



A TOOL FOR ORGANIZATIONS TO QUICKLY ASSESS GROWTH POTENTIAL IN FOREIGN MARKETS

Internationalization and the HS code

Matthew Aho

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TAMPEREEN AMMATTIKORKEAKOULU
Tampere University of Applied Sciences

ABSTRACT

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AHO, MATTHEW

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ABSTRACT

Many SMEs fail to go international because they often lack the knowledge of potential markets and more often than not are limited by their lack of available resources such as time and money to accumulate such knowledge. Considering that international processes can often become very complex may cause many innovative organizations to decide early on that they do not want to engage in them. Globalization is changing the way business is conducted and organizations must begin thinking of new ways they can change in order to remain competitive well into the future. What can we do to embolden them to have sufficient confidence to make better and more decisive decisions when faced with these new challenges?

If organizations were introduced to Harmonized Synchronization code (HS-code) and understood why it is so significant, may actually be one of the keys to getting them engaged. Utilizing the HS system in ways other than for what it is intended, can provide organizations with countless benefits regardless of whether or not they have had prior experiences or knowledge about internationalization. Not only does this study explain briefly HS but it also explains how organizations can use it unconventionally to quickly determine whether or not their products and/or services have any potential in one or more foreign markets.

It is possible that HS could be used as a preventative tool before actually going international. Using the HS system in the manner described in this study could help organizations to quickly learn about certain restrictions and various other trade barriers before they begin actual internationalization in any particular foreign market. Understanding and implementing the proposed *HS-Analyses* method can give organizations the advantage of learning early on, what changes or modifications their products or services may have to undertake in foreign markets in order to meet particular regulations and standards that may be in place in those markets. It is believed that organizations that begin implementing the *HS-Analyses* may have a leading edge on competitors because they would essentially be able to then make better and more decisive decisions with more relevant knowledge and facts

To better validate the results of this work, it is imperative that the *HS-Analyses* method should be empirically studied to better determine its effects not only on the way organizations react but to see if it affects their perspective on internationalization as well.

Key words: country screening, foreign trade, hs, hs-analyses, internationalization, import, export, market research, foreign markets, sme,

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GLOSSARY or ABBREVIATIONS AND TERMS (choose one or other)

HS	Harmonized Synchronization
CN	Combined Nomenclature
VAT	Value Added Tax
WCO	World Custom Organization
WTO	World Trade Organization

1 INTRODUCTION

Shifts in global markets and growing interdependencies between companies throughout the world are changing how business is being conducted. In the Big Bang Disruption (Downes & Nunes 2013) it is implied that innovative ideas are being created overnight (in short amounts of time) as companies both big and small are finding newer and better ways of doing things. These new innovations have the potential to cause other businesses to go bust because they can not adapt to changes fast enough and their products and/or services are replaced by newer or better ones.

Presently, SMEs (small and middle size enterprises) are being looked at as the driving forces for stabilizing and growing a countries economic positioning in the globalization process, therefore they are being encouraged to go international,. The problem according to a VTT (2012) study is that "SMEs are at a loss as to what they must do in order to go international with their products or services'." (VTT 2012) Too many SME's fail to take the initiative because they are often faced with limited resources and a lack of relevant information or knowledge of potential markets. Obtaining the necessary and relevant information may be difficult and there may be a heightened sense of uncertainty that any attempt is guaranteed to pay off.

It is from this perspective that this work has been chosen, the intent was to investigate various elements of the internationalization process, and try to identify one or more commonalities prevalent in most commercially oriented cross boarder exchanges. Fortunately we have been able to identify one critical element that has met that prerequisite and it has a funny name 'Harmonized Synchronization'. Identifying this key element was a tedious task and not very easy. The fact is that although it is mentioned in various literary books, it is none the less, afforded very little attention which made it hard to discern amidst all the other topics generally discussed. It is believed that Harmonized Synchronization (HS) may be the key element that can help organizations determine whether or not they should sell their products or services in a foreign market. If organizations fail to consider HS at the earliest stages of any internationalization process might prove to be detrimental decision in terms of wasted time, wasted resources and a loss of potential customers.

Fortunately, HS, has become more simplified over the years and organisations are now more than ever, able to understand its significance and how it works. Understanding the HS system enables organizations to incorporate a six digit code that classifies each of their products and services. This code is the same all over the world and the organization can use it to better assess early on which fees and restrictions are placed on their products or services if they were sold in a foreign market.

1.1 Background for this thesis

We will begin the actual research by first redirecting our attention to the background of this work so we can better understand why this particular topic has been chosen and what relevance this topic has in relation to the big changes taking place in global markets worldwide.

Several months earlier the author of this work was offered to act as an agent for an organization located in Finland. The organization wondered if it would be feasible to start offering and selling one of their products in the North American markets.

Initially the author was very optimistic and began formulating his plan of attack. He was already in the initial stages of defining potential customer segments, benchmarking competing products, and was also considering various marketing schemes in the hopes of hooking a customer in short order. It was around this phase that a particularly insightful thought crossed his mind. This revelation, if we can call it that, seemed so significant that he knew intuitively that he had to stop what he was doing in order to re-examine the situation so he can approach it from a different perspective.

One significant reason for the re-examination was in relation to this thesis. At the rate it was going there would be too much material thus making it overly extensive. The resulting solution was to disseminate the international processes and single out one particular factor or element which can help deduce at an early stage whether or not it would be feasible to introduce a particular product or service (regardless of its nature) into some market.

The author's initial approach to learning new markets may actually be the same approach taken by numerous organizations who want to save time and resources by conducting their own research and analyses. The problem with this approach is that there is a great amount of uncertainty in that the information or knowledge they gain may not be pertinent to a guaranteed success.

The trick to any strategic research or analyses should be to approach the situation as soon as possible, do not wait, but it must be accomplished in a way that allows each successive step to systematically strengthen and support each consecutive step along the way. If an organisation intends on going international, it is critical, that they are able to identify and prioritize the various processes and stakeholders (key players) involved at every phase, as well as the criteria each of them requires as well. Having a clear picture of these elements helps formulate an understanding of what has to be done and why it must be done. Systematically focusing on the relevant criteria at every phase allows an organization to better understand where they stand in the process, and may be actual determinants as to whether or not it is feasible for them to continue ahead or when to acquire help from somewhere else.

The concept (HS-Analyses) that is laid out in this study should be considered as a valuable tool that will help any organization to better determine from the earliest point in time whether or not they want to go international or if it is even possible for them to bring their particular product or service to another market. It is believed that the information relayed in this paper can help organizations to more strategically decide whether or not they want to enter a new market.

1.2 Research questions and objectives

Change is imminent, and is happening at ever increasing speeds. The problem we are beginning to face is the fact that everything is becoming so complex, thereby making it more and more difficult for us to know how to react in an efficient manner. It seems as though we are getting to the point where we are no longer able to cope and adapt to these changes quickly enough.

This study aims to analyse and evaluate the various uses of HS and give organizations some pointers which they can use to more decisively begin deliberate considerations as to how and why they should implement HS as a means of strengthening their organizational goals and strategies. To make this possible it was imperative that numerous information sources were used in order to develop the necessary understanding about HS in relation to various foreign markets and how it can be used to simplify various future prospects of any organization; regardless of whether or not they actually go international.

In order to meet the objectives of this study the following research question has been formulated:

“Can organizations use the HS code to more efficiently determine various potentials in one or more foreign markets?”

To provide a sufficient answer to the above question, four sub-questions are raised:

1. What role does the HS code traditionally play in the international process?
2. Why should organizations consider using and implementing HS even if they do not intend on going international?
3. Why should organizations understand HS before beginning any type of internationalization?
4. What may happen if organizations fail to fully consider the benefits of HS?

1.3 Research Methodology

According to UCE Birmingham (2011), the aim of a literature review is to show to others that you have read, and have a good grasp of, the main published work concerning a particular topic or question in your field. This work could be in any including format, but is not limited to online sources. It may be a separate assignment, or one of the introductory sections of a report, dissertation or thesis. In the latter cases in particular, the review will be guided by your research objective or by the issue or thesis you are arguing and will provide the framework for your further work. (UCE Birmingham 2011)

This study utilizes systematic literature review as the main research method. Systematic literature review is a summary of the information that answers a research question. This method offers a high degree of reliability in that it minimizes bias by collecting data from more than one academic database. The data is usually compiled by different authors and studies conducted in different parts of the world. Findings of systematic literature review studies are well assessed and critically appraised before publication. (Gray 2005, 117 – 131.)

Gall *et. al.* (1996) argues that the literature review plays a role in:

- delimiting the research problem,
- seeking new lines of inquiry,
- avoiding fruitless approaches,
- gaining methodological insights,
- identifying recommendations for further research, and
- seeking support for grounded theory.

Hart (1998) contributes additional reasons for reviewing the literature, including:

- distinguishing what has been done from what needs to be done,
- discovering important variables relevant to the topic,
- synthesizing and gaining a new perspective,
- identifying relationships between ideas and practices,
- establishing the context of the topic or problem,
- rationalizing the significance of the problem,
- enhancing and acquiring the subject vocabulary,
- understanding the structure of the subject,
- relating ideas and theory to applications
- identifying the main methodologies and research techniques that have been used, and
- placing the research in a historical context to show familiarity with state-of-the-art developments. (p. 27)

Another purpose for writing a literature review not mentioned above is that it provides a framework for relating new findings to previous findings in the discussion section of a dissertation. Without establishing the state of the previous research, it is impossible to establish how the new research advances the previous research.(Randolph 2009)

A good literature review, therefore, is critical of what has been written, identifies areas of controversy, raises questions and identifies areas which need further research.

The issue that will be discussed

Global markets are changing and the changes are happening faster and faster as innovative organizations find new ways of doing things, this is a response to not only the convergence of various technologies but also due to the easing of trade barriers worldwide. This issue becomes a bit more complex the longer organizations remain unaware or oblivious to the effects caused by change, not to mention the ripple effects they may cause as well. This situation seems even direr if we think that national economies are looking to the innovative organizations as the drivers to future economic stability and growth in the years to come. Further compounding this problem is the idea that innovative organizations fail to internationalize because they lack relevant knowledge about foreign markets and may have limited resources to be able to efficiently or even effectively begin conducting relevant research on their. The point is that we have to wake up and confront this issue before it becomes too late.

It appears that we need to start making a concerted effort to find alternative ways that help smaller innovative organizations to get more engaged in matters pertaining to internationalization. To pave the way this work was designed to help deal with the aforementioned issues we are facing.

In this work you will find that I have prepared a nine-step proposal plan which I termed as the **HS-Analyses** method. It is meant to be used by organizations of any size, structure or industry. Utilizing the HS-Analyses method as described in this work should enable any organization to very quickly and systematically learn their potential in foreign markets, even before they begin internationalizing. It is not a floozy, in fact this concept or process (however you want to define it as) has been formulated because I have not been able to identify any similar concept or process that is not only simple but is also a cost efficient way that provides organizations the ability to access and get important information and knowledge pertaining to their organization

At the time of this writing there has been no known or established method, concept or process that has the ability to give so much control to any individual organization in the

early stages of internationalization. Having said that leads us to further explain what we mean. The name HS-Analyses was chosen as an established way to differentiate this method from the HS coding system that uses numerical codes for the classification of all imports and exports. So what is the fuss? The HS-Analyses method basically repurposes the HS codes in a manner that allows organizations to do country screenings quickly and efficiently in one or more foreign markets. Right off the bat they should not only be able to determine whether or not they have potential in any one particular market but they are able to also understand why. Regardless of whether or not you are aware of the HS coding system, learning the HS-Analyses method would non-the-less be a priceless experience that has the ability to eliminate enormous amounts of research on foreign markets, in addition the HS-Analyses method minimizes so many complexities that would otherwise create confusion later on as well. It is believed that organizations must learn about the HS-Analyses method regardless of their motivations to go international later on.

What has been done by others?

In direct relation to the results of this work I have not found any pertinent information relating to any concepts or processes that can give as conclusive results as those achieved by utilizing the HS-Analyses method. That is one of the main reasons it has been developed. However; this work would most likely not have occurred if the HS coding system was not designed in the fashion as it stands today. In my opinion I believe that the HS-Analyses method is unique and one of a kind, if it were otherwise we would be hearing about the others on a grand scale, and as often, as we hear mention of some others such as the SWOT analyses and PESTEL analyses as well.

The solution

At the minimal we need to first find ways to ensure that organizations are made aware that any small changes that may be occurring globally may eventually affect them at some point in time. The point is not to scare them but to simply lay down the facts, if we do not get them engaged or at least interested means that we have failed them and not the other way around. Secondly we must begin educating them on some of the basic things they can or should be doing right now, in doing so we have the potential to give

them more hope which in turn could be used to strengthen their moral and motivate them to do more, it is easier when they believe what they are doing is of consequence especially if the work provides quick results that they can understand.

The ultimate goal is that organizations would have enough information and knowledge to not only be able to make decisions more decisively and in shorter amounts of time but to have the know-how to control and manage them in ways that are systematic and efficient as well. Once they understand that in a short amount of time internationalization may be the norm, may inspire them to reconsider the consequence of not taking such advice into consideration by doing so may help them to better decipher when they need help and how they can receive support if necessary.

Connection to the work of others

The creation and development of the proposed approach to internationalization as laid out in this work, required intense concentration and an immense amount of understanding of internationalization. This work was initially guided by numerous inputs from various researches. These researches have allowed me to better focus on the needs and demands placed on SMEs in particular.

Through reviewing prior researches I was made aware of the following...

- Many innovative SMEs often fail to go international because they lack the relevant knowledge and/or resources necessary to do so.
- Every organization may eventually have to begin thinking outside the box because global changes may ultimately threaten or effect in some way their future and way of conducting business. The problem is they may be unaware of the direness of the situation.
- That, national economies are relying on them more and more to become the drivers of economic prosperity and growth.
- That internationalizing can be chaotic at best if organizations know nothing about it.

To better understand the fundamentals of internationalization however various literature sources were accessed to get an overview of the related elements and processes involved.

Methodology

To come to the conclusions and obtain the desired result in this work, numerous sources had to be accessed and understood. All sources were of a secondary nature, these included published literature in the form of books, academic papers, online sources and grey literature as well.

In order to get a better understanding and clarification of the various questions and investigations that arose throughout this work many searches and investigations had been conducted using Google and You Tube. As information and knowledge became more understandable I tried to find and utilize as much grey literature as possible, because of their reliability.

To get the results needed for this subject, required deductive reasoning that was achieved by the use of a grounded approach. New questions and investigations were being initiated, developed and revised as new information and knowledge became available and understood.

Gaps in previous research

Previous research was critical in helping to determine the direction needed for this work, but much of the research seems to be conducted in an ad-hoc approach where studies have been conducted as a way to figure out or bring awareness to certain phenomena and try to come to some conclusive result of the study. It is felt that the failure in this type of approach is that it is often hard to discern what to do with the results; it would be well if we were able to provide more solutions as well, so that the results can be better used by most if not organizations in real practice.

At the time this work began, it became apparent that there is an extra ordinary amount of literature and case studies that take matters of internationalization into consideration. However; they are often complex and full of jargon that even experts in the relevant fields of study must take time to be able to fully consider and better understandm what message the authors are trying to convey or discuss. The issue is that small

organizations are operated by normal people, who are not all experts on these matters therefore solutions sometimes have to be in layman's terms.

The approach and considerations as taken here in this work, is that any overall solution must be simple and additionally must be able to be adapted to most if not all organizations, regardless of their relative size, structure or industry entailed. The point is to not only get innovative organizations engaged, but to do so in a way that would allow them to do so at a minimal cost to immediately get conclusive and measurable benefits from their work at the same time. The proposal laid out in this work concerning the HS-Analyses is of importance because it could be done in a way that is systematic which not only gives organizations more control of what they do but to do so in a manageable way.

Justification for this approach

It may at first appear that the reliability of the results provided by this work may come into question. I myself am at the moment conducting this research for the common good. I have not been offered contributions of any kind and am unsure as to what I am going to do upon its completion.

As far as the HS system is concerned, it is maintained by the World Customs Organization (WCO) located in Brussels. The WCO is an intergovernmental agency and therefore has the authority to operate on a global scale. The HS system is currently being used by over 207 countries or territories worldwide and is used for purpose of classification of all imports and exports. The structures and information provided by various Nomenclatures and Tariff Schedules are also controlled by their respective countries and/or territories. These various Nomenclatures and Schedules form the base for any information organizations will need when conducting the proposal in this work.

When this work was first considered, I was unsure as to what direction it would go because I had limited experience and knowledge about internationalization. I knew about numerous elements involved in the process, but when it came down to actual implementation I was found wanting. This perspective was actually very interesting and useful because it allowed me to be able to take the perspective managers of small

organization may have when in similar situations. It was truly a daunting and intimidating experience. I believe that this perspective greatly influenced this work to a major degree.

Thesis structure

In order to give the reader of this work a better understanding of the proposal, we start this work off by first introducing various elements and process involved with internationalization. I then proceed to explain the HS system and conclude by laying out a proposal organizations can use to efficiently conduct their own investigations of various markets. Due to the fact that there is no known concept or method describing the proposal in this work it was decided that we will simply refer to the proposal as the **HS-Analyses** method.

In theory the HS-Analyses method has the potential to simplify internationalization and give quick results, but it still needs to be further studied and should be applied in one or more empirical case studies in order to prove its validity and see how organizations react after having it applied to their own operations. The question therefore remains as to whether or not it gets them engaged and willing to do more, in addition it would be well if we were able to measure its affect on various organizations aspirations to also verify if they actually begin further explorations in whatever market they choose to investigate.

2 THE INTERNATIONAL PROCESS

According to Welch and Luostarinen (1988) internationalization is defined as the process in which firms increase their involvements in international operations. Calof and Beamish (1995, 116) defined internationalization as “the process of adapting a firms operations to international environments”.

From the above two statements we can make an assumption that internationalization is a process firms utilize to increase their involvements in international operations by adapting their operations to international environments.

One interesting point of observation as of late relates to the extent change is having on global markets everywhere. Presently we are becoming more aware of how unstable these markets can be in terms of new innovations, spin-offs and economic instabilities in the world markets. It is therefore imperative that SMEs begin to construct new perspectives on how these changes may ultimately affect them in the coming years.

SMEs are presently able to more readily find and fill niches in various markets throughout the world due to the various technological advances and the lowering of trade barriers over the past few years. These changes make it easier for them to interact and conduct business with other businesses or partners at any time and any place.

What is the internationalization all about and why is it important for organizations to understand it at all? Instead of trying to explain this question in its entirety we will be focusing on a more broad or generalized view of the some processes and various elements which organizations must consider when internationalizing. It is important for them to have this understanding because by knowing the big picture they are hopefully better equipped to understand how the focus of this thesis relates to the process and its importance as well.

In Figure 1, various steps and sequences involved in the internationalization process are shown. Before internationalization to start, it must first be initiated. Secondly numerous investigations must be conducted as the organization moves deeper and deeper into the internationalization process. The point is to be able to identify any risks and elements of

uncertainty along the way and find efficient ways to counter them and measure their potential to derail the process at any point in time. The overall aim is seek and establish methods that can systematically be applied by organizations as they get more involved, it is believed that in so doing, not only saves time and money but in ways that can also be controlled and managed efficiently as well.

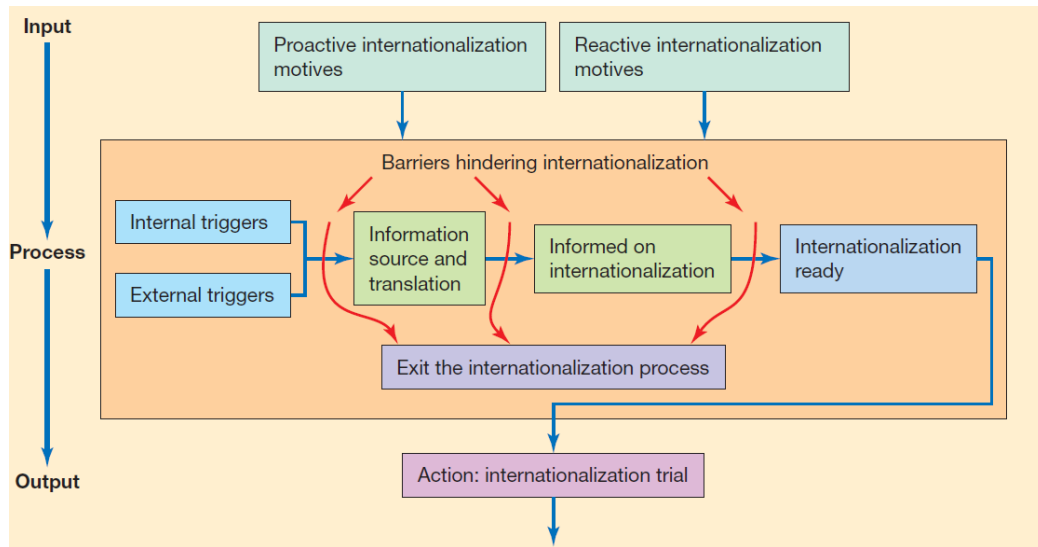


FIGURE 1. The internationalization process (Hollensen 2008)

2.1 Initializing the internationalization process

In order for a firm to be able to begin to identify with internationalization, someone or something must first initiate (trigger) a need for such an activity. According to Forsman *et al.* (2002) the three most important triggers that initiate Finnish SMEs to start-up their operations internationally relates to managements interest in internationalization; foreign enquiries about the company's products services and inadequate demand in the home market.

In this day and age, it is important for SMEs to think outside the box and begin to consider the ramifications of not initiating some form of foreign market research. Possibly the best place to start is for organizations to begin looking at their present product or service offerings and play with the idea of exporting them to a foreign market. The goal of this playful idea is for SMEs to understand how environmental forces such as governmental and trade organizational systems function in relation to their particular business and case. In the process SMEs could figure out which costs their offerings are most

likely to entail throughout the process in addition to learning how regional regulations and restrictions affect them directly. To accomplish this task would require a certain level of commitment over a period of time, but if done well, the payoff may ultimately stimulate them enough, that they would think more concretely about the possibilities that await them in the international realm.

Regardless of what the motivating factors are that are driving the internationalization process of an organization, it is important for them to consider ways for identifying and reducing risks of any kind. Secondly it is important that the whole process is laid out in such a way that ensures each developmental step becomes a firm foundation for each consecutive step along the way. In this way any barriers that arise can be subjectively investigated to determine whether it is worthwhile for the SME to continue their internationalization process by confronting the barrier or to simply cut their cards and exit the process all together.

2.2 Motivational Reasons for going international

In order to better gauge the success or failure of an organizations ability to go international depends on the types of decisions they are able make. “The organizations strategy is the overall guideline, indicating the direction they need to take in relation to their own wishes and needs of their objectives. If, given a set of specific interests and objectives, they choose the wrong strategy, they will be setting a wrong course from the very start. They would then be lucky to get where we want to go’.” (Ghauri & Usunier 2003, 51). It is therefore important that organizations actions must be tactfully aligned with the strategy.

“Tactics on the other hand, always follow after the strategy, fleshing it out with a concrete line of action. If strategy is the thought, then the tactics are its formulation. Tactics should not be directed towards the objectives, but towards the strategy. For this reason they may sometimes take an unexpected turn, which may appear to be at odds with the general direction we are going. But as long as strategy has been served, the choice of tactics will have been a good one. Nor is the shortest route necessarily the best – sometimes we first need to overcome an obstacle, or work our way around it. Any tactic is suitable, as long as it achieves its aim – ideally of course

with the smallest possible expenditure of time and effort. Tactical action is considerably more flexible than strategy in this regard: it is also correspondingly more versatile and adaptable to changing conditions’.” (Ghauri & Usunier 2003, 51)

In order for organizations to be motivated or driven enough to actually respond tactfully to any particular need, they have to first be able to recognize a need as well as an urge to satisfy it. “A need can be aroused through internal or external stimuli – hunger pangs may originate purely internally if a long time has elapsed since eating, or they may be triggered by external stimuli such as walking past a bakers shop’.” (Nigel & Alexander 2006, 48)

We can, therefore, assume that the extent to which organizations begin involving themselves with internationalization is often unique to that firm and their line of business. The amount of adaptation required of the firm is dependent on the strategy they have in place as well as driving factors either internal (firm-based) or external (environment-based) to the organization as well.

There are two alternative reasons that organizations may choose when they decide to go international, and these alternatives depend solely on whether the organization is initiating or responding to various factors or elements in the process. **Proactive** stimuli denote the firm's interest in exploiting internal strengths or opportunities in domestic or overseas markets, while **reactive** motives exemplify a response to organizational or environmental pressures (Johnston & Czinkota 1982; Pavord & Bogart 1975). TABLE 1 below is a short list that shows several examples of some proactive and reactive motives that organizations may consider when initiating internationalization.

Proactive Motives	Reactive motives
<ul style="list-style-type: none"> • Additional resources: various inputs may be obtained more readily • Lowered costs: factor costs may be lower outside the home country • Incentives: various incentives may be available from the host- or home government to encourage foreign investment in specific locations. • New expanded markets: these may be available outside the home country; excess resources can be utilized in foreign locations • Taxes: differing corporate tax rates and tax systems in different locations provide opportunities for companies to maximize their after-tax worldwide profit. • Economies of scale: national markets may be too small to support efficient production while sales from several combines allow for larger scale production. • Protection of home market through offence in the competitor's home market 	<ul style="list-style-type: none"> • Trade barriers are the major reactive motivation: restrictive trade practices can make exports to foreign markets so the local operations in foreign locations therefore become attractive. • International customers: local operations in foreign locations may be necessary if a company's customer base becomes international and the company wants to continue to serve it. • International competition can cue another major stimulus: if a company's competitors become international and the company wants to remain competitive, foreign operations may be necessary. • Regulations and restrictions imposed by the home government may increase the cost of operating at home; it may be possible to avoid these costs by establishing foreign operations. • Chance occurrence results in a company deciding to enter foreign locations.

TABLE 1. Motivations for internationalization (according to Czinkota et al. 2005)

At this point we should be able to better formulate and understand how various determinates such as a firm's experiences, expertise, size, constructed networks, financial resources and a sleuth of additional factors relating to exchange rates, political influences, economic conditions and the extent to which competing forces limit or present possibilities along the route to going international have various degrees of impact to the firms operations domestically and/or internationally.

Although an organizations motives for going international may be circumstantial, they may be also be the result of an organizations desire to strengthen a strategy already in place or they can be the actual determinates for the development of new strategies or tactics as the firm begins to realize new opportunities as they become more involved internationally.

2.2.1 Proactive motives - Wants or desires

There are various definitions for proactive motives, but here we will provide only two; the first states that “**Proactive** stimuli denotes the firm's interest in exploiting internal strengths or opportunities in overseas markets’.” ((Johnston & Czinkota 1982; Pavord & Bogart 1975). The second is that, “Proactive motives represent stimuli to attempt strategy change, based on the firm’s interest in exploiting unique competences (e.g. a special technological knowledge) or market possibilities’.” (Hollensen 2008, 35). In either case it is interesting to note how they use the words stimuli and motives to explain the same thing.

Proactive motives are interesting because they are not only directly related to a firm’s aspirations but to their motivations and ability to achieve those aspirations as well. It would be unwise to assume that firms which have substantial resources or expertise are the ones who will benefit the most in these matters, the point is they need to know how to also be able to exploit them tactfully in order for a desired outcome to be achieved.

“The gap between perception and reality may be particularly large when the firm has not previously engaged in international marketing activities’.” (Hollensen 2008, 36). The underlying fact is that the business world is changing and these changes are affecting firms of every size and shape. Being proactive should be perceived as an advantageous learning experience where firms are continuously preparing themselves for that crucial moment when an opportunity shows itself, this moment is what they have been preparing for and are more willing with a greater degree of certainty to seize it by the horns. Organizations which want to remain competitive may choose to proactively seek alternative ways that can help ensure their sustainability should global changes affect them.

In his book *Entrepreneur Revolution*, Daniel Priestley (2013, 96) explains this very well when he writes “The first key to luck is that you learn to recognize luck. If you can’t see how lucky you are already you will be blind to any good fortune that shows up in the future’.” It can be assumed that luck can therefore be cultivated and that firms may already have limitless possibilities, but, if they are not sufficiently prepared to recognize or react to them may be a fault of their own choosing. According to a research conduct-

ed by VTT in 2012 reveals that, “the ability to absorb, reconfigure and exploit relevant knowledge is increasingly recognised as a key to a company’s overall business strategies, especially to its knowledge and innovation activities’.” (VTT 2012, 3)

2.2.2 Reactive motives – Musts and Needs

“**Reactive** motives exemplify a response to organizational or environmental pressures’.” (Johnston & Czinkota 1982; Pavord & Bogart 1975). Another description is that “reactive motives indicate that the firm reacts to pressures or threats in its home markets or foreign markets and adjusts passively to them by changing its activities over time’.” (Hollenesen 2008, 35)

Reactive motives are possibly more interesting of the two motives because of the extent to which external circumstances have the potential to influence an organizations operations and decisions. Knowing how to react may actually be hard to quantify because various environmental factors generally will not affect every industries and firm in a linear fashion. This is not to imply that these influences are either good or bad but rather that firms must be able to recognize them for what they are and what relevance they present to their operations in the long run.

“In addition to cultural and economic diversity, international markets are characterized by rapid rates of change (Craig and Douglas, 1996a). This pervades all aspects of human life and business activity. Not only are rates of technological change and knowledge obsolescence accelerating and transforming the competitive landscape, but also unforeseen events are changing the political and economic context of international markets. At the same time, rapid social and economic change is taking place, fuelled in part by advances in communication technology which shrink distances and stimulate greater awareness and cross-fertilization of ideas, attitudes and lifestyles across the mosaic of the international market place’.” (Craig and Douglas 2000, 8)

We can all think of at least one situation in our personal lives which made us re-evaluate whether or not it was worth changing the way we were acting or behaving. Buying gasoline from various petrol stations is a prime example; if there was a price war between

two petrol stations consumers may reactively be motivated to purchase their gasoline from whichever station sold them gasoline cheapest, regardless of make or brand.

Reactive motives generally relate to the relevant actions firms make in response to what they perceive as threats and/or opportunities. The underlying motives for reacting to the various threats or opportunities are unique to each firm and how they may strategize their long term goals. In SECTION 2.5 we will look at some tools such as the SWOT analyses to help better help identify some of these situations. “The SWOT Analyses attempts to identify a set of internal and external factors (SWOT attributes) which help the firm to understand its stand in the external environment that it operates in’.” (jyoti-ranjanpadhi 2008). It is therefore imperative that organizations will have to react to ever an ever increasing amount of challenges that arise due to various changes happening on a global scale.

2.3 Choosing target markets

Identifying and choosing the proper markets may be easier to anticipate if firms have specific and predetermined prerequisites in mind. No matter what motivations a firm has for beginning any type of market research it is imperative that they meticulously conduct such research in a methodical way. They must understand that there are numerous variables forces involved and should therefore not make hasty decisions based on the results of only one or two findings until they have sufficiently investigated the soundness of their findings from several perspectives.

“In collecting information for initial market entry decisions, management needs data at two different levels. In the first place, management needs information relating to the general business environment in a country or region, for example the political situation, financial stability, the regulatory environment, market size and growth as well as the market infrastructure’.” (Craig and Douglas 2000, 11-12)

The process for choosing target markets varies. There is no specific recommendation on how organizations must go international. There is however; an order to the process that generally begins by focusing on certain aspects of a market via the collecting of primary and secondary data relevant to that market. The second step involves the evaluation of

the data to determine whether or not it is even feasible for an organization to further consider internationalizing in that market or not. Once the data has been evaluated organizations can then better strategize their mode of entry into that market.

“As the firm moves into the phase of global rationalization, it faces new information requirements as well as the need to make more effective use of data already collected. Secondary data that helped guide country entry decisions should now be used to monitor changes in the firms operating environment. Countries that were stable politically, or welcomed foreign investment at one time, can become unstable or hostile to foreign investment. Economic growth can slow down or alternatively accelerate. Inflationary pressures may rise, and the foreign exchange rates fluctuate. Similarly, information about consumer tastes and preferences gathered on a country by country basis needs to be consolidated, to identify commonalities across countries as well as emerging trends’.” (Craig and Douglas 2000, 13)

There are numerous tools available that help organizations measure various aspects of the potential markets. The question any organization should ask them-selves is what criteria do they intend to use to identify the attractiveness of a market, this in turn may help them to figure out what kinds of tools and information they will need as well as what path they will follow to actualize their international intentions.

2.3.1 Market Screening

The most common way organisations seek to identify external environmental forces is to scan (screen) potential environments and conduct brain storming sessions. Utilizing this approach can help them to quickly assess the market at a glance. “Even when a basic need is clearly indicated, experienced researchers will still investigate the trade flows to have an idea of the magnitude of present sales and Import data do enable the firm to know how much is being currently purchased and provide a manager with the conservative estimate of the immediate market potential at the going price’.” (Ball [et. al] 2010, 430)

There are possibly two alternatives to market screening. The first of which classifies countries as homogeneous units (country screening) and the other classifies groups of people who have particular similarities in common with one another within and throughout any particular market (segment screening). Market screening is the term specified for this type of approach. According to Ball [et. al] (2010, 428), “country screening, takes countries as the relevant unit of analyses. The second which we might call segment screening, is based on a subnational analyses of groups of consumers’.” (Ball [et. al] 2010, 430)

“Market screening is a method of market analysis and assessment that permits management to identify a small number of desirable markets by eliminating those judged to be less attractive. This is accomplished by subjecting the markets to a series of screenings based on the environmental forces. Although these forces may be placed in any order, the arrangement suggested in the figure below is designed to progress from the least to the most difficult analysis based on the accessibility and the subjectivity of the data. In this way, the smallest number of candidates is left for the final, most difficult screening’.” (Ball [et. al] 2010, 428)

To better illustrate and make visual the various stages involved with internationalization and how organizations can respond to them is best depicted below (FIGURE 2). The idea is to formulate a plan of attack and organize the various stages in an order that makes the most challenging aspects the first to be considered. The task is to evaluate the most critical element(s) and try to formulate the extent to which they impact the direction the organization wishes to take while internationalizing. If the investigation results in favourable outcomes then the organization can then move on to the next level of objectives and continue the same way there as well. However; if during the process the organization realizes that the risks and uncertainties are insurmountable, then they can decide to withdraw from the internationalization process altogether. The point is that if done right, this process can systematically enable organizations to conduct their investigations in a more focused perspective, resulting in more control and possibly better management.

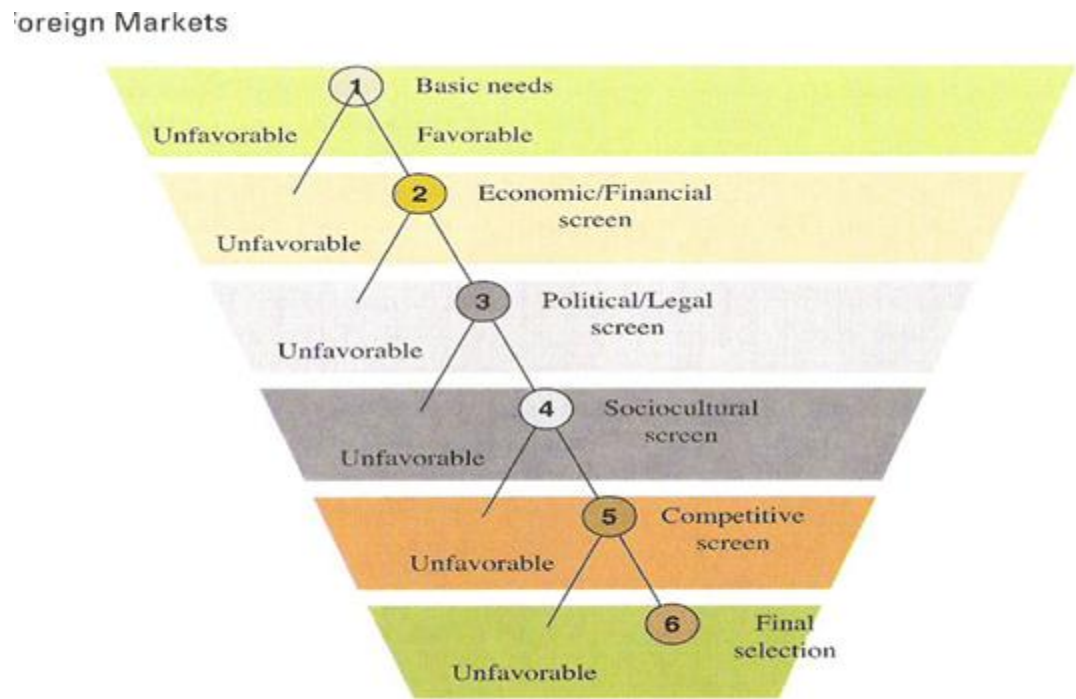


FIGURE 2. Market screening procedures. (Ball [et. Al] 2010, 429, modified)

Internationalization can be achieved by firms of all sizes and shapes, it does not really matter. One thing is quite certain though, and that is organizations generally want to expand to gain more profits, and to do so in the cheapest and most efficient way possible.

“Market screening assists two different kinds of organizations. One is selling exclusively in the domestic market but believes it might increase sales by expanding into overseas markets. The other is already a multinational, but wants to avoid missing potential new markets. In both situations, managers require an ordered, relatively fast method of analysing and assessing the nearly 200 countries (and market segments within the countries) to pinpoint the most suitable prospects’.” (Ball [et. al] 2010, 428)

2.3.2 Evaluating determinates of a market

At this point and stage it is important for us to keep in mind that a firms motives for going international do not necessarily mean that the firm could actually go international. Motives are basically the driving reasons firms may try to go international whereas **en-**

environmental forces (TABLE 2) relate to all the forces influencing the life and development of the organization.

“These forces themselves can be classified as external or internal. The external forces are commonly called **uncontrollable forces**. Management has no control of uncontrollable forces although it can exert influences such as lobbying for a change in a law and heavily promoting a new product that requires a change in a cultural attitude’.” (Ball [et. al] 2010, 23)

<p style="text-align: center;">Potential Internally related determinants For choosing a foreign market</p>	<p style="text-align: center;">Potential Externally related determinants For choosing a foreign market</p>
<p>Internal factors which are or can be influenced and controlled by the organization.</p> <ul style="list-style-type: none"> • Nature of business • Organizational structure • Organizational strategies • Motivations and goals • Competence of personnel • Previous experiences • Availability of resources • Innovativeness • Relationship networks • Overproduction, surplus of goods • Domestic market is too small 	<p>External factors (domestic and/or foreign) which are often uncontrollable by the organization. The effect of each may differ according to Market, Industry or product/service in question.</p> <ul style="list-style-type: none"> • Political • Economical • Social/cultural • Technological • Legal • Environmental (green, eco-friendly) • Availability of resources • Competition

TABLE 2. Potential determinants in the selection of foreign markets.

“The elements for which management does have some control are the internal forces, such as production (capital, raw materials, people) and the activities of the organization (personnel, finance, production and marketing). These are the **controllable forces** management must administer in order to adapt to changes in the uncontrollable environmental variables’.” (Ball [et. al] 2010, 23)

One very common framework model used to help identify the environmental (external) forces is the PEST or PESTLE analyses. This model segments the external uncontrollable forces of a market into Political, Economic, Social, Technical, Legal and Environmental categories (TABLE 3). When evaluating these forces it is imperative that each of the factors is assessed to determine the level of risk each category presents to the organisation in question.

Politics	<ul style="list-style-type: none"> • Type of governance and policy • Support through initiatives, grants and additional funding • Easing of trade barriers
Economic	<ul style="list-style-type: none"> • Rate of inflation, interest rates • Exchange rates • Labor costs
Social	<ul style="list-style-type: none"> • Population, education, media • Lifestyles, fashion, culture
Technology	<ul style="list-style-type: none"> • Emerging technologies, Web • Information and communication
Legal	<ul style="list-style-type: none"> • Regulations and standards • Employment laws
Environment	<ul style="list-style-type: none"> • Weather, green and ethical issues • Pollution, waste, recycling

Table 3. External determinants to the internationalization process. According to: (Investment in Stocks 2014, modified)

2.4 Market risks and entry barriers

According to Hollensen (2008, 42-43) there are three primary risk categories associated with the internationalization process. These three categories pertain to general market risks (TABLE 4), commercial risks (TABLE 5), as well as political risks (TABLE 6).

General market risks

- Comparative market distance
- Competition from other firms in foreign markets
- Differences in product usage in foreign markets
- Language and cultural differences
- Difficulties in finding the right distributor in the foreign market
- Differences in product specifications in foreign market
- Complexity of shipping services to overseas buyers

TABLE 4. General Market Risks (according to Hollensen 2008, 42-43)

Commercial risks

- Exchange rate fluctuations when contracts are made in a foreign currency
- Failure of export customers to pay due to contract dispute, bankruptcy, refusal to accept the product or fraud
- Delays and damage in the export shipment and distribution Process
- Difficulties in obtaining export financing

TABLE 5. Commercial Risks (according to Hollensen 2008, 42-43)

Political Risks

- Foreign government restrictions
- National export policy
- Foreign exchange controls imposed by host governments that limit the opportunities for foreign customers to make payment
- Lack of governmental assistance in overcoming export barriers
- Lack of tax incentives for companies that export
- Confusing foreign import regulations and procedures
- Complexity of trade documentation
- Enforcement of national legal codes regulating exports
- Civil strife, revolution and wars disrupting foreign markets
- High value of domestic currency relative to those in export markets
- High foreign tariffs on imported products

TABLE 6. Political Risks (According to Hollensen 2008, 42-43)

It is quite evident that there are inherent risks to each international process. Risks present uncertainty and are therefore major determinants to the process. These risks, also

seen as barriers do not have a linear affect to all organisations because their influence may vary according to the specificity of industry, market and country in question. It is up to the organization to recognize and identify the risks and barriers which affect their operations. As is often the case, organization's may have to find unique ways to align themselves with the requirements presented by these risks and barriers and therefore must continuously update their tactics or even strategies to counter these demands and to be aware of any changes in the future as well.

2.5 Tools for measuring and identifying potential markets

To help measure and identify the attractiveness of any one market, organizations can utilize several business models which can help facilitate more understanding. These models are merely frameworks that are used to help identify and give an organization better understanding of their particular business environment. Such examples of these framework models can pertain to the business environmental risk index, the Boston Consulting Group matrix, SWOT analyses and the PESTEL analyses.

In this section we will talk about the SWOT and PESTEL (PEST) analyses because organizations can use them in the initial stages of internationalization to better evaluate the effects of markets in relation to their own operations. "It may be so, that the importance of each of the factors may be different to different kinds of industries, but it is imperative to any strategy a company wants to develop that they conduct the PESTLE analysis as it forms a much more comprehensive version of the SWOT analysis'." (Investment in Stocks 2014)

The SWOT analyses model is used when organizations want to identify and exploit their strengths and weaknesses in a way that allows them to use them as means of leverage on potential opportunities and to minimize or thwart threats to their advantage (FIGURE 3). "SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and Weaknesses are the internal factors – Opportunities and Threats being the external ones. In this case factors and forces, regardless of whether they are internal or externally imposed, are one and the same'." (jyotiranjapadhi 2008)

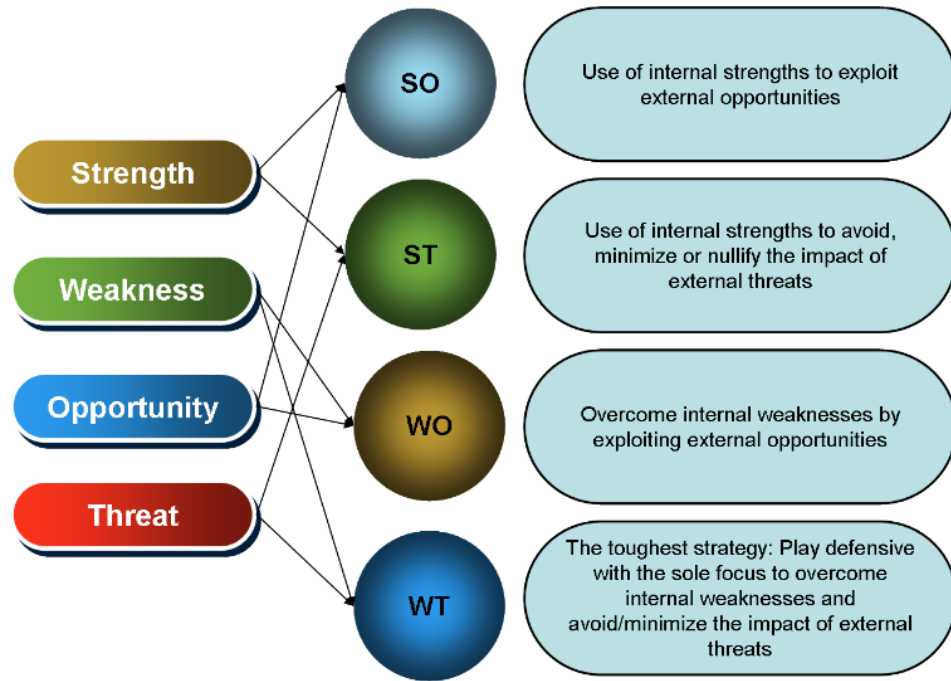


FIGURE 3. The SWOT Analyses in practice. (jyotiranjanpadhi 2008)

According to jyotiranjanpadh (2008), typical to any strategy framework, a SWOT matrix has its own set of limitations

- A SWOT analysis is a stand-alone and one off analysis and becomes obsolete with every change (s) in the internal and external operating environments;
- A SWOT analysis answers the what's but keeps mum on the whys and hows; and
- Since the analysis is non-relative, it prompts the strategist to overemphasize/underemphasize the different SWOT attributes

Utilizing the SWOT analyses in conjunction with the PEST or PESTLE analyses (FIGURE 4) forms a kind of mind map for the organisation and is often used to highlight the most critical factors that can help determine with more efficiency which strategies or tactics they should apply to their international processes. The concept is to correlate each of the critical environmental forces presented in the PESTEL analyses to determine where the strengths and weaknesses of the organization lie. FIGURE 4 below, shows a visual depiction of this concept in use.

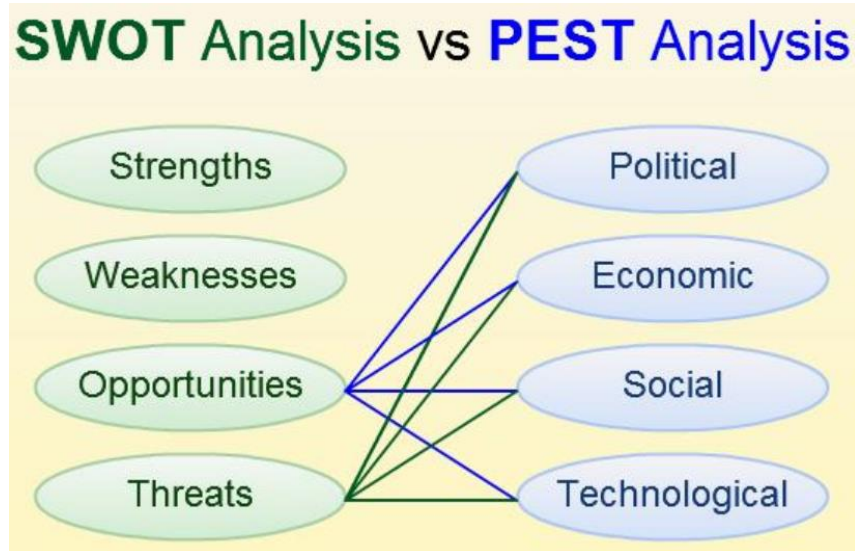


FIGURE 4. SWOT can be used in correlation with PEST and PESTAL (Ygraph)

An example that can better demonstrate the results of the SWOT and PESTEL analyses in conjunction with each other, can be better visualized in the figure below (FIGURE 5). The results are of course unique to each organization because they each may have differing industries, operational structures well as additional forces making them different from one another. The point is to try to find out where your organizations strengths and weaknesses exist in relation to the external forces.

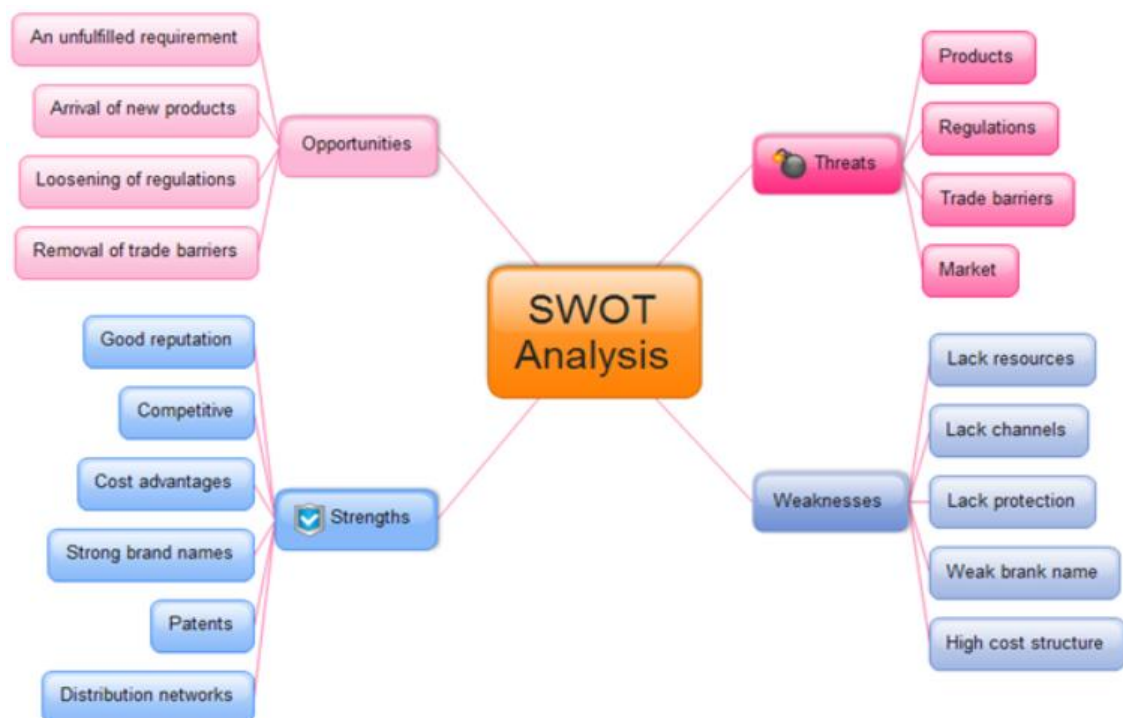


FIGURE 5. The SWOT Analyses when used in conjunction with PESTEL. (Edraw)

Throughout the process, organizations will find that it is generally much cheaper and less time consuming if they can quickly recognize which of the environmental forces have the potential to directly affect their ability to internationalize. This requires intricate knowledge of how these factors are interrelated to one another and the accumulative composition of these relationships relates to the various internal factors controlled by an organization and external factors beyond the organizations control.

”In the complex, diverse and continually changing international environment, marketing research assumes a vital role in helping management keep abreast and in touch with developments in far-flung markets throughout the world. Research aids in assessing where the best opportunities lie, where and how to enter new markets and expand operations, how to develop the most effective marketing strategies to operate in these diverse environments, and how to tailor strategy to the continually changing global landscape’.” (Craig & Douglas 2000, 4)

The initial stages of the internationalization process are indeed quite complex and the degree to which SMEs must acquire external assistance is dependent on their level of internationalization and international experiences. As organizations become familiar with various aspects of the internationalization process they may over time choose to internalize some of the services they had previously outsourced if they feel that their knowledge of those particular aspects is sufficient.

2.6 Entry Modes

Entering foreign markets is possibly the greatest challenge for organizations because it is basically dependant on how well organizations are structured themselves and how well they are able to align their strategies with the demands presented by the external environments. In Figure 6 we can more readily recognize that, “The entry mode is essentially influenced by four determinant groups relating to internal factors, desired mode characteristics, transaction specific behaviours and external factors’.” (according to Hollensen, 2008).

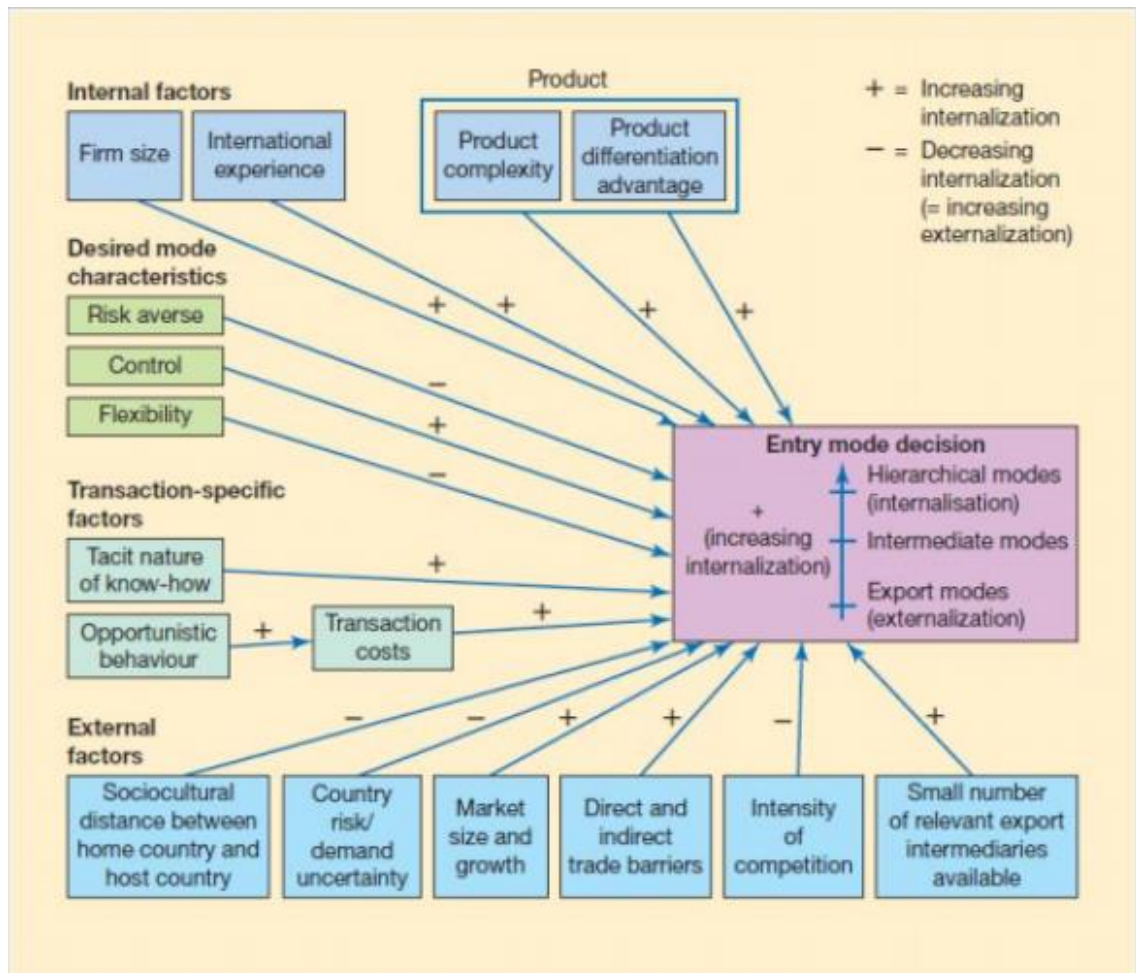


FIGURE 6. Factors influencing an organizations choice of entry (Hollensen 2008)

As organizations get more involved in the internationalization process they may use several modes of entry. The varying degrees of entry relate to...

- Licencing, franchising, contract
- Indirect export (via agents or distributors)
- Export with own representative or sales subsidiary
- Local packaging/assembly activities
- Strategic alliances
- Foreign direct investment in the shape of, for example, joint ventures
- Merger and acquisition
- Whole owned subsidiary investment

(Suder 2009, 58-59)

As you can see there are various levels of involvement organizations can take when going international. The easiest and possibly the fastest way to begin internationalizing is by starting exportation using the help of external expertise, in this way the organization can learn about various markets via their external networks. As knowledge and understanding increases the organization may choose to become more and more involved in the internationalization and therefor start doing for themselves the services they had initially paid others to do.

3 HARMONIZED SYNCHRONIZATION (HS CODE)

What is the HS code and what is it used for? Before delving into the definition aspects of what HS stands for it is important for the reader to first understand that the processes involved in importing and exporting are very complex. In fact many organizations think that the most difficult aspects of any internationalization process are based on the physical (psychic) distance or cultural differences imposed by different market regions. This perspective has recently been questioned and it appears that the *political* aspects of any internationalization process may be one of the most critical determinates which organizations need to consider during or even before the initial stages of any market research gets underway.

According to a dissertation done by Tor Korneliussen (2005) it states that "For firms considering an initial entry into international markets, the implication is that psychic distance may not be a good predictor of export barriers. Firms considering an initial entry should rather consider that export barriers in individual countries appear to be industry specific. Rather than using rules of thumb such as "the lower the psychic distance, the lower the export barriers", they should investigate the structure of export barriers met within their particular industrial sector before deciding to enter'." (Korneliussen 2005, 97)

3.1 Significance of the HS code

In a nutshell what does the HS do? The HS coding system does only one simple thing and that is to give everything that exists in this world, every product that exists in this world is given a number. This number (formally known as the harmonized system number) is not a bar code, in fact it's completely different to bar codes. The HS code is a standard number accepted throughout the world and is specific to every product regardless of whether it is imported or exported. The specific HS code for each product remains the same regardless of where the product is classified, it is the same in Canada, Brazil, China (to name just a few countries) it doesn't matter where because it is still the same number. As of October 17, 2011 there were 206 countries or territories that applied the Harmonized coding system. If you contact a clearing agent to determine whether or not you are permitted to import or export a product, the first question he is

most likely to say to you is, what's the HS code. You can not import or you can not export anything without the HS code. Understanding the HS system may seem quite complex and have many sets of rules, but it's important. The most common reason why importers pay the incorrect duty when they import goods, the most important reason, is because they have got the wrong HS code. Therefore it is important that organizations understand the HS coding system and learn how to access the correct HS code. (according to Audiopedia 2014)

3.1.1 Purpose of the HS Coding system

HS is important for importers and exporters alike because it is a mandatory and legal obligation that is required of any importer under the foreign trade regulations and must be present and visible on export documents. Government agencies around the world are utilizing the standardized HS system. HS codes are compiled for statistical data gathering and collection purposes, they are also utilized as a means for determining which duties or tariffs (if any are applicable) will be applied to any particular product or service crossing international borders.

To be more precise, the HS code makes it easier for governmental bodies to more quickly ascertain the following procedures in relation to a particular good or service. Some of the pointers listed below are used at the international level while others may only be used for domestic reasons. Due to the fact that the HS code is standardized, makes it much easier and quicker for any governmental body to access data relevant to their needs. The list below shows the main reason HS codes are used.

- customs tariffs Collection
- international trade statistics
- Rules of origin
- Collection of internal taxes
- Trade negotiations
- Transport tariffs
- Statistics Monitoring of controlled goods

3.1.2 Countries, territories or regions utilizing the HS system

According to the World Customs Organization, here is their list of 207 countries, territories or customs or economic unions applying the Harmonized System (TABLE 7).

151 Contracting Parties (150 countries and the European Union)

Afghanistan (Islamic Republic of) x	Cook Islands	x
Albania +	Costa Rica	+
Algeria +	Côte d'Ivoire	+
Andorra +	Croatia	+
Angola +	Cuba	+
Antigua and Barbuda x	Cyprus	+
Argentina +	Czech Republic	+
Armenia +	Democratic Republic of the Congo +	
Australia +	Denmark	+
Austria +	Djibouti	x
Azerbaijan +	Dominica	x
Bahamas +	Dominican Republic	+
Bahrain +	Ecuador	+
Bangladesh +	Egypt	+
Barbados x	El Salvador	x
Belarus +	Equatorial Guinea	x
Belgium +	Eritrea	+
Belize x	Estonia	+
Benin +	Ethiopia	+
Bermuda x	Fiji	+
Bhutan +	Finland	+
Bolivia +	France	+
Bosnia and Herzegovina +	Gabon	+
Botswana +	Gambia	x
Brazil +	Georgia	+
China +	Germany	+
Colombia +	Ghana	+
Comoros +	Greece	+
Congo (Republic of the) +	Grenada	x

Continued on next page

Guatemala	+	Mexico	+
Guinea	+	Micronesia	x
Guinea-Bissau	+	Moldova	+
Guyana	x	Mongolia	+
Haiti	+	Montenegro	+
Honduras	x	Morocco	+
Hong Kong, China	x	Mauritius	+
Hungary	+	Mauritania	+
Iceland	+	Mozambique	+
India	+	Namibia	+
Indonesia	+	Nepal	+
Iran (Islamic Republic of)	+	Netherlands	+
Ireland	+	New Caledonia (French Terr.)	x
Israel	+	New Zealand	+
Italy	+	Nicaragua	x
Jamaica	x	Niger	+
Japan	+	Nigeria	+
Jordan	+	Niue	x
Kazakhstan	+	Norway	+
Kenya	+	Oman	x
Kiribati	x	Pakistan	+
Korea (Republic of)	+	Palau	x
Kuwait	+	Panama	+
Kyrgyzstan	+	Papua New Guinea	+
Lao People's Democratic Republic	x	Paraguay	+
Latvia	+	Peru	+
Lebanon	+	Philippines	+
Lesotho	+	Poland	+
Liberia	+	Polynesia (French Terr.)	x
Libya	+	Portugal	+
Liechtenstein	x	Qatar	+
Lithuania	+	Romania	+
Luxembourg	+	Russian Federation	+
Macau, China	x	Rwanda	+
Madagascar	+	Saint Kitts and Nevis	x
Malawi	+	Saint Lucia	x
Malaysia	+	Saint Pierre and Miquelon (French Terr.)	x
Maldives	+	Saint Vincent and the Grenadines	x
Mali	+	Samoa	x
Malta	+	Sao Tome and Principe	+
Marshall Islands	x	Saudi Arabia	+

Continued on the next page

Senegal	+	Togo	+
Serbia	+	Tonga	x
Seychelles	x	Trinidad and Tobago	x
Sierra Leone	x	Tunisia	+
Singapore	+	Turkey	+
Slovakia	+	Turkmenistan	x
Slovenia	+	Tuvalu	x
Solomon Islands	x	Uganda	+
South Africa	+	Ukraine	+
South Sudan	x	Union of Myanmar (Republic of the)	+
Spain	+	United Arab Emirates	+
Sri Lanka	+	United Kingdom	+
Sudan	+	United States	+
Suriname	x	Uruguay	+
Swaziland	+	Uzbekistan	+
Sweden	+	Vanuatu	x
Switzerland	+	Venezuela	+
Syrian Arab Republic	+	Viet Nam	+
Tajikistan	+	Wallis and Futuna (French Terr.)	x
Tanzania	+	Yemen	+
Thailand	+	Zambia	+
The Former Yugoslav Republic of Macedonia		Zimbabwe	+
+		European Union (EU)	+
Timor-Leste	x		

Andean Community (CAN)	+x
Caribbean Community (CARICOM)	+x
Common Market for Eastern and Southern Africa (COMESA)	+x
Commonwealth of the Independent States (CIS)	+x
Economic and Monetary Community of Central Africa (CEMAC)	+x
Economic Community of Western African States (ECOWAS)	+x
Gulf Co-operation Council (GCC)	+x
Latin American Integration Association (LAIA)	+x
Southern Cone Common Market (MERCOSUR)	+x
West African Economic and Monetary Union (UEMOA)	+x
Notes :	
+ Acceptance (i.e., Contracting Party to the Harmonized System Convention).	
x Indicates application only.	
+x Some Members are Contracting Parties to the Harmonized System Convention.	

TABLE 7. List of Contracting Parties to the HS Convention and countries using the HS (According to WCO)

A few questions we should be asking ourselves right now about HS, relates to its functionality. The HS coding system has been in development now for around 100 years but the latest accepted criteria have been accepted and in effect since 1998. **The World Customs Organization** (WCO), an independent governmental organization based in Brussels Belgium is responsible for developing and maintaining the system.

HS in short is an internationally standardized system which classifies all traded products by way of names and numbers. The universal **HS code** more formally referred to as a Harmonized System Number or **commodity code**, consists of a 6 digit import/export code based on the international Harmonized Synchronization (HS) coding system.

Customs officials worldwide use the commodity code to identify all products (goods) being transferred into or out of their territory. The HS coding system utilizes specific provisions and wording for each of the commodity codes. Numbering and coverage (provisions or descriptors) are internationally agreed upon and subject to periodic changes. Officially these changes are published within the latest updated version. These updates occur every five years, the last revised changes have been implemented as of 2012, the next revisions are scheduled to take place sometime in 2017.

There are General Rules of Interpretation (GRIs) for the HS commodity coding system. The classification of goods is quite consistent amongst countries using the HS, but there is always the possibility however, that differences may be arise because each country or region may aspire to their own judicial- or customs rulings or national legislation.

At this point it is important to formulate an understanding of the HS system in relation to how it is being utilized. The commodity code is used at an international level whereas the tariff code although quite similar is used only at the national level. These two classifications serve two very different and distinct purposes. First off, the universally agreed upon commodity codes are found and defined in a document called the **HS Nomenclature 2012 Edition**. This document is provided by the WCO and not only used but also recognized internationally (universally); its purpose is to simply attribute a specific standardized HS commodity code to all goods or services imported and exported worldwide (these codes generally are not used for taxes or tariffs). The second type of classification is called Combined Nomenclature codes which are found in documents

(schedules) relating to *Tariff Schedule*. Tariff schedules are used by independent countries, territories or regions to specify what tariffs, taxes, customs fees, or even restrictions they will assess for each good or service entering their borders.

From the above explanation it is important that you know the difference between these two documents as well as the difference in the codes classification names (commodity code, tariff code), it will help you as we move on. At this moment you should anyhow be able to formulate from the above explanation that there is only one relevant HS Nomenclature document (provided by the WCO) and numerous Tariff Schedules (provided by independent nations or territories) in use today. In short commodity codes are used at the universal level whereas tariff codes are used at the national level.

3.1.3 Structure of the HS coding system

The HS commodity coding system is a hierarchical system of product description, in which goods are classified “from the top down”. There are presently 99 chapters which make up the HS coding system. These 99 chapters are broken down into 21 different sections. These along with the General Rules of interpretation (GIR) and the legal notes to each of the chapters and sections, form the legal text of HS.

The HS coding system has specific provisions for the various digits which make up the commodity code. Knowing how to classify goods or products very much depends on the form and function of the goods or products being classified. A typical commodity code is made up of six-digits, an example commodity code can be observed below (FIGURE 7).

010121

FIGURE 7. An example of the six digit HS code (commodity code)

The six digit commodity code as the one shown in FIGURE 7 above is actually a formulation of three sets of numbers. Each of these three sets of numbers has special provisions which help classify and describe the form and function of the goods or products in question. The names and order of these different levels are depicted as *Chapter*, *Heading*, and *Sub-heading* codes (FIGURE 8).

Chapter	Heading	Sub-heading
<u>01</u>	<u>01</u>	<u>21</u>

FIGURE 8. Breakdown of the six digit HS code (commodity code)

Many of the chapters begin their classification with the main structure of an item or basic raw materials which best describe the form or function of any goods or products being classified. The chapters then progress to manufactured or more definitive descriptors of the articles; these are found later in the chapter by utilizing the Headings and Sub-headings.

Although the HS system is recognized as a universal standard, the descriptive classification of various goods or products is subject to interpretation by various custom agencies around the world; this means that each country, territory or region may add additional digits to the end of the universal HS code (commodity code) for their own purposes and define goods and services to their own interpretations. These additional digits make up the Tariff code. The tariff code is better known as and referred to as the **Combined Nomenclature** (CN) code. The CN code is required to more definitively classify products and services to more efficiently evaluate various tariffs, duties and other data collection purposes for each individual country, territory or region. The universal HS system is merely a tool to help formulate the best commodity code classification possible.

If there is ambiguity (meaning that you are confused) on how you should classify an item, may make it necessary that you contact a customs agency and have them help clarify the classification according to their own interpretation. This request is typically done electronically and is called Binding Tariff Information (BTI) ruling. The BTI provides the following information for you:

- the correct commodity code or even Tariff code for your products or services
- a detailed description of your goods, enabling any customs agency to identify them
- legal justification for the decision TCS has reached (interpretation)

This process may take several months so be prepared. Additionally it is extremely important for you to know that a BTI can only be obtained before any customs procedures take place. Your request may be refused altogether if you:

- do not plan to import or export the goods in question
- have already made a similar application in another EU member state
- cannot provide complete information about your goods classified.

Now that we have been given a basic introduction to the different parts of the commodity code (Chapter, Heading and Sub-heading) we will now take a look at the actual HS Nomenclature 2012 Edition as provided by the WCO. This document is the universally accepted base document that is used to help classify goods and services. This document is used to help classify a commodity code to any product or service worldwide.

The HS Nomenclature 2012 Edition document consists of 99 chapters that are split into 21 sections. Below is a list of the 21 relative sections utilized in the latest published version.

- **SECTION I** - LIVE ANIMALS; ANIMAL PRODUCTS
- **SECTION II**- VEGETABLE PRODUCTS
- **SECTION III** - ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES
- **SECTION IV** - PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES
- **SECTION V** - MINERAL PRODUCTS
- **SECTION VI** - PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES
- **SECTION VII** - PLASTICS AND ARTICLES THEREOF; RUBBER AND ARTICLES THEREOF
- **SECTION VIII** - RAW HIDES AND SKINS, LEATHER, FURSKINS AND ARTICLES THEREOF; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTHER THAN SILK-WORM GUT)
- **SECTION IX** - WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK
- **SECTION X** - PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD; PAPER AND PAPERBOARD AND ARTICLES THEREOF

- **SECTION XI** - TEXTILES AND TEXTILE ARTICLES
- **SECTION XII** - FOOTWEAR, HEADGEAR, UMBRELLAS, SUN UMBRELLAS, WALKING-STICKS, SEAT-STICKS, WHIPS, RIDING-CROPS AND PARTS THEREOF; PREPARED FEATHERS AND ARTICLES MADE THEREWITH; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR
- **SECTION XIII** - ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE
- **SECTION XIV** - NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL AND ARTICLES THEREOF; IMITATION JEWELLERY; COIN
- **SECTION XV** - BASE METALS AND ARTICLES OF BASE METAL
- **SECTION XVI** - MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES
- **SECTION XVII** - VEHICLES, AIRCRAFT, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT \
- **SECTION XVIII** - OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES THEREOF
- **SECTION XIX** - ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF
- **SECTION XX** - MISCELLANEOUS MANUFACTURED ARTICLES
- **SECTION XXI** - WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES

As we can see, this list of sections is quite extensive, especially if you consider that there are still another 99 additional chapters and their related Headings and Sub-headings to go along with them.

In the past much of the work to finding commodity codes was tedious because it was for the most part in paper form and often required external consultation to figure out. Today we have the advantage of using the World Wide Web to access much of the information we need. With this thought in mind we will look at the WCO's web site in order to help familiarize ourselves with actual content that is relevant to this work.

If we take at the HS Nomenclature (FIGURE 9), we can find the first two sections (SECTION I and SECTION II) of the HS Nomenclature 21012 Edition (universal level). There are of course 19 more sections available in this document but for the sake of

this work we will primarily focus our attention only to SECTION I. We are focusing on this section because the idea is simply to introduce you to the Chapters, headings and the Sub-headings of each section and then show how they are utilized in the classification of goods or products to get a relevant HS code (commodity code). Looking closely at the HS Nomenclature (FIGURE 9), we can see under the SECTION I category that this section contains five chapters (Chapters 1 through 5). On the right side of each chapter there is a link (in blue color) which will open a new web page showing the various descriptors that are relevant to the Headings and Sub-headings of that chapter.

The screenshot shows the World Customs Organization website. The main content area is titled "HS Nomenclature 2012 Edition". Below the title is a "Table of Contents" section. The table lists various sections and their corresponding HS codes. The table is as follows:

Table of Contents	
Abbreviations and symbols	ABBREV-2012E
General Rules for the interpretation of the Harmonized System.	0001-2012E GIR
SECTION I LIVE ANIMALS; ANIMAL PRODUCTS	
Section Notes.	0100-2012E
1 Live animals.	0101-2012E
2 Meat and edible meat offal.	0102-2012E
3 Fish and crustaceans, molluscs and other aquatic invertebrates.	0103-2012E
4 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	0104-2012E
5 Products of animal origin, not elsewhere specified or included.	0105-2012E
SECTION II VEGETABLE PRODUCTS	
Section Note.	0200-2012E
6 Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage.	0206-2012E
7 Edible vegetables and certain roots and tubers.	0207-2012E
8 Edible fruit and nuts; peel of citrus fruit or melons.	0208-2012E
9 Coffee, tea, maté and spices.	0209-2012E
10 Cereals.	0210-2012E

FIGURE 9. Showing, SECTION I and SECTION II, of the HS Nomenclature with relevant Chapters and links to appropriate Headings and Sub-headings on the right. (Source: WCO)

If you were to click on the link to the right of Chapter 1 – LIVE ANIMALS ([0100-2012E](#)), (Shown in Figure 9) you would notice that it will open a new web page which

should resemble the one below (FIGURE 10). From this example you should be able to ascertain by looking at the HS code (commodity code) for a horse that is classified as a pure-bred breeding animal is given a descriptive HS code of 0101.21.

Chapter 1

Live animals

Note.

1.- This Chapter covers all live animals except :

- (a) Fish and crustaceans, molluscs and other aquatic invertebrates, of heading 03.01, 03.06, 03.07 or 03.08;
- (b) Cultures of micro-organisms and other products of heading 30.02; and
- (c) Animals of heading 95.08.

Heading	H.S. Code	
01.01		Live horses, asses, mules and hinnies.
		-Horses :
	0101.21	-- Pure-bred breeding animals
	0101.29	-- Other
	0101.30	- Asses
0101.90	- Other	
01.02		Live bovine animals.
		- Cattle :
	0102.21	-- Pure-bred breeding animals
	0102.29	-- Other
		- Buffalo :
	0102.31	-- Pure-bred breeding animals
	0102.39	-- Other
0102.90	- Other	

FIGURE 10. Showing the relevant Headings and Sub-headings pertaining to Chapter 1 - Live Animals. (Source: WCO)

Obtaining this commodity code offers us two major benefits, first of which relates to the fact that this HS code (commodity code) should be the same in every country or territory utilizing the HS system, secondly this commodity code can be used in figuring out classifications for CN codes to figure out which duties, tariffs or restrictions are placed on this horse in any one market area should you want to sell it to someone in a foreign country. We will explain how this commodity code relates to tariff codes later on. (SECTION 3.2)

To sum up, our initial 6-digit commodity code now has meaning in relation to our pure bred horse and at this point you should already be able to understand the significance of

the Chapters, Headings and Sub-headings. Below (FIGURE 10) we can better visualize the breakdown and agree that the structure of the commodity code is indeed hierarchically structured in a top down fashion.

HS Commodity code

01 01 21

FIGURE 11. The commodity code for a pure bred horse, defined in top-down fashion.

In the above visual (FIGURE 11), the first two-digits (in red) say that this product is best classified by using Chapter 01 (signifying that this is a live animal), The second set of digits (in blue) say that this product is best classified by using Heading 01 (signifying that this is a horse), and the last set of digits (in yellow) say that this product is best classified by Sub-heading 21 (signifying that this product is a pure-bred).

The World Wide Web is a treasure trove for getting relative data quite quickly. One online web site which is very useful can be found in the link after this paragraph. Utilizing this link is actually quite fun and helps generate better and quicker understanding of the universal 6-digit commodity codes. ([Foreign Trade 1999-2015](#))

Let us now do a little practice. Below (FIGURE 12) you will notice that there are a few examples of various goods or products along with their relevant commodity code. It would be well if you can access the link above as well as the WCO's web page link at the end of this paragraph to test your own knowledge and find out whether or not the descriptions provided with these codes are relevant or not. ([WCO HS code document](#)).

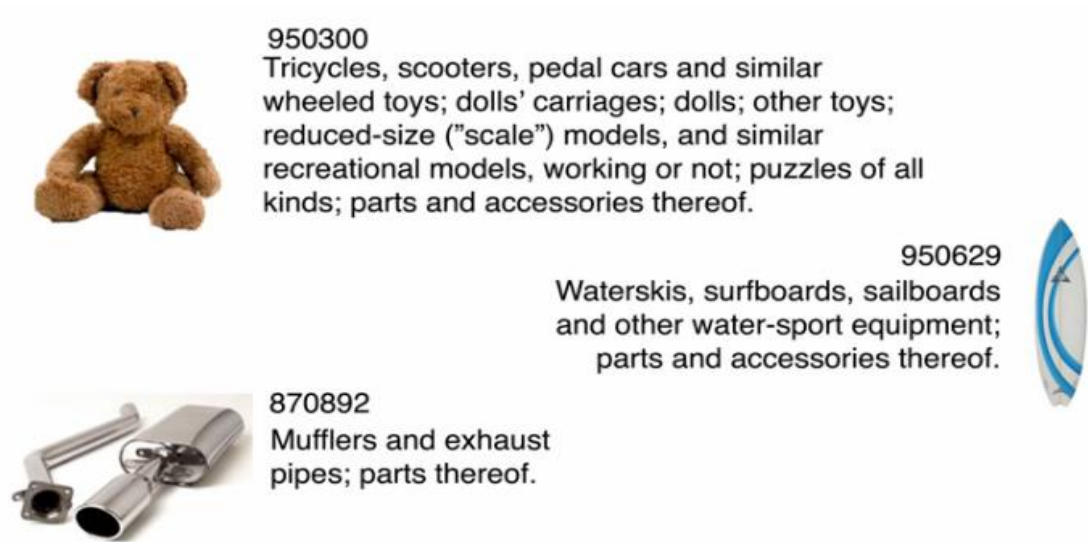


FIGURE 12. Testing your knowledge using the six-digit universal HS Code for various items. (Source: [BongoInternational](http://BongoInternational.com))

3.1.4 Foreign trade and the HS code

Countries often trade with each other as a means of exchanging the commodities or services that they can not produce themselves or deem production of them as unviable in their own country. Another reason for this exchange may be that there is a surplus of certain goods or services in one country which may be needed and therefor acquired by another country.

Countries will import and export those products and services which will provide some form or level of cost advantage to themselves and/or their trading partner. Some examples may be due to cheap labor, cheaper resources or even cheaper semi or finished goods, be they in the form of raw materials or even specific products or services.

Countries, territories or regions may seek to impose trade restrictions on goods or services which are being imported, or that may have the potential to be, imported from other countries as a way of protecting their own domestic markets from foreign competition. These restrictions are called trade barriers.

There are several classifications to these trade barriers and each serves a distinct purpose. Two main classifications relate to tariff barriers and non-tariff barriers. Tariff related barriers are generally in the form of imposed fees such as tariffs, duties (taxes) and customs charges. Non-tariff barriers have nothing to do with imposing fees, rather they pertain to quotas that are placed on certain goods or services for various reasons.

Tariffs and taxes are generally associated with *landed* costs where duties are levied not only on the value of a particular good or service, but take into consideration the costs associated with shipping and insurance. The purpose of imposing fees onto cheaper imported products or services is to offset their selling price in the domestic market, the idea is that the fees will be passed on to consumers making the imports a bit more expensive (less competitive) than similar ones that are already produced and sold in the domestic market.

The second type of trade barrier, relates to non-tariff barriers and are generally in the form of quotas. These imposed quotas place specific limits on the number of imports that may enter a country. A good place to see quotas in regards to imports within the EU can be found on using this link ([Tariff Quota Consultation](#)) the provided link is offered by the European Commission, if you intend on accessing this link you must choose the name 'ERGA OMNES' from the drop down list of countries. 'ERGA OMNES' is used to classify European.

Another type of trade barrier we often hear about, deals with restrictions or prohibitions, which are imposed for political reasons, economic reasons, security reasons, health reasons or even agricultural reasons which may ultimately result in an all-out refusal of some countries to accept imports from certain places. In addition to these three there are several other classifications, but the ones just mentioned are apparently the most common trade barriers that have the potential to disrupt the flow of imports and exports throughout the world.

When dealing with trade related issues it would be wise to view the trade barrier information available on the European Commission's web site. The following link allows the user to quickly screen the present situation in different countries with a click of the

mouse ([Trade Barriers](#) provided by European Commission). From this site the user can identify various countries of interest and see relevant issues that pertain to them.

We will now begin to more deeply focus on the HS system and its relevance to foreign trade. Imagine living in a world where trade is conducted in an ad hoc fashion where goods and services can cross international borders without restrictions or control parameters. It would be a mess, and very difficult to know where many of the goods and services are coming from, how many of them are either entering or leaving each country or territory as well as the quality being offered. Tariff codes are therefore, not only utilized to classify goods or services for tariff purposes but they also serve as a way for governmental custom agencies to be able to collect data by using the code to track the amounts or types of goods or services that are traversing the global, and to monitor and control restricted goods.

The six-digit universal commodity code is used by the WCO, The World Bank, the United Nations and various other international bodies to track the flow of goods and services internationally (globally). You can take a peek at this web site, it is provided by WITS ([World Trade at a Glance: Most Recent Values](#)), data compiled on this site is obtainable due to the fact that the commodity code used to classify imports and exports worldwide are compiled to provide statistics relating to each of them as they cross international borders.

3.2 Combined Nomenclature (CN) codes and Tariff Schedules

At the national level, countries or territories may modify the commodity code a little bit by adding additional digits to the end of the commodity codes. These additional digits are used for domestic reasons such as taxing and controlling goods and services crossing their borders. These additional digits (maximum of four) have a specific sub-heading name. When combined with the commodity code creates a new code or number called the **Combined Nomenclature (CN)**. When countries or territories add these additional digits to the universal 6-digit commodity code means that the national level CN (Combined Nomenclature) code can ultimately contain a maximum of ten digits in total length (FIGURE 12). This new CN code is then used to specify more precisely which rates of customs duties apply, as well as how the goods must be treated and documented

for statistical purposes at the national level. Each country territory or region provides relevant Tariff Schedules that define this new classification.

Chapter	Heading	Sub-heading	CN
<u>01</u>	<u>01</u>	<u>21</u>	<u>0000</u>

FIGURE 12. Tariff Schedules utilize Combined Nomenclature (CN) codes to better classify goods and services.

Tariff Schedules are country, territory or even regionally specific which means that they will be unique from one another. Tariff Schedules use CN level codes to classify the various goods and services crossing international borders and are used at the national level for domestic purposes. So how do we begin to formulate an understanding of this fact in a way that makes this information more relevant to imports and exports?

To begin with it may be useful to jump right in by taking a look at a real Tariff Schedule. The EU has a Schedule called [*Official Journal of the European Union*](#). (FIGURE 13) For those who are accessing this document in paper form, the link above can be accessed from the electronic references listed under European Union.

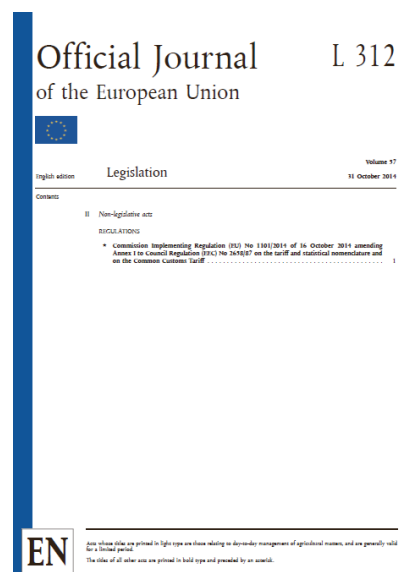


FIGURE 13. Schedule as adapted by the EU

This Schedule was last updated in October of 2014 (most current) it is structured in a fashion similar to the HS Nomenclature 2012 Edition provided by the WCO. It is broken down into 21 Sections, 99 Chapters with their relevant Headings and Sub-headings, GIRs and notes.

So theoretically speaking, you should already be able to distinguish the difference between HS commodity codes and CN codes and understand how they are used as well. To illustrate that there are differences in tariff Schedules, we will take the commodity code (dealing with the horse) from our previous examples and imagine that we want to import that same horse to either the EU or the USA. To start off with we need to first access the original commodity code which in our case is 010121.

Let's begin with the Tariff Schedule provided by the EU ([Official Journal of the European Union](#)). Part 2 of the document is where we will find the actual NC codes, beginning with SECTION I – LIVE ANIMALS (see FIGURE 14 below). From this example we can see that the commodity code provides us with the same information as before, however; we may also observe that there are additional digits (in our case two digits 00) which must be added to the commodity code. These digits are added to the previous commodity code resulting in a relevant CN code for our pure bred horse. We would use this new code, which is now 01012100, if we were to export it to the EU. In addition we can see that there are no tariffs (Conventional rate of duty (%) = Free) imposed on this animal, sounds great.

CN code	Description	Conventional rate of duty (%)	Supplementary unit
1	2	3	4
0101	Live horses, asses, mules and hinnies:		
	- Horses:		
0101 21 00	-- Pure-bred breeding animals ⁽¹⁾	Free	p/st
0101 29	-- Other:		
0101 29 10	--- For slaughter ⁽²⁾	Free	p/st
0101 29 90	--- Other	11,5	p/st
0101 30 00	- Asses	7,7	p/st
0101 90 00	- Other	10,9	p/st

FIGURE 14. The CN code for importing a horse to the EU (source: [European Union](#))

Let us now take a look at the Tariff Schedule provided to us by the USA (FIGURE 15). The process of using the original commodity code helps us to quickly determine that the USA bases their Tariff Schedule on the HS commodity coding system as well. However; one significant difference becomes apparent in this example, and that arises from the fact that the USA wants to know the sex of the animal, this additional descriptor changes the code depending on which one you choose. In our case however we can see that the CN code for the pure bred male horse we want to import into the USA is 0101210010 and that there are no imposed tariff fees on this animal.

Tariffs		Related notes	
Code	Product description	GEN	MFN
01	CHAPTER 1 LIVE ANIMALS		
0101	Live horses, asses, mules and hinnies:		
	- Horses:		
0101.21	- - Pure-bred breeding animals:		
0101.21.00.10..	- - - Male	0%	0%
0101.21.00.20..	- - - Female	0%	0%
0101.29	- - Other:		

FIGURE 15. The CN code for importing a horse to the USA from the EU (Source: [European Union](#))

These two examples prove to us that the Tariff Schedules of countries, territories or regions really are based on the commodity codes as defined in the HS Nomenclature 2012 Edition provided by the WCO. Secondly we were able to visibly observe some differences that may arise in various Tariff Schedules.

From this point on we will try to use European web sites because this report is being developed in the EU and the information we get from these sites is more relevant to us for that reason. One web site that has proved beneficial and has great content was created by the European Commission called [Market Access Database–Tariffs](#). Accessing this link allows the user to specify specific countries or regions they may like to export to, and by doing so they can quickly determine which CN codes they need to utilize in relation to that country or region’s particular Tariff Schedules. There is no need dig around the web to get that information, it’s all right there.

3.3 CN codes and additional export considerations

So far we have been able to look at the HS codes and relate them to CN codes. We also have figured out the basics concerning trade barriers. In this section we will again utilize the CN codes to now determine Value Added Taxes (VAT) on goods and services that are being exported to another country or territory.

VAT is basically a consumption tax placed on goods or services. Attributing VAT fees on these goods or services eventually makes them more expensive to consumers because these additional costs are simply passed on to them.

We have decided to include VAT in this study because it is important that it is considered in the pricing of imports and exports. Customers would be quite hard pressed if they were given quotes and offers that could not be realized. Therefore like all other offerings it is well that any estimates are done as thoroughly as possible so that actual offerings, match or are quite close to the agreed upon estimates.

Let's cut to the chase and figure out how we can find the relevant VAT charges which may have the potential to increase the expenses associated with importing and exporting. The European Commissions [Market Access Database-Tariffs](#) web page is not only useful for accessing CN codes and imposed tariff rates but is also a valuable source to gather other information pertaining to VAT and various customs charges. To access VAT and other related charges and fees, the user can use their CN code. Once the descriptive sub-headings of the CN code can no longer define the goods or services any further, means that the CN code selected will be used to define what rate of tariff fees, duties and customs charges that are associated with that particular good or service, should it arrive at the countries point of entry.

Since we are so familiar with the example of a male pure bred horse, we will continue using that example to clarify this point. For starters let us assume that we want to export this horse to the USA from the EU. We know that the CN code for this particular male pure bred horse is 0101210010. We can now be use this code to determine addition fees that may be imposed on this animal should we export it to the USA.

Utilizing the CN code for the horse (FIGURE 16) shows us that there are no tariff fees associated with this animal. Below the tariff (Duty measures) is a list of additional

considerations exporters need to think about, such as barriers, taxation and custom charges (FIGURE 16). This is useful for estimating the approximate costs associated with the export.

Code	Product description
01	Chapter 1 Live animals
0101	Live horses, asses, mules and hinnies:
	- Horses:
0101.21	- - Pure-bred breeding animals:
0101.21.00.10	- - - Male

Duty measures

Origin	Tariff
GENduty	0%
MFNduty	0%

Trade Defence measures (anti-dumping, anti-subsidy and safeguard)
There are no Trade Defence measures for this product.

Taxes and Additional duties

Sales tax (STX)
Most states, countries and cities levy sales taxes. However, these sales taxes are levied at the consumer level and do not become due at importation of merchandise.

Merchandise processing fee (MPF)
Merchandise processing fee is levied at a rate of 0.3464% of the dutiable value, but not less than 25 USD and not more than 485 USD.

Harbour maintenance fee (HMF)
Harbour maintenance fee is levied at a rate of 0.125% of the dutiable value on imports via sea.

Last updated: 16 Apr 2015 [Top of page](#)

FIGURE 16. The CN code can be used to find imposed fees on imports. (Source: [European Commission](#))

At this stage it would be well to access the European Commissions web site and study the new codes from various countries. Do not assume that just because you have a CN code from one country that it is the same everywhere, it is imperative that you conduct individual searches for every country or region you are considering because they may impose different fees and have differing requirements as well.

[Export.gov](#) is another very useful web site where one can to gain valuable information to names of various tariff schedules (unfortunately may require registration to access all links, but this site is none-the-less a goldmine for information). Scrolling down the web page accessed by the link above allows the user to access various Tariff Schedules. As a note keep in mind that the EU region utilizes the European Union tariff (TARIC) which means that they use tariff rates based under “Ergo Omnes”. This note is mentioned because Export.gov is an American web site so information obtained from it may be specific only to American exports to other countries and the user must always use the appropriate Tariff Schedule.

Two more topics that are particularly worth mentioning relates to freight costs, insurance costs and the value of goods and services. These three items may ultimately play an important role on how tariffs and taxes are levied. For example if Tariff rates of 10% or 20% are imposed on some goods then we need to know the value of those goods in order to fully assess the proper tariff fee that must be imposed (tariffs are generally not flat fees). Tariff fees are generally based on the total accumulated cost of the value of goods, shipping costs and insurance costs. Taxes and VAT are calculated after tariffs and duties have been assessed and paid. To learn more about taxation, go to the OECD web page concerning [Consumption Tax Trends](#), here you will find links about trends and uses of various consumption taxes.

So there you have it. We have spent an enormous amount of time going over some of the general but non-the-less critical processes involved with internationalization. In addition, the commodity codes and the relevant tariff schedules of different countries have also been explained, in addition the provided examples have hopefully clarified any misunderstandings associated with classifying goods and services. By using the links provided in this work it should be quite clear why the HS system is seen as such a critical element in any internationalization process and why it must be considered early on in any international process. Is it possible that the HS system can be seen as a key to quickly assess and understand whether or not goods or services really do have any valid potential in various potential markets? Of course there are still other elements to really consider, but the idea is that by understanding and implementing commodity codes to an organisations goods or services will not be wasted effort but in doing so will create a solid foundation for further developing works.

3.4 Example CN codes in action

After completing a quick google search on various HS codes, a Dell web site was found that provides very interesting information on the differences between various countries and regions and how they classify products differently and assess different restrictions on them as well. Let's take a look at a snippet from that Dell web site (FIGURE 17).

DutyCategory ID (DC ID): 743

Export controls: This product has dual-use and therefore requires an [Export Control Classification Number \(ECCN\)](#) [High probability].

Carrier restrictions: Restrictions may apply for shipping this product with courier or postal companies [Some probability]. Packaging and labelling requirements apply to Lithium batteries whether they are contained in the equipment or sent separately from the device. Please, contact your courier for more information.


Import to country	HS commodity code	MFN duty rate	Sales tax	Additional duties & taxes	Country specific import restrictions
Algeria	8471.30.90	5%	17%		
Andorra	8471.30.0000	0%	4.5%		
Antigua And Barbuda	8471.30.00	0%	15%		
Argentina	8471.30.90000P	16%	21%		
Aruba	8471.30.00	12%	No sales tax		
Australia	8471.30.0090	0%	10%	• Import Processing Charge (AU\$48.85)	
Austria	8471.30.0000	0%	20%		
Azerbaijan	8471.30.0000	3%	18%		
Azores	8471.30.0000	0%	18%		
Bahrain	8471.30.00	0%	No sales tax		
Bangladesh	8471.30.00	2%	0%	• Advance Trade VAT (4% CIFD) • AIT(Advance Income Tax) (5% CIFD)	

FIGURE 17. A Peek at Dells CN codes worldwide, a small sampling of what is actually available. (Dutycalculator)

This example is educational because it gives a chance to actually see that commodity codes (the first six digits) are the same across all countries throughout the world. Another benefit of looking at this example is that we can see that the CN codes do differ from country to country and that they are used to calculate relevant tariffs and taxes as well as various restrictions, in fact the site which the following example was taken from shows 141 country codes and the relevant information shown here, but for simplicities sake we will simply look at a small sample here. The triangle to the right depicts various considerations Dell must undertake in that country as well.

3.5 The HS has its limitations

Although the HS system is a very useful system it has its limitations. First of all the HS system was designed for governments so they can have more control over the flow of various products and services being shipped around the world. This is also what makes this system so powerful, it is utilized at the highest levels to ensure that certain measures are met before any specific product or service enters any particular territorial space.

Presently we have experienced crisis after crisis. These crises, regardless of whether they are initiated by man or nature have the ability to cripple economies and change the way people live their lives. To help mitigate and try to contain some of the man-made upheavals in this world, governments are becoming more and more vigilant in response. Governments are reactively and proactively trying to secure their national borders and are using the HS system as one of their tools to do so. Software is a prime example. Regardless of how, when, where or why the software is being utilized, governments want to know the uses of these various software applications not only for taxation but for security and national safety reasons as well, and may therefore place very strict barriers or restrictions on certain programs if they were to be offered in a foreign land.

As a final thought about the usage of the HS system, it would be well to keep in mind that the HS system is not an answer to all the challenges organizations must face while internationalizing. In fact it should be seen as the key that has the potential to open new doors and to new markets. Once an organization has figured out the HS system and its possibilities or limitations it presents to their products or services, they will then embark on the next phase where they try to gain new knowledge and resources so they can begin to understand further market requirements in relation to their products and or services.

4 UTILIZE HS TO INITIATE EFFECTIVE INTERNATIONAL PROCESSES

Up to this point, we have studied various theories regarding the internationalization process. Whether or not any of these processes are known by an organization does not necessarily mean that they can be or will be implemented efficiently. In order to save time and money, it is imperative that organizations approach internationalization of any kind in a systematic way. Systematically approaching internationalization allows these organizations to be able to better manage and control their progress as they proceed deeper into the process. Another benefit of having a systematic approach is that the vision and scope can be adapted more quickly to accommodate the needs of the situation, such as knowing when to continue or even stop internationalization.

Traditionally speaking the HS commodity code is important at the initial stages of any international process if there will be a transfer of goods or services between two or more countries and/or territories. This study intends on using the HS commodity codes in unique ways that are actually quite unconventional. In the following sections you will find the proposed HS-Analyses method I have developed. This HS-Analyses method is a unique way of using the HS system, that makes internationalization more simple and easy to measure. The proposed plan is a formulation of my own understanding, and has been developed because I have not been able to find any similar proposal prior to this work, I know that this method (concept or process, however you want to term it as) is beneficial and can be implemented by any organization at any time. The idea is to take the existing commodity codes and use them in a unique way that simplifies many complex issues related to how various organizations are making decisions in regards to whether or not they should go international at all or even expand to one or more foreign markets.

4.1 Which organizations can benefit from this information

The shortest way to answer the question about who should use the information laid out in this work would to simply say that every organization should understand and test the concepts and information provided here. It really does not matter what your organization does, how big or small it is or even if you are presently struggling financially or are having the best time of your life, in either case utilizing the HS-

Analyses method will most undoubtedly give you the ability to learn valuable information (knowledge) that can be applied directly and specifically to your own organization.

In theory, there are basically two types of international organizations, those that import and those that export, in some cases they may do both. However; there is also another type of organization which exists, this type of organization only operates in their immediate and respective domestic market. It is understood that each of these organizations have varying degrees of prior knowledge in regards to internationalization but for the sake of this work we must take a stance and assume that your organization has limited knowledge or experiences with using the HS system and its relation to international matters.

To begin with it would be well if we can acknowledge and accept the fact that organizations differ from one another in so many ways. Surely, you can begin listing some of these differences, but for the moment we must temporarily forget about those differences in order for us to focus more deeply on some of the issues they share and have in common when going internationalization.

4.2 Why should organizations begin thinking differently

Globalization is changing the way we do- and conduct business. Within the past few years we have been able to witness the effects change is having on various organizations. Newer, better and cheaper innovations are eating away at the profits traditionally big businesses once enjoyed. It would be a shock if one can not name at least one big business that has been forced to close their doors because some competing product or service.

One issue related to these new innovations is the affect they can have on industries when they force older and more traditional businesses to close their doors. The ripple effect is often hard to measure until it happens and we can witness the impact of these changes over a period of time. In the worst case scenario these changes may not only affect industries but they can also indirectly affect other businesses (domestic or international) that were in some shape or form dependent.on those industries to survive.

So what is your organization doing to minimize the negative impact of change, or are you under the impression that your organization is immune to the effects of change? What is your organization doing right now to ensure its longevity well into the future? These questions are actually very good questions, and surely you are realistic enough to realize that at some point in time your organization will be threatened, then what?

4.3 Timing is critical – why should organizations start using HS

What do you think about the following statements...?

- "We are in this current situation right now because..."
- "If we had done *this* instead of *that*, we would presently have these kind of results."
- "If we had planned better we would not be doing that right now."

The present moment (which can also be explained in other terms such as this second, right now, this very moment) has been made possible, or is the result of previous circumstances and/or decisions. It is a loaded sentence, I know, but let's talk about it because it is very important that you understand what it means.

One way we can explain or discuss the importance of the 'present moment' is to realize that any decision or action we choose to make right now will ultimately influence and have an effect on something- or some situation which may happen in the future, who knows when though, maybe it could five minutes from now, or ten hours from now or even a few years from now.

The point that we are trying to make here, is that there is no way we can change what happened yesterday because it is in the past and gone nor can we change what happens tomorrow because we are not there yet. The decisions and actions we choose to make right now at this very moment are the only things we can change. The issue is that the decisions we choose right now may have an impact on what happens tomorrow, this is where strategy and tactics become important. Of course we make mistakes, but we just have to acknowledge them and try to do it better or a little differently the next time round, so simple.

Sorry about the sermon, but it had to be said. But really, we have to use our time wisely folks, once it is gone it is gone. All I want for you to get out of this is that you should be planning and preparing right now, taking a step at a time, for that special occasion in the future where you are ready to recognize and seize an opportunity. In order to do that you have to start doing something, if it is important, you will find the time to do it, but you have to start as soon as possible because change is coming.

Envision your organization in the future, imagine standing there knowing that you have achieved some goal. Imagine saying to yourself over and over again, "I remember when we did not know anything about international processes", "I remember when we had no clue what HS was and why it was so important". It may sound crazy but it could come true if you start planning ahead. When will it be too late?

In the same manner many other organizations and individuals are thinking. Many of them are presently strategizing how to get their own products or services out to market, who knows if some of these products and services may eventually affect the way your organization operates and does business. Therefore it is imperative that organizations start becoming aware of what is happening both domestically and internationally because they may never see the changes until it is too late.

4.4 How can organizations use HS to quickly learn potential in foreign markets

In order for organizations to get the most out of the proposals laid out in this work they must first understand that the concepts and ideas presented in this work are actually very simple. Sure they may seem complex initially, but try to remember riding a bike for the first time or even trying to learn how to write your name, it was only difficult at the beginning because you had not done it before. This material is quite the same, once you complete this section, you will be able to bring your organization to a different level and possibly find new potentials you never knew were there.

Why should your organization think about learning this new information? The answer is simple enough, you do not know what you do not know. Opportunities are all around us, but if we fail to recognize them or are not prepared to act on them means that

someone else may get the chance to act on them instead. It may all come down to creating the right moment. Creating the right moment means that organization prepares and tests different possibilities in case an opportunity arises, in such a case they will have the confidence to act quickly and take advantage of the situation at a moment's notice. This is why the present moment is so significant, organizations must start as soon as possible to begin a process that systematically prepares them for a situation that may arise in the future. This means that they should be doing whatever they possibly can to be ready for that special moment when they must act and seize the opportunity because they were ready.

By following the steps and really understanding the procedures laid out in the following section will give organizations the confidence and relevant knowledge necessary to initiate a real life international process that can be applied to their organization. In order for this proposal to work it is best if the whole process is seen as an adventure, because in effect it may well end up being an exciting one.

4.4.1 Select a product or service your organization would like to sell in a foreign market

The first thing that your organization first needs to do is to select a single product or service that they would like to sell in some foreign market. It should be noted that this is a learning experience, and regardless of what product or service you choose to work with does not matter because the process is the same for all products and services, that is in fact the reason why we will simply chose a single product or service momentarily.

4.4.2 Make a commitment

The second step that organizations should consider when going about this task is to make a commitment and allow it to follow through. It may seem like a difficult task at the outset, but a dedicated individual should be able to figure out how the HS system works in a rather short amount of time. How difficult would it be to allow a selected employee to work one or two hours each day to learn about the system and its functionality?

Surely you will agree that it would be a significant advantage for the organization if they were able to conduct this investigation by themselves. The intent is to provide organizations with enough information that they can learn and apply the HS-Analyses method to their own products and/or services. In addition this can be achieved merely by using their own employees and their own office space.

There are several advantages to approaching this situation in this manner, one such advantage is that it could be done in a flexible manner. By this it is understood that there may be times when the organization may have additional priorities and this investigation must be put to the side at times. The second advantage of conducting this investigative research in your own offices and using your own personnel is that any newly gained knowledge would remain in-house and could be applied to any new products or services which may be offered or developed at a later time.

A final thought on this approach is that costs would otherwise need to be reallocated or redirected if the organization had to acquire similar services from resources external to the organization.

4.4.3 Use WCO web site to find the classified HS code for your product or service

The third step which the organization should consider is to figure out how to use the HS system to classify their product or service. Using the web links provided by the WCO such as the one provided in this linked document, [HS Nomenclature 2012 Edition](#). This should be significant enough in providing the relevant information to make a reasonable classification.

A point to ponder concerning this situation is that the more basic the product is, the easier it is to classify, the more complex (for example an electric toothbrush) the longer it may take to find an a relevant classification. It is best if you can find an exact classification because this will be beneficial and make the following step more useful.

4.4.4 Select a foreign market you would like to investigate

This is the fourth step in the process, in this step you must choose a target market. We know that there are approximately 207 countries or territories applying the HS system. To review the latest list you can utilize this link which redirects you to section [3.1.2 Countries, territories or regions utilizing the HS system](#).

Once you have made your choice as to which market you would like to investigate, you could move on to the next step.

4.4.5 Find the Tariff Schedule for the aforementioned foreign market

In this fourth step we will learn how to find the appropriate Tariff Schedule relevant to your market. It may be easiest at the beginning to select one country and pretend that you are exporting your product or service to that country. This can be viewed as a learning experience, at this point you should basically concentrate on how to find the relevant Tariff Schedule that relates to the selected country or territory you have in mind. One side note about tariff Schedules that you should keep in mind is that countries may use different names for these tariff schedules but that does not matter, the point is we want to learn how to find the proper schedule for which ever market you choose.

It may be possible that some countries or territories do not have an online database or document for their tariff Schedules, but in either case plenty of information can be obtained by accessing the import-export offices of various countries. A good example, is [Tariff Information by Country](#) obtained from the Government of Canada, here they provide web links and information about countless Tariff Schedules in a very simple easy to use web site. Until you get further acquainted with how to locate the various Tariff Schedules for each market, it would be worthwhile for you to access this web site to determine the Tariff Schedules of many of those markets.

Another interesting site that is very useful is found in the following link provided by the WTO, but needs registration. ([TAO - Tariff Analyses Online](#))

Once you learn how to access the Tariff Schedules provided by those various countries or territories, means that you should feel confident enough to move on to the following step.

4.4.6 Integrate HS code into CN code

This is where things get more interesting, because depending on how well you were able to classify your product or service will have a direct effect on what fees they will be assessed with, should they enter any country or territory, secondly you will also be made aware of any barriers should they exist. We remember that barriers are used to limit or ban certain products or services from entering that market.

During this step you will be using the HS commodity code you had previously designated as the proper classification code for your product or service. We will now integrate that commodity code into the Tariff Schedule of the foreign market you have in mind. All we are interested in doing at this point is to find the designated CN code for that product or service.

If this was a real life situation you must be aware that classifying your product wrong can result in higher fees, in fact many organizations classify their products and services wrong and that is the leading cause they may have to pay more than they should realistically have to.

Another significant advantage of learning how to access CN codes, is that you are able to see various possibilities for your product or service. In some cases you are able to make small changes or modifications to the product or service resulting in cheaper fees at the port of entry (this is not so critical right now because this is a learning experience, but you should always keep it in mind and think about it later on).

4.4.7 Check if there are bans or restrictions placed on your product or service

This step is possibly one of the most critical steps you must really take into consideration. If your product or service is restricted or has been completely prohibited means that you should stop your investigation. However; there are some considerations

you can take into account if your product or service is restricted or prohibited, but for the most part you should not continue your investigation if those considerations are too demanding and will not sufficiently pay off later on. There is no longer a need to examine customer segments or seek additional potentials if you can not even get your products or services past the port of entry.

At this point you can already begin to see how and why the commodity code and the CN codes can be very useful. Let us suppose for a minute that you knew nothing about the HS system and had spent a lot of time (and possibly money) reaching a contracted agreement with a customer in a foreign market, all that time and money would be wasted and the customer would be left dissatisfied if in the end you found out that you can not export that product or service to that customer because of certain bans or restrictions which have been placed on your product or service. That is why the HS system is so powerful, and can be used to quickly determine whether or not it is possible to sell your products anywhere else in the world.

This is one of the main reasons you should start using the HS code to classify your products and services as soon as possible. By doing this simple step, you can begin to quickly determine whether or not you have even the slightest potential in any foreign market. Another reason why you should already start classifying your products or services, is that your organization will no longer have to think or worry about various possibilities they might have in any specific foreign market because they would already be able to formulate and understand what they might be.

Listed here is another link your organization can use to better determine bans or restrictions have on your product or service. This link is provided by FedEx and has links to numerous locations around the world. You should be encouraged to take a look at [Import restrictions and prohibitions by country](#) (FedEx).

Quotas are another issue to be considered, we will not get into much detail here but the following link can help you understand them and their effect. [SIGL](#), provides information on quota levels for imports of clothing, footwear, steel and wood products applied in the European Union.

It may not be easy to find quotas in all cases but it seems that quotas are not placed on all products and services, so whether you have to be concerned about them is relevant to what your product or service is.

4.4.8 Determine tariffs and customs fees imposed on your product or service

The eighth step relates to finding out what fees you will be required to pay should your product or service enter some country or territory. These fees may range from imposed tariffs, customs fees and applicable taxes. The purpose of these imposed fees is to increase the selling price of your product or service in that market. This information is useful because you can learn how your product or service is valued in that market which allows you also be able to better calculate fixed costs often associated with the process, in addition you should be able to also begin evaluating cost margins and minimal pricing that could reflect on potential profits should you really sell your product there. The point in doing this step is crucial when it comes down to deciding whether or not that market would be worth considering.

Right now you should have the appropriate Tariff Schedule for the country or territory you have in mind and would like to consider. You should at this point also have the CN code that best classifies your product or service. Use your CN code to now determine the Tariff rates and customs fees that may be imposed at the port of entry of the foreign market you chose.

Once you obtain the related tariff and custom charges, you would then need to figure out how several pricing factors affect what you have to pay. In many cases the tariffs are imposed on three things, the first is the value of your product or service, the second is the costs associated with shipping and the third is about any insurance costs incurred during the shipping. The costs of these three items are then added together, and the tariff rate is applied to this final sum.

If this was a real life situation and your product or service was at the port of entry of a foreign market then you would have to pay the tariff fees before they can leave that port of entry. Another benefit of being able to calculate these fees is that you can get a rough idea about what cost measures you need to consider when you price your product or

service in that market. Basically you would have the ability to begin formulating the minimum price that would have to be established before selling that product or service in that market.

During this step you may need to also look at shipping and insurance rates because they are often needed to efficiently calculate the proper tariffs on your product or service. This is not such a difficult task because various logistics companies offer their information online or can be contacted for estimates concerning what is being shipped and how it will be shipped. In some cases a logistics company is able to calculate the charges by using the HS code and destination you provide.

4.4.9 Determine VAT or other applicable taxes

We will not get into much detail here because each country or territory has the right to assess their own taxation. Taxation is very different from tariffs and customs fees (although they do play a part in what taxes must be paid). One point of concern is that you are made aware, that these are additional considerations and could be looked into once you know where you would like to sell your products or services.

However here are two very useful sources for taxes. These can be found in the reference section under the following names,

- [European Commission - Taxation and Customs Union](#)
- [Canadacustomer_FedEx - Understanding Duties and Taxes](#)

5 CONCLUSION

Incorporating the HS-Analyses method into an organizations way of thinking and operations, could be well worth the time and energy, because it is a solid and guaranteed foundation for which organizations can rely on, regardless of whether or not they actually decide to go international. It is quite difficult to say for sure what the future has in store, but if organizations learn how to utilize the HS-Analyses method as proposed in this work, makes it possible for them to more quickly advance to new levels of internationalization where they have the ability to proactively seek and take advantage of numerous possibilities relevant to their organization. Thus they may have a better chance to grow and remain competitive should they decide to sell their products or services in one or more foreign markets. The challenge we face is how to make more and more organizations aware of this work.

Utilizing the HS system in the manner described in this work does have the potential to get organizations more engaged in international matters, only if they were willing to take the challenge to figure it out. This process of seeking potentials is fast and efficient, it gives lots of power and control back to organizations and allows them to understand many other complex issues in a very efficient manner as well.

A final thought concerning the HS-Analyses and organizations, pertains to the fact that it is now possible for these organizations to not only seek new opportunities internationally but that they have more relevant knowledge and information about the international process. Knowing how to utilize this knowledge and understanding its significance can help organizations make more rapid and decisive decisions should an opportunity arise. It is easier to make decisions at this time because they should be more confident of their decisions, and it gives them a chance to begin preparing for that special moment in time when they can recognize numerous opportunities they never saw before, and can therefore respond more appropriately in a shorter period of time.

As time marches on, and the rate of change becomes ever increasing, only means that more pressure and stress will be put on organizations, it is therefore important that they are prepared to respond. There is a saying that can sum it all up, "Survival no longer depends on how strong you are, but on how well you adapt".

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