

Global Marketing

WARREN J. KEEGAN MARK C. GREEN

Ninth Edition, Global

Edition

The Global Trade Environment

Chapter 3

Copyright © 2017 Pearson Education, Ltd.

Learning Objectives

1. Explain the role of the WTO in facilitating global trade relations among nations.
2. Compare and contrast the four main categories of preferential trade agreements.
3. Explain the trade relationship dynamics among signatories of NAFTA.
4. Identify the four main preferential trade agreements in Latin American and the key members of each.
5. Identify the main preferential trade agreements Asia-Pacific region.
6. Describe the various forms of economic integration in Europe.
7. Describe the activities of the regional organizations in the Middle East.
8. Identify the issues for global marketers wishing to expand in Africa

GATT

- General Agreement on Tariffs and Trade
 - Treaty among nations to promote trade among members established in 1947
 - Handled trade disputes
 - Lacked enforcement power; nicknamed the General Agreement to Talk and Talk
 - Disputes lasted for years
 - Replaced by World Trade Organization in 1995

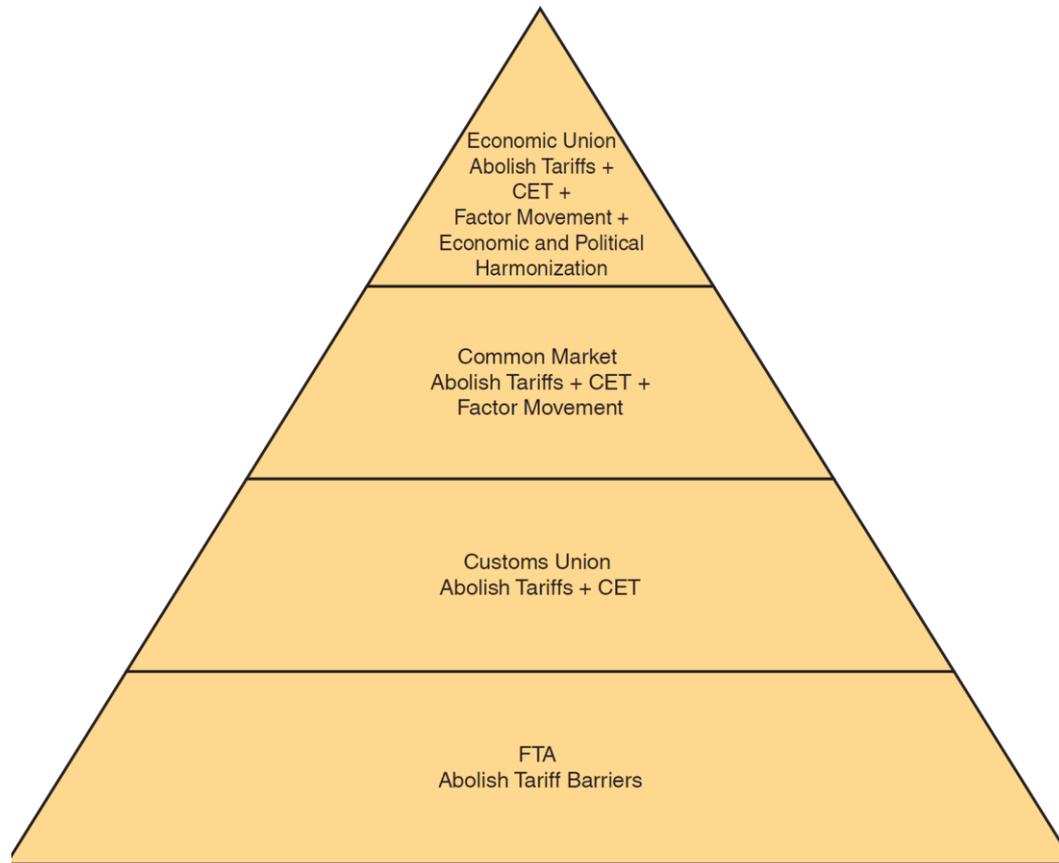
The World Trade Organization

- Forum for trade-related negotiations among 160 members
 - Based in Geneva
 - Serves as dispute mediator through DSB
 - Has enforcement power and can impose sanctions

Preferential Trade Agreements

- Many countries seek to lower barriers to trade within their regions
- PTAs give partners special treatment and may discriminate against others
- Over 300 PTAs have been notified to the WTO

Hierarchy of PFTs



CET = Common External Tariffs

Free Trade Area

- Two or more countries agree to abolish tariffs and other barriers to trade amongst themselves
- Countries continue independent trade policies with countries outside agreement
- **Rules of origin** requirements restrict transshipment of goods from the country with the lowest tariff to another



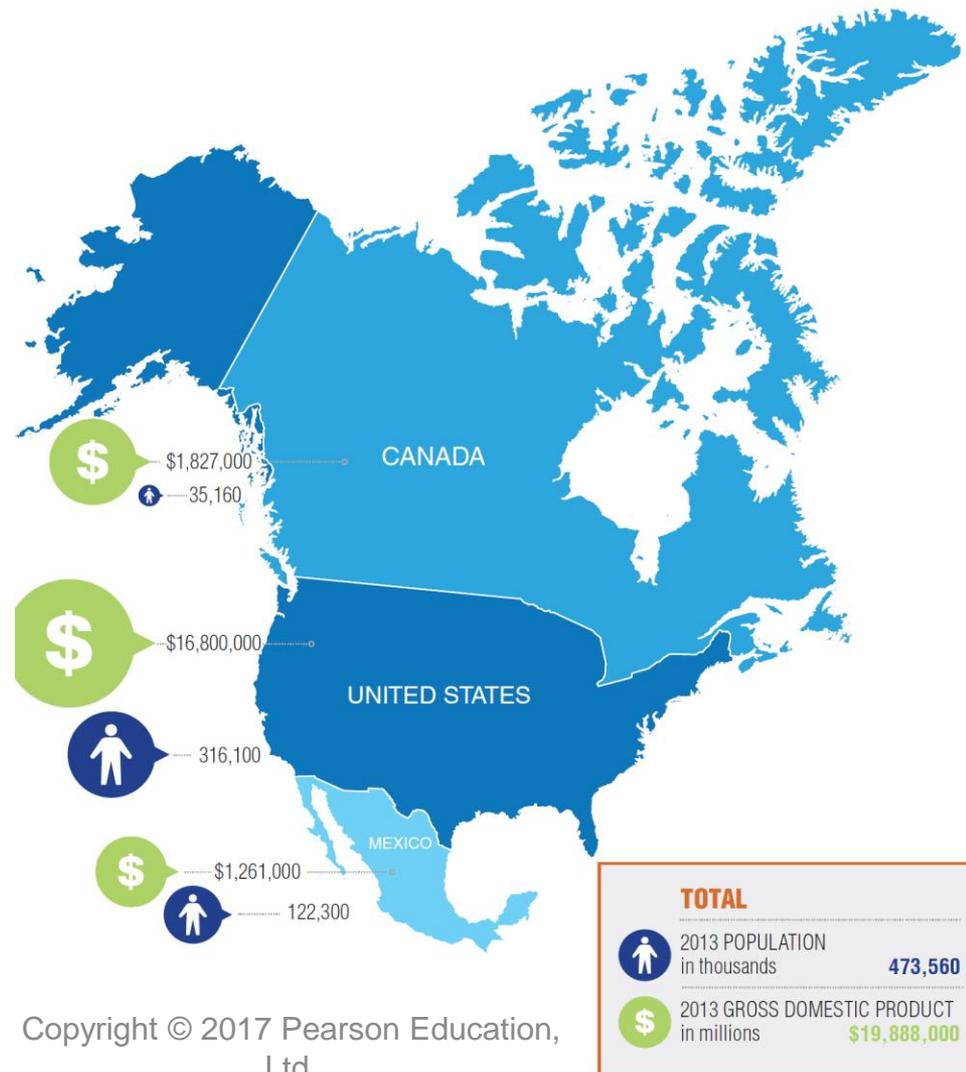
Anti-TTP protest, Tokyo, 2012

North America—NAFTA

- NAFTA established as a free trade area in 1994
- Canada, United States, Mexico
- All three nations pledge to promote economic growth through tariff reductions and expanded trade and investment
- No common external tariffs
- Restrictions on labor and other movements remain

NAFTA Income and Population

FIGURE 3-3
NAFTA Income
Population



Copyright © 2017 Pearson Education, Ltd.

Customs Union

- Evolution of Free Trade Area
- Includes the elimination of internal barriers to trade (as in FTA)
- **AND** establishes common external barriers (CETs) to trade
- Examples: The EU and Turkey, the Andean Community, Mercosur, CARICOM, Central American Integration System (SICA)

Common Market

- Includes the elimination of internal barriers to trade (as in free trade area)
- **AND** establishes common external barriers to trade (as in customs union)
- **AND** allows for the free movement of factors of production, such as labor, capital, and information

Economic Union

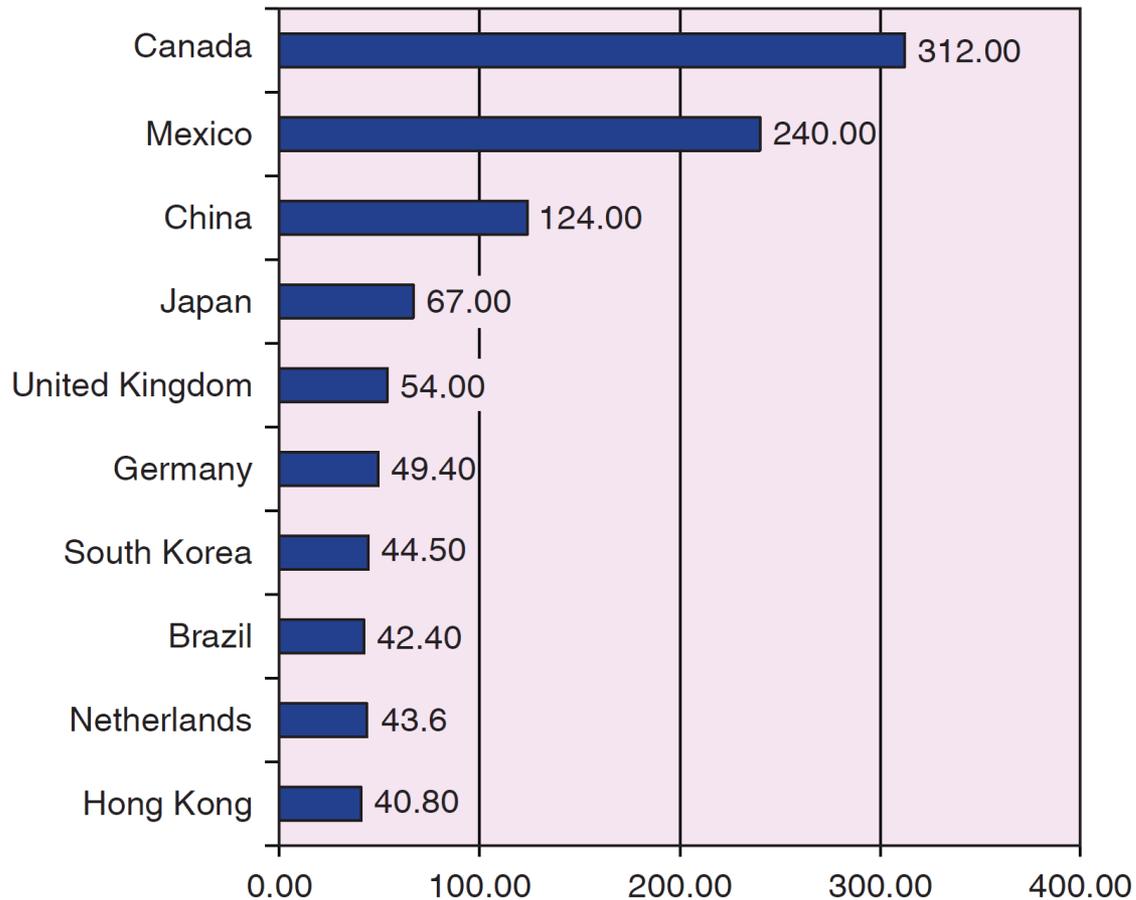
- Includes the elimination of internal barriers to trade (as in free trade area)
- **AND** establishes common external barriers to trade (as in customs union)
- **AND** allows for the free movement of factors of production, such as labor, capital, and information (as in common market)
- **AND** coordinates and harmonizes economic and social policy within the union

Economic Union

- Full evolution of economic union
 - creation of unified central bank
 - use of single currency
 - common policies on issues such as agriculture, social policy, transport, competition, mergers, taxation
 - requires extensive political unity
 - would lead to a central government in time

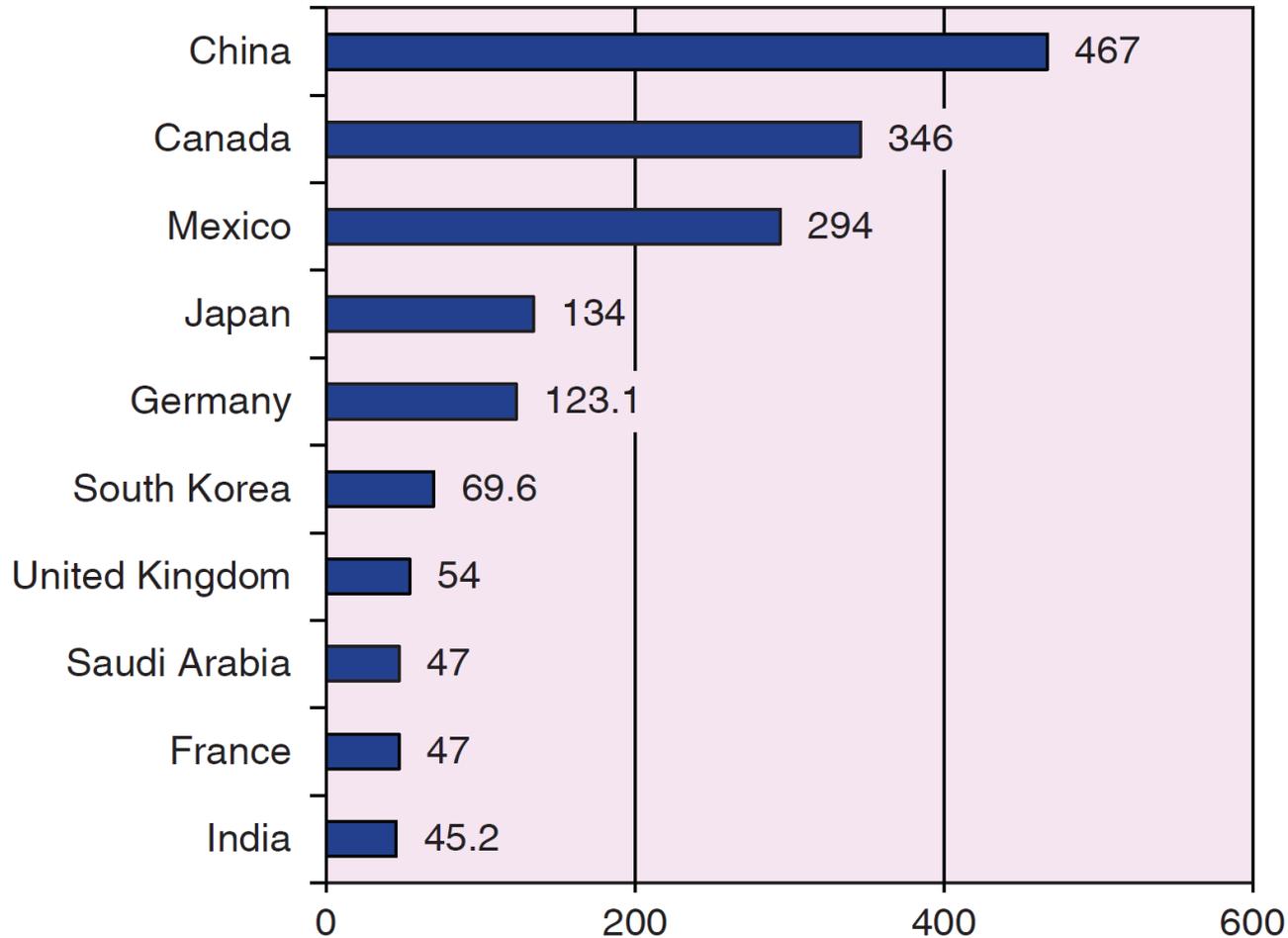
U.S. Goods Exports in 2014

\$1.6 Trillion



U.S. Goods Imports in 2014

\$2.3 Trillion



Latin America: SIICA, Andean Community, Mercosur, CARICOM

- Includes the Caribbean, Central, and South America
- History of no growth, inflation, debt, and protectionism has given way to free markets, open economies, and deregulation
- Some concern for further growth with the rise of left-leaning politicians

Central American Integration System (SICA)

- El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica, and Panama
- Moving towards a common market
- Common External Tariff of 0 to 15%
- Retains tariffs on goods also produced in importing country



DR-CAFTA

- SICA members El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica joined the Dominican Republic and the United States in a FTA
- 80% of US goods and 50% + of agricultural goods are duty free
- Paperwork is reduced
- Reduced risks mean more direct foreign investment

Andean Community

- Bolivia, Colombia, Ecuador, Peru
- 45th anniversary in 2014
- Customs Union
 - Abolished foreign exchange, financial and fiscal incentives, and export subsidies
 - Established common external tariffs

Common Market of the South (MERCOSUR)

- Argentina, Brazil, Paraguay, Uruguay, Venezuela
- Customs union, seeks to become common market
 - Internal tariffs eliminated
 - Established common external tariffs up to 20%
 - In time, factors of production will move freely through member countries
- Bolivia, Chile, Ecuador, Peru
 - Associate members
 - Participate in free trade area but not customs union

MERCOSUR, Andean, & CARICOM Income and Population

FIGURE 3-5
Mercosur and Andean
Community Income and
Population



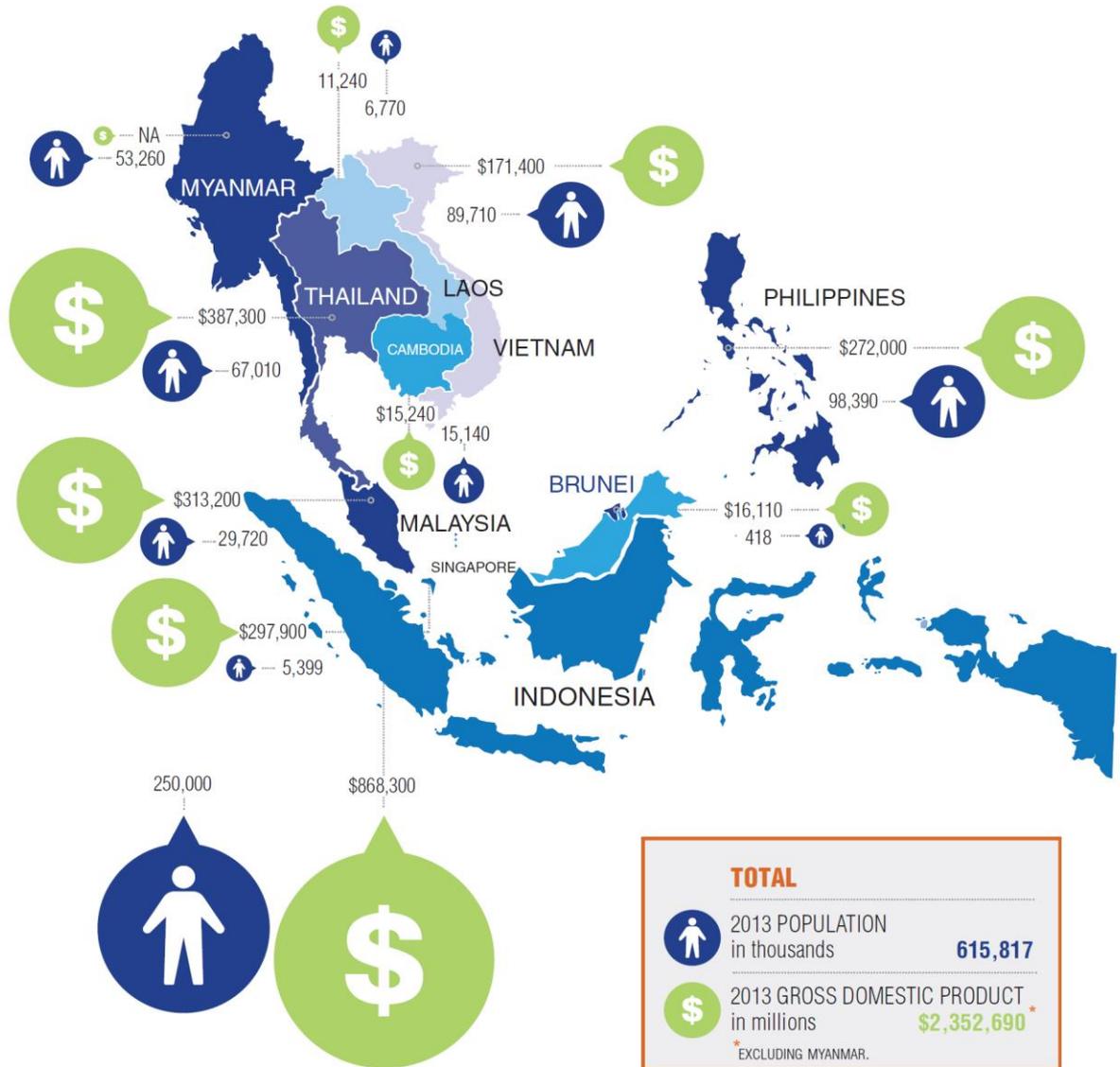
CARICOM

- Founded in 1973 by 15 members
 - 17 million population
 - Stagnant for 20 years
 - Customs Union in 1991 with common external tariffs
 - Rejected the idea of a economic union in 1998 as a single currency would not be especially beneficial.
- Caribbean Basin Trade Partnership Act exempts textile and apparel exports to the U.S. market access from duties and tariffs.
Caribbean Basin Initiative of 20 nations includes CARICOM.

Asia-Pacific: The Association of Southeast Asian Nations (ASEAN)

- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
- Top trading partners U.S., Japan, EU, China
- Geographically close; historically divided
- “ASEAN plus six” (Japan, China, Korea, Australia, New Zealand, India) working towards an economic community
- China/ASEAN FTA established in 2010 removes 90% of tariffs on traded goods

ASEAN



Singapore

- World's 2nd largest container port
- 2nd highest standard of living in the region behind Japan
- 5.4 million people
- 95% literacy rate
- Over 3,000 companies
- Crime is nearly nonexistent



Singapore, an important trade hub in Asia, is becoming a cultural destination.

The European Union (EU)



Lithuania joined the euro zone
On January 1, 2015.

- Initially began with the 1958 Treaty of Rome
- Objective is to harmonize national laws and regulations so that goods, services, people, and money could flow freely across national boundaries
- 1991 Maastricht Treaty set stage for transition to an economic union with a central bank and single currency (the Euro)

European Union

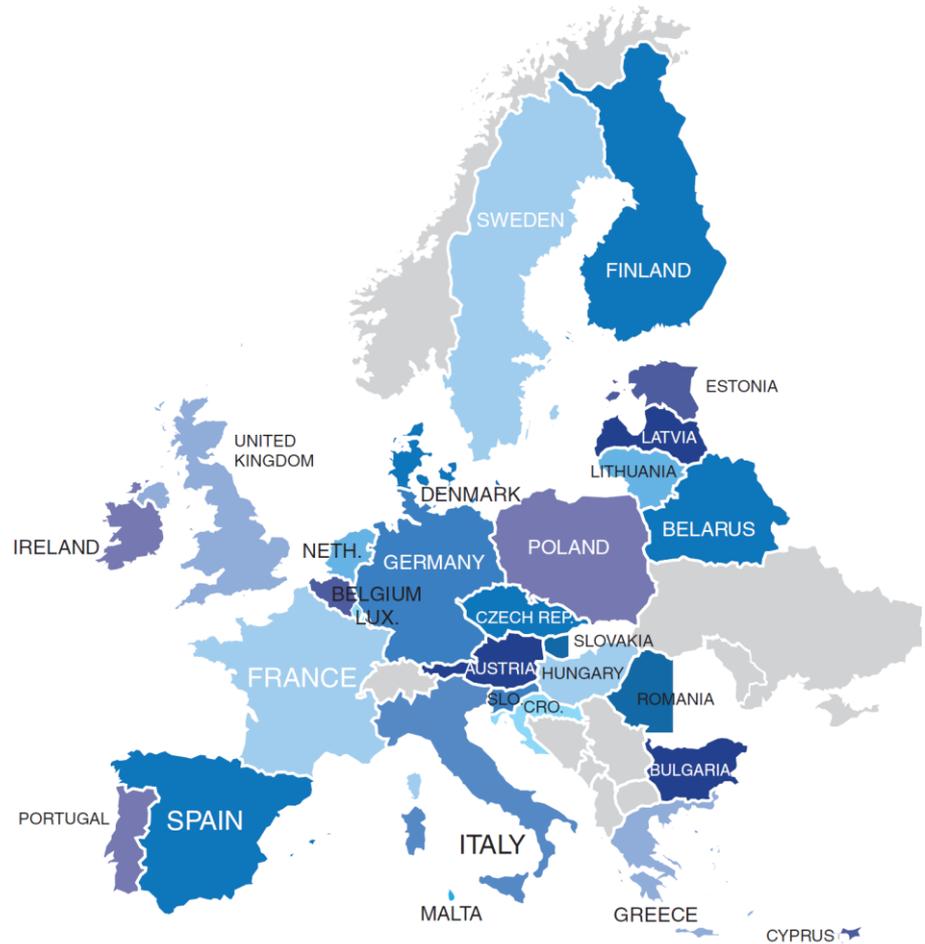
- 28 countries
- 450 million people
- \$15 trillion GNI
- Euro currency, 1999
- Harmonization of laws and regulations
- Price transparency
- No customs at national borders

European Union

FIGURE 3-8

**The 28-Nation EU:
Income and Population**

		
AUSTRIA	\$428,300	8,474
BELGIUM	\$524,800	11,200
BULGARIA	\$54,480	7,265
CROATIA	\$57,870	4,253
CYPRUS	\$21,910	1,141
CZECH REPUBLIC	\$208,800	10,520
DENMARK	\$335,900	5,614
ESTONIA	\$24,880	1,325
FINLAND	\$267,300	5,439
FRANCE	\$2,806,000	66,030
GERMANY	\$3,730,000	80,620
GREECE	\$242,200	11,030
HUNGARY	\$133,400	9,897
IRELAND	\$232,100	4,595
ITALY	\$2,149,000	59,830
LATVIA	\$30,960	2,013
LITHUANIA	\$45,930	2,956
LUXEMBOURG	\$60,130	543
MALTA	\$9,642	423
NETHERLANDS	\$853,500	16,800
POLAND	\$525,900	38,530
PORTUGAL	\$227,300	10,460
ROMANIA	\$189,600	19,960
SLOVAK REPUBLIC	\$97,710	5,414
SLOVENIA	\$47,990	2,060
SPAIN	\$1,393,000	46,650
SWEDEN	\$579,700	9,593
UNITED KINGDOM	\$2,678,000	64,100



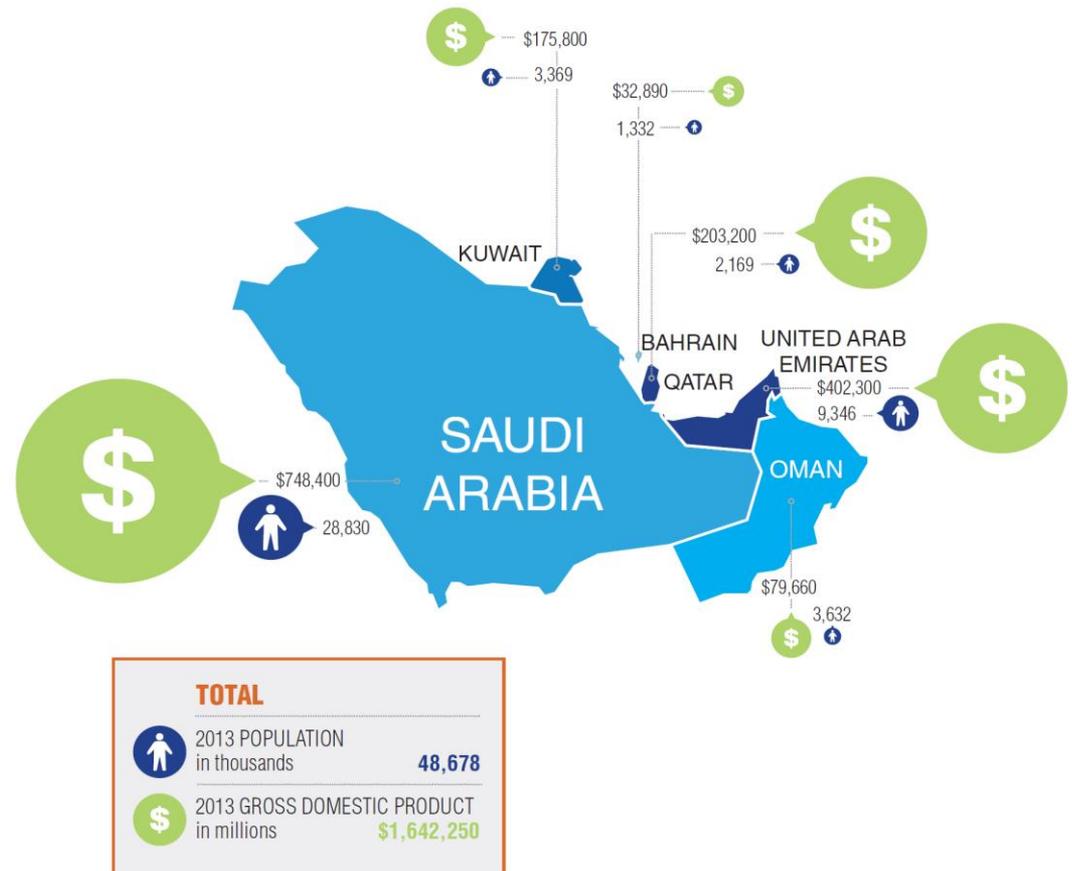
TOTAL	
	2013 POPULATION IN THOUSANDS 442,635
	2013 GROSS DOMESTIC PRODUCT IN MILLIONS \$15,278,302

The Middle East

- Afghanistan, Bahrain, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen
 - Primarily Arab, some Persian and Jews
 - 95% Muslim, 5% Christian and Jewish
 - Wide variation in Economic Freedom rankings
 - Bahrain is 18th, UAE is 25th, Saudi Arabia is 77nd
 - Oil prices drive commerce
 - 25% of world's oil in Saudi Arabia
 - Arab Spring 2011

Gulf Cooperation Council

- Established in 1981 by 6 countries with 45% of world's oil, only 18% of output
- These countries are attempting to diversify industries



Africa

- 54 nations over three distinct areas
 - Republic of South Africa
 - North Africa
 - Black Africa or sub-Saharan Africa
- Mena: Middle East and North Africa
 - Viewed as a regional entity
- Regional agreements
 - Economic Community of West African States
 - East African Cooperation
 - South African Development Community