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The changing face of Europe and international business education in Australia

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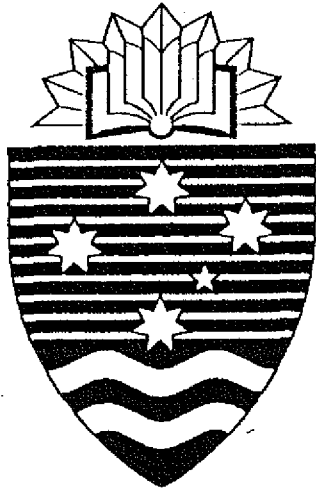
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"The Changing Face of Europe and International
Business Education in Australia"

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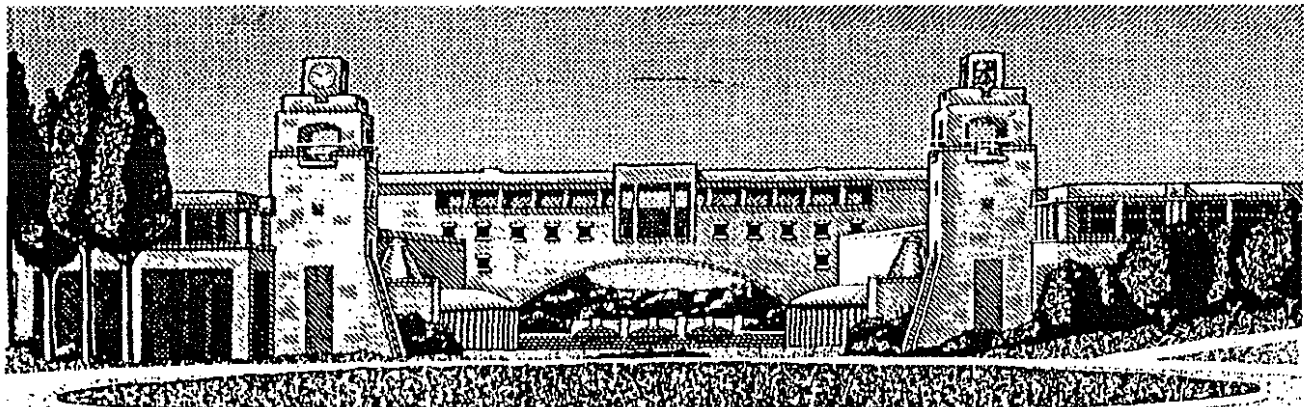
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B O N D U N I V E R S I T Y

The Changing Face of Europe and International Business Education in Australia

Christopher M. Adam
and
Lester W. Johnson

The Changing Face of Europe and International Business Education in Australia

Abstract

The last two decades have seen Australian international business education focus increasingly on the Asia-Pacific region. Basic reasons for this include the rapid growth and economic development of countries in the region as well as a realisation that Australia is part of the Asia-Pacific rim and not a European outpost. Indeed, a greatly increased proportion of Australian trade is with countries in the Asia-Pacific area. The Garnaut report on Australia and North-East Asia is a further recent statement of the apparent importance of the area for Australia.

The economic and political face of Europe, however, is changing rapidly. Western Europe is moving to economic integration through 1992. Countries in eastern Europe are adopting more market-based economic structures to match new political forms. Hence, the 1990's may prove to be the "European decade". In this paper, we examine some impacts of these changes in Europe on prospects for Australian business, and particularly reflect on the potential for a refocusing of Australian international business education on Europe.

Introduction

From the landing of the First Fleet through to the 1960's, Australia's commercial roots were firmly in Europe, and more specifically, in Britain. The rapid growth of the economies in the Asia-Pacific region, however, coupled with a substantial increase in Asian migration to Australia has led to a shift in focus during the past two decades towards our closer trading partners in ASEAN, Japan, Korea and China. This trend is clear from Table 1 which details the proportion of Australian trade with various regions of the world over the period 1965 to 1988. Australian governmental focus also seems to have shifted towards the Pacific Rim. The Garnaut Report (1989) on Australian trade relations with North-East Asia provides encouragement for this shift.

Table 1: Changing Pattern of Australian Trade 1965-1988

| | 1965 | 1970 | 1975 | 1980 | 1985 | 1988 |
|---|--------|--------|--------|--------|--------|--------|
| Australian exports to various destinations (%) | | | | | | |
| Northeast Asia* | 25.0 | 33.3 | 36.9 | 34.4 | 38.3 | 43.2 |
| ASEAN | 4.3 | 6.0 | 7.7 | 7.7 | 6.4 | 8.1 |
| North America | 12.4 | 15.8 | 12.5 | 11.9 | 8.8 | 10.2 |
| Western Europe | 35.0 | 23.7 | 17.2 | 14.1 | 13.5 | 15.7 |
| ROW | 23.3 | 21.3 | 25.7 | 32.0 | 33.1 | 20.5 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Australian imports from various destinations (%) | | | | | | |
| Northeast Asia* | 11.6 | 15.7 | 23.1 | 24.1 | 31.3 | 31.0 |
| ASEAN | 4.1 | 2.6 | 3.3 | 6.9 | 4.9 | 5.9 |
| North America | 27.3 | 29.4 | 22.3 | 24.5 | 23.7 | 23.7 |
| Western Europe | 42.7 | 40.3 | 35.8 | 26.6 | 26.6 | 28.2 |
| ROW | 14.3 | 12.2 | 15.6 | 18.1 | 13.6 | 11.2 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

*Northeast Asia comprises Japan, North Korea, South Korea, Taiwan, the Peoples' Republic of China and Hong Kong.

Source: Garnaut R., Australia and the Northeast Asian Ascendancy, 1989, Table 3.10, p. 72.

Reflecting these patterns, Australian international business education at the tertiary level has shifted away from its focus on Britain and often times is now almost solely concerned with Australian-Pacific Rim business issues. Universities with undergraduate and/or postgraduate international business courses or programs tend either to tailor subjects to focus on the Pacific Rim or to use examples of Australian relationships with Asian neighbours to illustrate theoretical points (e.g., in international trade or finance courses).

For example, the undergraduate international business major in the School of Business at Bond University consists of four Core subjects (International Trade and Finance, Multinational Accounting and Finance, International Marketing, and Management in the Pacific Region) plus at least two electives taken from a list of appropriate courses. The Master of Business

Administration (MBA) degree also offers subjects in International Business, including an elective called Pacific Rim Business Strategy.

The Core subjects are intended to be generic in the sense that theories and general principles developed are applicable to business in any part of the globe. We find ourselves, however, often using examples of Australia vis-a-vis one or more Pacific Rim countries when demonstrating the principles being examined. For example, in International Marketing one of the authors frequently found himself referring to Japan when discussing an export topic (*e.g.*, channels of distribution, cultural differences, etc.). Furthermore, students seemed to ask about or use as examples Australian firms' relationships with Pacific Rim (especially Asian) countries.

One can easily argue that this is a good thing since geographically Australia is clearly part of Asia and not Europe. Furthermore, the Asian region contains countries whose economic growth rates are among the fastest in the world. Table 2 makes this pattern obvious.

Table 2: Real Growth of Gross Domestic Product 1960-1988

| | 1960-70 | 1970-77 | 1977-86 | 1986-88 |
|---------------------|---------|---------|---------|---------|
| Japan | 10.2* | 4.3 | 4.0 | 5.1 |
| Hong Kong | 8.9 | 8.2 | 7.5 | 11.8 |
| Republic of Korea | 8.1 | 9.9 | 6.6 | 9.9 |
| Taiwan | 9.5 | 9.1 | 7.0 | 9.5 |
| Australia | 5.6 | 3.1 | 2.8 | 3.7 |
| North America | 4.3 | 2.8 | 2.5 | 3.2 |
| Developed Countries | 6.8 | 3.0 | 2.3 | na |

* 1961 - 70

Source: Garnaut R., *Australia and the Northeast Asian Ascendancy*, 1989, Table 2.1, p. 36.

Hence, a focus on Australian-Pacific Rim business could be said to be an optimal approach to international business education in Australia. However, the recent rapid changes occurring in Europe could provide opportunities for Australian business that may be missed if the Pacific Rim focus is held too strongly.

Changing Face of Europe

The latter half of the 1980's has seen some astonishing changes in the European continent that are continuing, perhaps even more rapidly, into the 1990's. Western Europe (specifically the 12 European Community nations) are moving towards full economic integration. The first giant step in this process will come at the end of 1992 when the Single European Act comes into full force. The Act requires the reduction of internal economic frontiers among the 12 nations of the EC. It will produce an economic market of over 320 million reasonably affluent consumers. There are about 250 million consumers in the US and 120 million in Japan. A unified market of this magnitude provides major challenges to international businesses which are being thoroughly analysed by scholars worldwide (*e.g.*, Quelch *et al.*, 1990).

The rapid change that has occurred in what used to be known as the Soviet bloc countries has been even more startling. Market-based economies are being established, albeit somewhat tentatively at times, in many of the eastern European countries which have for over 40 years operated with centrally planned economies. These changes confront international businesses with different sets of challenges to those in western Europe, but interesting opportunities emerge.

The changes in both eastern and western Europe may lead to the 1990's being the "European decade". These changes provide opportunities for Australian business as well as pose threats. In the remainder of this paper we examine some of these opportunities and threats and attempt to focus more specifically on what they could imply for International Business Education in our tertiary institutions into the next century.

Opportunities and Threats to Australian Business

The West

Perhaps the most obvious change to the European Community after the full implementation of the Single European Act (ratified in 1987) will be the achievement of a single Internal Market at the end of 1992. This will be defined by the absence of tariffs and other trade restrictions on the flow of goods and services as well as factors of production, from one country to another. The Cecchini report of 1988 (quoted in Quelch *et al.*, 1990, p.11) has estimated that the macroeconomic consequences which will follow the completion of the internal market should see a gain in real Community economic welfare of between 4.3% to 6.4% of combined Gross Domestic Product (GDP) of member states.

The largest source of the gain rests with enhanced market entry and competition that could ensue following the abolition or simplification of administrative structures. In competitive markets, intra-firm trade (which is a significant fraction of trade among developed countries) can be increased by lower costs of gaining foreign control of local firms, even without direct foreign investment. Baldwin (1988) indicates that this could be a further source of gains from trade for those trading with the EC. Community nations could see a fall in prices of about 6%.

The risk for countries outside the Community is the emergence of higher barriers to entry for nonmember nations. This may seem unlikely, at present, as exports represent 10% of the Community's GDP; but a change in the economic structure among Community members could make it easier for them to capture the advantages from internalising much of the trade with the Community. Certainly major Japanese firms such as Mitsubishi, Matsushita and Toshiba have established production plants within the Community in anticipation of the raising of external trade barriers. A recent study of US firms (Lipsey, 1990) suggests that large American manufacturing firms are already well entrenched in the EC, and may even be better positioned to take advantage of the single market than most of their European rivals. Lipsey cites evidence that almost half of worldwide fixed assets in manufacturing outside the US by American firms.

were in EC countries in 1982, well before the move to a free internal market (Lipsey, 1990, p.3). US non-manufacturing operations such as distribution and services, and smaller companies, however, do seem to be responding more to the advent of 1992.

Since trade is an important part of Australia's economic activity, it would seem dangerous for us to ignore the risk of losing markets in Europe. While the pattern of trade for Australia has been to reduce the European links, the nation still depends heavily on trade, especially in the real investment area. About 75% of domestic real investment in the last two years in Australia has been imported. But while such trade is important to Australia, the Australian market demands are not so important to our major trading partners such as Japan and the US. If business within those nations is directing its energies to entry in Europe, it is not looking to greatly increased markets in Australia as a fall-back should the European endeavour fail. Furthermore, reports from US firms in particular suggest that they expect to succeed in their European strategies.

Some Australian businesses have long had trading links with Europe. Corporations such as TNT, BHP, ANZ, National Australia Bank, and Elders IXL have dealt with individual European countries for many years. Further, as our scale is not large, we are less likely to suffer retaliation threats from Europe as have Japan and the US in recent years.

The greater threat to Australian-European trade is the difference in tariff levels at present. European tariffs on industrial items average 4.5%, while those on Australian industrial imports average 25%. Associated with the higher Australian tariffs has been lower value-added per employee than competitors such as Canada, Sweden, the US or Japan (Business Council Bulletin, 1989, pp. 14-21).

The tariff restrictions are a possible reason for Austrade identifying the services sector as a most likely growth area for Australian firms considering expansion in western Europe. Indeed, the largest transport company and freight forwarder in Europe are both Australian companies at present. Financial services, transport, and telecommunications are examples of strongly contending Australian industries. Australian agriculture may also benefit from a reduction in the level of support for the Common Agriculture Policy of the Community.

We need to be careful to distinguish the effects of eliminating frontier controls within the European Community and the actions that might be taken by corporations responding to the elimination. Only the first set is guaranteed as a result of the Single European Act. This would include lower costs directly due to the elimination of the controls and simplification of administrative procedures. The other benefits, being either lower costs due to increased competition or exploitation of economies of scale, or reallocation of resources and associated increased innovation and dynamism in trade, are critically dependent on corporate reactions to the market activity (Quelch *et al.*, 1990, pp. 9-11).

The East

Australian is a member of the European Development Bank (EDB) set up recently to fund the economic reconstruction of eastern Europe. This institution proposes to commit a capital contribution of \$45 million to eastern Europe over the next five years, of which Australia will be contributing one percent, thereby using its involvement as a "lubricating agent" to enhance future trade. The EDB will specifically focus on project lending for investment by the private sector and, to a lesser extent, the public sector. Australia has also been bidding for a number of human capital development programs to assist the growth of managers in eastern European countries.

The USSR remains the primary trading partner for eastern European nations currently or previously under Communist regimes of government. Some 50% of Bulgarian trade, and about 30% of trade of Poland, Hungary, Czechoslovakia and the German Democratic Republic are with the USSR. The GDR and Czechoslovakia would seem to be best positioned to move most swiftly to freer market economies. West Germany is strongly assisting its new economic region in the united Germany, while Czechoslovakia has maintained for a long time a more flexible market structure at home; it also has only a small international debt.

Austrade has identified energy generation, clean low-sulphur coal, mining technology, and telecommunications systems management as specific markets in eastern Europe to which Australian firms could contribute significantly. But Australia should not ignore the relatively greater ease with which western European nations can enter the eastern markets compared to Australian entry.

Implications for International Business Education

Two clear implications emerge from this analysis of Europe, west and east, for developing an international business curriculum for Australia.

(1) If we are to give a larger role in our international business curriculum to western Europe as a substitute for some of our emphasis on the Pacific Rim, then we shall need to change the way we have dealt with some topics. Pacific Rim discussions have centred on countries with rapidly industrialising workforces, moving from labour intense production to knowledge intense and capital intense production with a strong export orientation and a flexible supportive governmental environment. The countries in western Europe in general reflect mature capital stocks and existing capital intense production processes, where most industries focus on large domestic markets and the international trade and finance activities are managed through multinational or multidomestic corporations that may not be headquartered in any of the member states of the region. The international business curriculum for this environment reflects more strongly the following issues:

- Enterprise-specific technologies with sustainable competitive advantages as the outcomes of large R&D investments - the risks being that underinvestment can occur with mature organisations. The strategic analyses of competitive advantages must focus on the roles of internal organisational design, product differentiation, and continued product innovation rather than scale based on larger resource endowments.

- Business-government interaction tends to be bargaining over marginal taxation arrangements rather than considerations of wholesale expropriation or future nationalisation. The role of information brokers and lobbyists is more emphasised in the western developed countries. Taxation may be for goods and services (such as Value-Added Taxes), natural environmental reasons (the "green" movement), educational training taxes, or contribution to existing local industry development. Joint venturing with government, obsolescing bargains, or extensive infrastructure development are less likely to be key elements for consideration by new entrants to the countries of western Europe compared to the considerations by new entrants in Asian and Pacific Rim Less Developed Countries (LDC's).

- The greater likelihood that customs unions play a significant role in trade analysis. The EC itself is becoming a customs union; and the key game-theoretic issues of such unions are important for understanding how the markets within those countries may develop (see Macmillan, 1986). In the Asian-Pacific region, the diversity of the nations in historical, cultural and ethnic terms tends to militate against the growth of strong customs unions and what they entail for trade and market entry.

- A related issue from the marketing perspective is the "rationalisation" of marketing distribution channels. The attention given in international marketing curricula to establishing such different distribution channels in the contrasting nations such as Japan or Korea can be simplified in the sense that the EC could be treated as a more uniform national entity. Marketing challenges now emerge as optimal location of central product dispatching and follow-up service access over a large geographic area; the development of promotional activity on a large-scale, standardised cross-cultural basis; and choices of franchising *versus* ownership when there are low barriers to international mobility (language) rather than significant ethnic barriers. Price discrimination among countries within Europe is more difficult to sustain given the free flow of goods across national boundaries. Such discrimination is a more powerful weapon in marketing strategy across the different nations of the Pacific Rim, due to the lower mobility of goods from one country to another.

- Wage rigidities and labour industry structures are more significant in developing industry in Europe than they tend to be in the Pacific Rim region. Australian producers themselves would find the European experience more familiar, but also confining compared to the flexibility encountered in labour market dynamics in the Pacific. In terms of our international business curriculum, the prominence of labour relations and human resource management needs to be elevated.

- Transport costs from Australia to Europe must once more be included in project costings. While Australia always has significant transport costs to any other country, the size of them and their variability is greater with the European connection.

- The western European financial system is more closely integrated than that of the Asian-Pacific area. The existence of the European Monetary System (EMS) as a currency bloc, with the impending addition of the UK, causes calculations for the intra-EMS shifts of financial capital, but can bring greater variability of all those member currencies compared to the Australian dollar and our other trading nations such as Japan and the US. Our international financial education will need to focus more closely on the concepts of "cocktail currencies" such as the European Currency Unit, and the larger role of the little-regulated Eurocurrency markets within the EC. Indeed, the subject international finance becomes a more significant topic: when dealing with the LDC's of the Asian-Pacific region, the international money market dealings are far slighter due to the less developed nature of LDC financial structures. In Europe, these markets are deep and important for trading.

- In all these areas, the Europe post-1992 will still have regional differences: languages, history and ethnic differences will not vanish immediately, if ever. The scale of the differences, however, is generally smaller than those between, say, Japan and Thailand. In that sense, the European Community is more unified than the conceptual notion of the Asian-Pacific region. What is not clear from the European point of view is whether the united Europe represents a "fortress" built to defend member states against the economic incursions of Japan and the US, or whether it is more a process of liberalisation of restrictive practices on production and trade. The current EC President, Jacques Delors tends to the former view, while the UK Prime Minister Margaret Thatcher favours the latter. The outcome from such a debate matters for the international business curriculum: a fortress model invites the analysis of trading blocs and possible trade wars, topics not usually reviewed in international trade teaching these days; the trade liberalisation literature, however, has been developed heavily in recent years for direct application to the LDCs and is frequently taught.

(2) The changes in *eastern* Europe do not currently imply significantly different directions for international business curriculum design. The likelihood of massive new trading opportunities are not present, or if they are, there are significant threats to companies' abilities to capture them at this stage. The eastern European nations are embroiled in severe political instability at the moment, but this is not the key issue. More importantly, they are nations with significant endowments of raw materials, and aging capital stocks. They generally have thin financial markets. They seek to avoid dependency relationships with external countries.

Hence their nature is similar to that of many LDC's, with the exception of the role of capital stocks. If we have been teaching our students that the approaches of dealing in the Pacific Rim have centred on countries with rapidly industrialising workforces, moving from labour intense production to knowledge intense and capital intense production with a strong export orientation and a flexible supportive governmental environment, then the eastern European countries hardly match this pattern. The appropriate models are more those used in development economics.

Conclusion

We should not abandon all our current teaching in international business that focuses on either the Asian-Pacific region or that discusses developing country growth and trade strategies. We should, however, be conscious that the integration of the western European markets under the Single European Act will change the boundaries of trading blocs, and make the European Community a more significant market place and trading partner as an entity in world trade. In educating our students about international business, the content of material presented to describe the EC is clearly different from that applicable to the Pacific Rim. Perhaps simply to understand the American literature of international business, we must be more sensitive to its emphasis on the EC. Our instruction on international business with eastern European does not, at this stage, need to be different from that used for developing countries.

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