

# THE ROLE OF A CHANGING TRADE AGREEMENT IN COMPANIES' MARKET SELECTION

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**ABSTRACT**

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Title The role of a changing trade agreement in companies' market selection	
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<p>Abstract</p> <p>The aim of the thesis is to study the influence of trade agreements on business. As a recent study by Eurochambers shows, Finnish companies struggle to utilize the trade agreements the EU has with non-EU countries. Furthermore, there seems to be limited amount of research on the direct impact of trade agreements on market selection process of companies, despite the multiple studies made about market entry. Thus, this study aims to research the impact of a changing trade agreement on companies' market selection by using the new EU-Mercosur FTA as a case agreement. The aim is to clarify if the FTA encourages companies to new markets, like aimed.</p> <p>The empirical data is gathered from seven semi-structured phone interviews and three written interviews by using qualitative methods. The research is limited to Finnish companies that trade in Spain, Portugal or South America. The SSIs aim to review the attitudes and behaviour of the case companies operating at the targeted markets and study if the changing trade agreement would influence their trading. To tackle the research question, internationalization, strategy, international trade, and trade agreements are studied in the theoretical framework. Also, models and tools for analysing market selection and international trade are offered. As the focus is on macro-economics and external factors affecting business, companies' internal readiness or how companies execute the internationalization process is left out from this research.</p> <p>The findings show that there are significant benefits for Finnish companies due the new FTA but it cannot eliminate all of the barriers to trade. Nevertheless, it seems that the change in institutional conditions may encourage companies to consider the potentiality of new markets in the first place. However, it remains for future studies to research on a company level the company specific differences and other aspects of international trade. Moreover, it is recommended for future research to study if the companies should be supported by finding the right contacts in order to increase the awareness of the FTAs and fully benefit from them.</p>	
Key words: International trade, internationalization, market selection, trade agreements, emerging markets, institutions, EU, Mercosur, macro-economics, qualitative research, SSI	
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<p>Tiivistelmä</p> <p>Tutkimuksen tarkoituksena on selvittää kauppasopimusten vaikutusta yritysten liiketoimintaan. Eurochambersin tuoreen tutkimuksen mukaan, suomalaiset yritykset eivät osaa hyödyntää EU:n ulkopuolisten maiden kanssa tehtyjä kauppasopimuksia. Lisäksi kauppasopimusten suorista vaikutuksista yritysten markkinavalintaan on toistaiseksi vain rajallinen määrä tutkimustietoa. Casena tutkimuksessa hyödynnetään EU:n ja Mercosurin välistä tuoretta vapaakauppasopimusta. Tavoitteena on tarkastella, kannustaako kauppasopimus yrityksiä uusille markkinoille, kuten EU tavoitteli.</p> <p>Empiria on kerätty seitsemästä puhelinhaastattelusta ja kolmesta kirjallisesta haastattelusta kvalitatiivisia metodeja hyödyntäen. Tutkimus on rajattu suomalaisiin yrityksiin, jotka käyvät kauppaa Espanjassa, Portugalissa tai Etelä-Amerikassa. Semi-strukturoidut haastattelut pyrkivät selvittämään vaikuttaako uusi kauppasopimus heidän liiketoimintaansa. Teoreettisessa viitekehyksessä pureudutaan puolestaan yleisellä tasolla yritysten kansainvälistymiseen, strategiaan, kansainväliseen kauppaan ja kauppasopimukseen. Myös kansainvälistymisen ja kansainvälisen kaupan teoreettisia malleja tutkitaan osana viitekehystä. Koska tutkimus keskittyy makrotalouteen ja yrityksiin vaikuttaviin ulkoisiin tekijöihin, yritysten sisäistä valmiutta tai itse kansainvälistymisen toteuttamista ei juurikaan tutkita tässä tutkimuksessa.</p> <p>Tulokset osoittavat, että EU-Mercosur sopimuksesta voi olla merkittäviä hyötyjä suomalaisyrityksille, vaikka se ei onnistu poistamaan kaikkia kaupanteon esteitä. Sopimus voi toimia kuitenkin kipinä, joka rohkaisee yrityksiä harkitsemaan uusien markkinoiden potentiaalisuutta. Näin ollen jatkotutkimuksissa voidaan selvittää, tulisiko yrityksiä tukea oikeiden kontaktien löytämisessä ja näin lisätä myös tietoisuutta kauppasopimuksista. Jatkotutkimuksen aiheeksi jää myös selvittää yrityskohtaisia eroja kuten yrityksen sisäisen valmiuden, toimialan ja instituution vaikutus yritysکوhtaisesti, mikäli yritys harkitsee kansainvälistymistä.</p>	
<p>Asiasanat: Kansainvälinen kauppa, kansainvälistyminen, markkinavalinta, kauppasopimukset, kehittyvät markkinat, instituutiot, EU, Mercosur, makroekonomia, laadullinen tutkimus, semi-strukturoitu haastattelu</p>	
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# 1 INTRODUCTION

## 1.1 Background of the study

The study is implemented in an interesting time as the world is changing faster than ever. The world trade reports published by the World Trade Organisation (WTO) highlight different themes and trends occurring throughout the years and examine the current and future trends of trade. The aim of the report is to increase the knowledge about the trends in trade, trade policies and the multi-lateral trading system. Therefore, the highlighted themes point out the extensive directions of trade in a given time. As digital technologies shape the global trade and affect global commerce, the influence of technological changes was highlighted in the report of 2018. One must notice that trade and technology are interlinked and therefore, the future trade is affected through the technological changes. (WTO, 2018.) The reports point out also four major economic trends that have occurred in the recent years. The economy of developing countries is on the rise, global production is more integrated through supply chains, price of natural resources and agricultural goods is higher and there is growing interdependence in the world economy. Furthermore, all of the four economic trends can boost the economies of developing countries, but substantial barriers still remain for them. (WTO, 2014.) Also, the new directions of trade trends are appearing while the protectionist measures are on the rise again. For example, the trade war on the U.S. economy is accelerating and affecting the world economy (Fajgelbaum, Goldberg, Kennedy, & Khandelwal, 2019.)

It was advocated in the beginning of 2000 that the twenty-first century will be recognized as a period of regional trading blocs. However, the relationship between trade and growth remains one of the most popular debates in international economics literature (Bilman & Turkeli, 2013). In recent decade, the appearance of trade blocks has affected entry mode choices and market dynamics. Furthermore, as trade agreements enable the availability of special clusters and markets, they are often supported by governments. It is also noted that trade blocs may increase cross-border alliances and network relationships that can provide technological and organizational benefits. Thus, like the WTO (2014) presented it is argued if the regional trading blocs strengthen the location-specific advantages because of the technological developments, for example. (Malhotra, Ulgado & Agarwal, 2003.)

According to the Ministry of Foreign Affairs of Finland, the European Union (EU) has a trade agreement with some 70 non-member countries. As part of the EU, the agreements allow easier market access for Finnish companies' products and services to those markets. Businesses can benefit from the tariff reductions offered by trade agreements. The agreements also benefit consumers by, for example, expanding the range of products and services and potentially lower prices. On the macro level, trade agreements have a positive impact on

Finland's economic growth, employment and competitiveness. (Ministry of Foreign Affairs of Finland, 2019a.)

According to Finland Chamber of Commerce and Ministry for Foreign Affairs of Finland the most significant benefits of FTAs to companies come from a reduction in customs duties, which can generate up to 10-20 percent price advantage for the exporter or importer. Furthermore, harmonization of technical regulations and regulatory controls on equipment and machinery can reduce export or import costs by 10 to 15 percent. According to Finnish Chamber of Commerce the exports from Finland to South Korea have grown by 31 percent during the period of application of the EU-South Korea Free Trade Agreement. According to customs statistics, in 2018 Finnish exports to Japan increased by 14 percent and to Canada by up to 28 per cent. Nevertheless, a recent survey by Eurochambers shows that Finnish companies struggle to utilize the trade agreements the EU has with non-EU countries. More than 50 percent of respondents consider the lack of knowledge to be the main problem for SMEs. Also, more than 60 percent of the respondents feel that companies do not have sufficient practical knowledge. (Finnish Chamber of Commerce, 2019.)

## 1.2 Defining the research problem

The thesis aims to join the conversation of international trade and internationalization by studying the research fields that still remain understudied. Although, the pre-entry and post-entry processes have been studied as part of the conceptual framework of internationalization before, most of the data is gathered from developed countries. Thus, studies concerning developing economies call attention that is supplemented by means of this thesis. Even though, this thesis does not provide a new business model for developing countries, it supplements the much-needed research about developing economies by studying a new trade deal between developed and developing economies. In addition, the previous research has been criticized for assuming the institutions rather than companies as backgrounds (Rose, 2003). Furthermore, many international strategies are developed from a multinational corporation's point of view as the IB research has adopted a belief that the logical response of globalization would be a multinational corporation. Thus, many of the strategies and business models developed fail to serve the majority of humankind that is excluded from the world trade. (Malhotra et al., 2003; Ricart et al., 2004.) As many of the previous studies are limited to institutions or multinationals, the thesis aims to complement the research gap by focusing the viewpoint of all sized companies.

The backbone of this thesis is based on international trade theories. However, studying international business (IB) cannot be avoided neither as international trade emerges internationally. Furthermore, IB and strategy research are closely linked together which combines the market selection in case of a new trade agreement. Indeed, the scholars of IB and strategy have studied similar themes with different targets previously. For example, while the IB scholars



have focused on geographic diversification, the scholars of strategy have studied industry diversification. Also, the earlier IB research has studied several topics connected to firm strategy. For example, management of multinational companies, internationalization and foreign market entry have been popular topics. In the 1970s and 1980s the focus was on themes such as industry environment, market and customer selection and diversification. Afterwards, the focus has shifted from strategies to management and organizations. In turn, IB research has increasingly focused on “how” companies do what they do. In addition, it has been increasingly studied how firms should act under uncertainty if the markets are constantly changing. However, the questions “what” and “why” have become less prominent over time. (Peng, Wang, & Jiang, 2008; Ricart, Enright, Ghemawat, Hart, & Khanna, 2004.) Therefore, this thesis reviews the earlier studies and refers to those while studying more current issues emerging in the business field. Rather than focusing on the “how” question, the focus is on “what” and “why” questions.

Malhotra, Ulgado and Agarwal (2003) suggest that internationalization research has divided to three major branches. The first research direction involves the execution of internationalization theory and entry strategies in specific industries or countries. The second branch involves new models and approaches that are argued to identify equivalent issues under more dynamic circumstances. The third research direction includes performance studies of entry strategies and the underlying motivation factors. Earlier research related to the topic has studied topics related to external and internal factors such as nationality, industry and economic, financial and organizational behaviour. In this case the focus is on external factors that previous research support. The thesis focuses on the third branch that studies the underlying motivation factors as the market selection affected by a changing trade agreement is studied. (Malhotra et al., 2003.)

Furthermore, research agrees that certain level of international trade is beneficial for a country, but it lacks congruent recommendations for government policy (Hill, 2011, p. 162). Goldberg and Pavcnik (2016) as well as Hill (2011, p. 162) suggests that government policies should be emphasized in the trade studies. There are several theories about the international expansion and studies concerning the influence of trade agreements on total trade. However, the research focus has shifted from trade policy to other trade related challenges such as transportation and communication costs. Although, the focus of research has shifted, there is still evidence that trade policy matters. Therefore, it is suggested that a fruitful area of research would be studying factors that are directly linked to trade policy and estimating the effects of a given policy. For example, studying cause and effect relationships on the nature of policy changes and institutional settings where trading takes place is encouraged. (Goldberg & Pavcnik, 2016.) Therefore, in order to tackle the research gap, the influence of a changing trade agreement on companies’ market selection is studied. Moreover, the thesis provides information for government decision making as it helps to recognize the influence of trade agreements on companies rather than on total trade.

The influence of a changing external conditions is highlighted as the object of this thesis is a changing trade agreement. The focus is not on the theories of international expansion but on the influence of a changing trade agreement on market selection in a given market. As the focus of the study is only on the effects of a changing trade agreement on market selection, other matters, such as company's internal readiness are mostly excluded from the analysis. Nevertheless, it is noted that the importance of different factors is industry specific (Hill, 2011, p. 162) but as the aim is to emphasize effects on companies in general rather than study the internationalization process, the respondents are selected from versatile industries. In addition, selecting the respondents from versatile industries provides more comprehensive results about the influence of a changing trade agreement for government decision making.

Based on the premise, the following research question is presented:  
What is the influence of a free trade agreement in company's market selection?

### **1.3 Implementation of the study**

A very current topic was selected to be the topic of this study as the EU and the Common Market of the South (Mercosur) have agreed on a new trade deal on 28<sup>th</sup> of June in 2019. After the agreement is approved in the European parliaments it will become the biggest trade agreement in the whole world due tariff reductions. Thus, the aim of the research was to study how the external change in a business environment (a changing trade deal in this case) is viewed from the Finnish companies' point of view. However, the focus is not on institutions but rather on companies like Malhotra et al (2003) and Ricart et al. (2004) suggest. As the empirical part studied the believes of Finnish companies related to the external change in the business environment, qualitative method was selected to be the most suitable method for researching the subject. The aim was to study causes of effect rather than effect of causes. The thesis seeks to benefit from the latest models and approaches offered in literature. In order to increase the utility of this thesis and to complement the research gap presented, the real-life cases are included in the empirical data.

The empirical data was gathered via seven phone interviews and three written interviews. The semi-structured interviews were conducted together with ten Finnish companies trading in Spain, Portugal or South America. The most important factor for selecting the respondents was that the companies have some relations to similar kind of markets than Mercosur, so that they might be interested in Mercosur's markets too. South American countries as well as Spain and Portugal share the language (Spanish and Portuguese) that might ease the new markets selection from European markets to South American markets. Thus, the possible interest for Mercosur markets was determined through language and geographical location. Filtering of the respondents in the study was also supported by the distance attributes presented by Ghemawat

(2001) as common language and common regional trading block, for example, can significantly boost trade.

The interviews included some pre-selected questions in order to find out the background info of the companies. However, as the aim was to examine especially the beliefs and views of the companies, the open-ended questions offered useful information to study the issues more comprehensively. The open-ended questions of the interviews allowed more unique answers as the respondents were allowed to explain their thoughts more in-depth. In addition, the method allowed to reveal some unforeseen issues.

While the empirical data is gathered from phone interviews, the research materials for the theoretical part were collected from books, articles, abstracts, reviews, dissertations, research reports, and electronic media. The objective was to have a clear and balanced overall picture of the current, theories, concepts and data relevant to the topic. In addition, figures and graphs were used to present information in more compact form and to help reader to scan the text.

## **1.4 Structure of the study**

The thesis is started with a literature review that forms the foundation for the research. The aim of it is to point out the possible differences emerging in the international trade and internationalization literature and so, identify the research problem studied in this thesis. However, the literature review is not just a summary of previous studies nor summative description but an opportunity to join the scientific conversation through critical thinking. In order to understand the data analysis, it is necessary to understand the concept of the research first. Thus, the first step was to retrieve and identify the literature, then review and analyse it, after that review and write and last, develop the conceptual framework as Bloomberg and Volpe (2008) suggest.

To answer the research question, the decision-making process of internationalization is discussed first. The international scene, where trade agreements occur, is presented through globalisation and internationalisation processes. The aim is to find out the external factors affecting business operations and more specifically if trade agreements may have any influence in the market selection process. However, the focus is on macro-economic and external factors affecting business operations and market selection process. Therefore, companies' internal readiness is not studied as part of this research. In turn, to answer the research questions as comprehensively as possible the topic is viewed in general terms.

The second part studies trade agreements as a whole. However, it has to be noted that every agreement is different and therefore it can be hard to point out specific advantages and disadvantages. Moreover, the effects are extensive and occur in different stages. Nevertheless, generalization of the topic helps to

study and understand the phenomenon on a larger scale. The effects and objectives of trade agreements are discussed according to the current knowledge of the research field.

The third part introduces the business environment of the empirical study and presents the case agreement between the EU and Mercosur. The agreement is significant example of the FTAs as it will be the biggest trade agreement in the whole world because of the tariff reductions. Also, the current political and economic situation between the EU and Mercosur is introduced in the thirds chapter which widens the understanding about the FTA in question. Also, business opportunities and challenges of Mercosur are presented in order to clarify the business environment. Finally, the case agreement is compared to the international trade theories, previous studies concerning the subject and other trade agreements. Again, comparison and generalization aim to clarify the FTA and the future directions between the markets.

The fourth chapter is dedicated to the empirical study. It presents the research methods and data gathering for the study. The findings of the study are presented in the chapter five. All in all, the empirical part aims to answer the research question more specifically from Finnish companies' point of view. Discussion and conclusions of the study are presented in the final chapter. Also, limitations of the study and suggestions for the future research are presented in the final chapter.

## 2 MARKET SELECTION

### 2.1 Globalization and internationalization

Before the Great Depression in 1930s many countries favoured high tariffs in order to protect domestic industries from foreign competition. The behaviour led to constant raises in tariffs against each other and eventually to the depression. During the past few decades we have moved from distinct entities to more integrated and interdependent economic system. Cross-border trade and investments are increasing and perceived distance between countries is reducing due to the creation of market economies, technological developments and formation of trading blocs (Malhotra et al., 2003). (Hill, 2011, pp. 4-11.)

The current trends indicate that international business is encouraged by the economic system we have today. According to Ghemawat (2003), the world is becoming more homogenous and even more companies are becoming international due to globalization. As Hill (2007, p. 507) explains, the term globalization is used to refer to the process as a whole, but it has several facets. Globalization of markets refers to more unified markets and easier cross-border trading due to falling trade barriers. In turn, the globalization of production refers to the benefits that are achieved by taking advantage of the differences in cost and quality of producing in different countries. (Hill, 2011, pp. 4-11.) The globalization potential can be studied through market drivers, cost drivers, government drivers and competitive drivers (Sloman & Hinde, 2007, p. 507).

However, despite the trend of globalization, there are significant differences between countries. Thus, it is also essential to study the differences in-depth and separately. Ricart et al. (2004) argue that if markets were entirely isolated or integrated there would not be room for variety of international business strategies, for example. Thus, it is essential to understand how and why countries differ and note that there are individual differences between countries and firms too. (Ghemawat, 2003; Hill, 2011, p. 24.)

Nevertheless, in order to further define the case companies and their operations, it is essential to cover the definition of international business. International business refers to any firm that has international trade or investment. It is the trade of resources, goods, services, knowledge, skills or information across national borders. A company does not have to become a multinational or do a foreign direct investment to engage international business but just to export or import to another country. So being said, firms have to deal with differences in governing and government restriction, trading policies and investment systems. Also, currency exchange rates can vary depending on economic conditions. Companies can benefit for adopting a right way to policy exchange rate movements whereas companies that adopt a wrong one can decrease its profitability. In brief, international business differs from domestic business for at least for four reasons. First, countries are different, second, the range of challenges is wider and problems more complex. Third, a company must work in the limits

of foreign trading and investment system and fourth, international transactions require money converting. In addition, many of the differences are deeply rooted and resistant which means that they are hard to change. (Hill, 2011, pp. 24, 33-34.)

Like Ricart et al. (2004) argue there has been debate that concerns finding the balance between local responsiveness and global integration. So far, the studies have indicated that there are great differences between industries depending on the operating environment. Therefore, it is suggested that firms should take advantage of the global differences and organize their key functions accordingly. Nevertheless, some studies have showed that there are also transnational businesses. These firms benefit from the ability to learn across countries as they are able to combine local responsiveness and global integration. (Ricart et al., 2004.)

The economic and political situation of the markets affects to the trends of favoured management focus. In order to understand the changes happening in the focus, we must know the factors affecting the evolution. History, wars, technological developments and ventures all push the focus to certain direction and set borders to how business can be operated. Nevertheless, it can be agreed that trends change. Thus, Furrer, Thomas & Goussevskaia (2008) suggest the research focus should be on long term goals. As the business environment under study can be uncertain and change quickly, the long-term effects of trade agreements are studied in the theoretical part.

Indeed, it has to be noted that it is more complex to manage internationally. As Hill (2011, p.33) explained, due globalization of production, the managers must decide where to produce in order to maximize value added and minimize costs. They have to think the ethicality of producing in developing countries which often have lower labour and environmental standards. Also, they must determine how to control and coordinate the operations and which entry mode to use. (Hill, 2011, p. 33.) From this master's thesis point of view the most relevant part is when managers need to choose which markets to enter and which to avoid. To help analysing the complexity of market selection, analytical tools will be presented later in in this paper.

## **2.2 Strategic decisions in internationalization**

International business and strategy research are closely linked together and so has the concept of strategy evolved during the centuries. Currently, it seems that the focus is moving towards competitive and corporate-level strategies. (Furrer et al., 2008.) The most crucial questions have been the driving factors of strategies as well as the determinants of success and failure of firms in internationalization. Generally, the topics have been addressed through industry-based view by Porter that and resource-based view by Barney. The industry-based theory suggests that firm's strategy and performance is determined by conditions of the specific industry whereas the resource-based view argues that

firm specific differences determine the strategy and performance. Afterwards, the theories have been developed further in the field of strategic management. In addition to the industry- and resource-based views, an institution-based view has appeared afterwards. It is suggested that these three views together form a strategy tripod where institution-based view collectively completes but does not replace the other two views (Figure 1). According to institution-based view, the strategy tripod consists industry-based competition, firm-specific resources and capabilities as well as institutional conditions and transitions. It is suggested that this three-leg tripod defines the firm's strategy which in turn affects the firm performance. (Peng et al., 2008.) The debate is interesting as it well connects to the influence of trade agreements on companies' behaviour. However, in this master's thesis the focus is on institutional conditions. The existence of all three strategy tripod legs is noticed but resource-based view and industry-based view are mostly excluded from the review as the focus is not directly on internationalization strategies.

That being said, institution defines the possibilities and limitations of the business environment and operations. That is why institution-based view is one of the leading perspectives in strategic management as a third leg for strategy tripod. To summarise, the performance of the firms is a result of strategy that is depending on the industry-based competition, firm specific resources and capabilities, and institutional conditions and transitions. Still much remain understudied in this field of research. It is suggested that in future research, rather than just stating the importance of the context or describing the environment, the focus should be on how institutions matter. (Peng, Sun, Pinkham & Chen, 2009.) Hence, the proposal by Peng et al. (2009) has been raised as the main theme of the study.

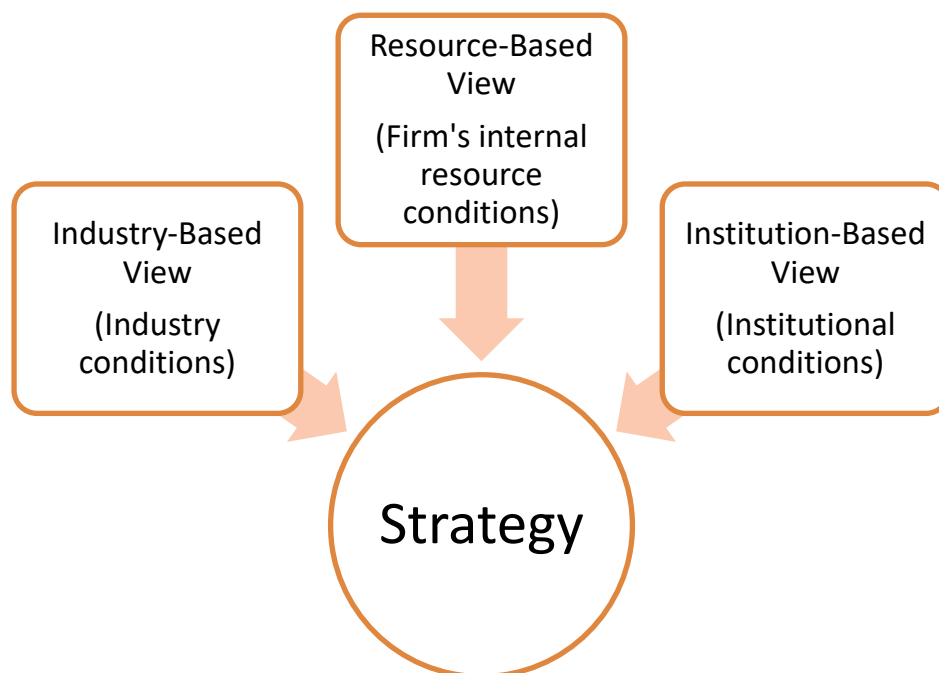


FIGURE 1 Strategy tripod

Couple of more models can be linked to strategic management research and resource-based models. For example, dynamic capabilities perspective aims to explain how firms can cope in rapidly changing environment, and how strategy, resources and capabilities are linked (Pajunen, 2017). Some suggest that at best, social welfare approach ignores the social welfare concerns, and at worst, it will reduce social welfare. However, failing to exploit the resources does not maximize the social welfare. In other words, firm's performance is depending on the efficient way of using the resources and advantages available like Barney (1991) argues. Thus, the dynamic capabilities model has been criticised as well. In many cases, the value of the resources lies in the ability to manipulate the resources into value creating strategies. To create long-term competitive advantages the focus should be on structuring and not on dynamic capabilities. When the duration of competitive advantage is unpredictable, time is central to strategy, but dynamic capabilities are unstable. (Eisenhardt, 2000.) Also, in this matter generalization is useful as it offers probable options.

Paul J.H. Schoemaker (1995) argues that scenario planning could be the best possible strategic planning tool because of the whole range of possibilities. By having an overall picture and trying to predict different kind of futures, it is easier to compensate the usual decision-making mistakes, like overconfidence, already on beforehand. The meaning of scenario planning is to simplify all related data to limited number of possible modes. One way to identify the different outcomes is to divide positive and negative elements from each other. (Schoemaker, 1995.) Thus, for example comparing is one of the methods used in this thesis.

Furthermore, it is argued that firm's strategical decisions are information and relationship dependent. Firms behaviour is the result of how and what is distributed to the managers. Like Cornelissen, Mantere and Vaara (2014) explain, the strategical decisions are context and situation based. That affects to the empirical data too, for example as the respondents will answer based on the knowledge they possess at that time. The situation itself depends on the firm's rules, resources and social relationships. It is argued that it is equally important for companies to understand which resources they have and how those resources are used. In other words, the resources are competitive advantages only when managed efficiently (Sirmon, Hitt, Ireland & Gilbert, 2011.) Resources and social relationships are controlling and regulating the distribution of issues, answers, procedures, communication and activities. Thus, not only channelling and distribution are central. But in order to develop a dynamic theory of business strategy and value creation, it is important to understand the firm's resources, as well as industry and institution perspectives. (Ocasio, 1997.) For example, these arguments support the empirical part of this study as the survey gathers valuable information about the firm's resources, industry and institution.

Moreover, one should consider that when it comes to managing all of the attributes and characteristics even managers have their limits. However, managers are the ones who are able to understand and describe the economics of



the firm. Sustainable competitive advantages cannot be bought for the firm on open markets and that is why the advantages must be found from the resources that are already controlled by the firm. In this matter, managers are the ones who have the potential for producing those. The potential advantages and resources may be specific and identifiable processes like product development, strategic decision making and alliancing (Eisenhardt, 2000). (Barney, 1991.) In case of this study, the most relevant resource is the changing trade agreement that can bring strategical benefits for the companies.

However, one counterargument to previous studies is that the models we are taught in the schools argue between theory and practise. It has been noted that theory of how strategy tools should be used differ from how those are actually used, if used. In fact, tools are just to help the strategical decision making and do not itself cause right or wrong results. On the contrary, the efficiency and the outcome of the tool is depending on the user. Tools may be misused, or wrong kind of tools may have been used. This is why future researches could focus on what outcomes managers actually seek from tools since the current ones do not serve the purpose fully and are quite old as well. (Jarzabkowski & Kaplan, 2015.) Although, this study does not generate any new tools for the use of companies, it produces valuable new information for decision makers. Furthermore, the current tools are used for demonstrating the current situation in the absence of more modern tools.

### **2.3 Decision making process of internationalization**

To find out the influence of a changing trade agreement on market selection it is essential to comprehensively study the decision-making process of internationalization. How do external conditions affect the decision? Does a changing trade agreement as part of the external conditions affect the decision making at all? Or are these matters completely irrelative while considering business abroad? The widely used Uppsala model seeks to provide the characteristics of an internationalization process of the firm (Figure 2). The model was first presented in 1977 by Johanson and Vahlne but much has changed since then. The difference compared to previous model is that nowadays the business environment is reviewed more like a network than just multiple independent suppliers and customers. According to the original model, companies tend to start their internationalization process from bordering countries by using e.g. export companies or sales agents. Often outsiders are used in the beginning of the process because of their experience and knowledge. But while the knowhow of a company increases, the liability of outsiders decreases and firm's commitment to the new market increases. (Johanson & Vahlne, 2009.)

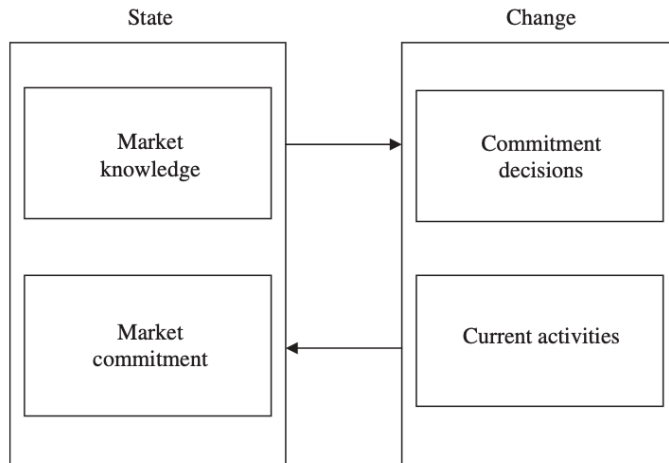


FIGURE 2 The basic mechanism of internationalization: state and change aspects (Johanson & Vahlne, 1977, p. 26)

When the importance of networks was recognised in the literature, Johanson and Vahlne complemented the model in 2009 (Figure 3). In the light of more recent studies, it is argued that existing relationships have a major influence on the decision-making process of internationalization. It is suggested in the revised model that experience and knowledge result from network of relationships. In other words, the existing business relationships also affect the ability to identify and exploit opportunities. By adding “recognition of opportunities” to the “knowledge” box, the researchers aim to indicate that opportunities are considered to be the most essential element of knowledge that drives the internationalization process. Moreover, it is argued that there is no need to focus on whether the business activity is a new market entry or expansion in foreign markets because relationships are borderless. (Johanson & Vahlne, 2009.)

A firm is expected to internationalize based on its relationships with important and committed business partners. The partners may be domestic or international ones. It is also likely that a firm will follow its important partners abroad if they have a valuable network at least in one foreign country. Two possible explanations are presented for such foreign expansion. The first explanation would be that there are interesting business opportunities abroad. The second one is that a partner company would want the domestic one to follow it to the foreign markets. By following a partner company to abroad, a focal company would demonstrate its commitment to the business relationship. The general answer to where firms would internationalise is there where they and their networks see opportunities. The other option would be markets where partnering companies have a strong position. However, if a firm has no valuable connections, it might internationalize to markets where it is easy to create new connections. (Johanson & Vahlne, 2009.)

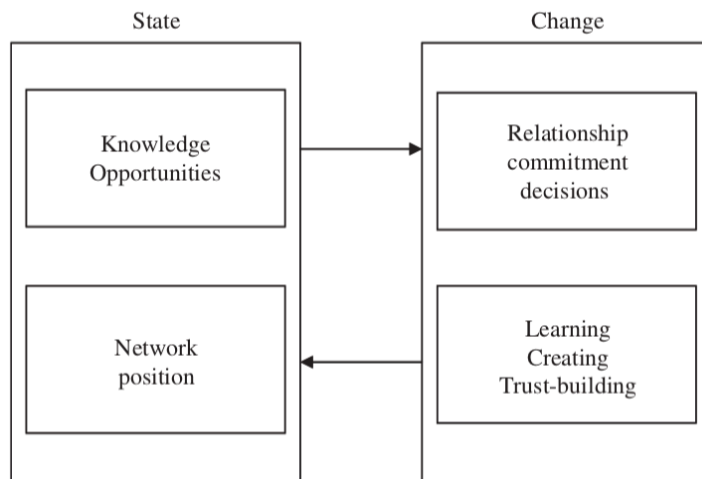


FIGURE 3 The business network internationalization process model (Johanson & Vahlne, 2009)

It was argued in the original paper (1977) that the Uppsala model would be more applicable for smaller firms as information is more relevant to larger firms. However, knowledge is highly context dependent. Therefore, it is argued that the model would be as applicable for smaller and larger firms. However, large firms may be better informed when acquiring a firm in a market that they are already operating in. In these cases, experience matters more than size. This may also explain why international new ventures may grow fast as firm already has access to knowledge and relationships. (Johanson & Vahlne, 2009.)

In summary, the revisited Uppsala model aims to demonstrate that opportunities may be the most important force driving the internationalization process. Like Johanson and Vahlne (2009) state, internationalization is a matter of creating opportunities instead of overcoming uncertainties. Therefore, it is essential for companies to identify the changes happening in their external business environment that can drastically affect their business. In this study, the opportunity is presented to be the changing trade agreement between the EU and Mercosur. Thus, it is studied in the empirical part if the Finnish companies are aware and have recognised that the trade agreement is about to change. Also, it is later studied if the agreement usually benefits companies and if the case companies actually perceive the changing agreement as an opportunity.

## 2.4 A changing business environment as a market opportunity

In case of a changing business environment it is essential to discover the new opportunities and threats created by the external changes. Therefore, this chapter clarifies the phenomenon under study with theoretical frameworks. Furthermore, companies can use this part to study their own businesses and business environment through the tools presented. Also, the variety of external factors affecting business is further studied in this chapter. In this case, the change in a

business environment is a change in political factors that are explained more specifically. As a part of political factors, the focus is from a changing trade agreement point of view of. The aim is to view if an external change would offer new opportunities or create challenges in theory.

According to Daniels, Radebaugh & Sullivan (2007, 418-429) the company's decisions or actions depend on the opportunities and risks of the external conditions in the host country. To analyse the market potentiality, the opportunities and risk can be viewed through different kind of frameworks. Porter's five competitive forces (Figure 4) is one of the most popular frameworks to analyse the industry and business environment where the company is operating in. It helps to analyse if there is potential in the market or if it should be avoided. Instead of analysing the financial projections and trend extrapolations the framework focuses on analysing the possible profitability and vulnerability to risks. In addition, the model can be implemented to all businesses when thinking about strategy regardless of a size or industry of a company. The forces that shape industry competition are 1. threat of new entrants, 2. bargaining power of buyers, 3. threat of substitute products or services, 4. bargaining power of suppliers and 5. rivalry among existing competitors. Besides the forces that shape competition, like five forces, Porter defines that there are factors affecting to business and highlights the importance of understanding the industry in order to make future plans. As mentioned before factors affecting business can be technological developments, political factors or innovations, for example. However, what is separating the forces and the factors is that the factors can change but the forces remain the same. (Porter, 2008.)



FIGURE 4 Porter's five forces

Furthermore, there are internal and external factors affecting business. However, because of the nature of this study the focus is on external factors only. There are multiple variables that affect the business operations but cannot be controlled. Although companies are not generally able to control the external factors such as weather or foreign policies, they must perform within the limits of those. PESTLE analysis is one of the most popular tools for analysing the external factors affecting business. It focuses on political, economic, sociocultural, technological, legal and environmental factors. All these are external factors that influence the business environment and hence, the business opportunities (Table 1). First, political factors describe the influence of a government and the extent it has on the economy or a specific industry. They include also e.g. tariff regulations, trade control and tax policies that are linked to this thesis. Economic factors determine the state of an economy. Second, economic factors usually have long term effects and can affect the demand and supply models, for example. Third, social factors define the social environment of the market such as cultural trends. Fourth, technological factors are determinants of innovations in technology and the development of technology. Fifth, legal factors include both external and internal sides as there are laws that affect the whole industry and laws that a company adopts for oneself. Sixth, environmental factors include the influence of surrounding environment such as climate and geographical location. Of course, some factors may be more essential to other industries than others and factors can have either positive or negative effects on business. However, the framework can be used for designing strategic management and analysing firm's goals and strategies. (PESTLE analysis, 2016; PESTLE analysis, 2019.)

Political factors are perhaps the most essential external factors in terms of this thesis as they include tariffs, for example, and thus, studied more closely. The political environment can influence the business operations in many ways by adding risks or creating opportunities, for example. It can affect the legal factors, economic environment, country's socio-cultural environment, emergence of new technologies and the acceptance of those. Therefore, it can even change the results of a business or how it can be operated. However, predicting the political environment can be hard. The political systems vary around the world and the political influence differs. Also, corruption can affect the business operations. (PESTLE analysis, 2015.)

TABLE 1 Political factors affecting business and their main effects on firms

Political factors affecting business	Main effects of the political factors on firms
<ul style="list-style-type: none"> <li>•Bureaucracy</li> <li>•Corruption level</li> <li>•Freedom of press</li> <li>•Tariffs</li> <li>•Trade control</li> <li>•Education law</li> <li>•Anti-trust law</li> <li>•Employment law</li> <li>•Discrimination law</li> <li>•Data protection law</li> <li>•Environmental law</li> <li>•Healts and safety law</li> <li>•Competition regulation</li> <li>•Regulation and deregulation</li> <li>•Tax policy</li> <li>•Government stability and related changes</li> <li>•Government involvement in trade unions and agreements</li> <li>•Import restrictions on quality and quantity ofproduct</li> <li>•Intellectual property law</li> <li>•Consumer protection and e-commerce</li> <li>•Laws that regulate environment pollution</li> </ul>	<ul style="list-style-type: none"> <li>•Impact on economy</li> <li>•Changes in regullation</li> <li>•Political stability</li> <li>•Mitigation of risk</li> </ul>

The political factors are linked to business operations as the political situation of a country has an impact on its economy. Correspondingly, the economic environment influences business operations. Also, there can be changes in regulation as governments can adjust rules or regulations that can affect the business. For example, social environment can urge the government to make a change in regulations due accounting scandal. Thus, political stability affects business operations. Especially in an international context, unstable political environment can disturb business operations. Although, there are insurances to reduce political risks, the economic freedom must be taken into account as well. (PESTLE analysis, 2015.)

For example, the index of economic freedom by the Heritage Foundation (2019) offers risk estimations and ranks countries based on the leverage of politics on business. The current situation of 2019 is presented on a heat map below (Figure 5). The scale is from 0 to 100, 0 being the most unfree. As can be seen from the heat map, there is quite a difference between Finland and the member countries of Mercosur (Argentina, Brazil, Paraguay and Uruguay), for example. Finland scores “mostly free” with 74.9 points. Countries of Mercosur are positioned between 51.9 to 68.6; Uruguay and Paraguay being “moderately free” and Argentina and Brazil being “mostly unfree”. Nevertheless, the overall score of Mercosur 58.6 implies lower economic freedom than in Finland. It seems that the most unfree factors in Finland are government spending (7.2), labour freedom (50.3) and tax burden (66.8) while every other factor’s score is “mostly free”. In turn, in Brazil, that is the most unfree county of Mercosur with 51.9 points, tax burden (70.5) and monetary freedom (75.5) are the only factors that

reach “mostly free” zone. Brazil scores the lowest points from government integrity (28.1) and fiscal health (5.9) while the other factors remain in the “mostly unfree” zone. (The Heritage Foundation, 2019)

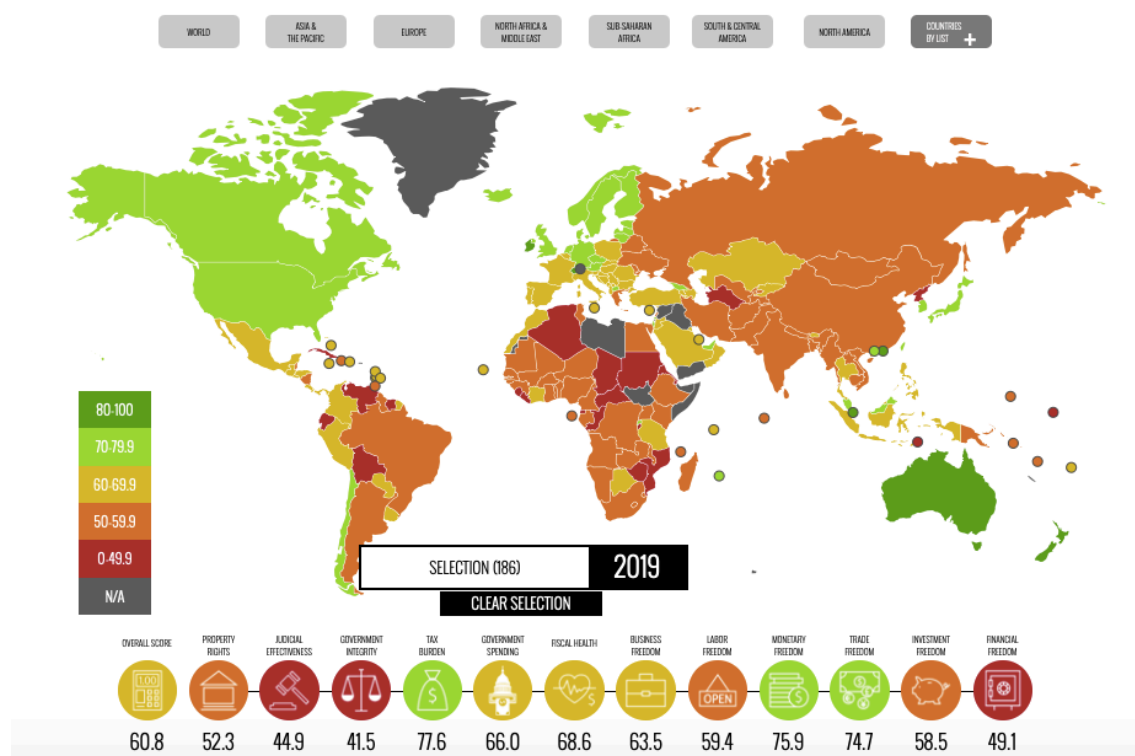


FIGURE 5 Economic freedom in the World (The Heritage Foundation, 2019)

## 2.5 Distance based trade

One of the tools used for considering international investments is country portfolio analysis or CPA. CPA underlines potential sales but fails to take account the costs and risks of operating in a new market. However, according to Ghemawat (2001), most of the costs and risks are caused by four types of distance that can affect the attractiveness of foreign markets. Also, for understanding factors of production and the distribution of goods, economists often rely on another model that is the Gravity Model (see for instance: Andersson, 2010). The Gravity Model presented by Walter Isard suggests that there is a positive relationship between trade and the size of the economy and a negative relationship between trade and distance. It produces the most robust empirical findings and it has long been one of the most prospered empirical models in economics. (Anderson, 2010.) Furthermore, models based on Gravity theory explain up to two-thirds of variations in trade flows between countries. By using the model, economists Jeffrey Frankel and Andrew Rose have estimated how big impact certain distance variables will have. The results are presented in table 2 later in this chapter. The CAGE model that is based on gravity, helps to recognize the

differences between countries. It identifies how and how much distance can influence and demonstrates how dramatically it can affect the company's strategic decisions. (Ghemawat, 2001.) Thus, this chapter studies the distance framework by Ghemawat (2001) and aims to demonstrate the position of trade agreements in market selection process.

However, distance does not refer only to geographical distance. The CAGE-model seeks to discover the individualistic differences between countries through cultural, administrative or political, geographic and economic factors. Cultural distance consists the cultural attributes that define the interaction between people, companies and institutions. For example, different language, race, social norms and religious beliefs can create cultural distance between countries. Linguistic differences are easily discovered but others are much subtler. Deeply rooted social norms that guide people in their everyday choices can be unconscious and hard to perceive. Especially consumer durable industries are sensitive to differences in consumer taste because cultural attributes impact to consumer preferences. (Ghemawat, 2001.)

As presented also in the chapter two, administrative or political distance widely influence the trade between countries. For example, friendly colony-colonizer relationship can increase trade up to 900 percent. Also, common currency and political union can boost trade by more than 300 percent. One of the leading examples of reducing the administrative and political distance between trading partners is the European Union or EU. (Ghemawat, 2001.) The distance factors most influencing on trade are presented in the table two (Table 2).

TABLE 2 The impact of distance on international trade (Ghemawat, 2001)

Distance attribute	Change in International Trade (%)
Income level: GDP per capita (1% increase)	+0.7
Economic size: GDP (1% increase)	+0.8
Physical distance (1% increase)	-1.1
Physical size (1% increase) *	-0.2
Access to ocean *	+50
Common border	+80
Common language	+200
Common regional trading bloc	+330
Colony-colonizer relationship	+900
Common colonizer	+190
Common polity	+300
Common currency	+340
*Estimated effects exclude the last four variables in the table	

In addition, geographic distance affects the ease of doing business. The further away a country is, the harder it is to conduct business in that country. The geographic attributes cover not only the distance between countries but other measurements such as physical size of the country, access to waterways and topography. Also, transportation and communication infrastructures have a great effect because the cost of transportations. Product that have low value-to-



weight, low bulk ratios or are fragile such as fruits become more expensive to transport as the distance increases. (Ghemawat, 2001.) The attributes creating distance and certain industries or products most affected by distance are presented in the table three (Table 3).

TABLE 3 Distance framework (Ghemawat, 2001)

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<b>Attributes creating distance</b>	<ul style="list-style-type: none"> <li>• Different languages</li> <li>• Different ethnicities; lack of connective ethnic or social networks</li> <li>• Different religion</li> <li>• Different social norms</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of colonial ties</li> <li>• Absence of shared monetary or political association</li> <li>• Political hostility</li> <li>• Government policies</li> <li>• Institutional weakness</li> </ul>	<ul style="list-style-type: none"> <li>• Physical remoteness</li> <li>• Lack of common border</li> <li>• Lack of sea or river access</li> <li>• Size of country</li> <li>• Weak transportation or communication links</li> <li>• Differences in climates</li> </ul>	<ul style="list-style-type: none"> <li>• Differences in consumer incomes</li> <li>• Differences in costs and quality of:               <ul style="list-style-type: none"> <li>○ natural resources</li> <li>○ financial resources</li> <li>○ human resources</li> <li>○ infrastructure</li> <li>○ intermediate inputs</li> <li>○ information or knowledge</li> </ul> </li> </ul>
<b>Industries or product affected by distance</b>	<ul style="list-style-type: none"> <li>• Products have high linguistic content (TV)</li> <li>• Products affect cultural or national identity of consumers (food)</li> <li>• Product features vary in terms of:               <ul style="list-style-type: none"> <li>○ size (cars)</li> <li>○ standards (electrical appliances)</li> <li>○ packaging</li> </ul> </li> <li>• Products carry country specific quality associations (wines)</li> </ul>	<ul style="list-style-type: none"> <li>• Government involvement is high in industries that are:               <ul style="list-style-type: none"> <li>○ producer of staple goods (electricity)</li> <li>○ producers of other "entitlements" (drugs)</li> <li>○ large employers (farming)</li> <li>○ large suppliers to government (mass transportation)</li> <li>○ national champions (aerospace)</li> <li>○ vital to national security (telecommunications)</li> <li>○ exploiters of natural resources (oil, mining)</li> <li>○ subject to high sunk costs (infrastructure)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Products have a low value-to-weight or bulk ratio (cement)</li> <li>• Products are fragile or perishable (glass, fruit)</li> <li>• Communications and connectivity are important (financial services)</li> <li>• Local supervision and operational requirements are high (many services)</li> </ul>	<ul style="list-style-type: none"> <li>• Nature of demand varies with income level (cars)</li> <li>• Economies of standardization or scale are important (mobile phones)</li> <li>• Labour and other factor cost differences are salient (garments)</li> <li>• Distribution or business systems are different (insurance)</li> <li>• Companies need to be responsive and agile (home appliances)</li> </ul>

The greatest economic attribute that generates distance between countries is the difference in wealth or income of consumers. It is suggested that rich countries have more cross-border economic activity considering the economic size compared to poorer countries. Most of the action occurs between rich countries despite the wealth of the countries. Rich countries trade with other rich countries and poor countries trade with rich countries. In many cases, disparity in supply chains and distribution channels may be a barrier to business. In addition, depending on the industry, it can be more convenient to duplicate existing business model in economically similar environment. Countries that are physically remote, larger or are landlocked seem to trade less, while economically richer countries seem to trade more. In addition, countries that have common regional

trade association, share a language or land border trade more. Also, shared colonial ties and history seems to encourage trade. (Ghemawat, 2001.) Certain industries and products that are the most sensitive and less sensitive to distance based on the CAGE-model are presented in the table four below (Table 4).

TABLE 4 Industry sensitivity to distance (Ghemawat, 2001)

	Cultural Distance Linguistic Ties	Administrative Distance Preferential Trading Agreement	Geographic Distance Physical Remoteness	Economic Distance Wealth Differences
<b>More sensitive</b>	<ul style="list-style-type: none"> <li>Meat and meat preparations</li> <li>Cereal and cereal preparations</li> <li>Miscellaneous edible products and preparations</li> <li>Tobacco and tobacco products</li> <li>Office machines and automatic data-processing equipment</li> </ul>	<ul style="list-style-type: none"> <li>Gold, nonmonetary</li> <li>Electricity current</li> <li>Coffee, tea, cocoa, spices</li> <li>Textile fibres</li> <li>Sugar, sugar preparations, honey</li> </ul>	<ul style="list-style-type: none"> <li>Electricity current</li> <li>Gas, natural and manufactures</li> <li>Paper, paper-board</li> <li>Live animals</li> <li>Sugar, sugar preparations, honey</li> </ul>	(Economic distance decreases trade) <ul style="list-style-type: none"> <li>Nonferrous metals</li> <li>Manufactures fertilizers</li> <li>Meat and meat preparations</li> <li>Iron and steel</li> <li>Pulp and waste paper</li> </ul>
<b>Less sensitive</b>	<ul style="list-style-type: none"> <li>Photographic apparatuses, optical goods, watches</li> <li>Road vehicles</li> <li>Cork and wood</li> <li>Metalworking machinery</li> <li>Electricity current</li> </ul>	<ul style="list-style-type: none"> <li>Gas, natural and manufactured</li> <li>Travel goods, handbags</li> <li>Footwear</li> <li>Sanitary, plumbing, heating and lighting fixtures</li> <li>Furniture and furniture parts</li> </ul>	<ul style="list-style-type: none"> <li>Pulp and waste paper</li> <li>Photographic apparatuses, optical goods, watches</li> <li>Telecommunications, sound-recording apparatuses</li> <li>Coffee, tea, cocoa, spices</li> <li>Gold, nonmonetary</li> </ul>	(Economic distance increases trade) <ul style="list-style-type: none"> <li>Coffee, tea, cocoa, spices</li> <li>Animal oils and fats</li> <li>Office machines and automatic data-processing equipment</li> <li>Power-generating machinery and equipment</li> <li>Photographic apparatuses, optical goods, watches</li> </ul>
	← MORE SENSITIVE			LESS SENSITIVE →

However, it must be noted that the models offered in this study are directive as those have shortcomings, are not absolute truths and have been complemented as the research develops (see for instance: Johanson & Vahlne, 2009). Although, the models are somewhat imperfect, those are used in order to explain the phenomenon under study. Nevertheless, it seems that the research is missing a one unified model that would explain the market selection from all of the different aspects all at once. The earlier research suggests variable models for market selection but most of them consider that the markets should be evaluated based on economic, political, social and technological criteria (see for instance: Miečinskienn, Stasytytė and Kazlauskaitė, 2014). However, Miečinskienn et al. (2014) argue that the new markets should be considered rather as an investment. According to Miečinskienn et al. (2014) determining the most important criteria for the company is the most essential thing to do in the beginning of the process of market selection. However, the criteria depends on a company in question. Second, after determining the criteria, a company can consider their values, so that the target market can be identified.

Miečinskienn et al. (2014) argue that a company should select the market for investment as they cannot use all possibilities at the same time. Based on Miečinskienn et al. (2014) findings, the efficiency of international trade depends on successful market research. Furthermore, Miečinskienn et al. (2014) argue that *there is no unique model* that would allow all of the companies to choose the right markets for them. In turn, the researchers suggest that companies should *adapt the models* to their use in particular situation. Thus, determining the criteria is at the core of market selection process like Miečinskienn et al. (2014) suggest.

In order to sum up all the above mentioned, the role of a trade agreement in market selection process is described in the figure six (Figure 6). Like Miečinskienn et al. (2014) suggest, the process should be started by defining the company-specific criteria for market selection and then, continue with market research. It is suggested by Johanson and Vahlne (2009) that internationalization decision may depend on networks and opportunities. Opportunity in this case is a changing trade agreement that changes the institutional conditions and external conditions of a host country. In turn, institutional conditions and other external conditions affect the possibilities and limitations as well as the risk and opportunities of doing business like Daniels et al. (2007, 418-429) explain. The distance factors presented by Ghemawat (2001) describe the influence of distance attributes in a more detailed mater. Also, PESTLE analysis studies the influence of political factors and sums the effects of trade agreements on firms. The process in the figure six is described as a cycle as market research and trade agreements as part of it can affect the decision making. In other words, the companies may decide to enter or reject the new market based on the market research. If the new market entry is considered as an investment like Miečinskienn et al. (2014) suggest, the combined influence of the criteria and market research may start the process from the beginning depending on whether the investment is considered good or bad. Hence, the role of trade agreements as part of the process is studied further in the next chapter that studies the emergence of trade agreements, different trade theories and further investigates the influence of trade agreements on market selection. The aim is to find out how trade agreements affect companies and what does a changing trade agreement mean for companies in general.

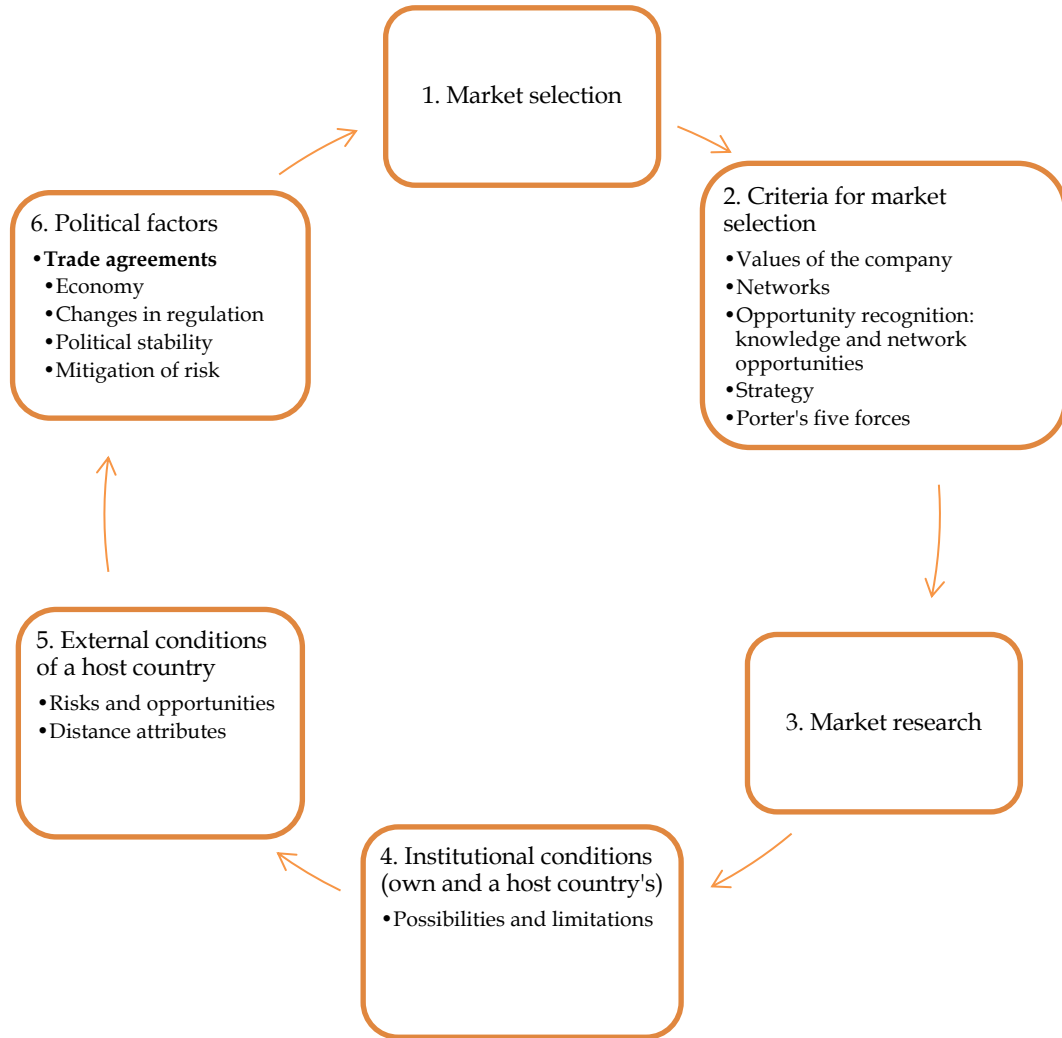


FIGURE 6 The role of trade agreement in market selection

## 3 INTERNATIONAL TRADE AGREEMENTS

### 3.1 Emergence of international trade

This chapter introduces international trade theories in order to perceive the background behind trade agreements. Economic policies have been shaped by the international trade theory for the past 50 years. The international trade theory was behind the formation of regional trade blocks, GATT and later, the WTO. Thus, it is necessary to understand, according to Hill (2011, p. 160), the different trade theories and why they have been so effective in forming the economic policies and business environments.

Since Adam Smith proposed in 1776 that free trade would be beneficial to a country, most of the economist have agreed that free trade improves overall economic welfare. Smith argued that market mechanism should be changed in a way that a government does not determine what a country imports and exports but encourages unrestricted free trade. Free trade refers to circumstances where a government does not try to influence with the help of duties and quotas what its citizens can purchase from abroad and what they can manufacture or sell to other countries. (Hill, 2011, p. 160.) The system that Smith proposed would allow countries to specialize in goods they can produce cheaply and efficiently compared to other countries. Thereby, the specialization would enable countries to attain higher incomes according to the Library of Economics and Liberty. (Econlib, 2019.)

An English economist David Ricardo complemented the international trade theories by presenting the theory of comparative advantage in the 19th century (Hill, 2011, p. 160). According to Lutz (2008) it became the foundation of modern intellectual argumentation on free trade as it seemed impossible for scholars to admit that comparative advantage would be a useless concept. However, one of the most controversial argument against Ricardo's theory was pointed out by social economist John Culbertson as he argued that trading happens between corporations, not nations. Culbertson's argument is supported, for instance, by Davies (2006) who also argued that trading happens between individuals and businesses, not countries (Davies, 2006). Therefore, it is presented that trade is affected by absolute advantage and absolute cost levels rather than just comparative advantage. (see for instance: Lutz, 2008.)

In turn, the New Trade Theory was presented by Paul Krugman in 1980s. According to the theory, in some cases, companies can gain a competitive advantage by specializing in the production and exporting of some particular products. However, the new trade theory differs from the earlier Richardo's theory that presented that countries should specialize in certain goods. According to Krugman's theory, the competitive advantage is reached not because of the differences between countries but because there can only be limited number of firms in certain industries. For example, aircraft industry is substantial hard to enter. Thus, Krugman argued that there may be a link between the trade of

certain nation and the ability to exploit first mover advantages. Krugman won a Nobel Prize in 2008 for the theory he presented. (Hill, 2011, p. 162.)

The benefit of all the above-mentioned theories is that those define the advantages of international trade. The theories do not only study why international trade would be beneficial but also why it would be beneficial in a situation where we would be able to produce ourselves. It is common sense that some level of international trade is beneficial according to Hill (2011, pp. 160-162). For example, imported goods that are impossible or hard to produce domestically (such as growing bananas in Finland), can be imported from other countries. The theories suggest that the main benefit of international trade is that it allows countries to specialize in manufacturing and exporting of certain products that are produced most efficiently. In addition, it is suggested that goods that are produced more efficiently elsewhere should be imported anyhow. (Hill, 2011, pp. 160-162.)

There are always winners and losers in international trade. Foreign firms are needed for trade liberalization as they bring import variety gains. However, foreign firms may force some domestic firms to exit which causes domestic variety losses. In addition, it is also argued that foreign firms may affect the productivity of both domestic and foreign ones (see for instance: Hsieh, Li, Ossa & Yang, 2018). Nevertheless, economist have argued that the benefits for winners outweigh the costs for losers, so that the net gain is positive. Free trade increases economic growth and improves living standards of all parties (see for instance: Hill, 2011, pp. 160-162).

The economic arguments of free trade may be hard to accept for all of the population of a county. Although free trade may be beneficial for the overall economy, it might hurt the domestic shareholders and employees of certain industry (see for instance: Hill, 2011, pp. 160-162). By removing trade barriers on particular goods, domestic production may be hurt. Hence, groups that are injured by foreign competition may oppose free trade. As a result, the producers may demand importing quotas and tariffs to protect their own manufacturing from foreign importers. Sometimes domestic companies may even have enough political power to achieve protection versus imports. For example, according to the U.S. International Trade Commission, the U.S. textile and apparel industry has been successful in obtaining tight restrictions on imports despite the lost net gains. (Econlib, 2019.) Import controls may serve the interest of domestic producers, but it is argued that the economy as whole will be hurt as import limitations rarely serve the domestic consumers. (Hill, 2011, pp. 160-162.)

There are studied that support the claim (see for instance: Fajgelbaum et al., 2019). Protectionist measures rarely protect the consumers but single actors. For example, it is studied that the U.S. trade war and its protectionist measures have been at the cost of U.S. consumers as the trade war impacts both imports and exports. The tariffs protected sectors that were concentrating in competitive countries while the foreign counter actions had impact on sectors concentrating on republican countries. Therefore, it is suggested that even though the overall influence is small, the distributional impact is significant. Thus, the workers in

tradeable sectors faced the largest losses. However, the long-run impacts remain to be seen in this case. (Fajgelbaum et al., 2019.)

## 3.2 International trade organizations

### 3.2.1 Emergence of trade organizations

As the markets globalize there has been need for institutions that help to manage and regulate the global marketplace. Institution that have been established to police these activities include the General Agreement on Tariffs and Trade (GATT), later the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank, the United Nations (UN) and G20. The WTO was established first of January in 1995 in Geneva, Switzerland. By 2019, the organization included 164 member countries that covers 98 per cent of the world's total trade. (Hill, 2011, pp. 9-11; World Trade Organization, 2019.)

Like GATT before, the WTO aims to assure that trade occurs as smoothly and freely as possible. Its primary duty is to police the world trading system and ensure that the rules are complied. Although the cornerstone of the agreements the WTO negotiates is to non-discriminate the goods entering to a country, sometimes the goal is to keep markets closed in order to protect customers or prevent diseases, for example. Moreover, according to the WTO, the agreements aims to increase predictability of confidence of individuals, companies and governments about trade policies. After all, the agreements are negotiated and signed by governments that try to obtain social and environmental needs and help businesses, exporters and importers to operate more effortlessly like Hill (2011, pp. 9-11) explains. The members of WTO together settle the conditions of trade, tariffs and how to remove trade barriers. If desired, individual countries can further intensify their trade relations and liberalize bilateral trade by concluding trade agreements. (Hill, 2011, pp. 9-11; World Trade Organization, 2019.)

The EU has common trade policy, which means that trade relations with non-EU countries are defined at the EU level. As a result, Finland as a member of the EU does not negotiate trade agreements alone, but the agreements are negotiated by the EU. In the EU, the European Commission is responsible for the negotiations. The EU (and Finland as part of it), has around 70 trade deals with countries outside of the EU. In general, the trade agreements help producers to access foreign markets and offer better opportunities for them. Also, the trade deals benefit domestic customers as product and service selection expand, and prices may fall. In a macro level, the trade agreements have positive influence on economic growth, employment and market competitiveness, according to Ministry of Foreign Affairs of Finland (2019a; 2019b). (Ministry for Foreign Affairs of Finland, 2019a; Ministry for Foreign Affairs of Finland, 2019b.)

### 3.2.2 Influence of membership on trade

As mentioned before, the distance framework presented by Ghemawat (2001) broadly explains the differences in international trade. Therefore, it can be argued if the trade agreements actually encourage international trade. However, it is also suggested that the effects of free trade agreements are also depending on whether the agreements are treated as endogenous or exogenous (see for instance: Feenstra, 2004, p. 335). Nevertheless, numerous of new trade agreements have been made over the past few decades. Thus, one might expect that the obvious reason behind the agreements is that those will increase the members' international trade like Baier and Bergstrand (2007) as well as Rose (2003) argue.

There are studies arguing that generalized system of preferences (GSP) is positively related to trade growth. The GSP is a system that grants tariff benefits for developing countries (United Nations Conference on Trade and Development, 2019). Studies show that it has potential to even double the trade, but it has to be noted that the benefits only concern the developing countries. In addition, studies show that preferential trade agreements (PTAs) can increase trade too. Although, PTAs do not strictly concern trade, they have substantial effect on trade as they protect intellectual property rights and investments as well as present opportunities for foreign bidders. Even though PTAs can boost members trade, it can be at the expense of non-members. (Baier & Bergstrand, 2007; Dee & Gali, 2005; Rose, 2003.)

Berger, Busse, Nunnenkamp and Roy (2013) argue that previous literature ignores the content of regional trade agreements (RTAs) and bilateral investment treaties (BITs) and treats those as "black boxes". The scholars present that the influence of trade and investment agreements on foreign direct investments (FDIs) is obscure. Also, Berger et al. (2013) note that FDIs are depending on the content of an agreement. It is discovered that especially liberal admission rules and effective dispute settlement can boost bilateral FDIs. However, it seems that RTAs or BITs do not offer anything specific to foreign investors. For this reason, it is suggested that future research should focus on the discrepancy between the agreements and the investors. (Berger, Busse, Nunnenkamp and Roy, 2013.) It remains to be seen how the trade agreement between the EU and Mercosur will affect the investors' behaviour on a longer term but as Berger et al. (2013) suggest the short-term prospects of Finnish companies will be studied later in chapter three and four.

Research by Baier and Bergstrand (2007) indicates that membership either in WTO or GATT does not increase the total trade itself. Regardless of belonging to the WTO or GATT or being non-members countries have similar trade patterns, nonetheless. So, why would economists still hold WTO or GATT trade agreements as important factors that will increase international trade? The reason seems to be that if the other gravity effects are not hold constant quantitatively, WTO or GATT agreements will have much greater impact. Also, there are industry specific differences. For example, the multilateral trade system has been more successful in other industries than others, such as liberalizing trade



in e.g., agriculture and textiles. (Baier & Bergstrand, 2007; Rose, 2003.) However, it is concluded by Krishna (2012) that multilateral trade agreements remain relevant and desirable for the members of the WTO. Thus, it can be stated that the trade agreements remain relevant and desirable also for the EU and Mercosur that are studied in this thesis.

### 3.3 Different types of international trade agreements

It might seem odd that countries would like to compromise the control they have by signing trade agreements. However, it is suggested by Grossman (2016) that countries would prefer interdependence. The policies defined by a government do not only affect the well-being of its own citizens but also the other nationalities. Unilateral policies may fail to recognise the effects of their actions on foreign nationalities. A trade agreement provides a way to incorporate these external effects. Every government would want others to consider them when setting policies. Cooperating and expressing a willingness to take into account other government's concerns is the only way to make sure that they would act accordingly. Nevertheless, like other scholars (see for instance: Krishna, 2012) also Grossman (2016) suggests that the advantages of a contract must be identified first by predicting the trade without cooperation. (Grossman, 2016.)

While majority of economist agree that free trade is preferable, they disagree about the best way to transfer from tariffs and quotas to free trade. The three primary systems are bilateral, multilateral and unilateral trade agreements. Unilateral trade agreements aim to tariff reductions independently without mutual action by other countries. The advantage is that parties benefit the advantages of free trade instantly. Countries that lower the tariffs by themselves do not have to wait for common agreements while convincing others to do the same for them. According to the Library of Economics and Liberty (Econlib, 2019), the gains are significant as several studies indicate that trade liberalization leads to faster income grows in countries that are more open to trade. (Econlib, 2019.)

For many countries, the above-mentioned unilateral system is the only influential way to reduce trade barriers. However, bilateral and multilateral systems have two advantages compared to unilateral system. First, the economic benefits of international trade are strengthened and enhanced when several countries or regions agree to reduce trade barriers together. By expanding the markets, the unified liberalization of trade increases competition and specialization between countries, leading to greater efficiency. Second, multilateral system may reduce political objection against free trade if opposing group sees an opportunity to export to another countries. Generally, it is argued that the best possible system would be multilateral system that includes all major trading partners as it allows all of the members to accomplish greatest possible gains from trade. However, maintaining and extending the multilateral system

may be challenging. Multilateral agreements are slow to negotiate as those include more members and opinions. (Econlib, 2019)

Consequently, many countries resort to bilateral trade agreements. Few examples of bilateral or regional trade agreements are NAFTA (North American Free Trade Agreement) and the free trade area of the EU, for example. The benefit of bilateral or regional trade agreement is that it encourages trade among the parties of the agreement. They can fasten the global trade liberalization. Countries that are excluded from the bilateral trade agreement can be encouraged to join and reduce their own barriers to trade. Nevertheless, the advantages of trade agreement must be always counterbalanced to disadvantages. By excluding certain countries from bilateral agreement, the manufacturing may shift from low-cost countries to high-cost countries. For example, if the tariffs are eliminated from high-cost country and the manufacturing shifts to low-cost country, consumers may be able to purchase goods cheaper, but the government will lose their tariff revenues. However, it seems that both multilateral and bilateral trade agreements will remain in the world economy. (Econlib, 2019.)

Although, it is proved that free trade improves economic performance and raises overall incomes, antiglobalization protesters argue that such agreements do not serve the interest of workers but multinationals. One motivation to include labour and environmental standards in the agreements is the fear that unrestricted trade would lead multinationals to just search for the lowest wages and ignore environmental regulations in order to cut costs. However, the controversial issue is that especially the labour unions and environmentalists of rich countries have supported labour and environmental standards. The danger is that favouring such standards may simply be an excuse for protectionism in rich countries which would hurt workers in poor countries. Thus, people in poor countries, have surprisingly but strongly opposed such standards. However, agreements include labour and environmental standards nowadays. Labour standards include regulations about minimum wage and working conditions and environmental standards are intended to prevent trade if environmental damage is feared. (Econlib, 2019.) This kind of environmental standards can be found from the EU-Mercosur agreement that is studied more specifically later in this chapter.

### **3.4 Advantages and disadvantages of international trade agreements**

It can be concluded that the style and characteristics of a trade agreements are different. Thus, the effects of the agreements are agreement specific and should be reviewed separately in every case. (Dür, Baccini, Elsig & Milewicz, 2014.) In addition, the success of a trade deal depends on what is measured in the first place, whether the goal is to increase trade or welfare. Depending on the research, the outcome of studies related to tariffs and welfare differ, for example.

In other studies where prices are fixed, tariffs could not raise the welfare of all groups. In turn, other studies show that tariffs could raise welfare of all groups and improve the terms of trade. However, countries that use import tariffs to enhance the terms of trade can harm other countries. Thus, the role of trade organisations such as the WTO increases. (Feenstra, 2004, p. 335; Goldberg & Pavcnik, 2016.) Nevertheless, it is admitted that measuring and identifying of causal effects can be hard. Also, studying actual cases is encouraged over hypothetical ones. (Goldberg & Pavcnik, 2016.) The empirical data of this thesis is presented later in order to join the conversation through actual cases.

However, the importance of trade policy is often forgot as it is hard to measure the impact of non-tariff barriers. Despite, the measurement challenges, there is evidence that trade policy has significant effects on economically important outcomes. The importance of trade policies grows especially when it is linked to other development directions such as technological changes. (Goldberg & Pavcnik, 2016.)

In addition, it has to be recognised that countries have different potential gains from trade. While it might be hard to give specific recommendations for a single country based on large samples, those offer a more generalized observations (Berger et al., 2013). Quantitatively, countries that have more developed economies or higher volume of trade may look less open to trade. However, they often have more resources such as technology and funding available which raises their positions to be more open to trade than poor countries. Thus, it is argued that rich countries are more open to trade while poor countries are less open. However, poor countries have in turn greater potential to gain from trade compared to rich countries. (Waugh & Ravikumar, 2016.)

For example, the websites of the Balance (2019), the leadership and career blog Future of working (2019) as well as the blog of Intelligent Economist (2019) gather the advantages and disadvantages of free trade agreements in a more compact form. The table five combines the most significant advantages and disadvantages of free trade agreements and aims to present those in a more compact form (Table 5). (Future of working, 2019; Intelligent Economist, 2019; the Balance, 2019.)

TABLE 5 Advantages and disadvantages of trade agreements

Trade agreements	
Advantages	Disadvantages
Increased economic growth	Increased job outsourcing
Technology transfer	Poor working conditions
Lower government spending	Degradation of natural resources
Specialization / competitive advantage	Dependence of other countries

Increase in world production and consumption	May be an obstacle to the development of domestic industries, businesses and producers
Prevents monopolies	“Empire builders” (colonialism, imperialism)
Connections and networks with other countries	Import of harmful goods
Factors boosting each other	Rivalry and friction
Benefits to consumers <ul style="list-style-type: none"> <li>• more options</li> <li>• lower prices</li> </ul>	
Efficiency and utilisation of resources	
Corruption and bribery are more likely to occur in protectionism	

### 3.5 The EU and Mercosur trade relationship

The discussion of global actor took over already in the 20th century when the concept of actor capability was formed. Since then, actor capability is defined to be “capacity to act actively and purposely in proportion to other actors in the international scene”. Thus, political and economic unions such as the EU or Mercosur can be held as global actors. According to Gomez Arana (2017, p. 5.) the EU is influencing almost everywhere in some level at least while some scholars question the role of the EU as a global influencer. However, it can be agreed that the EU is considered a force of international arena. It affects in international affairs such as trade, international relations, regional integration, democracy, governance as well as human rights and security policies. (Gomez Arana, 2017, p. 5.)

Global actorness can be divided to three characteristics that are opportunity, presence and capability. Opportunity signifies the external conditions that can benefit or restrict action. Presence refers to the ability to influence over the borders. It compounds the understanding of identity and the consequences of internal policies. It does not necessarily refer to external actions but rather conceptualises the ability to form the expectations, perceptions and behaviour of others. Capability is linked to presence that refers to capability of internal resources in external action. A global actor’s capability can restrict or enable action and therefore, in turn, affects the possibility to respond to opportunities. (Gomez Arana, 2017, pp. 5-7.) Therefore, it can be stated that the EU’s activities significantly impact the member countries and companies inside the EU.

In turn, the Common Market of the South (Mercosur) is the most important regional trade organization relationship that the EU has (see for instance: Gomez Arana, 2017, p. 1). It was founded in 1980 when Argentina and Brazil wrote a free trade agreement. As reductions in tariffs and quotas helped to increase trade about 80 percent, Paraguay and Uruguay joined the treaty in

March 1990. In 2005, also Venezuela joined to Mercosur but was terminated in 2016 (Yle, 2018). For decades, most of the countries in Latin America were ruled by dictators and foreign direct investments were restricted. Low growth, high debt and hyperinflation was characteristic for the countries. Consequently, uncertain and poorly managed economies discouraged foreign companies to invest in Latin American markets. However, much has changed during recent years. Today Mercosur is the biggest trade bloc in South America as three-quarters of the continent's trade occur in the area of Mercosur. In most of the Latin American countries, foreign direct investments are welcomed, debt and inflation are down, state-owned enterprises have been sold to private companies and the economies have expanded. In Mercosur, Brazil in particular, has led the way. The changes have increased the attraction of exports and foreign direct investments. Nevertheless, the conditions of Latin America remain more uncertain compared to the EU as seen in the case of Venezuela, for example. (Hill, 2011, pp. 23, 284.)

Mercosur is a region of 260 million consumers and so, the world's seventh largest economy and fifth largest market outside the EU. The annual gross domestic product (GDP) is €2,2 trillion. Despite the closed markets of Mercosur with high tariff and non-tariff barriers, there are 60,500 EU companies in Mercosur. It is a market for EU goods worth €42 billion and services worth €22 billion. Furthermore, Mercosur is a major destination for EU investments with €378 billion in investment stocks. (European Commission, 2018b.)

According to European Commission, in 2018, the total trade between the EU and Mercosur was €87,601 million which is 2,2 percent in the total trade of the EU. The balance was in the interest of the EU as €42,553 million were imports and €45,048 million were exports. The most imported as well as exported AMA and NAMA products were agricultural products, fishery products and industrial products. The most traded imports in HS sections were foodstuffs, beverages and tobacco, mineral products, vegetable products, pulp of wood, paper and paperboard and products of the chemical or allied industries. The most traded exports in HS sections were machinery and appliances, products of the chemical or allied industries, transportation equipment, base metals and articles thereof and mineral products. Overall, most of the imports from Mercosur to the EU were primary products whereas most of the exports from the EU to Mercosur were manufactures. For Mercosur, the EU is the second largest import and export partner after China when measured in trade value. For the EU, Mercosur is not, yet at least, in the top 10 largest trading partners. (European Commission, 2019.)

For Finland Mercosur is the 10<sup>th</sup> biggest trading partner outside the EU. There are 696 Finnish companies exporting to Mercosur of which 79 percent are SMEs. The value of Finnish exports to Mercosur is €823 million and the value of imports from Mercosur to Finland is €679 million. It is calculated that there are 13,000 jobs in Finland that the EU exports to Mercosur are supporting. In the EU, there are 855,000 jobs in total that are supported by the EU exports to Mercosur. It is anticipated that the new free trade agreement will boost the trading relationship onward. (European Commission, 2020.)

To sum, significant opportunities may be accompanied by significant risks. From economic point of view, more favourable external conditions such as open regionalism and more democratic Mercosur could offer better opportunities for the EU. For Mercosur, the size and influence of the EU can be attractive. They may value the possibilities of the EU to counterbalance the power of the US in the American continent. On the other hand, the EU is criticised for that it does not use its full potential in external relations. (Gomez Arana, 2017, p. 6-7, 200.)

Nevertheless, the new free trade deal can be hold as a strong signal in a favour of free trade. For example, the protectionist trade policy currently pursued by US President Donald Trump is experienced as a threat to the multilateral trading system and to the growth of the global economy. According to Kauppalehti (2019), with the Mercosur trade agreement, the EU aims to show that it is not dependent on the United States. And at the same time, the EU is taking the lead in pursuing free trade. (Kauppalehti, 2019.) The details of the Mercosur agreement are presented in the next chapter.

### **3.6 The negotiated EU-Mercosur free trade agreement**

The free trade agreement between the EU and the Mercosur has been negotiated for more than 20 years. Needless to say, Mercosur has not been very active in pursuing free trade deals. The full members of Mercosur have veto right and thus the domestic politics have been vulnerable. Nevertheless, in the past three years the trading bloc has agreed to move towards trade liberalization and pursue free trade agreements. (Stratfor, 2018.) So being said, the EU and Mercosur finally reached an agreement on 28th of June in 2019. However, only a preliminary agreement is reached so far. The agreement still requires the approval of the European Parliament and national parliaments, which can take years. (Kauppalehti, 2019.)

The EU and Mercosur have had an association agreement (Gomez Arana, 2017, p. 16) but they negotiated for a major free trade agreement as Vice-Chairman of the European Commission Jyrki Katainen describes in the article published by Helsingin Sanomat (2019). It is estimated that the new agreement will correspond eight EU-Canada agreements or four EU-Japan agreements which already have been major achievements for the EU. However, the agreement between the EU and Mercosur will be the biggest trade agreement in the whole world because of tariff reductions. (Ministry for Foreign Affairs of Finland, 2019; Yle, 2018.) Moreover, it will create a trade area for a total of 32 countries and about 775 million people (Helsingin Sanomat, 2019).

According to the European Commission (2018a) the goals of the agreement are from the EU's point of view "To remove barriers to help especially smaller EU firms to export more, strengthen people's rights at work and environmental protection, encourage companies to act responsibly, and uphold high food safety standards as well as protect quality EU food and drink products

from imitations". It is also mentioned that, the agreement aims to create jobs and new opportunities for both of the parties of the deal. (European Commission, 2018a.)

The key benefits of the deal for EU companies would concern tariff elimination, addressing non-tariff barriers to trade, services and establishment, public procurement as well as small and medium sized companies' provisions. One major benefit in tariff elimination would be that it eliminates very high custom duties in key sectors and those that are traded with a large volume. These sectors include cars and parts, machinery, chemicals and pharmaceuticals where tariffs are currently high. The elimination of tariffs would also apply to sectors with prohibitive tariffs. Prohibitive tariffs have kept trade low due to 35 percent tariffs on clothing and shoes and 26 percent on knitted fabrics. Consequently, compared to neighbouring markets, exports to Mercosur are currently remaining much lower. (European Commission, 2018b.)

Another benefit that the EU companies would have is that, if the deal is accepted in the parliaments, the EU companies would have a first mover advantage as the first free trade agreement partner of Mercosur (see for instance: Yle, 2018). In other words, EU companies would have better access to the markets of Mercosur than other businesses outside of the EU. Moreover, EU companies that already have business in the Mercosur would be able to improve their competitiveness because of the elimination of tariffs. For example, importing goods would be easier according to the European Commission (2018b). (European Commission, 2018b.)

Generally, the EU countries seek to open up new markets for industrial products, while agricultural products are the most important for Mercosur (Helsingin Sanomat, 2019). The EU argues that Mercosur should reduce tariffs on products imported from the EU, such as cars, equipment and dairy products as they are now imposing relatively high duties on imported products, even globally. For example, one has to pay 35 percent tariff on imported cars which has forced EU companies to build car factories in South America instead of direct exports. In addition, a duty of 12 to 35 percent is charged on pulp, paper, machines and equipment which are important export products for Finland, for example. (European Commission, 2018b; Yle, 2018.) Thus, it is generally considered that the free trade agreement will be a good thing for the Finnish economy and an export-driven country says MEP Elsi Katainen. (Maaseudun tulevaisuus, 2019). If the agreement is accepted in the parliaments, many large Finnish listed companies, such as Wärtsilä, Valmet and Kone, will be among the beneficiaries according to European Commission (Helsingin Sanomat, 2019). All in all, the agreement reached on June 2019 would eliminate duties for more than 90 percent of the products traded in the continents. According to EU invoices, it means savings of about EUR 4 billion for all European companies. (Kauppalehti, 2019.)

The aim of addressing non-tariff barriers is to simplify and unify custom procedures so that exporting is not restricted by any custom differences. There are only few other WTO members that Mercosur has opened its service markets

in limited extent. Most of the service companies operate in information technology, telecommunications, financial services, business services and transportation. The aim is to have better legal certainty to these already established EU companies in the Mercosur and open up the possibilities for newcomers. Furthermore, Mercosur does not belong to the plurilateral Government Procurement Agreement which means that public procurement markets are mostly inaccessible to EU companies. The agreement seeks that EU companies would be able to bid for valuable public acquisitions in the same way as companies from Mercosur are able to do in the EU already. One of the goals is also to benefit all sized companies and especially small and medium sized firms. Often, they face entry barriers because of tangled process, inadequate knowledge of regulatory requirements, costly certification requirements or ability to make direct investments (Yle, 2018). Furthermore, it is planned that both sides of the contract would set up an online platform to act as a source of information on preferential trading adjustments and import requirements. (European Commission, 2018b.)

The EU seeks a deal that can create possibilities for agriculture and food producers but protects sensitive products, advocates the EU's food safety standards and contributes sustainable production. Nevertheless, there are concerns about food safety standards (see for instance Helsingin Sanomat, 2019 and Maaseudun tulevaisuus, 2019). As the EU and Mercosur are located in different hemispheres, the production of some agricultural products is complementary. On the other hand, products such as beef, sugar, ethanol and poultry are sensitive for the EU. The agreement has been negotiated for a long time because above mentioned products are also the key export interest for Mercosur. Mercosur countries produce meat, fillets and steaks, especially in the expensive price range. Thus, Mercosur demands that they can bring those to the EU as much as possible and at the lowest possible tariffs. The positive effect for a consumer would be that the consumer prices could fall, and meat selection could expand. In turn, EU countries such as France and Ireland fear that South American competitors will destroy their own productions. For example, now most of the Irish beef goes to Britain. After Brexit, the British could stop buying beef from Ireland and start importing it from Argentina or Brazil, for example. (European Commission, 2018b; Yle, 2018.)

The solution presented is a partial liberalization mechanism (Kauppalehti, 2019). Tariff rate quotas would allow EU to safeguard the interest of EU farmers and regulate the exports from Mercosur. The EU assures that it will hold on to its food safety standards and the new trade deal agreement will not be signed at the expense of public health. In addition, Mercosur already imports major amount of beef and poultry to the EU and all the imports must meet the rigorous food safety standards. (Kauppalehti, 2019; European Commission, 2018b.)

In addition, both of the parties have committed to the Paris Agreement on Climate Change and aim to contribute sustainable production. According to the EU Commission, the Mercosur countries are committed, for example, to the



protection of forests, respect for workers' rights and responsible business (Helsingin Sanomat, 2019). However, supervising, for example, the animal and plant health can be challenging and traceability poor (Yle, 2018). Therefore, one of the goals is to strengthen cooperation with the authorities of the partner countries through competent information systems. (Kauppalehti, 2019; European Commission, 2018b.) It remains to be seen if the agreement negotiated is finally accepted in the EU parliaments and how these reforms will be carried out. The next chapter introduces the empirical data gathered for this thesis and the current views of Finnish companies about the EU-Mercosur free trade deal.

## 4 DATA AND METHODOLOGY

### 4.1 Methodologies used for data gathering and analysing

A good starting point for a research is that the knowledge is both adequate and legitimate (Blaikie, 2011). However, questions are asked and interpreted always with the understanding that one has at a given time. The premise of the study largely determines how and by what technique the subject is approached. In addition, according to Hirsjärvi, Remes & Sajavaara, (2009, pp. 160-164) the researcher's own values are always linked to the end results of a qualitative research. One cannot be completely separated from his or her own values, so it is inevitable that the values shape how the phenomenon under study is being explained. Furthermore, it must be noted that the researcher and the knowledge are intertwined and therefore, also the results will be limited. (Hirsjärvi, Remes & Sajavaara, 2009, pp. 160-164.)

However, critical thinking and any new knowledge needs to be justified. In order to rationally approach the subject, the form of reasoning needs to be selected. Reasoning itself can be divided to rule (1), explanation (2) and observation (3). According to Mantere and Ketokivi (2013) "inductive reasoning combines the observation (3) and the explanation (2) to infer the rule (1) and thus, moves from the particular to the general" (from 3 to 1). Inductive reasoning is used to build theories or frameworks that identify patterns. In other words, inductive reasoning relies on rallying points that are used in analysing and coding the data. Therefore, inductive reasoning or so-called grounded theory was selected as a method for this research. The objective of a qualitative data analysis is to "identify, examine, compare, and interpret patterns and themes" like Hair, Celsi, Money, Samouel and Page (2015) suggest.

The research process is designed to answer the research question and to achieve the objectives that have been set for this study. The primary data is used to answer to the research question. By creating content analysis using secondary data, the aim is to interpret and present the results of primary data as well as secondary data gathered for the study. Hence, the purpose of using primary and secondary data is to clarify and support each other.

The research is conducted like Ruusu vuori, Nikander and Hyvärinen (2010) suggest. They divide the research into seven different phases. The first phase is to define the research problem and to clarify the research question. The second phase is to select the right method for gathering the research data and gather the data. Third phase is to familiarize with the data and code it. Fourth phase is to categorize the data and to find the themes from it. After these steps, the data is analysed, and the themes compared. Also, the rules for interpreting are formed. In the sixth phase, the results are assembled, interpreted and compared to other existing results. In the seventh and final phase, theoretical dialog is formed, conclusions offered and the need for future research identified. (Ruusu vuori et al., 2010.)

#### 4.1.1 Qualitative research as a method

Qualitative analysis is not just one way of studying but because of its characteristics it is selected to be the most suitable research method for this study. The research uses qualitative methods as the main goal of qualitative research is to study human behaviour and explain “causes of effects”. While a quantitative research relies on numbers, qualitative research uses visuals and words. It emphasizes the significant nature of social phenomena and focuses on individual cases. It is not just collecting the statistics but focusing on reasoning of social and cultural factors. Thus, qualitative research is often used when something cannot be easily studied just by using numbers. In other words, the results are based on opinions and attitudes rather than measurable data. The advantage of qualitative research is that it allows to observe behaviour and its context. Furthermore, it is more practical to use qualitative methods to collect macro-level data from individuals and interaction if the focus is on values or power relationships, for example. (Hirsjärvi et al., 2009, pp. 160-163; Hirsjärvi & Hurme, 2001, pp. 25-27; Mahoney & Goertz, 2006; Lichtman, 2017.)

The common characteristics of a qualitative research were followed in this study. The premise of this study is an empirical study based on experience about the research subject. The research results are found by making concrete observations, analysing and measuring the objective. The concrete and collected research data is used as the centre and premise of the study like University of Jyväskylä (2015) suggests to study. The goal was to study the topic as versatile and detailed manner as possible. The information was collected from natural and real situations according to the characteristics of a qualitative study. Also, people were favoured as a source of knowledge-gathering as they have the ability to adapt to changing situations like Hirsjärvi and Hurme (2001, p. 36) suggest. The qualitative methods also enabled that the viewpoints of the subjects can be presented as well as possible. A clear and appropriate target group improves the reliability of the research and makes analysing of the results easier. Moreover, the research is supported by flexible and adaptable implementation. (Hirsjärvi et al. 2009, p. 164.) The approach is a case study approach as the results present the viewpoint of Finnish companies towards the EU-Mercosur free trade agreement that is used as the case under study. Moreover, like Hirsjärvi et al. (2009, pp. 160-164) mention, the cases should be handled individually and interpreted accordingly. Thus, also the results and views of case companies apply only in this research.

According to Ruusuvuori et al. (2010) the questions rising from the research data should be formed to open “what” and “why” questions as “yes” and “no” questions always include presumptions. According to Adams (2015), as the research method is somewhat hybrid, the report itself will most likely to be hybrid too. Usually, there are some hard numbers like in quantitative research if closed-ended questions were applied. These may be suitable for tables and graphs which may even increase the validity of the research like Ruusuvuori et al. (2010) suggest. Like Ruusuvuori et al. (2010) recommend, visualiza-

tion should be used if those help to understand the details and data of the research. The open-ended questions can be then brought to life with well-selected quotations and detecting themes that can be spotted from multiple answers. (Adams, 2015.) However, one cannot hide behind the data, but it needs to be systematically analysed after the coding like Ruusuvuori et al. (2010) suggest. In other words, only the well-selected quotations as such are not enough to describe the phenomenon under study. While coding and organising the themes, those will be parsed into more explicit and easier to analyse. However, like Ruusuvuori et al. (2010) point out, it is important that the themes formed are aligned in this process. The researcher should consider if the data gathered answers to the research question and if the study produces reliable and generalisable results about the phenomenon under study (see for instance: Ruusuvuori et. al, 2010).

In a qualitative research the reliability and validity of the research are estimated differently than in a quantitative research. In a quantitative research the reliability is estimated based on measurements and repetition. In turn, in a qualitative research the criteria is based on systematic approach and reliability of interpretation. In a systematic analysis, all of the choices and limitations made during the research are explained. In order to increase the reliability, the research material is submitted, the main observations explained, and limitations presented. Furthermore, to estimate the validity of the research both the research data and the observations made from the data need to be estimated. In other words, it is possible to speak about transparency and generalizability of the results in a qualitative research. However, generalizability in a qualitative research does not mean that the results could be applied to a larger group like in a quantitative research but the logic of potential. The results can be compared also to the whole research material of the study and so, increase the validity of the research. (Ruusuvuori et al., 2010.)

#### **4.1.2 Interviews as qualitative research method**

Like in quantitative methods, there are several different ways to conduct a qualitative research. One of the most popular ways to execute a qualitative research is to interview (see for instance: Adams, 2015 or Turner, 2010) in order to investigate the experiences and views of respondents of a particular topic (Turner, 2010). According to Adams (2015) one of the options to interview is to ask closed-ended questions typically from a larger sample. Compared to surveys, the other extreme is to have a small focus group (often ten to twelve respondents) and ask open-ended questions. However, a semi-structured interview (SSI) is a research method that falls between the extremes and combines elements from standardized and free form interviews. It consists a set of pre-selected questions with closed- and open-ended questions that are asked from one respondent at a time. The questions can be accompanied with why or how questions in order to reveal unforeseen issues and to gain more in-depth data. (Adams, 2015.) According to Turner (2010) SSI is the most suitable interview method when there are more respondents than just a single case but still not

very large number of respondents. As a method it is straightforward as the interviewer uses the same questions and usually the same order in every interview but there is possibility to elaborate the questions. (Turner, 2010.)

According to Turner (2010) the main concern of the SSI is to minimize research bias and increase generalizability of the findings. Like Adams (2015) point out, the method can be time consuming, require interview sophistication and a lot of labour work. The interviewer needs to have knowledge about the relevant topics and needs to be smart and sensitive in the way of interviewing. Thus, the process of preparing, setting up, executing and analysing the interviews is not effortless. Furthermore, it must be noted that the sample size in semi-structured interviews is rarely board enough to encompass “percent” variety. (Adams, 2015.)

Despite the disadvantages, semi-structured interviews are well suited for situations where open-ended questions require follow-up questions. Like Adams (2015) suggests employing SSI is particularly useful when researching the independent views of each individual or small group, when there is need to ask probing questions that require trust or when investigating unknown but potential issues and there is need to spot useful leads. SSI can be a useful method also before designing a large-scale survey in order to gain some in-depth data. It can be used also after survey questionnaire to address questions that were not revealed in standardized survey. (Adams, 2015.)

#### **4.1.3 Analysing the interviews**

Schreier (2014) divides the qualitative content analysis to eight steps that include 1. deciding a research question, 2. selecting the material, 3. building a coding frame, 4. segmentation, 5. trial coding, 6. evaluating and modifying the coding frame, 7. main analysis and 8. presenting and interpreting the findings. The questions presented to respondents are totally different than the research question itself and that is why the respondents do not tell the results of the study directly. Thus, Ruusu-vuori et al. (2010) suggest that the interviews are more like a riddle and a source of new questions. The new questions are the ones presented to the research data gathered from the interviews in order to finally answer to the original research question. However, before analysing the results, the researcher needs to familiarize herself with the data, organize, categorise and code it. These steps will form the base for comparing the analytical themes or even forming a theoretical model. Moreover, discussion with the data enables scientific discussion and comparison of the results with other studies. (Ruusu-vuori et al., 2010.)

According to Schreier (2014), qualitative content analysis is a method that is used for describing the meaning of the data by categorizing and coding the qualitative data. Typical for the method is that it reduces data, it is systematic and flexible. Unlike other qualitative methods for data analysis, the aim is to reduce the amount of data that is being processed. This requires the researcher to focus on selected themes that represent the overall research ques-

tion. To avoid that the research material is looked through just one lens, it is relevant to examine the data accurately. Like Schreier (2014) suggests, by studying every single part of relevant material, the systematic approach prevents one's own assumptions and expectations to influence the results. The aim of the third feature is to make sure that the categories match the data and the coding frame is a solid representation of the research material.

According to Schreier (2014) coding consists selecting the material, structuring and generating categories, defining the categories as well as revising and expanding the frame. So being said, coding is at the heart of the qualitative content analysis. It is formed by selecting at least one main category and two subcategories. The main categories describe the issues that the researcher wants to know more about. Subcategories define what is mentioned in the material in terms of the main category. In addition, the subcategories should represent mutual exclusiveness so that one unit can be coded only once under the main category. Also, all of the relevant aspects must be covered (see for instance Schreier, 2014).

According to Schreier (2014) *all* of the material gathered is coded in the phase of the main analysis. The coding frame cannot be modified at this stage anymore and thus, it is essential that it is reliable and valid before entering to main analysis. When the findings are presented, the coding frame itself can be the main result in a qualitative content analysis. In this case, the findings are presented and illustrated through quotes. That can be done through text, tables or numbers. Furthermore, the findings can be a starting point for future research that requires moving beyond the selected individual categories and coding the relations between the categories. (Schreier, 2014.)

## 4.2 Implementation of the study

In this master's thesis, the results of the structured interviews are presented as the primary data. A semi-structured interview is selected as a data set because of user-friendliness, time-efficiency and most importantly, the potential to reveal unforeseen issues. The interview questions are formed based on the research subject and the literature review like for example, Hair et al. (2015) suggest. The open-ended questions offer the opportunity for unexpected responses as the respondents had a chance to present their views that are not directly asked. However, it is still possible to analyse the results efficiently within the time frame as the number of respondents is limited (see for instance: Robinson, 2013a) and the answers are somewhat in the same kind of format due some of the preselected questions. The preselected questions allow better data collection control and increased validity like presented before in the chapter 4.1.1.

Moreover, according to Eriksson's and Kovalainen's (2008) suggestions, other qualitative methods were left out as unsuitable because of the time-efficiency or hardness to carry-out or analyse. However, the questions for the interviews were tested in a survey before the interviews took place. Testing the

questions took a bit of time but eventually helped to determine the right directions for the interviews.

Adams (2015) suggests that instead of making “cold calls”, the researcher should send an introduction letter beforehand in order to save time from justifying the research and finding the top administrator. Other times it is suggested that the most suitable way to find the respondents may be finding the most suitable contacts beforehand and contact the potential respondents directly. In case of this research the “cold calls” seemed to be the most suitable way as it was possible to contact the managers directly. Also, finding the suitable respondents directly via a search engine helped to prevent the disadvantages of an SSI and to be the most time-efficient way of finding the suitable respondents.

The data was gathered from phone interviews and three written interviews. The phone interviews were selected to be the best possible method also because of the Covid-19 virus appearing in the spring of 2020 when contacts were recommended to be minimized. The three written interviews were conducted in spring 2019, just before the EU and Mercosur had agreed on the free trade agreement. The phone interviews were conducted in spring 2020 when the agreement was agreed but not ratified yet. The interviews were conducted in Finnish language as all of the respondents are Finnish. The questions included the background information, such as size and industry of the companies as well as the markets they are currently importing or exporting. The second phase emphasized the awareness and views of Finnish companies towards the changing FTA. The third phase continued with the same theme but emphasized the strategical views of the companies. It is worth noting that some of the questions were excluded or included depending on the answers and company's situation, which is also typical for SSI. For example, if the respondent was not aware of the trade agreement under preparation, the question of disadvantages and advantages of the FTA on the company would have been pointless. It was assumed that if the respondent was not aware of the planned trade agreement, it would be hard to point out the advantages and disadvantages of a specific agreement. Also, it was not asked if the FTA had been taken into account in the company's strategy already if the respondent was not aware of it. In addition, questions such as “Would the FTA encourage the company to expand their business to Mercosur?” was excluded if the company was already operating in the Mercosur region. Thus, the situation of the company was leading the interview and the questions were adapted to the situations in question.

Like Roulston (2014) suggests, the transcripts of the case companies are edited for clarity. The transcripts are presented within quotation marks and marked with dash and randomly selected letter of the company in order to indicate the respondent. Words such as “um” and “you know” are deleted and repetition removed from the transcripts. Some of the transcripts are edited with ... to clarify the context of the sentence or topic. Also, some of the words are added in brackets () for the clarification of the reader. Furthermore, as the language in the interviews was Finnish, the transcripts are translated into English. The translations aim to repeat the transcript as respectfully and accurately as possible without any modifications arising from the translation.

The analysis of the findings is divided according to the theoretical part of the study. Like mentioned previously, the model of Strategy Tripod for example is not inclusive but because of the versatile perspective it offers, it is used to facilitate coding. The coding of the findings is started by determining the main criteria for market selection (see for instance: Miečinskienn et al., 2014) according to the companies interviewed. Furthermore, the coding frame exploits other aspects of the theoretical part, such as opportunity recognition.

### 4.3 Case companies

This chapter presents the case companies interviewed, the data collected and transcribed for the research. The companies are presented in random sequence, though the SME companies are presented first and the larger companies second. All of the interviews are marked with a random letter to describe the company in question. Some of the data collected is presented in a numerical form in the table six that combines the background information of the companies (Table 6). The table six shows the total number of the respondents in each question so, that it is easier to perceive the bigger picture of the background information of the companies in question. The answer options in the table are divided to yes, no or cannot say options according to the answers given. However, the answers are elaborated and explained more comprehensively in the interviews rather than giving just yes or no answers. Hence, the aim is to present just some background information for the readers.

The focus of the interviews was on different companies, as it is argued that trading happens between companies and individuals rather than countries or nations (see for instance: Davies, 2006; Lutz, 2008). The aim was to study how the changing FTA between the EU and Mercosur would affect the market selection of Finnish companies trading in Spain, Portugal, Mercosur or elsewhere in South America. The research was executed by studying any changes in the business caused by the upcoming agreement. The purpose was to distinguish and minimize the influence of other external variables affecting the business, such as cultural factors. Thus, it was essential to select markets that share the same gravity factors such as language. For example, in order to clarify why companies may operate in culturally similar kind of markets but not in Mercosur, for example. South America, Spain and Portugal were chosen as a reference points because they are culturally (and geographically) as close as possible to Mercosur and share the same language. Data collection allowed to compare the answers of the companies trading in the area of Mercosur to those companies who are not yet trading in Mercosur. So being said, the research was limited to those Finnish companies that were potentially interested in the changes happening in the FTA in their potential target markets. A list of suitable respondents was found with the kind help of Business Finland and the Finnish Embassy in Colombia who submitted the list of Finnish companies operating in the targeted countries. Also, some of the respondents were found via internet search engine.



The research did not directly study industry specific differences but emphasized the views of all Finnish companies operating in the target markets. Yet the study focused specifically on companies that offer products rather than services. Companies providing products were selected in order to study the influence of reducing custom duties, for example. All of the respondents were CEO's, managers or directors of the companies as they possess the information needed for answering the future directions of the companies.

TABLE 6 Background information of the respondents

	YES / 10	NO / 10	Cannot say / 10
Operations in Spain/Portugal	10		
Operations in South America	8	2	
Operations in Mercosur	6	4	
Aware of the EU-Mercosur FTA	5	5	
FTA will affect the business	7	2	1
FTA will cause any changes to the business	5	3	2
FTA will benefit the company	8		2
FTA has been taken into account in the company's strategy already (5) *	1	3	1
Will benefit from the FMA		7	3
Will benefit even without FMA	6		4
FTA encourages to Mercosur markets	6	3	1
FTA encourages those companies to Mercosur markets who were aware of the agreement (5) **	5		
In general, FTAs influence market selection (6) ***	1	5	
* Total amount of respondent 5 (only those who were aware of the agreement)			
** Total amount of respondents 5			
*** Total amount of respondents 6			

Company A: Wood design and production

Interviewee	CEO
Size of the company	Micro company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes

Trading in Mercosur	No
Trading outside of Mercosur	Yes
Aware of the agreement	Yes
FTA encourages to Mercosur markets	Yes

The company A believes that the new FTA will affect their business. Previously, the company has had problems with tariffs. They have had some essential contacts in Mercosur markets, but the operations have failed eventually because of the tariffs. This is especially because of the ready-made consumer products that have higher tariffs than just materials. Tariff reductions would be a benefit and asset as they increase profit margins. The respondent also believes that in addition to tariff reductions, reducing paperwork and bureaucracy would ease doing business. Thus, he points out that there is a lot of potential in Mercosur that can be benefitted after the FTA comes into force. Furthermore, the company's previous operations have also demonstrated that Scandinavian design is valued in Mercosur that as well makes the market interesting for the company.

Contacts are an important part of the company's decision making and operations what comes to market selection. Compared to other respondents, the company A is the only one who has taken the EU-Mercosur FTA into account in their strategy as they are prioritizing and organizing their South American contacts for future purposes already. According to the respondent, they will try to find new contacts even more aggressively after the FTA steps into force.

What comes to first mover advantage (FMA) the respondent does not believe that the company will benefit from it. This is because of the product they are offering and because the main competitors are from the EU. However, the respondent believes that they will benefit from the agreement, with or without FMA. He states that the company's operations have bigger impact to overall results than the external factors alone. Nonetheless, he lists that the most important factors in decision making when considering new markets are geographical location, demand, and purchasing power of customers. However, market selection is not based on one factor such as trade agreement, but the market is considered as a whole.

#### Company B: Parts and Appliances

Interviewee	Financial Manager
Size of the company	Small company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	No
Aware of the agreement	Yes
FTA encourages to Mercosur markets	Yes

The company B respondent believes that the new FTA will have a significant influence on trade relationships due trade liberalization, although she cannot estimate yet how remarkable the influence will be. She states that the new FTA will affect their business due reducing paperwork and tariff reductions. According to the respondent lowering tariffs would help the especially the sales. In addition, she feels that exporting to other countries outside of Mercosur is easier than exporting to Brazil. Transmissions to Brazil require a lot of paperwork and thus, transmissions can be challenging and slow. However, the respondent states that it is hard to estimate the effects of the new FTA before the agreements comes into force. Hence, the upcoming agreement is noted in the company, but it has not caused any changes to their strategy yet. The respondent also points out that their changing product offering is affecting the strategical decisions currently.

Furthermore, the new FTA does not change the company's market position in Mercosur or in the EU because of their specialized product offerings. Therefore, the company does not believe that it will benefit from the FMA as their main competitors come from the EU. However, the respondent points out that the FTA will provide an advantage against competitors outside of the EU.

All in all, the new FTA increases the company's interest towards Mercosur markets due reducing paperwork and tariff reductions. However, they are currently lacking a local contact who could promote them in Mercosur. Also, the company B highlights that in order to increase their operations in Mercosur, they would need right partners from there. However, they will start to actively search them after the FTA comes into force.

As the company operates in B2B and produces specialized products, the trade agreements hardly affect the company's market selections. FTAs can direct the choices but are not the base for them. The respondent finds that the most essential issues in new market selection are risk (what kind of risks there are in the market) and contacts. Contacts direct the new market choices as those can accelerate sales especially due market knowledge. Because of the contacts the company has find their way to Mercosur in the first place, for example. She also finds that in their case rather than money, the new markets require time because of market research and finding the contacts.

#### Company C: Reindeer hides

Interviewee	CEO
Size of the company	Small company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes
Trading in Mercosur	No
Trading outside of Mercosur	Yes
Aware of the agreement	No
FTA encourages to Mercosur markets	Yes

The company C is not aware of the upcoming FTA but believes that it will influence their business. Previously they have exported to Brazil, but the trading has been challenging because of the paperwork in customs. However, the interest towards Mercosur markets can increase again if the new FTA facilitates trading. Furthermore, the respondent speculates that Brazilians can become interested in the EU products again. He believes that the new agreement can streamline the business and open the Mercosur markets to correspond the other trade relationships the EU has. According to the respondent, lowering bureaucracy and decreasing tariffs encourage to the new market as the market becomes less challenging and prices more affordable to the customers.

The most important factor for the company in market selection is customers' purchasing power. As their products last long and are purchased rarely, the purchasing power of the potential market is the key issue to consider. However, also trade agreements influence the company's market selection. Thus, unifying the rules for trading can influence the market selection and encourage to new markets. Nevertheless, the respondent does not believe that the company will benefit from the FMA. He states that the price, quality and supply are more essential than the timing in the end.

#### Company D: Wines

Interviewee	Portfolio Manager
Size of the company	Micro company
Importing or exporting	Importing
Trading in Spain/Portugal	Yes
Trading in Mercosur	No
Trading outside of Mercosur	Yes
Aware of the agreement	No
FTA encourages to Mercosur markets	Cannot say

The company D does not believe that the FTA will influence their business as they make their market decisions solely based on demand. As demand is the key factor in decision making, the respondent does not believe that the FTA will cause any changes in their business. Correspondingly, the respondent cannot say if the agreement will benefit them or cause any challenges to them. She states that the wines are selected based on demand which determines the target markets. She points out also that the demand is specified by Alko (the national alcoholic beverage retailing monopoly in Finland for alcohol over 5,5%) and in some cases, the popularity of the wines. Thus, the trade agreements do not influence the company's market selections at all.

#### Company E: Wines

Interviewee	CEO
Size of the company	Small company

Importing or exporting	Importing
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	Yes
Aware of the agreement	No
FTA encourages to Mercosur markets	No

The company E is currently exporting wines from both inside and outside of Mercosur. The respondent believes that the FTA will influence their business in the future due reducing tariffs that lowering prices. However, the respondent states that the FTA will influence their business due lowering tariffs, but it does not change their business as it is currently. He does not feel that the new FTA will encourage them to expand within Mercosur, but market selection is made by using other kind of criteria. In wine importing business the market selection is highly linked to areas where the wine is cultivated. Thus, the decisions do not fail to customs or trade agreements but the most essential thing to consider is the product itself. The products are selected based on demand.

Although, the wine countries determine the possible markets, there are a few different factors that define suppliers. The company values a reliable supplier, good price-quality ratio and the knowhow of the supplier. In addition, one important factor is the traceability of the products. Moreover, the respondent finds that the more systematic and predictable the trading system is, the better. However, there are two sides in bureaucracy: no control at all and too much control are both challenging scenarios. Thus, he highlights that the best possible outcome would be something in the middle, which still helps the traceability of the products and materials, for example. The respondent does not believe that they will benefit from FMA as their competitors come from the same market (Finland) and their customers are Finnish consumers. Nevertheless, it will be easier to sell the products to the customers due lowering tariffs that lowers the prices for consumers.

#### Company F: Wines

Interviewee	Portfolio Manager
Size of the company	Small company
Importing or exporting	Importing
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	Yes
Aware of the agreement	No
FTA encourages to Mercosur markets	No

The company F describes that Alko covers 90 percent of the company's demand. According to the respondent, the Finnish wine importers must be able to

respond to Alko's demand in order to be a profitable. The respondent summarizes that the wines are selected based on origin (wine countries), purchasing price and demand. Demand is the first thing to consider and the wine countries determine where the wines are imported. All in all, the respondent does not believe that the upcoming FTA or trade agreements in general will affect their business operations. However, he believes that possibly some of the products will become more competitive due lowering custom duties. Moreover, the company has purchased some of their products that are from Mercosur from European warehouses. In this case, the products are pre-cleared, and the company does not have to worry about the duties. However, the FTA can change the situation, but it all comes down to the volumes that need to be high enough in order to import from Mercosur.

#### Company G: Wines

Interviewee	Director of purchasing and logistics
Size of the company	Micro company
Importing or exporting	Importing
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	Yes
Aware of the agreement	No
FTA encourages to Mercosur markets	No

The company G believes that the upcoming FTA will influence their business operations due lowering tariffs, but it will not affect their business as a such. The respondent describes that Alko will list and search for the products that it has preselected for their sales. In turn, the wine importers import the wines from big wine countries such as Argentina, Spain or Portugal and offer the pre-selected products for Alko. According to the respondent, products that are not selected by Alko are rarely sold in Finland for consumers. Thus, Alko determines the company's market selection. As the market selection decisions are made based on Alko's preferences, the respondent notes that the trade agreements do not have influence in the market selection.

However, the respondent reckons that most of the benefits of the FTA are related to costs. Compared to other trade agreements with Chile or South Africa, for example, the benefits are related to costs, although the influence is relatively little for the company. The respondent believes that the case will be the same with the EU-Mercosur FTA. However, she points out that in tight negotiations the lower tariffs are a great help. Nevertheless, the documentation evokes mixed feelings. The respondent believes that documentation can become easier due the FTA. However, she points out also that based on her previous experience, benefits can lead to more than less documentation.

## Written interviews

## Company H: Chemistry

Interviewee	Manager
Size of the company	Large company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes
Trading in Mercosur	No
Trading outside of Mercosur	No
Aware of the agreement	Yes
FTA encourages to Mercosur markets	Yes

The company H cannot tell if the FTA will influence or change their business operations. Nevertheless, the respondent believes that they will benefit from reducing tariffs that is also the main benefit of the agreement for the company. However, the respondent is not aware if the agreement has been taken into account in the company's strategy already. In addition, he does not believe that the company would benefit from the FTA as there are multiple different companies operating in the same business field that come from the EU. However, the respondent hopes that the new FTA will encourage the company to the new markets as they are currently operating only in the EU.

## Company I: Equipment and Machinery

Interviewee	Export Manager
Size of the company	Large company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	Yes
Aware of the agreement	Yes
FTA encourages to Mercosur markets	Yes

The company I believes that the FTA will influence and cause positive changes to their business. The respondent trusts that lower prices for customers will accelerates sales and in turn, growth enables additional investments through bigger cash flows. Thus, the biggest benefit of the agreements is the lowering customer prices due tariff reductions. Furthermore, the respondent hopes that the new agreement will reduce bureaucracy in exporting, especially in Brazil. Nevertheless, the EU-Mercosur FTA has not been taken into account in the company's strategy yet as it does not cause immediate changes to their business. In addition, the respondent reckons that the company's main competitors come from the EU and are operating in Mercosur as well. Therefore, the company

does not benefit from the FMA. However, even without the FMA the respondent believes that the company will benefit from the agreement as lower prices for customers help sales.

Company J: Equipment and Machinery

Interviewee	Manager
Size of the company	Large company
Importing or exporting	Exporting
Trading in Spain/Portugal	Yes
Trading in Mercosur	Yes
Trading outside of Mercosur	Yes
Aware of the agreement	Yes
FTA encourages to Mercosur markets	Yes

The company J believes that the FTA will affect their business as lowering custom duties can accelerate exports to Mercosur countries. Consequently, the respondent trusts that the FTA will increase the exports and improve competitiveness of the company. Increasing exports is also the main opportunity of the agreement for the company. According to the respondent, the new FTA can increase the company's competitiveness in Mercosur markets. However, additional investments have not been made at this point. Nevertheless, the respondent believes that they will benefit from the agreement with or without the FMA due increasing competitiveness compared to local companies.



## 5 RESULTS AND ANALYSIS

### 5.1 Main criteria for market selection

As studied in the theoretical part of this study, the companies may have different kind of criteria for market selection, especially when exporting. Furthermore, the most essential criteria for market selection depends on the company in question but also some similarities can be found between the companies. The findings of this research support the theory as the companies interviewed display versatile criteria for market selection with some similarities. In addition, it can be noted that the criteria of the companies match the issues presented in the theoretical part such as the impact of opportunity recognition, networks, geographical location and risk factors like political conditions. Also, it seems that the most essential criteria is determined especially through networks and market research. The most essential criteria for many seem to be: reliability and transparency (in supply chain, for example), price-quality ratios (value for money), demand (especially for wine companies who determined “demand” as a core for their business), purchasing power of the market, geographical location and other risk factors that are determined through the market research.

However, it must be noted that trade agreements are not mentioned to be the most essential criteria for market selection. Most of the importing companies state that the trade agreements do not affect their market selection and exporting companies state that they do not select the new markets based on the trade agreements. Although, it seems that the FTA is not the first thing that is being considered in market selection, it seems that trade agreements can influence in some level. For example, A mentions that:

“We consider markets as a whole rather than through trade agreements. We think how the market works and what kind of resources we would need there. I think that the trade agreements influence exporting more than importing... Currently, our materials come from the Europe and our networks and business is more focused to east...It is hard to say what affects and to what.” – A

Like A mentions, indicating the exact influence of trade agreements on market selection can be hard as many different factors and forces direct the business. However, the example is a strong indicator that trade agreements are not the first thing that the company considers but can influence the market entry or the way of doing business as the markets are considered as a whole. Also, like studied earlier in the theoretical part, the trade agreement influences the risks, opportunities and political scene of the market, for example. Thus, the influence of the agreement may affect the overall picture of the market and the views of companies considering it. The FTA cannot change all, such as geographical location of the market or company’s resources, but it can influence how the mar-

ket works. As the business environment is considered as a whole, it can be argued that facilitating business by reducing the risk factors would make the market more attractive. The influence of the FTA is further studied in the next chapters by using the aspects of the Strategy Tripod and Uppsala model.

## 5.2 Influence of the institution

### 5.2.1 FTA and opportunity recognition

In order to benefit from the change in institutional conditions, the opportunities must be recognised first. Thus, awareness of the FTA is the first step in opportunity recognition that may benefit companies. Based on the findings, half of the companies interviewed were aware of the upcoming FTA while half of the respondent were not aware of it. The awareness in general was divided evenly between the companies despite trading in Mercosur, but significant differences based on exporting and importing can be spotted (Table 7). Except C, the companies exporting to Mercosur or South America were aware of the agreement. Also, H that trades only in Spain/Portugal was aware of the agreement. In turn, none of the wine importing companies was not aware of the FTA. Also, all of the companies trading in Mercosur and not aware of the agreement were wine importing companies. Also, D that trades in South America but not in Mercosur was not aware of the agreement. So being said, D is the only exporting company that was not aware of the agreement, though it does not trade in Mercosur currently. The finding can be explained by the difference between importing and exporting as all of the wine companies are importing from Mercosur while other case companies are exporting to Mercosur. Based on the findings it can be stated that the case companies importing from Mercosur are less aware of the change in institutional conditions. As awareness is the first step in opportunity recognition, it can be argued that the lack of awareness may influence utilizing the benefits of the agreement. Furthermore, the finding seems to be clearly connected and divided between companies importing or exporting. However, the influence of the FTA is greater for the exporting companies than importing companies, that can explain the level of awareness as well.

TABLE 7 Companies' awareness of the EU-Mercosur FTA

	Aware	Not aware
Trades in Mercosur	B, I, J	E (wines), F (wines), G (wines)
Does not trade in Mercosur	A, H	C, D (wines)

According to the findings, the main benefits of the FTA for case companies seem to be tariff reductions that are mentioned in all of the answers despite the

company. For example, companies describe the benefit of lowering tariffs as follows:

“Tariff reductions are the most important feature of the agreement. Lowering tariffs increase our profit margins” - A

“Reducing tariffs help sales and exporting” - B

“Increasing profit margins help sales, which in turn, accelerates sales” - I

“The agreement improves our competitiveness compared to the local companies” - J

The interviews indicate that reducing tariffs lower the prices for customers. Consequently, lower prices for customers may accelerate sales. In turn, lower tariffs increase the competitiveness of the company in the target markets. Furthermore, increasing sales influences the overall growth of the company and allows further investments. The process is described in figure seven (Figure 7).

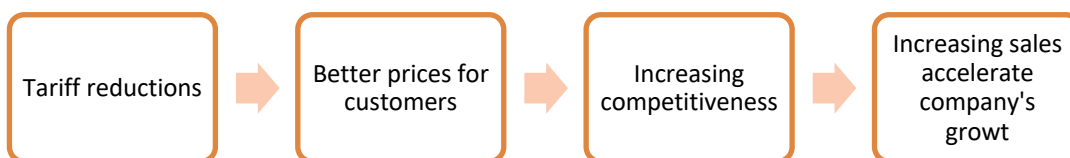


FIGURE 7 The main benefit of the EU-Mercosur FTA for Finnish companies

All in all, every case company will benefit from tariff reductions but, the significance of the tariffs seems to be higher for companies that are exporting rather than importing. For example, wine importing company G mentions that:

“Through tariff reductions, certainly there is a concrete influence on costs and prices. Currently, the duty on wine from Argentina is 13.10 - 15.40 euros per hectolitre which means 0,10 to 0,12 euros per bottle of wine. Of course, in tough negotiation situations that is a great help too.” - G

Like G describes, the share of tariffs is relatively low when importing but reducing tariffs can help in tough negotiations. However, the business is not depending on the tariffs like in case of some exporting companies. For example, exporting company A mentions that tariffs have even limited their market selection when too high:

“We have had contacts in Mercosur markets who thought that they could try to do trading in the market (despite the high tariffs). However, the attempt to do business has always failed due tariffs. If the tariffs are reduced, it will significantly facilitate business.” - A

To sum, reducing tariffs seem to have more significant effect on companies exporting rather than importing. In addition, awareness of the upcoming FTA is lower among importing companies like mentioned before. Thus, it can be argued that reducing tariffs may not be strategically as essential for importing companies than for the exporting ones in case of the companies interviewed. However, generalization of the finding requires further research to investigate the relation between strategy and opportunity recognition in case of a changing trade agreements.

### 5.2.2 FTA and market selection

“There is a lot of potential in Mercosur markets” - A

“The agreement encourages to new markets” - H

Like Grossman (2016) suggests, the research should be focusing on understanding the features of trade agreements and what features would be the most beneficial. In general, the results indicate that the upcoming FTA between the EU and Mercosur is considered positive by the respondents as the findings did not recognize almost any disadvantages caused by the agreement. In addition to reducing tariffs, the most important features of the EU-Mercosur FTA for the case companies seem to be duties and unifying rules. It can be seen from the answers that the companies believe that the FTA will lead to more unified rules and perceive it as a great advantage of the agreement. For example, B states that:

“I believe that the small-scale trading that we currently have (to Brazil) will become easier. Brazilians want to take care of the customs by themselves so, that the process does not go wrong. We cannot operate in a normal way (like elsewhere). It (the customs) is very strict at the moment... There is a lot of paperwork that requires accuracy... Currently, it is easier to export to other countries as there is a high risk that the product will get stuck in customs. When that (customs) is fixed, trading will succeed.” - B

However, the amount of the paperwork evoked mixed feelings in some and was recognised as the only possible disadvantage in the interviews. For example, G states that:

“Documentation may become easier but, in my experience, benefits usually increase the number of documents rather than decrease them.” - G

However, all of the respondent refers that reducing bureaucracy and paperwork would help them. Also, the company C refers to their earlier failed attempt to do trading in China 20 years ago. He states that too much paperwork may lead to withdrawal from the market. Thus, it can be argued that unified

rules between the countries would prevent the controversy between the companies as they do not have to create their agreements from the scratch. Although, the aim of the FTA is to unify the rules, the actual level of the paperwork will be realized when the agreement is ratified. Thus, estimating the amount of paperwork, for example, is just an estimation at this point. Nevertheless, as almost none disadvantages are recognised in the interviews it can be argued that the FTA rather encourages than discourages case companies to Mercosur markets. Also, prominent majority of the respondents believe that they will benefit from the agreement and all of those who were aware of the agreement (five in total), feel that the FTA encourages them to Mercosur. Thus, it can be argued that the features of the EU-Mercosur FTA encourage companies to Mercosur, despite some of the doubts related to documentation.

Nevertheless, most of the companies are waiting the agreement to come into force before any significant decisions or actions related to the FTA are made. Thus, the agreement has not yet affected the strategy of most of the companies, excluding the company A. A is the only one indicating that the upcoming agreement has changed the company's strategy as they are prioritizing and organizing their South American contacts for future purposes. However, they will try to find new contacts even more aggressively after the FTA is ratified. Thus, the strategy does not differ significantly from the others, but all of the respondents are rather waiting for the agreement to be ratified before any major changes to strategy are made. Because of the above mentioned, it can be argued that Mercosur is still perceived as uncertain market, but the new FTA can encourage companies to enter or re-enter to Mercosur markets in the future due the benefits of the new FTA. Many of the respondents point out that they could reconsider the potentiality especially if the agreement facilitates trading.

According to above mentioned, the results indicate that the FTA can influence the market selection. However, most of the companies perceive that their market selections are based on other factors too as the markets are considered as a whole. For example, A summarizes that:

"The company's operations have bigger impact to overall results than the external factors alone." - A

"Free trade agreements direct our market selections but are not a prominent factor for us." - B

Thus, the trade agreement can positively influence the market selection, but it does not necessarily limit it in all cases. Like the respondents mention, the new markets are selected based on geographical location, demand and purchasing power of customers, for example. However, the company's results, goals or strategy is not determined by the FTAs, but the market area is viewed in general terms. However, sometimes the lack of FTA can restrict trade. For example, in the case of the company B that decided not to trade in China due the lack of clear unified rules. Thus, it can be argued that if the FTA is missing, the trading is more unlikely to occur, though it is not limited in all cases. In turn, the FTA

can positively influence the trading if it facilitates it. Nevertheless, the findings indicate that the market selection is not made based solely on the opportunities created by the FTA, but the decisions are made based on multiple factors and forces.

### 5.3 Influence of the industry

“I make decisions based on demand” – D

“Wine countries and products itself determine the market selection” – E

“Demand determines the market selection” – F

“Alko’s listings determine our market selection” – G

Although, the study did not directly study the differences between different industries, it can be spotted that there are differences in the views between the importing and exporting companies. Like mentioned before, those who are not aware of the agreement are mostly wine importers. In addition, it seems that the market selection of wine importers is highly connected to their industry. Wine importers perceive that the FTA will less affect to their business compared to other companies as tariff reductions help especially exporting companies and influence less the importing than exporting companies. Moreover, the market selection of wine importers differs from others considerably as it seems that the criteria for market selection is solely based on industry specific reasons. For wine importers the FTA has little or no influence at all on trading as the target markets are preselected by Alko. In turn, Alko’s decisions are based on wine countries. Thus, it can be argued that the influence of the FTA is also highly depending on the industry in question as the industry specific features can guide the market decisions. Also, it can be argued that the FTA influences exporting companies more than importing companies due tariff reductions, for example. Regarding to this research the argument seems to be true, but it needs to be studied further with larger sample in the future studies.

Furthermore, the EU has stated that the member countries will have a first mover advantage (FMA) if the EU is the first to conclude a trade agreement with Mercosur. However, none of the companies interviewed will benefit from the FMA regardless their industry. Based on the results, FMA does not encourage the interviewed companies to Mercosur markets as their main competitors come from the same market of the EU. As their main competitors are from the EU, both the respondents and their competitors will benefit from the FMA simultaneously and do not receive the benefit against each other. However, the result cannot be generalized to all companies. Some companies can still benefit from the FMA if their main competitors come from non-EU countries. Otherwise the results indicate that the companies may not benefit from the FMA or

do not know how to benefit from it against their global competitors. Despite the FMA, most of the companies believed that they would benefit from the agreement with or without first mover advantage. Hence, FMA is not an essential feature of the EU-Mercosur agreement for the case companies but in general, the importance of FMA may vary depending on a company.

#### 5.4 Influence of the resources

All of the exporting companies believe that the FTA encourages them to Mercosur markets, despite the size of the company. The finding further supports the argument that the features of the FTA are supporting trade and encouraging companies to Mercosur markets. However, it can be noted from various interviews that contacts can affect companies market selection as well. It is mentioned in various answers that contacts are an essential asset in market selection process. For example, company B describes their new market selections as follows:

“The most essential factors we consider in market selection are risk and contacts. There is no point to export to high risk countries that have trade sanctions such as embargo or trade wars... We meet our clients and new contacts at fairs. The business requires a local contact who can operate and represent us in the country and boost the business... Many things influence the market choices, which markets to entry, how things are done there and what actually matters. These things will be known when we enter the market... Integrator decides if a Brazilian or a Finnish supplier is preferred, for example. As we are not familiar with the end market, our client or representative is more familiar with the end bidding (in the target market).” – B

Like B states, the contacts direct the market selection as those can accelerate sales due market knowledge and additional contacts. If the company is not familiar enough with the end market, it prefers to use the help of a local contact. In turn, the local contacts are used to reduce the risk related to the new market selections as they possess the knowhow required in the local markets. Furthermore, it seems that the companies are using their contact to acquire new customers that is done in fairs, for example. Also, recommendations from previous customers or contacts seems to be an important way to gain new business opportunities. The finding is important as it supports the recent study by Eurochambers and revisited Uppsala model, for example.

## 6 CONCLUSIONS AND DISCUSSION

### 6.1 Theoretical implications

The aim of this thesis was to study the impact of trade agreement on companies' market selection. In case of this thesis, the concept of market selection included not only foreign direct investments but also trading (exporting and importing) in new markets. The background of the research started with the literature review that aimed to study the theoretical concept of the topic. Although, there are many studies that research company's internationalization, the role of trade agreements in the process remained vague. Furthermore, the internationalization process is explained through many different kinds of models and the issues impacting the market selection are presented in separate models. As studied, the market selection is affected by multiple factors and forces and companies need to consider various internal and external points in their decision making. The theoretical part defined the process of market selection through the models that are much used in evaluating the external business environment and internationalization such as the Uppsala model, Strategy Tripod, Porter's five forces, PESTLE and CAGE-model. Based on the theoretical part and the models presented in it, a combining figure that aims to describe the role of trade agreements in companies market selection process was presented.

The empirical part studied the believes of Finnish companies trading in Spain, Portugal or South America towards a changing trade agreement between the EU and Mercosur. As the recent study by Eurochambers showed that Finnish companies struggle to utilize the trade agreements the EU has, the study also supplements the earlier research. Also, the new EU-Mercosur agreement was selected as a case agreement as it will become the world's biggest trade agreement due tariff reductions. Hence, the study is also a good starting point for future research. Filtering of the suitable respondents was made based on the CAGE factors that were presented in the theoretical part. The study was conducted by using structured interviews as a method that were carried out in spring 2020, after the FTA was agreed on by the negotiating parties. While some of the companies operated already in Mercosur, the potentiality of expanding their operations within the target market was studied. In turn, some of the companies traded in South America, Spain or Portugal but not in Mercosur. That enabled to study the direct effects of a new trade agreement on companies' interest towards the new FTA and trading in Mercosur.

As studied in the thesis, the advantages of trade agreements can be identified by first predicting the trade without cooperation like Grossman (2016) suggested. As free trade is likely to bring more benefits than disadvantages, it is often considered desirable. On the other hand, free trade agreements can cause new or different kind of problems. They can lead to negative effects such as job-outsourcing to cheaper countries, importing of harmful goods or problems with immaterial rights. However, it is suggested that the advantages outweigh the



disadvantages as trade agreements allow better controlling, similar regulations and common rules between the countries. They often reduce customs duties and so, make more products and services accessible for consumers. In addition, the agreements can also help to protect the immaterial rights, human and animal rights as well as support sustainable development and environmental protection. Moreover, it is argued that countries would prefer interdependence in order to secure that others would notice them in their decision making. So being said, trade agreements are usually used to reduce and minimize the negative external effects affecting the nations and businesses.

As studied through the thesis, the factors and forces shape the external business environment by affecting the policies and regulations, for example. Although the free trade agreements are just one part of a larger entity, the influence can be significant as the agreements influence the whole business environment and define how business can be conducted. Nevertheless, depending on a company and an agreement the influence may vary as studied in the theoretical part and presented in the empirical part. Hence, the findings support the theoretical part that the market selection is a collective process where company has to simultaneously consider known factors and forces that will later explain the choices made.

## 6.2 Practical implications

The results offer essential information about the influence of trade deals on companies' market selection. The findings can be used by company's management team or the decision makers who are responsible of negotiating the trade agreements, for example. As the results offer views of both importing and exporting companies from versatile industries, the results are also suitable base for future research purposes as the results support the earlier research and offer suggestions for the future. Hence, the future research can be for academical purposes or for companies' internal use for strategy, for example.

The research did not study the industry specific differences. However, studying industry specific differences is encouraged especially in situations when a specific company considers the potentiality of new markets. In a company specific market research, the theoretical part and the frameworks presented in it can be used in order to create a more comprehensive study for the company. Thus, the thesis can be used as a tool for studying the external business environment in market selection. It must be noted that it still offers limited point of view for company's decision making but can be used as a starting point for the research about the effects of external business environment. However, companies need to consider also the other aspects such as internal readiness more in-depth while deciding about their new market entry.

In general, the results of the empirical part support the theoretical part. The agreement between the EU and Mercosur is considered desirable by the

case companies and Finnish government, even though it still contains some uncertainties. It supports the Finnish economy as Finland is strongly export-driven country. Also, the findings of the empirical study support the argument that the FTA will enable and facilitate the issues the EU seeks with the deal. The agreement can make the companies more equal and competitive in Mercosur as the policies will be unified and tariffs reduced. Thus, it can be suggested that the FTA can support and ease business between the countries if company decides to enter into the given market. However, it can be argued if a changing trade agreement alone enough encourages or discourages companies to new markets in every case, but the decisions depend on multiple factors and forces.

To sum, it can be argued that the FTAs are still a useful concept in order to facilitate business and accelerate companies' growth. Also, the results indicate that there is potential for the FTAs to influence the market selection. It is not necessarily the first thing that is considered but FTA can influence the overall picture of the market. All in all, 1. the findings of the research support the theoretical part of the study. FTAs facilitate business in many cases due reducing tariffs, duties and unified rules. Thus, FTAs can encourage companies to new markets. Based on the findings it can be suggested that 2. the most essential features to consider when planning for the future trade agreements is to lower tariffs and bureaucracy as well as unify the rules between the market areas if the aim is to increase trade. The suggestion is made based on the preferences of the respondents of the study as those features seem to be the most influential for companies' market selection what comes to the features of the EU-Mercosur FTA. However, 3. the study did not recognize any companies that will benefit from first mover advantage as the case companies' main competitors come from the same markets of the EU.

Nevertheless, estimating the influence of the FTA on companies' market selection is complex. The market selection is not solely based on trade agreements. Although more favourable institutional conditions can facilitate business, industry specific reasons and company resources as well as other institutional conditions impact the trading too. Even though there are great many benefits in FTAs, those are not able to eliminate all of the barriers to trade. Correspondingly, the lack of a trade agreement does not restrict trading in all cases like the empirical part demonstrates. In turn, the change in institutional conditions may encourage companies to new markets but a changing FTA does not eliminate all barriers to trade. However, based on the findings it can be argued that 4. the importance of the FTA is also company specific. Nevertheless, 5. the new EU-Mercosur FTA can encourage more companies to consider the potentiality of Mercosur markets as it may spark companies to consider the new markets in the first place. Therefore, it is concluded that although a changing trade agreement is just one factor to consider in market selection process it might have pivotal impact depending on the case.

Furthermore, the results indicate that 6. the awareness and knowledge of the EU-Mercosur FTA varies. However, the awareness seems to be depending on whether the company is importing or exporting. That may result from the effects and benefits of the agreement as exporting companies (from Finland to

Mercosur) will be influenced more than the importing ones (from Mercosur to Finland). Moreover, it can be argued if the companies can utilize the FTA if they are not familiar with it or are missing the right contacts in order to utilize the benefits. Like suggested in the theoretical part, the company needs expertise, but it can also acquire it through different kind of partners or contacts. If the company is missing both, the lack of company's own knowledge or right contacts may prevent companies from taking advantage of the agreements. Thus, it can be argued if the Finnish companies should be helped to gain more contacts in order to encourage them to new markets and increase the awareness and knowhow of the agreements. The discussion concerning the topic is continued in the paragraph of future research opportunities.

### 6.3 Limitations

The thesis has studied the influence of trade agreements on companies from many different aspects focusing specifically on external factors. However, the whole concept of trade agreements is much bigger than studied just in this thesis and only limited amount of data is included. As studied, the agreements influence the companies, nations, governments, customers, employees and employers as well as the business environment, the animal welfare and environmental issues, for example. Therefore, it can be argued that the decisions and effects related to trade agreements are also complex political choices. The effects and results of FTAs can be interpreted from various different aspects depending on what is being measured, who is measuring and what is valued in the first place. However, this thesis presents the findings only from the companies' point of view. Thus, it must be noted that in government decision making, for example, that there are also other aspects to take into account.

The study is limited to Finnish companies trading in South America, Portugal and Spain. Both importing and exporting companies are included. The results only apply to the Finnish companies interviewed and the EU-Mercosur FTA but can be compared to other EU companies and agreements as well. As the interviewed companies were from versatile industries, the findings present an overview of the believes of Finnish companies interviewed rather than industry specific guidelines. Many similarities can be found despite the industry as many of the companies shared their believes about the FTA and the market selection process. Also, the results are in line with the theoretical part. Thus, it is likely that similar type of research would produce similar kind of results than this one. However, it must be noted that the data is gathered before the agreement was ratified and thus, all of the effects cannot be forecasted or studied yet.

Generalising helps to understand the bigger picture of the phenomenon under study. Although, the case agreement is compared to other agreements in theoretical part it should be noted that every agreement is different, and the effects should be reviewed separately. Accordingly, the results cannot be generalised for every company's decision making but rather used as a guide line. Also,

the frameworks presented are directive models but not absolute truths. However, those can be used as a guide to research the topic, but the same frameworks might not work in every case for different company, business or industry. As there are individual differences between the companies', market selection should be made individually and separately in every company.

#### **6.4 Future research opportunities**

Like stated in chapter four, the results of a qualitative study can also produce a new starting point for future research. The argument seems to be true in case of this research as well. Based on the findings many new opportunities for future research can be found.

The future studies can be conducted from different viewpoints than companies. As this research focused only the influence of FTA on companies, the other aspects such as customer or environmental point of view can be studied in future research. As it was mentioned in the interviews that the FTA may increase the Mercosur customers interest towards the EU products again, the customer point of view could be a useful approach for a future research, for example. Moreover, it seems that the features of the agreement encourage at least some of the EU companies to Mercosur, but the viewpoint of Mercosur companies are not studied in this research. Thus, studying also the viewpoints of Mercosur companies is encouraged in in order to gain information from both parties of the EU-Mercosur FTA. In addition, it would bring more much needed research data from developing economies like Ricart et al. (2004.) and Malhotra et al. (2003) suggested.

However, all of the possible outcomes of the FTA cannot be forecasted on beforehand. Therefore, it is suggested that the EU-Mercosur FTA is further studied after the agreement is ratified in order to study the effects in action. Many of the companies interviewed mentioned that they will decide about the final strategical directions after the agreement comes into force and thus, research after the ratification can produce different kind of results. After all, it remains to be seen in the future if the EU-Mercosur FTA will actually encourage new companies to Mercosur as planned. As one of the goals of the agreement was to encourage especially SMEs to Mercosur, it can be studied later if the agreement actually encouraged new SMEs to Mercosur.

Furthermore, it can be discovered from the findings that contacts are essential factor in companies' market selection. As contacts are used for many purposes during the process and in trading, it can be studied if companies should be supported in finding the right contacts. As it seems that contacts can encourage companies to new markets by increasing the market knowhow and awareness, for example, those could support the companies market selection and allow companies to fully benefit from the free trade agreements. The direction would supplement also the earlier research by Eurochambers. As the study shows that the Finnish companies struggle to utilize the FTAs the EU has, the

new direction for the future research could be to study why. It can be studied if the contacts would help to utilize also the benefits of trade agreements as those are used for market selections as well like demonstrated in the empirical part of this study.

In addition, it is noteworthy that the thesis includes many kinds of different models and tools that explain the companies' market selection, but it is hard to find a single model that unambiguously explains the whole process and the role of trade agreements as part of it. Therefore, it can be suggested for future research to study the option for an integrated and unified model instead of using multiple separate ones. The study would need questioning of the current models and tools. Nevertheless, like stated in the theoretical part, there already is research material available that challenges the current models and tools which would support the future studies concerning the topic.

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