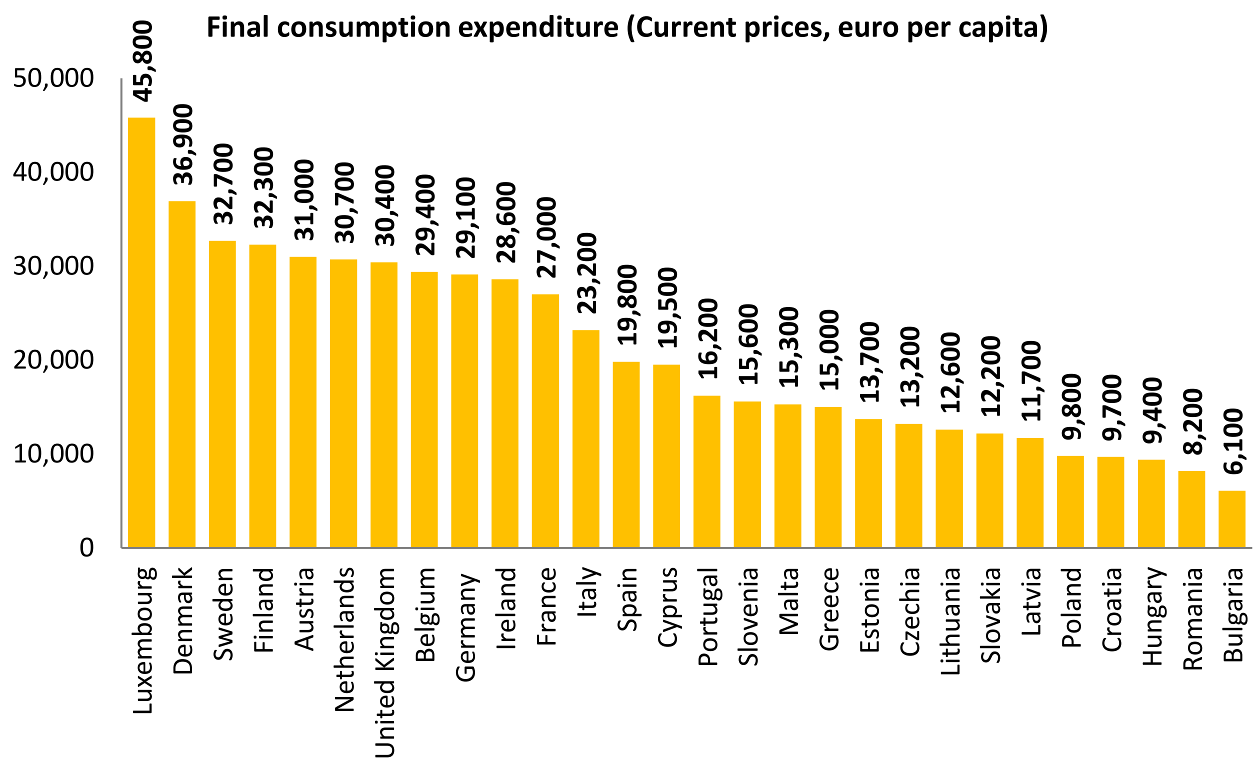


Except Luxembourg (which is a very small country) the citizens of Ireland, Denmark and Sweden have the biggest average income.

The second indicator which we are looking at is the final consumption expenditure both in absolute numbers and per capita in order to find out, which countries make the most expenses in total and which citizens make the most expenses by average.

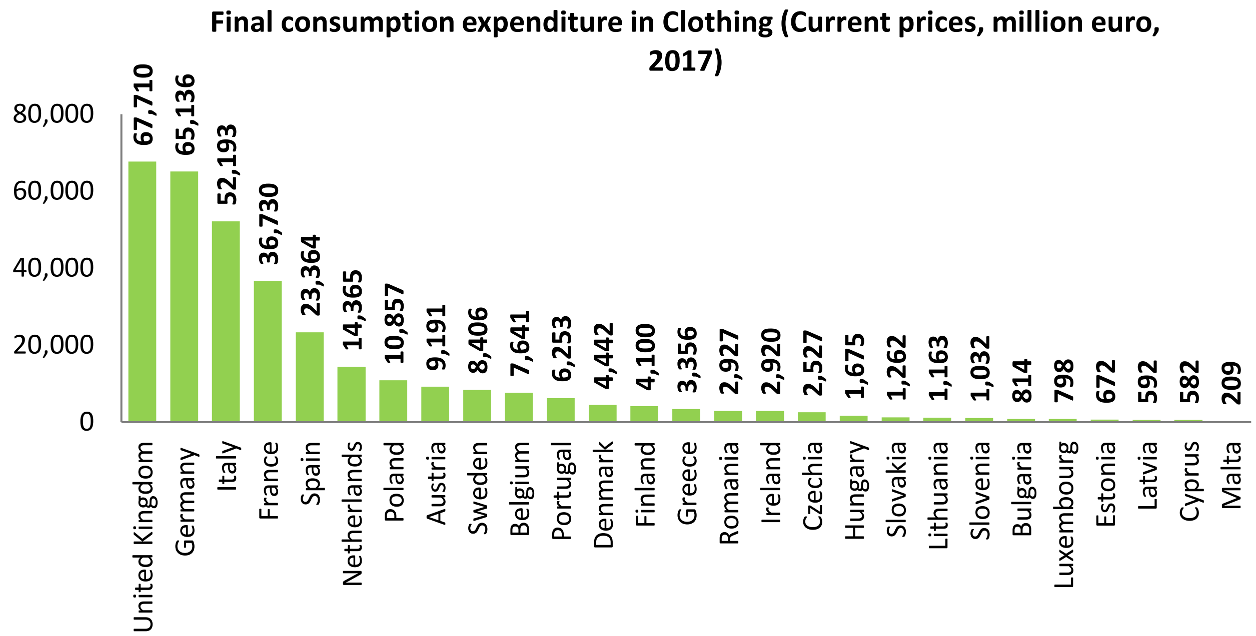


On the one hand the countries with the biggest consumption expenditures are Germany, United Kingdom and France.

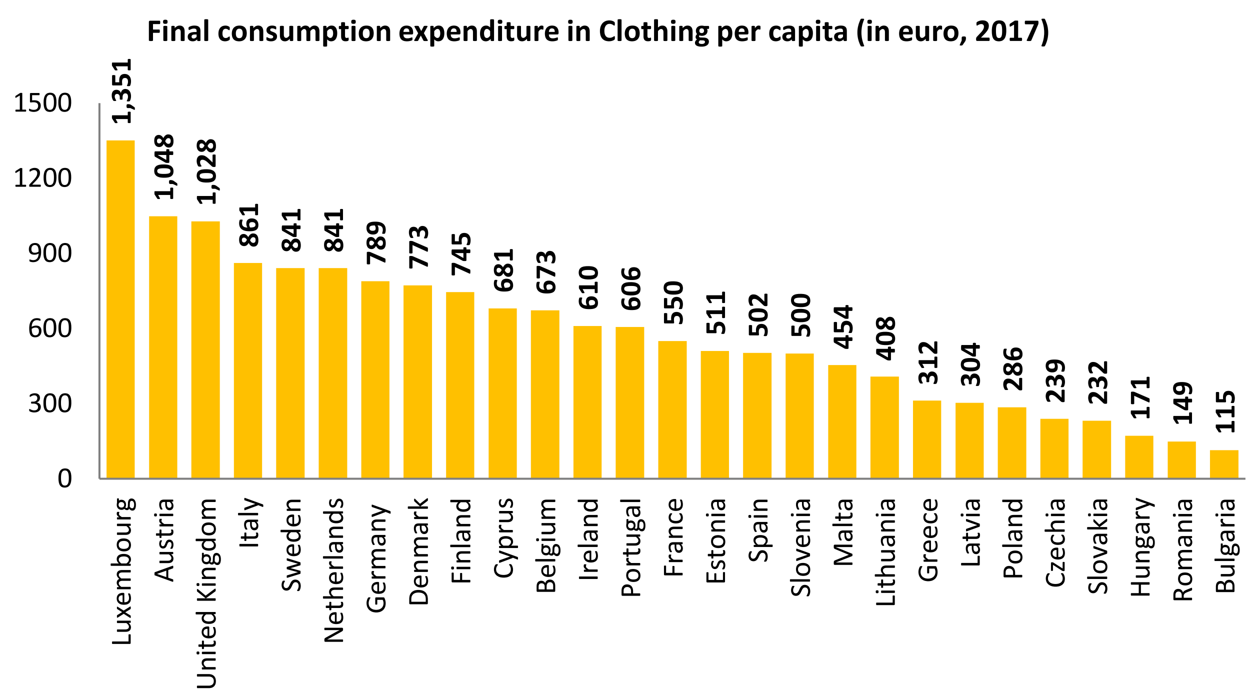


On the other Denmark, Sweden, Finland and Austria are the biggest consumers per capita in the EU due to the big GDP per capita and low population.

Next, we want to look more specifically in the clothing consumption expenditures. In addition, we look at Clothing consumption expenditures per capita. (The latest available data are in 2017)

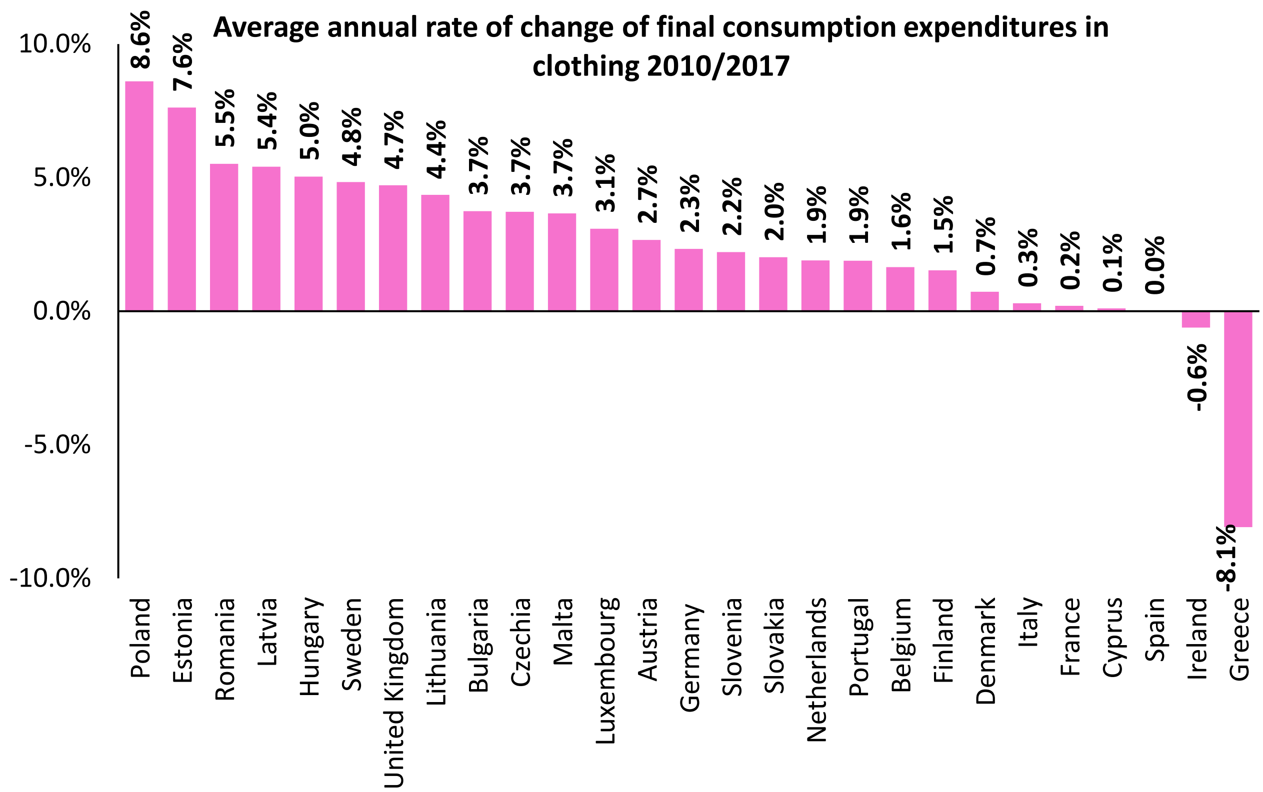


Even though Germany has the biggest total consumption expenditures the clothing expenditures in United Kingdom is the largest one in the European Union.

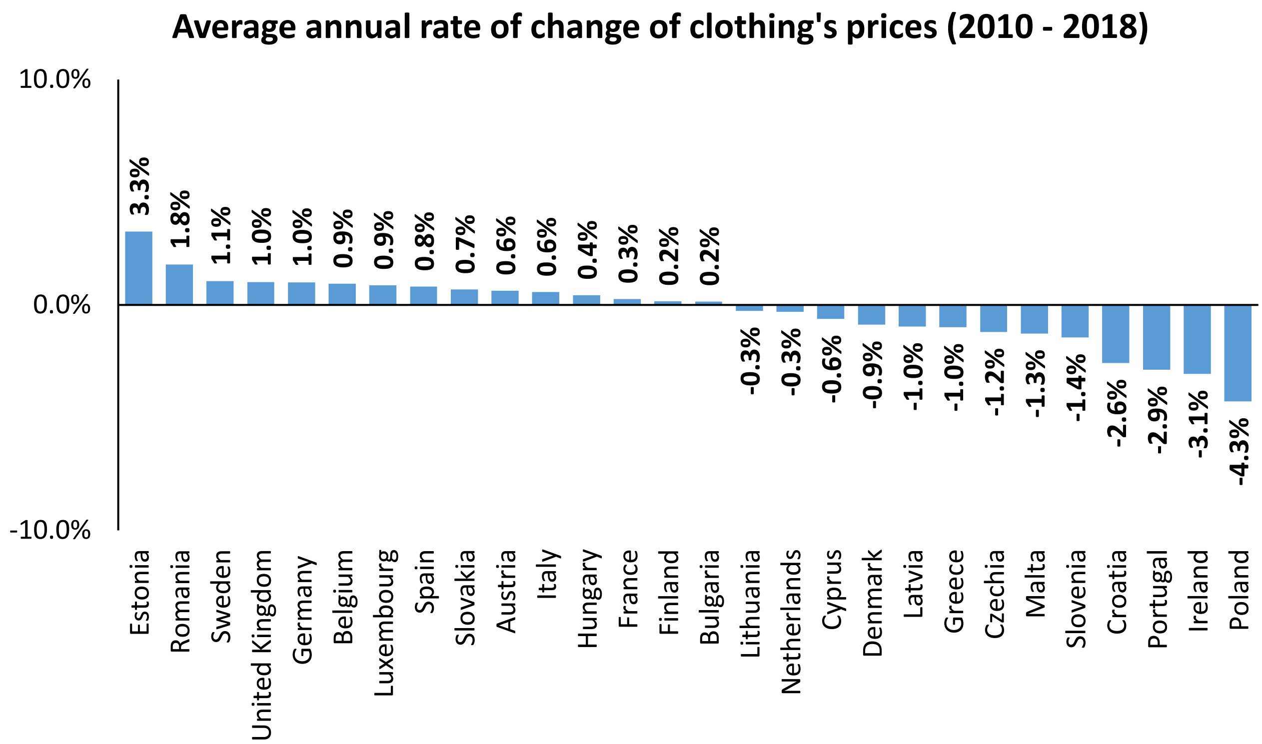


Austria and United Kingdom have the biggest expenditures in clothing per capita.

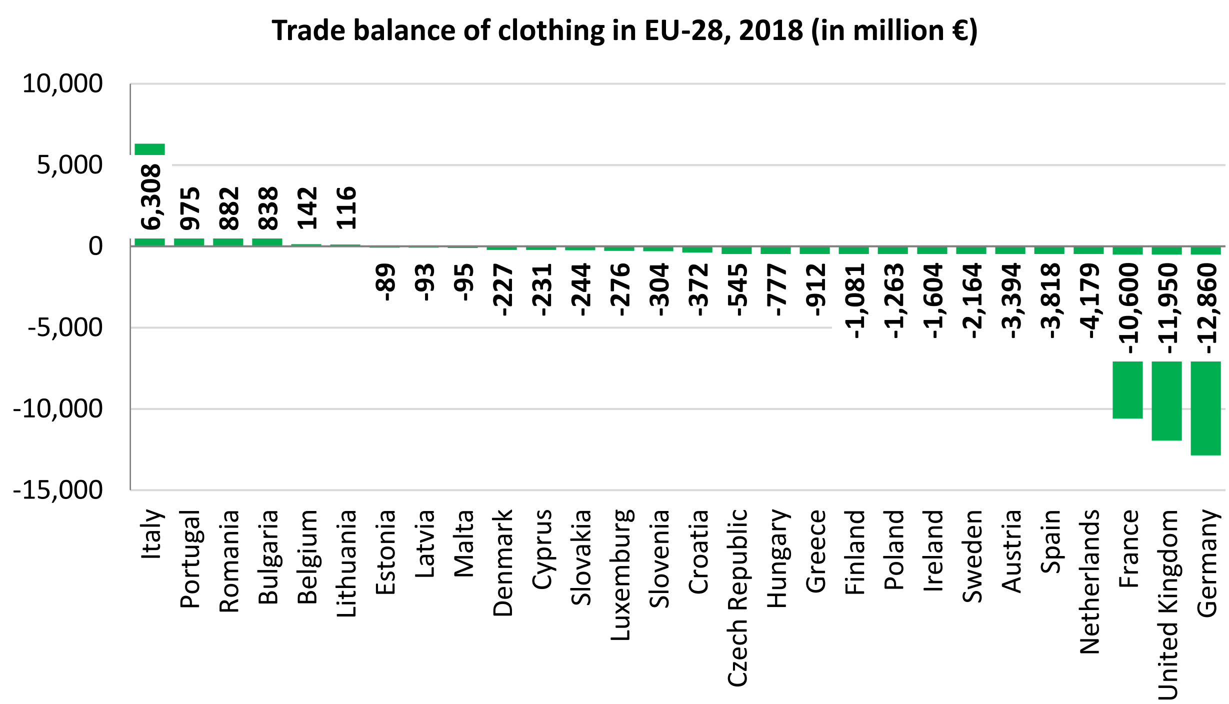
Next, we need to find the average annual rate of change of final consumption expenditures in clothing.



Poland's and Estonia's clothing market have rapidly increasing clothing sector. Overall the clothing sector in EU is positive (+2,0%) and only 2 countries have negative results.

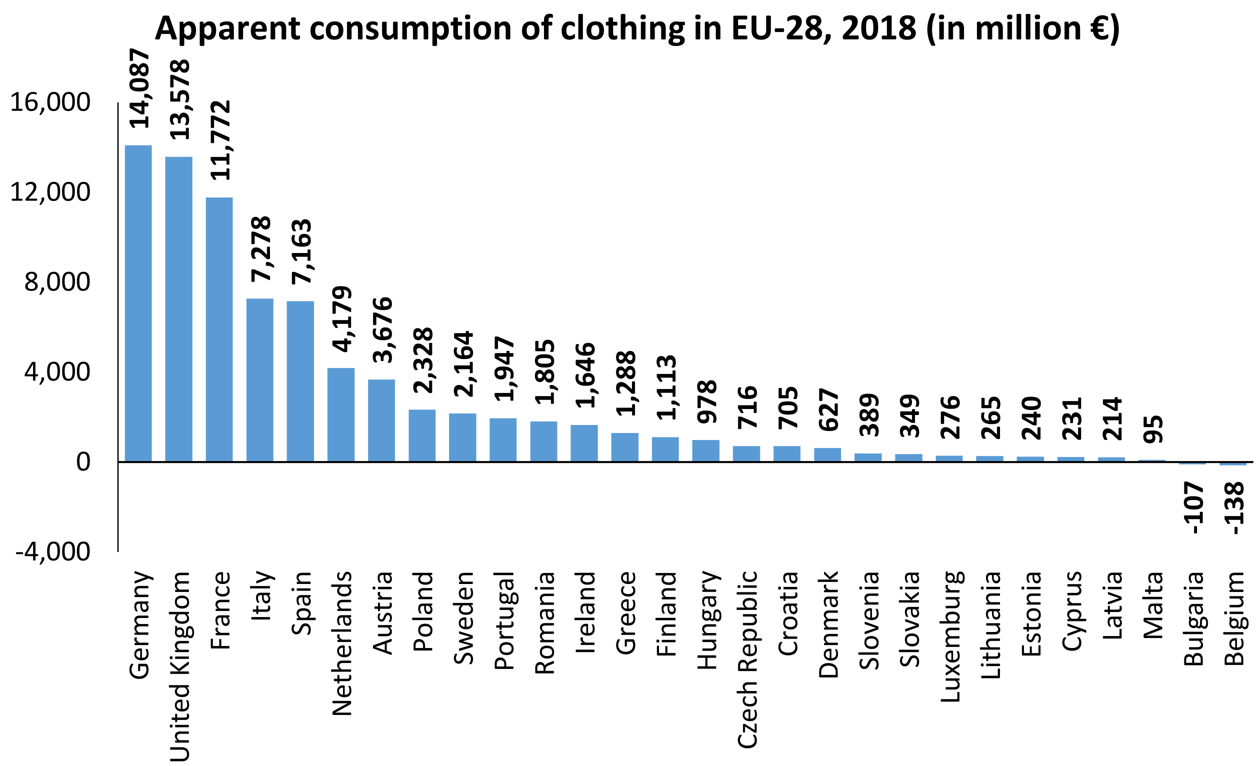


One very important indicator we have to look at is the trade balance (which is equal with imports minus exports). This indicator will show us which countries are in most need for cloth imports.



Most of the countries have negative trade balance. The most attractive countries in that indicator are those with the biggest negative trade balance. Germany, United Kingdom and France have over 10 billion € deficit from clothing sector.

The value of apparent consumption in clothing sector is a very useful indicator. Apparent consumption is a function of production plus imports minus exports.

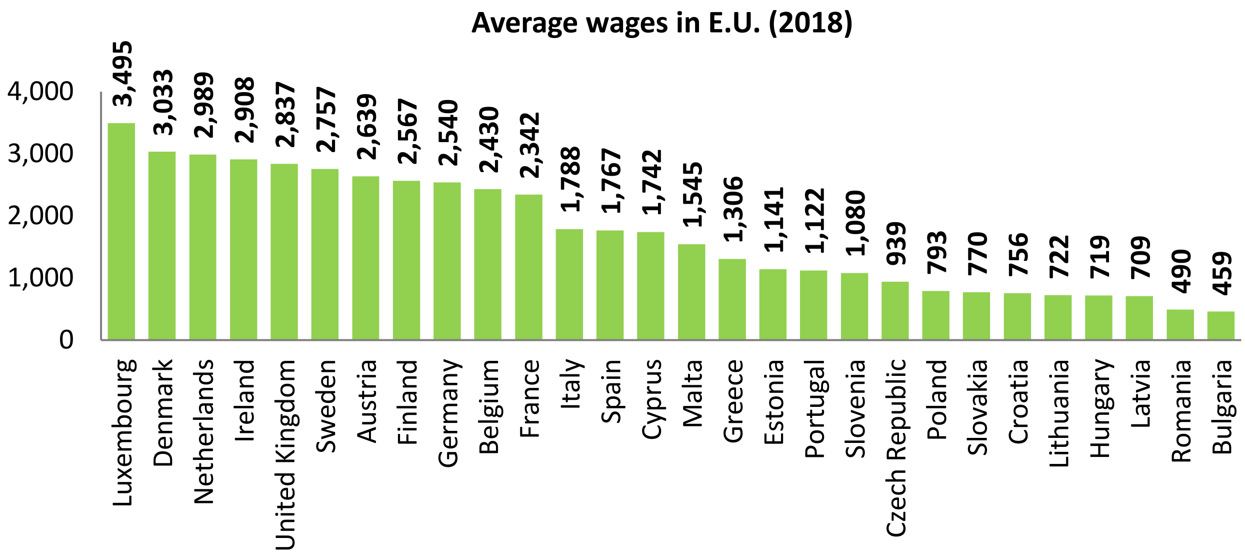


Germany, United Kingdom and France are the only countries which spend over 10 billion € in the clothing sector. The most common reason Belgium and Bulgaria have negative apparent consumption is the fact that have big amount of stock which do not have the data to check.

Potential costs

As we are moving forward, we have to check the potential costs our company is going to have for each country of European Union. First, we will check the economic costs which are related primarily to the sophistication of the economic system, including the infrastructure and supporting businesses.

The first cost indicator we look is the average wages. The graph contains containing monthly (annual divided by 12 months) net income (after taxes) average wages of full-time single workers in the European Union expressed in euros.



Furthermore, we look the potential tax rates our company has to face in a potential expansion in each of European Union countries. Clothing sector tax category is the "Main tax rate".

Nations	**Code of Country**	**Main tax rate**	**Decrease tax rate**	**Quite decrease tax rate**	**Sustainable tax rate**
Austria	AT	20	10 to 13	-	13
Belgium	BE	21	6 to 12	-	12
Bulgary	BE	20	9	-	-
Cyprus	CY	19	5 to 9	-	-
Czechia	CZ	21	10 to 15	-	-
Germany	DE	19	7	-	-
Denmark	DK	25	-	-	-
Esthonia	EE	20	9	-	-
Greece	EL	24	6 ro 13	-	-
Spain	ES	21	10	4	-
Finland	FI	24	10 to 14	-	-
France	FR	20	5,5 / 10	2,1	-

Κροατία	HR	25	5 to 13	-	-
Hungary	HU	27	5 to 18	-	-
Ireland	IE	23	9 / 13,5	4,8	13,5
Italy	IT	22	5 to 13	4	-
Lietuva	LT	21	5 to 13	-	-
Luxemburg	LU	17	8	3	14
Λatvia	LV	21	6 to 12	-	-
Malta	MT	18	5 to 7	-	-
Poland	PL	23	5 to 8	-	-
Portugal	PT	23	6 to 13	-	13
Romania	RO	19	5 to 9	-	-
Sweeden	SE	25	6 to 12	-	-
Slovakia	SI	20	10	-	-
Slovenia	SK	22	9,5	-	-
United Kingdom	UK	20	5		
Netherlands	NE	21			

On average EU-28 main tax rates are 21,5%. United Kingdom, Poland and Austria main tax rates are 20%, 23% and 20% respectively.

Barriers

Barriers to entry are the economic term describing the existence of high start-up costs or other obstacles that prevent new competitors from easily entering an industry or area of business. Barriers to entry benefit existing firms because they protect their revenues and profits.

Barriers in E.U

New or changing technical regulations in different countries can create unnecessary and unjustified technical barriers to trade. Discrepancies between product rules can impose additional costs on exporting enterprises and restrict inter-EU trade. The European Commission’s objective is to prevent the creation of these barriers and help enterprises trade freely in the EU and beyond.

Transport cost

This kind of cost is depending by one crucial factor. The factor is the company or the companies we are going to cooperate. The most well-known companies are DHL , FedEx , Ups and Cosco.

Supply chain management does not have to be outsourced to be efficient, but there must be a single company somewhere in the supply chain which has the authority, information and incentive to take overall responsibility. This does not have to be a manufacturer – large retailers, shipping lines, freight forwarders, and components suppliers as well as TPLMs are amongst the many types of agent who believe they can fulfil this role. However there still are many supply chains – particularly those involving small and medium size enterprises (SMEs) – which have no-one in charge and are inefficiently organized as a result. There is a need for a mixed programme of research/consultation/advice to increase these companies' awareness of the opportunities for cost savings, to design fairly simply supply chain improvements which would be of immediate value to them, and to promote the use of best practice. Shippers organizations like the European Shippers Council (ESC) and the Association des Utilisateurs de Transport deFret (AUTF) have an important role to play in increasing SMEs' awareness of the potential of logistics,by disseminating information about new developments and bringing together potential partners.

Tarrifs

Maastricht Treaty

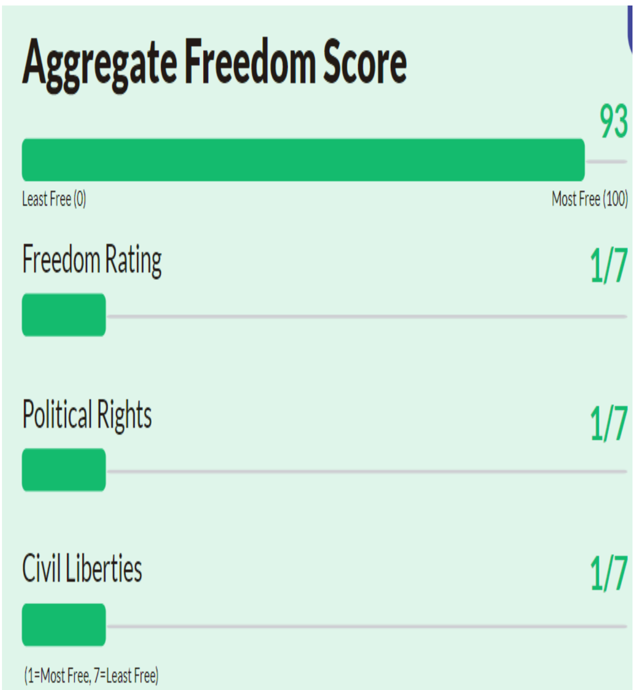
According to the Maastricht Treaty where took place in European Union among the articles were signed rules about economy liberation. The most important purpose was the free exchange of ideas, goods, services, capital and European citizens.

"'The common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies."

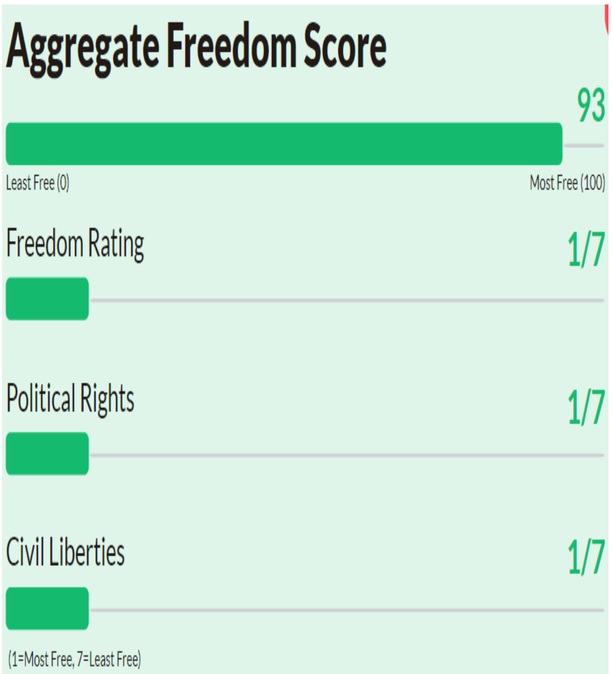
As a conclusion of we can distinguish a set of countries we believe that their markets are the most favorable for our company to invest. United Kingdom is the biggest clothing market in EU-28 at that moment, Austria has the highest clothing consumption rates per capita and Poland has the most rapidly increasing clothing sector at the last decade. Every one of those markets, with different export strategy, can give us the highest possibilities in order to expand our company and have potential profit growth.

Risks

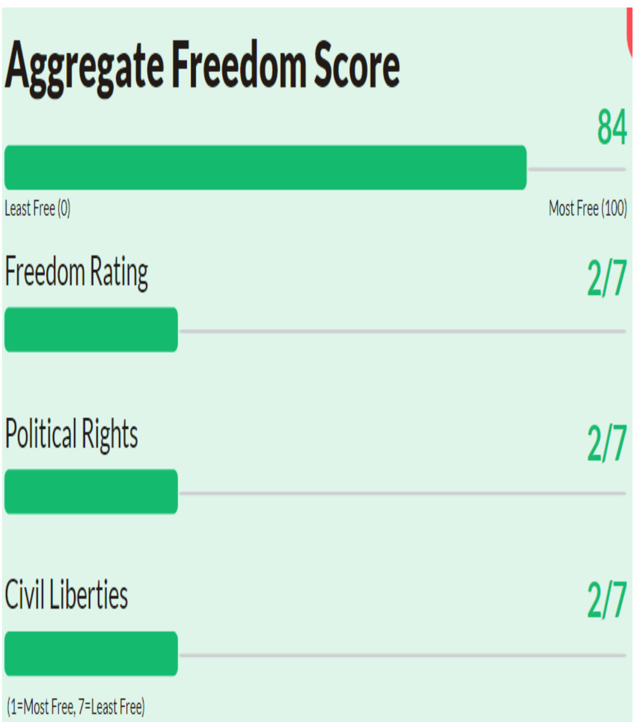
Political risk is the likelihood that political forces will cause drastic changes in a country's business environment that adversely affects the profit and other goals of a business enterprise.



The **United Kingdom** (UK)—comprised of England, Scotland, Northern Ireland, and Wales—is a stable democracy that regularly holds free elections and is home to a vibrant media sector. While the government enforces robust protections for political rights and civil liberties, recent years have seen concerns about increased government surveillance of residents, as well as rising Islamophobia and anti-immigrant sentiment. In a 2016 referendum, UK voters narrowly voted to leave the European Union (EU), through a process known colloquially as "Brexit," which will have political and economic reverberations both domestically and across Europe in the coming years.



Austria has a democratic system of government that guarantees political rights and civil liberties. It has frequently been governed by a grand coalition of the center-left Social Democratic Party of Austria (SPÖ), and the center-right Austrian People's Party (ÖVP). However, in recent years, the political system has faced pressure from the Freedom Party of Austria (FPÖ), a right-wing, populist party that openly entertains nationalist and xenophobic sentiments. The FPÖ entered the Austrian government in coalition with the ÖVP in 2017.



Poland's democratic institutions took root at the start of its transition from communist rule in 1989. Rapid economic growth and other societal changes have benefited some segments of the population more than others, contributing to a deep divide between liberal, pro-European parties and those purporting to defend national interests and "traditional" Polish Catholic values. Since taking power in late 2015, the populist, socially conservative Law and Justice (PiS) party has enacted numerous measures that increase political influence over state institutions—notably the judiciary—and threaten Polish democracy.

Economic risk is the likelihood that economic mismanagement will cause drastic changes in a country's business environment that adversely affects the profit and other goals of a business enterprise.

OVERALL SCORE 78.9	WORLD RANK 7

RULE OF LAW		GOVERNMENT SIZE	
Property Rights	92.3	Government Spending	48.2
Government Integrity	83.8	Tax Burden	64.7
Judicial Effectiveness	85.9	Fiscal Health	68.6

REGULATORY EFFICIENCY		OPEN MARKETS	
Business Freedom	92.9	Trade Freedom	86.0
Labor Freedom	73.5	Investment Freedom	90.0
Monetary Freedom	81.2	Financial Freedom	80.0

The **United Kingdom's** economic freedom score is 78.9, making its economy the 7th freest in the 2019 Index. Its overall score has increased by 0.9 point, with a big jump in fiscal health and higher scores for government integrity and government spending outweighing sharp drops in judicial effectiveness and monetary freedom. The U.K. is ranked 3rd among 44 countries in the Europe region, and its overall score is above the regional and world averages.

The U.K.'s 2019 departure from the European Union has prompted policymakers to address structural deficiencies such as lackluster productivity growth. The resilient economy's recovery from the financial crisis was aided by effective rule of law, an open trade regime, and a well-developed financial sector. The already liberal labor market can be made more flexible after Brexit. The U.K. has one of the world's most efficient business and investment environments and will soon be open to expanded global trade relationships.

OVERALL SCORE 72.0	WORLD RANK 31

RULE OF LAW		GOVERNMENT SIZE	
Property Rights	84.2	Government Spending	24.5
Government Integrity	77.4	Tax Burden	50.5
Judicial Effectiveness	71.3	Fiscal Health	85.5

REGULATORY EFFICIENCY		OPEN MARKETS	
Business Freedom	74.9	Trade Freedom	86.0
Labor Freedom	68.7	Investment Freedom	90.0
Monetary Freedom	81.5	Financial Freedom	70.0

Austria's economic freedom score is 72.0, making its economy the 31st freest in the 2019 Index. Its overall score has increased by 0.2 point, with higher scores for government spending, fiscal health, government integrity, and labor freedom offsetting a steep drop in judicial effectiveness. Austria is ranked 16th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

The government's efforts to improve the business environment historically have included reducing corporate tax rates and introducing more flexible working hours and other labor market reforms. Austria's small but well-developed economy is highly globalized and resilient, sustained by a skilled labor force, competitive manufacturing, and a large services sector. Openness to global trade and investment is firmly institutionalized, and the relatively efficient entrepreneurial framework strengthens competitiveness. Protection of property rights is traditionally strong, the legal system is transparent and reliable, and anticorruption measures are effective.

OVERALL SCORE **67.8** | WORLD RANK **46**

RULE OF LAW		GOVERNMENT SIZE	
Property Rights	62.3 ↑	Government Spending	48.8 ↑
Government Integrity	49.8 ↓	Tax Burden	74.9 ↓
Judicial Effectiveness	44.0 ↓	Fiscal Health	86.4 ↑
REGULATORY EFFICIENCY		**OPEN MARKETS**	
Business Freedom	65.4 ↓	Trade Freedom	86.0 ↓
Labor Freedom	63.9 —	Investment Freedom	80.0 ↑
Monetary Freedom	82.1 ↓	Financial Freedom	70.0 —

Poland's economic freedom score is 67.8, making its economy the 46th freest in the 2019 Index. Its overall score has decreased by 0.7 point, with a plunge in the score for judicial effectiveness not fully offset by improvements in investment freedom and fiscal health. Poland is ranked 23rd among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Poland's positive economic reputation was earned through structural reforms: trade liberalization, low taxes, and business-friendly regulations. Enthusiasm for reform has waned in recent years amid political and policy uncertainty that has contributed to currency volatility and weakened rates of investment. Challenges include deficiencies in road and rail infrastructure, a rigid labor code, a weak commercial court system, government red tape, and a burdensome tax system for entrepreneurs. Reforms are also needed to buttress the independence of the judiciary and reduce opportunities for corruption.

Legal risk is the likelihood that a trading partner will opportunistically break a contract or expropriate property rights.

There is no evidence that any of those three countries (Austria, UK, Poland) we examine our company has to face any legal risk.

At conclusion any of the three countries we will examine has any major Political, Economic and Legal risk.

Potential Entry mode strategies

Now we have to decide what is the potential export strategy our company has to make in order to achieve the highest potential goal. We suggest three export strategies, one different strategy on each country.

United Kingdom:

UK's clothing market we suggest entering with **exporting** mode. UK large fixed and variable costs for us to make any other export policy and in that mode, we avoid the costs of establishing local manufacturing operations. In addition, it helps our firm achieve economies of scale.

Austria:

Austria's clothing market is one of the most attractive for us to invest. Through a **joint venture** is the most appealing way to establish in that market in order to gain the knowledge of this highly competitive market's conditions, culture, language, political systems, and business systems. With that entry mode we decrease the potential costs and risks of opening a foreign market.

Poland:

Poland's low fixed and variable costs and the highly growing clothing market allow us to enter as a **wholly owned subsidiary**. With that strategy we can set up a new operation in the host country and do not take any risk of losing control over core competencies. In that way the firm has tight control over operations in Poland that is necessary for potential engaging in global strategic coordination.

If our company can bear the full cost and risk of setting up an operation in Poland using either greenfield or acquisition strategy.

Conclusion

A good economist is the one who have the insightfulness to foresee the future, and with the future we mean the potential benefits, costs and risks, the changes of the economy and all the factors which can affect an investment. In this research we have select the best 3 choices which every Ceo can expand its company. Every choice is a different type of investment and a has specific features and great possibilities of profits but also a different set of costs which our firm have to face in order to expand in the European Union clothing market.

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