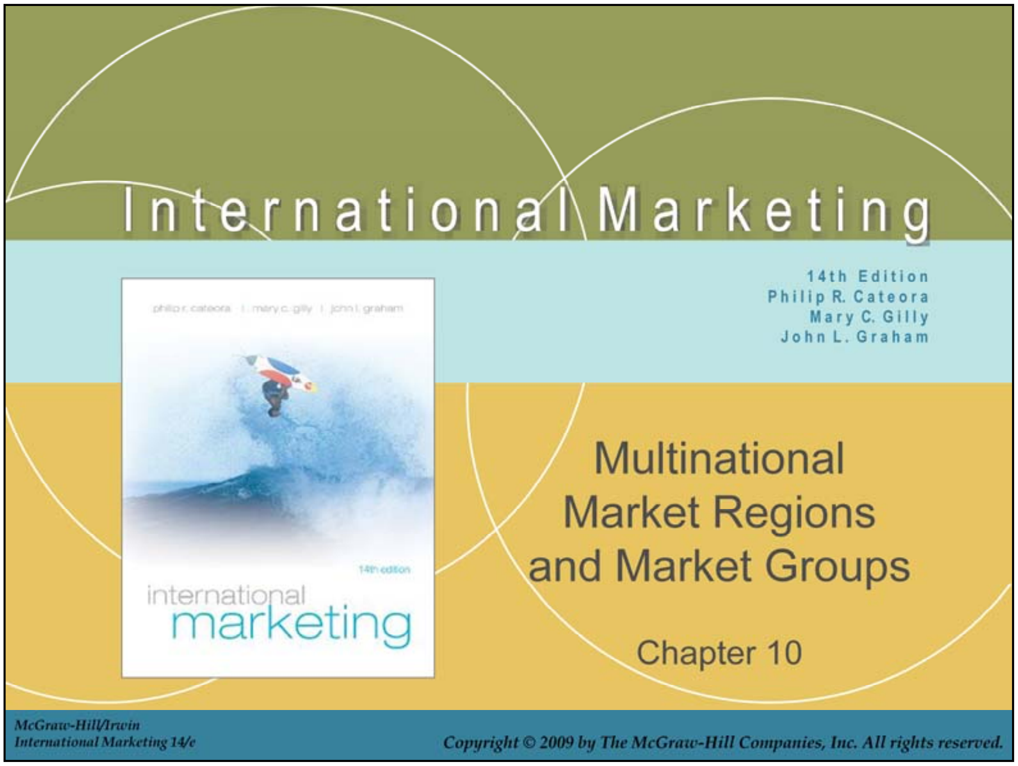


The nearly complete destruction of the continental European economies by World War II seriously endangered the stability of Europe's social and political institutions. Europe's leaders knew that in order to rebuild from the ruins, it was essential to form new kinds of international institutions to ensure prosperity, stability, and peace in the region. The first of these institutions was the European Coal and Steel Community established in 1952 to integrate the coal and steel industries of France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg. Fifty years later, based on the success of this first small experiment in economic interdependence, we now see the European Union with twenty-seven member nations and three candidate countries set to join during the next few years. The economies have burgeoned, but more importantly peace has persisted.

Might such an approach work in the war-torn Middle East? Finally, Pulitzer Prize–winner Jared Diamond points out that the Middle East, historically referred to as the Fertile Crescent, was the cradle of civilization. It became so so long ago because of innovation and trade in the region. One can only imagine what free trade in the area would produce now.

This chapter covers such multinational market regions and market groups.

Follow along with the slides (or open book) as we cover Chapter 10.

What should you learn in Chapter 10?

•The reason for economic union;

•Patterns of international cooperation;

•The evolution of the European Union;

•Strategic implications for marketing in Europe;

•Evolving patterns of trade as eastern Europe and the former Soviet states embrace the free-market system;

•The trade linkage of NAFTA and South America and its regional effects; and

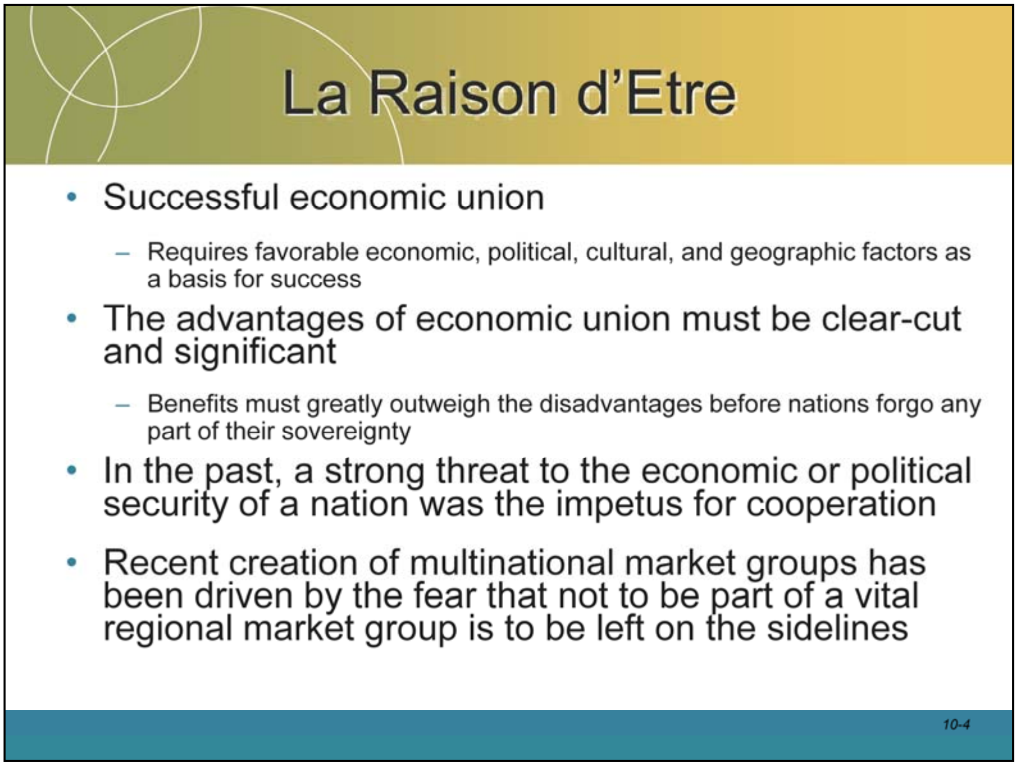
•The development of trade within the Asia-Pacific Rim.

The evolution and growth of *multinational market regions* — those groups of countries that seek mutual economic benefit from reducing interregional trade and tariff barriers — are the most important global trends today.

Organizational form varies widely among market regions, but the universal goals of multinational cooperation are economic benefits for the participants and the associated peace. The world is awash in economic cooperative agreements as countries look for economic alliances to expand access to free markets.

Indeed, part of the 192 member countries in the United Nations efforts include mutual economic development; and, of course, the World Trade Organization with its 151 members and 31 observers is wholly dedicated to make trade among nations more efficient.

Governments and businesses worry that the EU, NAFTA, and other cooperative trade groups will become regional trading blocs without trade restrictions internally but with borders protected from outsiders. But as each of these trade groups continues to create new agreements with other countries and groups, the networked global economy and free trade are clearly on the ascendance. The benefits are clear for consumers; however, global companies face richer and more intense competitive environments.

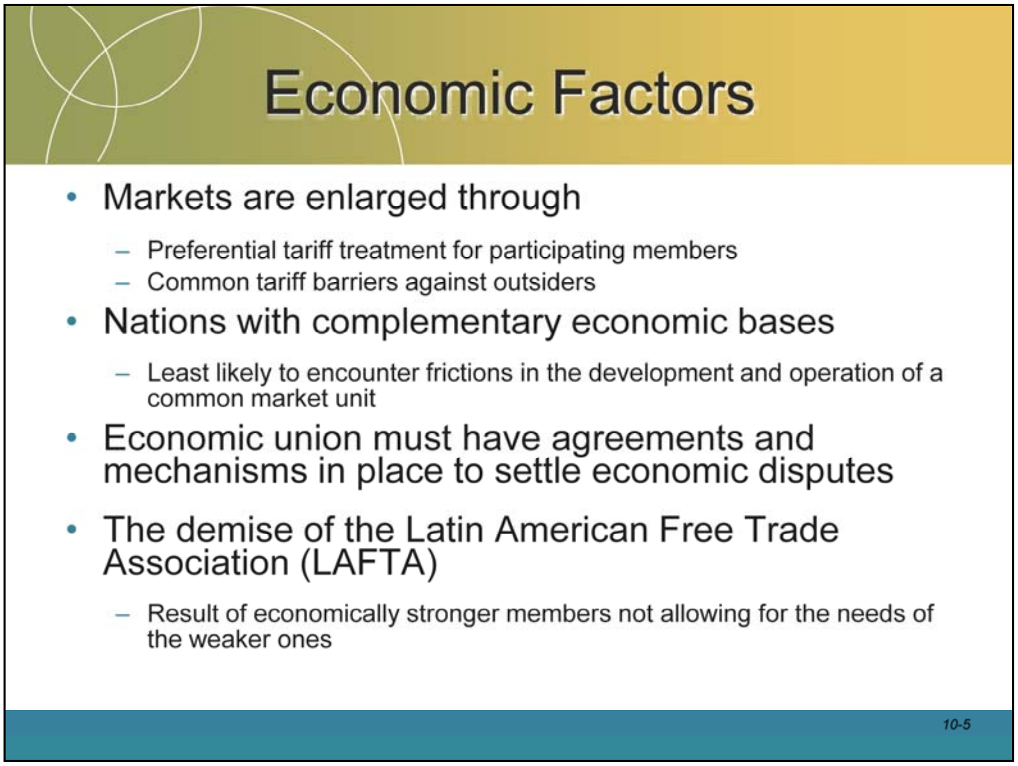


Successful economic union requires favorable economic, political, cultural, and geographic factors as a basis for success. Major flaws in any one factor can destroy a union unless the other factors provide sufficient strength to overcome the weaknesses.

In general, the advantages of economic union must be clear-cut and significant, and the benefits must greatly outweigh the disadvantages before nations forgo any part of their sovereignty.

In the past, a strong threat to the economic or political security of a nation was the impetus for cooperation.

The cooperative agreements among European countries that preceded the EU had their roots in the need for economic redevelopment after World War II, the belief that economic integration created peace between and the political concern for the perceived threat of communism. Many felt that if Europe was to survive, there had to be economic unity; the agreements made then formed the groundwork for the European Union. The more recent creation of multinational market groups has been driven by the fear that not to be part of a vital regional market group is to be left on the sidelines of the global economic boom of the 21st century.



Every type of economic union shares the development and enlargement of market opportunities as a basic orientation; usually, markets are enlarged through preferential tariff treatment for participating members, common tariff barriers against outsiders, or both. Enlarged, protected markets stimulate internal economic development by providing assured outlets and preferential treatment for goods produced within the customs union, and consumers benefit from lower internal tariff barriers among the participating countries. In many cases, external as well as internal barriers are reduced because of the greater economic security afforded domestic producers by the enlarged market.

Nations with complementary economic bases are least likely to encounter frictions in the development and operation of a common market unit.

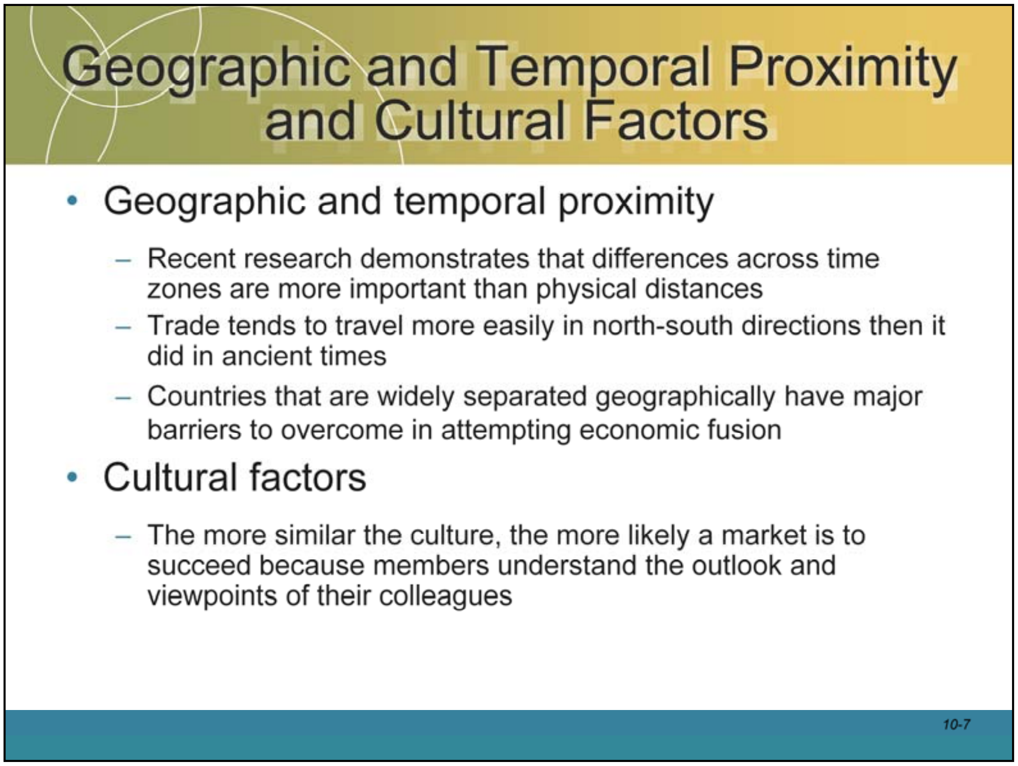
However, for an economic union to survive, it must have agreements and mechanisms in place to settle economic disputes. In addition, the total benefit of economic integration must outweigh individual differences that are sure to arise as member countries adjust to new trade relationships.

The demise of the Latin American Free Trade Association (LAFTA) was the result of economically stronger members not allowing for the needs of the weaker ones. Many of the less well known attempts at common markets have languished because of economic incompatibility that could not be resolved and the uncertainty of future economic advantage.

Political amenability among countries is another basic requisite for development of a supranational market arrangement. Participating countries must have comparable aspirations and general compatibility before surrendering any part of their national sovereignty.

State sovereignty is one of the most cherished possessions of any nation and is relinquished only for a promise of significant improvement of the national position through cooperation. Economic considerations are the basic catalyst for the formation of a customs union group, but political elements are equally important. The uniting of the original European Union countries was partially a response to the outside threat of the Soviet Union's great political and economic power; the countries of western Europe were willing to settle their "family squabbles" to present a unified front to the Russian bear.

The communist threat no longer exists, but the importance of political unity to fully achieve all the benefits of economic integration has driven European countries to form the Union (EU).



Although geographic and temporal proximity are not absolutely imperative for cooperating members of a customs union, such closeness does facilitate the functioning of a common market.

Indeed, the most recent research demonstrates that more important than physical distance, are differences across time zones.

That is, trade tends to travel more easily in north–south directions than it did in ancient times.

Countries that are widely separated geographically have major barriers to overcome in attempting economic fusion. However, with increasing efficiencies in communication and transportation, the importance of such factors appears to be waning.

But, generally, cultural similarity eases the shock of economic cooperation with other countries.

The more similar the culture, the more likely an agreement is to succeed because members understand the outlook and viewpoints of their colleagues.

There are five fundamental groupings for regional economic integration, ranging from regional cooperation for development, which requires the least amount of integration, to the ultimate integration of political union.

The most basic economic integration and cooperation is the *regional cooperation for development (RCD).* In the RCD arrangement, governments agree to participate jointly to develop basic industries beneficial to each economy. Each country makes an advance commitment to participate in the financing of a new joint venture and to purchase a specified share of the output of the venture.

A *free trade area (FTA)* requires more cooperation and integration than the RCD. It is an agreement between two or more countries to reduce or eliminate customs duties and nontariff trade barriers among partner countries while members maintain individual tariff schedules for external countries.

A *customs union* represents the next stage in economic cooperation. It enjoys the free trade area's reduced or eliminated internal tariffs and adds a common external tariff on products imported from countries outside the union. The customs union is a logical stage of cooperation in the transition from an FTA to a common market. The European Union was a customs union before becoming a common market.

A *common market* agreement eliminates all tariffs and other restrictions on internal trade, adopts a set of common external tariffs, and removes all restrictions on the free flow of capital and labor among member nations. Thus a common market is a common marketplace for goods as well as for services (including labor) and for capital.

A *political union* is the most fully integrated form of regional cooperation. It involves complete political and economic integration, either voluntary or enforced. The most notable enforced political union was the Council for Mutual Economic Assistance (COMECON), a centrally controlled group of countries organized by the Soviet Union.

A *commonwealth* of nations is a voluntary organization providing for the loosest possible relationship that can be classified as economic integration. The British Commonwealth includes Britain and countries formerly part of the British Empire.

Two new political unions came into existence in the 1990s: the Commonwealth of Independent States (CIS), made up of the republics of the former Soviet Union, and the European Union (EU). The European Union was created when the 12 nations of the European Community ratified the Maastricht Treaty.

The globalization of markets, the restructuring of the Eastern European bloc into independent market-driven economies, the dissolution of the Soviet Union into independent states, the worldwide trend toward economic cooperation, and enhanced global competition make it important that market potential be viewed in the context of regions of the world rather than country by country.

Within Europe, every type of multinational market grouping exists. The European Union, European Economic Area, and the European Free Trade Association are the most established cooperative groups.

European Market Regions

Exhibit 10.1

Association	Member (year entered union)* = eurozone	Population (millions)	GDP* (billions)	GDP* per Capita at PPP	Imports of Goods and Services* (billions)	Exports of Goods and Services* (billions)
European Union (EU)						
	Belgium (founder)*	10.5	$ 257.3	$30,004	$215.6	$222.9
	Denmark (1973)	5.4	176.7	31,422	82.5	87.8
	Germany (founder)*	82.4	2026.7	27,438	742.0	837.2
	Greece (1981)*	11.1	148.2	21,675	43.5	30.4
	Spain (1986)*	43.5	704.5	24,681	250.7	193.0
	France (founder)*	61.0	1458.7	28,877	436.7	417.6
	Ireland (1973)*	4.2	132.2	36,238	94.7	116.3
	Italy (founder)*	58.6	1154.3	26,496	298.3	288.5
	Luxembourg (founder)*	0.5	25.3	59,853	35.6	40.6
	Netherlands (founder)*	16.4	414.7	31,306	292.6	323.3
	Austria (1995)*	8.2	215.2	30,736	105.7	116.1
	Portugal (1986)*	10.6	117.8	18,966	84.9	37.9
	Finland (1995)*	5.3	142.3	30,420	50.0	61.5
	Sweden (1995)	9.0	282.3	30,392	111.0	139.2
	United Kingdom (1973)	60.4	1664.9	30,237	543.4	466.3
	Czech Republic (2004)	10.2	71.9	19,700	68.1	67.0
	Estonia (2004)	1.3	9.3	15,885	9.3	8.4
	Cyprus (2004)*	0.8	10.3	20,203	–	–
	Latvia (2004)	2.3	13.0	13,724	8.1	5.4
	Lithuania (2004)	3.4	17.8	14,020	13.7	10.8
	Hungary (2004)	10.1	61.6	16,928	60.7	62.7
	Malta (2004)*	0.4	3.9	17,079	–	–
	Poland (2004)	38.1	210.4	13,349	84.9	81.2
	Slovenia (2004)*	2.0	24.1	20,890	17.6	17.2
	Slovak	5.4	27.6	15,409	28.3	27.5
	Republic (2004)	7.7	17.4	8,754	15.2	
	Bulgaria (2007)	21.5	52.6	8,722	28.4	12.1
	Romania (2007)					22.6
EU Candidate Countries						
	Croatia	4.4	24.2	12,164	15.3	12.4
	Macedonia, FYR	2.0	4.0	6,580	2.4	1.8
	Turkey	72.9	261.2	7,842	102.1	92.6
European Free Trade Area (EFTA)						
	Iceland	0.3	10.7	33,610	5.1	3.7
	Liechtenstein	0.03	–	–	–	–
	Norway	4.6	190.1	37,667	58.9	82.4
	Switzerland	7.4	265.6	32,775	107.5	121.3

10-11

In Exhibit 10.1, the GDP per capita at PPP for Germany is $27,438. (However, in the last chapter in Exhibit 9.1, we reported the GDP per capita at PPP to be "$33,000." We point out this discrepancy to demonstrate that comparing such statistics across international data bases is fraught with potential problems. For Exhibit 9.1 we used Euromonitor as a source and in Exhibit 10.1, we used the World Bank. Neither "estimate" of per capita income is inaccurate – they are just based on different assumptions and different data collection methods.

European Economic Area

Exhibit 10.2

Exhibit 10.2 illustrates the European economic area: including the EU, EFTA, and Associates. As you can see, when Austria, Finland, and Sweden joined the EU in 1995, only Iceland, Liechtenstein, Norway, and Switzerland remained in EFTA.

Of all the multinational market groups, none is more secure in its cooperation or more important economically than the European Union.

Historically, standards have been used to effectively limit market access. Germany protected its beer market from the rest of Europe with a purity law requiring beer sold in Germany to be brewed only from water, hops, malt, and yeast. Italy protected its pasta market by requiring that pasta be made only from durum wheat. Incidentally, the European Court of Justice has struck down both the beer and pasta regulations as trade violations.

The Single European Act (1987) was the agreement designed to finally remove all barriers to trade and make the European Community a single internal market. In addition to dismantling the existing barriers, the Single European Act proposed a wide range of new commercial policies, including single European standards, one of the more difficult and time-consuming goals to achieve.

From the European Coal and Steel Community to Monetary Union

Exhibit 10.3

1951	Treaty of Paris	European Coal and Steel Community (ECSC) (Founding members are Belgium, France, Germany, Italy, Luxembourg, and the Netherlands).
1957	Treaty of Rome	Blueprint, European Economic Community (EEC).
1958	European Economic Community	Ratified by ECSC founding members. Common market is established.
1960	European Free Trade Association	Established by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and United Kingdom.
1973	Expansion	Denmark, Ireland, and United Kingdom join EEC.
1979	European monetary system	The European Currency Unit (ECU) is created. All members except the UK agree to maintain their exchange rates within specific margins.
1981	Expansion	Greece joins EEC.
1985	1992 Single Market Program	White paper for action introduced to European Parliament.
1986	Expansion	Spain and Portugal join EEC.
1987	Single European Act	Ratified, with full implementation by 1992.
1992	Treaty on European Union	Also known as Maastricht Treaty. Blueprint for Economic and Monetary Union (EMU).
1993	Europe 1992	Single European Act in force (January 1, 1992).
1993	European Union	Treaty on European Union (Maastricht Treaty) in force, with monetary union by 1999.
1994	European Economic Area	The EEA was formed with EU members and Norway and Iceland.
1995	Expansion	Austria, Finland, and Sweden join EU.
1997	Amsterdam Treaty	Established procedures for expansion to Central and Eastern Europe.
1999	Monetary union	Conversion rates are fixed, and euro used by banking and finance industry. Consumer prices are quoted in local currency and in euros.
2002	Banknotes and coins	Circulation of euro banknotes and coins begins January 1, and legal status of national banknotes and coins canceled July 1, 2002.
2004	Expansion	Ten new countries join EU.
2007	Expansion	Bulgaria and Romania join.

10-14

Of all the multinational market groups, none is more secure in its cooperation or more important economically than the European Union. Exhibit 10.3 demonstrates the timeline dating from 1951 for the European Coal and Steel Industry to the Monetary Union in 2007.

The European Union's institutions form a federal pattern with executive, parliamentary, and judicial branches: the European Commission, the Council of Ministers, the European Parliament, and the Court of Justice. Their decision-making processes have legal status and extensive powers in fields covered by common policies. The European Union uses three legal instruments:

(1) regulations binding the member states directly and having the same strength as national laws;

(2) directives also binding the member states but allowing them to choose the means of execution; and

(3) decisions addressed to a government, an enterprise, or an individual, binding the parties named.

Over the years, the Union has gained an increasing amount of authority over its member states.

Britain, not wanting to join the EEC, conceived the European Free Trade Association (EFTA) for those European nations not willing to join the EEC but wanting to participate in a free trade area. Britain and other EFTA countries later became members of the European Community in 1973.

When Austria, Finland, and Sweden joined the EU in 1995, Iceland, Liechtenstein, Norway, and Switzerland remained in EFTA, which will most probably dissolve as its members join either the European Economic Area (EEA) or the EU.

Because of the success of the EU, and concern that they might be left out of the massive European market, five members of the European Free Trade Association elected to join the 12 members of the EU in 1994 to form the European Economic Area, a single market with free movement of goods, services, and capital.

The EFTA countries joining the EEA adopted most of the EU's competition rules and agreed to implement EU rules on company law; however, they maintain their domestic farm policies.

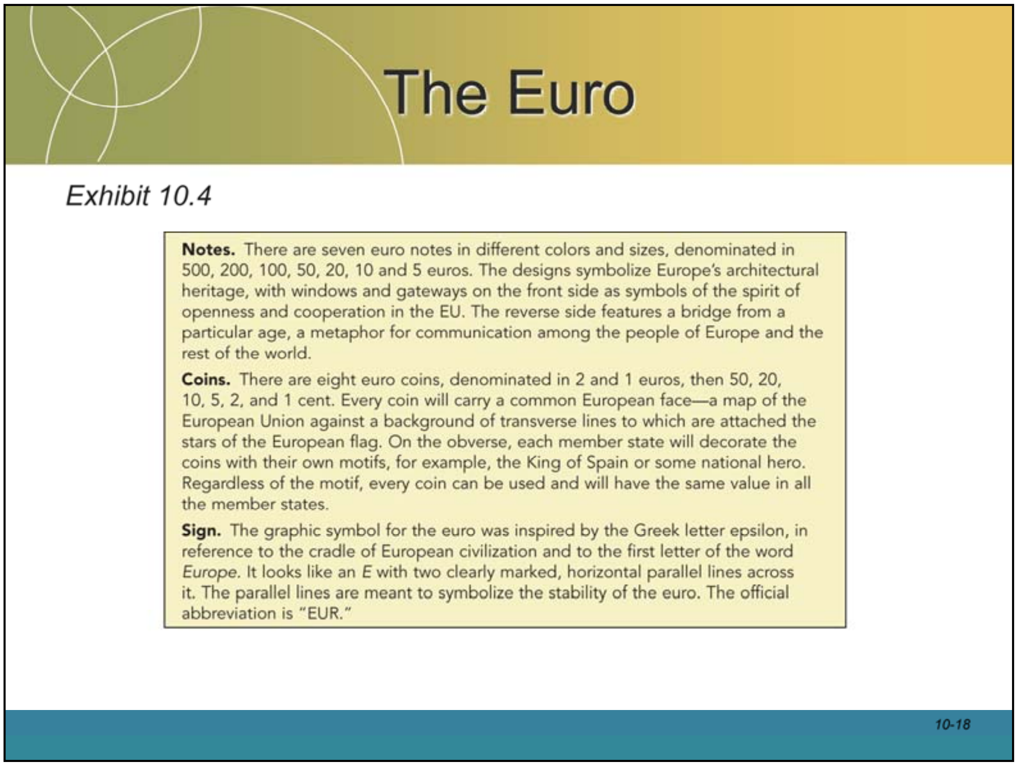
The EEA is governed by a special Council of Ministers composed of representatives from EEA member nations.

The final step in the European Community's march to union was ratification of the Maastricht Treaty (1992).

The treaty provided for the Economic and Monetary Union (EMU) and European Union. The treaty touched on all the missing links needed for a truly European political union, including foreign policy.

Because procedures on how foreign policy and social legislation decisions are to be made are so complex, another round of negotiations, which was concluded in the Amsterdam Treaty (1997), was necessary.

Initially, the viability of a European Union was in considerable doubt. However, within months of the ratification of the treaty, the EU was expanded to include Austria, Finland, and Sweden — all members of the EEA. Norway voted not to join the EU but remains a member of the European Economic Area. Much of the concern persists even as the Economic and Monetary Union is put into place.



The EMU, a provision of the Maastricht Treaty, established the parameters of the creation of a common currency for the EU, the *euro,* and established a timetable for its implementation. In 2002, a central bank was established, conversion rates were fixed, circulation of euro banknotes and coins was completed and the legal tender status of participating members' banknotes and coins was canceled.

Exhibit 10.4 describes the various denominations of the Euro:

Notes: There are seven euro notes in different colors and sizes, denominated in 500, 200, 100, 50, 20, 10 and 5 euros.

Coins: There are eight euro coins, denominated in 2 and 1 euros, then 50, 20, 10, 5, 2, and 1 cent. Every coin will carry a common European face—a map of the European Union against a background of transverse lines to which are attached the stars of the European flag. On the obverse, each member state will decorate the coins with their own motifs, for example, the King of Spain or some national hero.

The graphic symbol for the euro was inspired by the Greek letter epsilon, in reference to the cradle of European civilization and to the first letter of the word *Europe.* It looks like an *E* with two clearly marked, horizontal parallel lines across it. The parallel lines are meant to symbolize the stability of the euro. The official abbreviation is "EUR."

The Commonwealth of Independent States (Europe and Asia) have one other trade group that has emerged and persisted since the dissolution of the Soviet Union: the Commonwealth of Independent States (CIS).

The series of events after the aborted coup against Mikhail Gorbachev led to the complete dissolution of the USSR. The first Soviet republics to declare independence were the Baltic states, which quickly gained recognition by several Western nations. The remaining 12 republics of the former USSR, collectively known as the Newly Independent States (NIS), regrouped into the Commonwealth of Independent States.

The CIS is a loose economic and political alliance with open borders but no central government. The main provisions of the commonwealth agreement are to repeal all Soviet laws and assume the powers of the old regimes; launch radical economic reforms, including freeing most prices; keep the ruble, but allow new currencies; establish a European Union–style free trade association; create joint control of nuclear weapons; and fulfill all Soviet foreign treaties and debt obligations.

The 12 members of the CIS share a common history of central planning, and their close cooperation could make the change to a market economy less painful, but differences over economic policy, currency reform, and control of the military may break them apart. How the CIS will be organized and what its ultimate importance will be is anyone’s guess.

Commonwealth of Independent States (CIS)

Exhibit 10.5

Country	Population (millions)	GDP* (billions)	GDP* per Capita at PPP	Imports of Goods and Services* (billions)	Exports of Goods and Services* (billions)
Russia	142.4	$373.2	$10,350	$171.8	$183.3
Ukraine	46.6	48.4	6,605	26.9	24.1
Belarus	9.7	20.1	7,810	15.1	12.3
Armenia	3.0	3.9	5,011	1.9	1.2
Moldova	3.8	1.9	2,151	2.0	1.4
Azerbaijan	8.5	13.4	5,953	8.8	7.0
Uzbekistan	26.5	19.2	1,942	3.9	4.4
Turkmenistan (associate member, withdrew 2005)	4.9	2.9	3,416	2.5	5.3
Tajikistan	6.7	1.6	1,257	0.9	1.5
Kazakhstan	15.3	33.1	7,652	11.3	15.8
Kyrgyzstan	5.2	1.7	1,749	1.3	0.6
Georgia (outside defense pact, withdrew 2006)	4.4	4.8	3,304	1.8	1.0

10-20

Similar to Exhibit 10.1, Exhibits 10.5 illustrates the same information for the 12 republics of the former USSR, known as the Newly Independent States (NIS). regrouped into the Commonwealth of Independent States.

Russia ranks the highest is population, GDP, as well as both imports and exports of goods and services.

While the three Slavic republics of Russia, Ukraine, and Belarus have interests and history in common, as do the five Central Asian republics, the ties between these two core groups of the CIS are tenuous and stem mainly from their former Soviet membership.

Preceding the creation of the North American Free Trade Agreement (NAFTA), the United States and Canada had the world's largest bilateral trade agreement; each was the other's largest trading partner. To further support trade activity, the two countries established the United States–Canada Free Trade Area (CFTA), designed to eliminate all trade barriers between the two countries. The CFTA created a single, continental commercial market for all goods and most services. However, no economic or political union of any kind was involved. It provided only for the elimination of tariffs and other trade barriers.

When NAFTA was ratified and became effective in 1994, a single market of 360 million people with a $6 trillion GNP emerged. NAFTA required the three countries to remove all tariffs and barriers to trade over 15 years, and beginning in 2008 all tariff barriers were officially dropped But, for the most part, NAFTA is a comprehensive trade agreement that addresses, and in most cases improves, all aspects of doing business within North America.

The elimination of trade and investment barriers among Canada, Mexico, and the United States creates one of the largest and richest markets in the world. Cross-border cooperation seems to ameliorate other long-standing areas of conflict such as legal and illegal immigration. NAFTA has paved the way for Wal-Mart to move into Mexico and Mexican supermarket giant Gigante to move into the United States. Other cross-border services are also thriving, including entertainment and health care. Job losses have not been as drastic as once feared, in part because companies such as Lucent Technologies have established *maquiladora* plants in anticipation of the benefits from NAFTA.

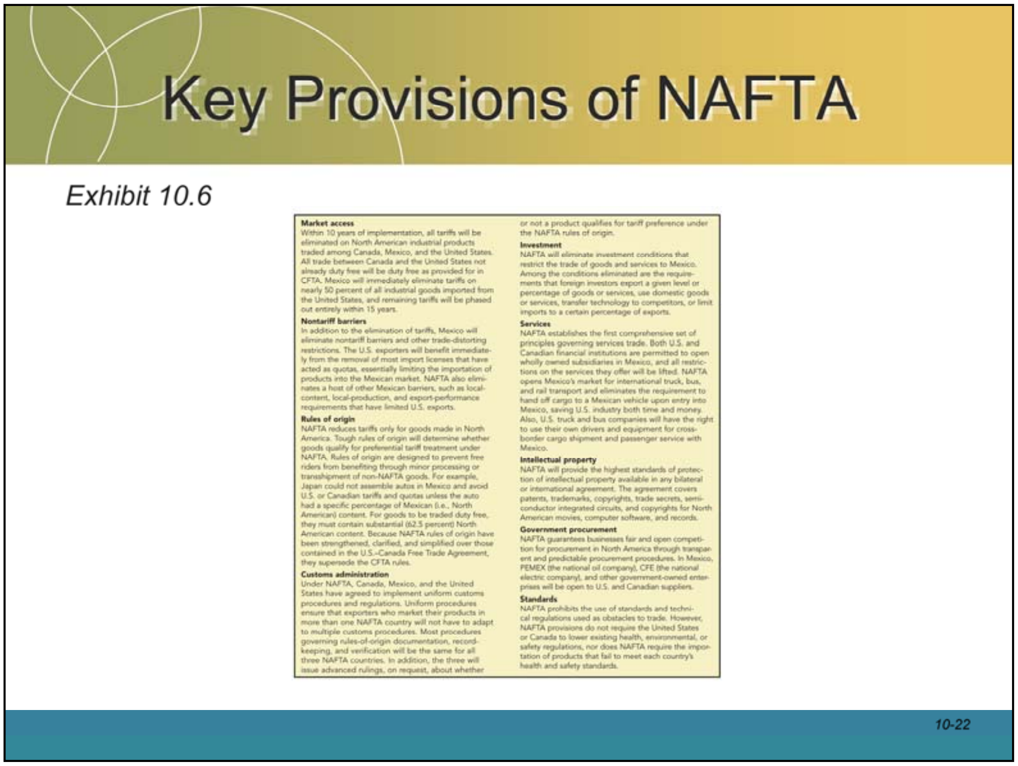


Exhibit 10.6 lists some of the key provision of the trade agreement.

Market access – Within 10 years of implementation, all tariffs will be eliminated on North American industrial products traded between Canada, Mexico, and the United States.

Nontariff barriers – In addition to elimination of tariffs, Mexico will eliminate nontariff barriers and other trade-distorting restrictions.

Rules of origin – NAFTA reduces tariffs only for goods made in North America. Rules of origin are designed to prevent free riders from benefiting through minor processing or transshipment of non-NAFTA goods.

Customs administration – Under NAFTA, Canada, Mexico, and the United States have agreed to implement uniform customs procedures and regulations.

Investment – NAFTA will eliminate investment conditions that restrict the trade of goods and services to Mexico.

Services – NAFTA establishes the first comprehensive set of principles governing services trade.

Intellectual property – NAFTA will provide the highest standards of protection of intellectual property available in any bilateral or international agreement.

Government procurement – NAFTA guarantees businesses fair and open competition for procurement in North America through transparent and predictable procurement procedures.

Standards – NAFTA prohibits the use of standards and technical regulations used as obstacles to trade.

Mercosur (including Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay) is the second-largest common-market agreement in the Americas after NAFTA.

Since its inception, Mercosur has become the most influential and successful free trade area in South America. With the addition of Bolivia and Chile in 1996, Mercosur became a market of 220 million people with a combined GDP of nearly $1 trillion and is the third largest free trade area in the world. In addition, negotiations have been under way since 1999 for a free trade agreement between the EU and Mercosur, the first region-to-region free trade accord.

DR-CAFTA represents another important step toward the ultimate goal of a free trade agreement encompassing all the Americas.

Another ambitious agreement, the Latin American Free Trade Association (LAFTA), gave way to the Latin American Integration Association (LAIA or ALADI), with new rules of organization that revitalized that group.

The success of the Caribbean Free Trade Association led to the creation of the Caribbean Community and Common Market. CARICOM member countries continue in their efforts to achieve true regional integration.

Initially NAFTA was envisioned as the blueprint for a free trade area extending from Alaska to Argentina. The first new country to enter the NAFTA fold was to be Chile, then membership was to extend south until there was a Free Trade Area of the Americas (FTAA) by 2005. The question now is whether there will be an FTAA or whether there will be a tri-country NAFTA in the north and a South American Free Trade Area (SAFTA) led by Brazil and the other member states of Mercosur in the south. The answer to this question rests in part with the issue of fast-track legislation and the policies of the new American president.

Market Regions of the Americas

Exhibit 10.7

Association	Member	Population (millions)	GDP* (billions)	GDP* per Capita at PPP	Imports of Goods and Services* (billions)	Exports of Goods and Services* (billions)
North American Free Trade Agreement (NAFTA)						
	United States	299.0	$11,411.0	$38,165	$1719.2	$1117.9
	Mexico	104.2	665.6	9,967	261.6	240.0
	Canada	32.6	832.2	30,278	312.3	331.6
Dominican Republic-Central American Free Trade Agreement (DR-CAFTA)						
	Guatemala	12.9	22.9	4,150	8.3	4.1
	Costa Rica	4.4	21.0	9,646	9.7	9.9
	El Salvador	7.0	15.2	4,776	7.0	4.5
	Nicaragua	5.2	4.7	3,539	2.6	1.5
	Honduras	7.4	7.5	3,170	5.4	3.6
	Dominican Republic	9.6	25.9	7,618	11.0	9.0
	United States	as above	–	–	–	–
Caribbean Community and Common Market (CARICOM)						
	Antigua and Barbuda	0.1	0.9	12,218	0.5	0.4
	Barbados	0.3	2.5	9,256	1.3	1.2
	Belize	0.3	1.1	6,646	0.6	0.7
	Dominica	0.1	0.3	6,047	0.3	0.1
	Grenada	0.1	0.4	7,378	0.3	0.2
	Guyana	0.8	0.8	4,204	0.8	0.7
	Haiti	8.6	3.8	1,479	1.9	0.6
	Jamaica	2.7	9.0	3,907	4.9	3.4
	Montserrat St. Kitts-Nevis	0.05	0.4	12,521	0.2	0.1
	St. Lucia	0.2	0.8	6,482	–	–
	Surinam	0.5	1.2	7,231	0.5	0.2
	Trinidad-Tobago	1.3	13.4	14,708	6.1	6.5
Latin American Integration Association (LAIA, aka ALADI)						
	Argentina	39.1	340.1	13,652	36.6	47.6
	Bolivia	9.3	10.2	2,579	3.4	2.6
	Brazil	188.7	765.1	7,826	98.4	111.5
	Chile	16.5	96.2	10,939	39.3	33.2
	Colombia	45.6	105.6	6,886	27.6	22.4
	Ecuador	13.4	21.4	3,982	10.3	8.6
	Mexico	as above	–	–	–	–
	Paraguay	6.0	8.3	4,368	4.7	3.5
	Peru	28.4	70.6	5,725	14.2	14.3
	Uruguay	3.3	23.2	9,898	5.1	5.3
	Venezuela	27.0	146.6	6,485	41.4	37.1

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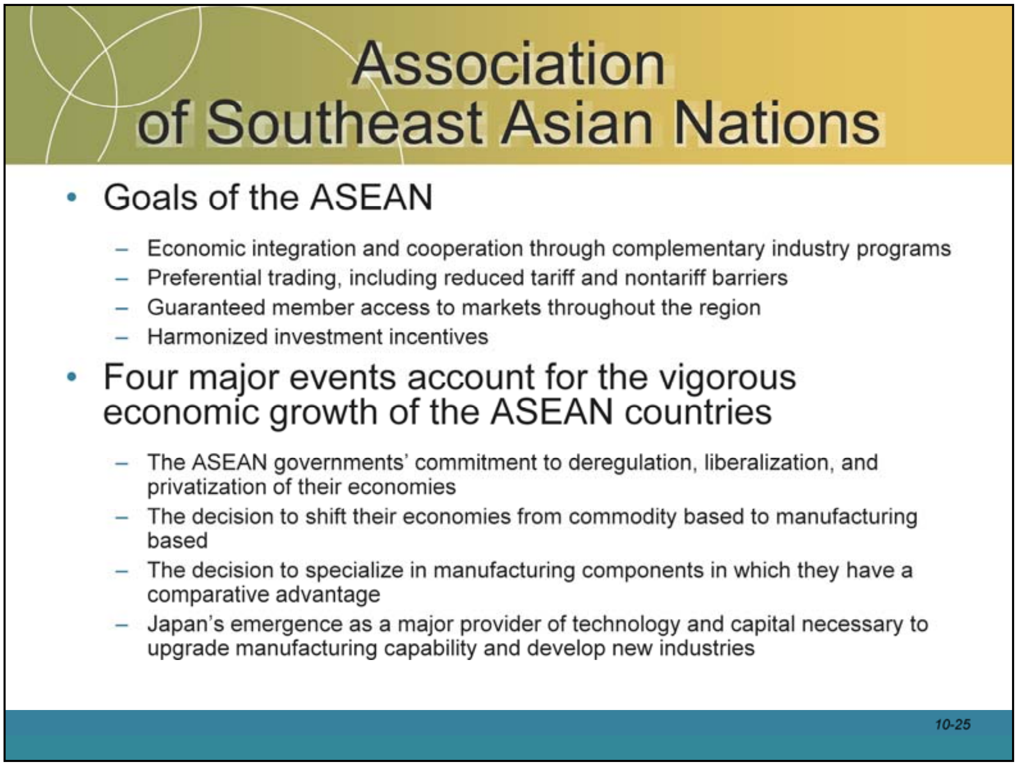
Exhibit 10.7 lists countries of the Americas involved in trade associations.

Keeping track of all the proposed free trade areas in Latin America is a major endeavor, because almost every country has either signed some type of trade agreement or is involved in negotiations..



The primary multinational trade group in Asia is ASEAN. The goals of the group are economic integration and cooperation through complementary industry programs; preferential trading, including reduced tariff and nontariff barriers; guaranteed member access to markets throughout the region; and harmonized investment incentives.

Four major events account for the vigorous economic growth of the ASEAN countries and their transformation from cheap-labor havens to industrialized nations:

(1) the ASEAN governments' commitment to deregulation, liberalization, and privatization of their economies;

(2) the decision to shift their economies from commodity based to manufacturing based;

(3) the decision to specialize in manufacturing components in which they have a comparative advantage (this created more diversity in their industrial output and increased opportunities for trade); and

(4) Japan's emergence as a major provider of technology and capital necessary to upgrade manufacturing capability and develop new industries.

Far Eastern Market Group

Exhibit 10.8

Association	Member	Population (millions)	GDP* (billions)	GDP* per Capita at PPP	Imports of Goods and Services* (billions)	Exports of Goods and Services* (billions)
ASEAN Free Trade Area (AFTA)						
	Brunei	0.4	$ 4.8	$ –	$ —	$ —
	Cambodia	14.4	6.3	2,629	4.6	4.0
	Indonesia	223.0	219.3	3,570	78.9	95.6
	Laos	5.8	2.5	2,013	1.2	0.8
	Malaysia	25.8	119.1	10,091	130.9	153.1
	Myanmar	51.0	–	–	–	–
	Philippines	84.6	99.4	4,731	56.5	57.3
	Singapore	4.4	121.6	28,305	–	–
	Thailand	64.7	165.0	8,065	103.9	116.7
	Vietnam	84.1	48.4	2,925	41.4	40.6
ASEAN +3						
	China	1311.8	2092.2	6,621	602.9	802.3
	Japan	127.6	5102.7	27,992	510.4	638.8
	South Korea	48.4	671.3	23,416	318.6	388.0

Exhibit 10.8 lists some of the fastest-growing economies in the region. The steps countries took to expand and diversify their industrial base in order to foster intraregional trade when ASEAN was first created have resulted in an increase in trade among members.

The other important grouping that encompasses the Asian-Pacific Rim is the Asia-Pacific Economic Cooperation. Formed in 1989, APEC provides a formal structure for the major governments of the region, including the United States and Canada, to discuss their mutual interests in open trade and economic collaboration. APEC is a unique forum that has evolved into the primary regional vehicle for promoting trade liberalization and economic cooperation. APEC includes all the major economies of the region and the most dynamic, fastest-growing economies in the world.

APEC has as its common goal a commitment to open trade, to increase economic collaboration, to sustain regional growth and development, to strengthen the multilateral trading system, and to reduce barriers to investment and trade without detriment to other economies.

Africa's multinational market development activities can be characterized as a great deal of activity but little progress. Despite the large number and assortment of paper organizations, there has been little actual economic integration because of the political instability that has characterized Africa in recent decades and the unstable economic base on which Africa has had to build.

The Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC) are the two most active regional cooperative groups. Unfortunately, ECOWAS continues to be plagued with financial problems, conflict within the group, and inactivity on the part of some members. After 30 years, the ECOWAS treaty and its much-defined objectives and the way they are to be achieved over a 15-year period in three stages languishes; nothing has been achieved and free trade remains a deferred dream.

The Southern African Development Community is the most advanced and viable of Africa's regional organizations. Its 14 members encompass a landmass of 6.6 million square kilometers containing abundant natural resources and a population of over 200 million. South Africa, the region's dominant economy, has a GDP of over $160 billion and accounts for 76.8 percent of SADC market share. After years of negotiations, 11 members of SADC approved a free trade agreement aimed at phasing out a minimum of 85 percent of tariffs within eight years, and all tariffs by the end of 2012.

African Union Countries and Other Market Groups

Exhibit 10.9

Country	Population (millions)	GDP* (billions)	GDP* per Capita at PPP	Imports of Goods and Services* (billions)	Exports of Goods and Services* (billions)
Algeria	0.1	$ –	$ –	$ –	$ –
Angola[3]	16.4	17.1	2,314	–	–
Benin[2]	8.7	2.8	1,016	0.7	0.7
Botswana[3]	1.8	8.4	11,313	2.3	4.0
Burkina Faso[2]	13.6	3.6	1,143	–	–
Burundi[4]	7.8	0.8	622	–	–
Cameroon	16.7	12.5	2,079	3.3	2.6
Cape Verde[2]	0.5	0.7	5,381	0.4	0.2
Central African Republic	4.1	0.9	1,111	–	–
Comoros	0.6	0.2	1,744	0.1	–
Congo, DR[4]	59.3	5.5	649	2.8	1.4
Congo, R	4.1	4.2	1,159	–	–
Cote d'Ivoire[2]	18.5	10.6	1,471	5.4	5.7
Djibouti	0.8	0.7	1,982	0.3	0.2
Egypt	75.4	127.9	4,031	31.1	26.9
Equatorial Guinea	0.5	3.6	14,306	3.1	3.5
Eritrea	4.5	0.7	947	0.4	0.1
Ethiopia	72.7	11.3	1,030	4.0	1.9
Gabon	1.4	5.6	5,835	1.6	2.9
Gambia[2]	1.6	0.5	1,745	0.3	0.3
Ghana[2]	22.5	6.8	2,299	4.9	3.3
Guinea Bissau[2]	1.6	0.2	745	0.1	0.1
Guinea[2]	9.2	3.7	2,108	0.8	0.8
Kenya[4]	35.1	16.0	1,137	5.2	4.1
Lesotho[3]	1.8	1.0	3,105	1.0	0.4
Liberia[2]	3.4	0.5	–	–	–
Libya	6.0	42.7	–	–	–
Madagascar[3]	19.1	4.6	840	2.1	1.2
Malawi[3]	13.2	2.2	631	0.8	0.6
Mali[2]	13.9	3.5	942	1.3	1.1
Mauritania	3.2	1.5	2,161	1.6	0.5
Mauritius[3]	1.3	5.7	11,622	3.4	3.5
Morocco[1]	30.5	43.9	4,346	15.7	14.5
Mozambique[3]	20.1	6.2	1,162	2.1	2.0
Namibia[3]	2.1	4.5	7,038	2.0	2.1
Niger[2]	14.4	2.3	700	–	–
Nigeria[2]	144.7	63.5	1,008	30.8	29.7
Rwanda[4]	9.2	2.5	1,105	0.7	0.4
Sao Tome and Principe	0.2	–	–	–	–
Senegal[2]	11.9	5.6	1,599	2.5	1.6
Seychelles[3]	0.1	0.6	15,105	0.7	0.8
Sierra Leone[2]	5.6	1.3	753	–	–
Somalia	8.5	–	–	–	–
South Africa[3]	47.4	168.8	10,338	56.4	43.8
Sudan	37.0	18.9	2,050	2.5	2.8
Swaziland[3]	1.1	1.6	4,440	1.6	1.4
Tanzania[3,4]	39.5	13.2	650	2.8	2.9
Chad	10.0	2.8	1,341	1.1	1.7
Togo[2]	6.3	1.5	1,306	0.8	0.6
Tunisia	10.1	25.5	7,758	10.8	10.8
Uganda[4]	29.9	8.2	1,313	2.5	1.1
Western Sahara	0.4	—	—	—	—
Zambia[3]	11.9	4.3	949	1.9	1.4
Zimbabwe[3]	13.1	5.3	1,739	1.9	1.9

Exhibit 10.9 lists the loosely defined African Union countries (except Morocco). In addition, an estimated 200 other economic arrangements exist between African countries.

The Middle East has been less aggressive in the formation of successfully functioning multinational market groups. The Arab Common Market has set goals for free internal trade but has not succeeded. The Arab Gulf states, Egypt, and Morocco have worked out an agreement on an Arab Free Trade Area, sometimes called the Greater Arab Free Trade Area (GAFTA). This 2005 agreement is still in its early stages of implementation and its success is thus uncertain.

The aim is to integrate the economies of the 22 Arab countries, but before that will be feasible, a long history of border disputes and persisting ideological differences will have to be overcome.

Iran, Pakistan, and Turkey, formerly the Regional Cooperation for Development (RCD), have renamed their regional group the Economic Cooperation Organization (ECO).

The other activity in the region, led by Iran, is the creation of the Organization of the Islamic Conference (OIC), a common market composed of Islamic countries. A preferential tariff system among the member states of the OIC and the expansion of commercial services in insurance, transport, and transit shipping are among the issues to be debated at the next conference of Islamic countries.

The OIC represents 60 countries and over 650 million Muslims worldwide. The member countries' vast natural resources, substantial capital, and cheap labor force are seen as the strengths of the OIC.

The complexion of the entire world marketplace has been changed significantly by the coalition of nations into multinational market groups.

To international business firms, multinational groups spell opportunity in bold letters through access to greatly enlarged markets with reduced or abolished country-by-country tariff barriers and restrictions.

World competition will intensify as businesses become stronger and more experienced in dealing with large market groups. European and non-European multinationals are preparing to deal with the changes in competition in a fully integrated Europe. In an integrated Europe, U.S. multinationals had an initial advantage over expanded European firms because U.S. businesses were more experienced in marketing to large, diverse markets and are accustomed to looking at Europe as one market.

The initial aim of a multinational market is to protect businesses that operate within its borders. An expressed goal is to give an advantage to the companies within the market in their dealings with other countries of the market group.

Reciprocity is an important part of the trade policy of a unified Europe. If a country does not open its markets to an EU firm, it cannot expect to have access to the EU market. Europeans see reciprocity as a fair and equitable way of allowing foreign companies to participate in the European market without erecting trade barriers, while at the same time giving Europeans equal access to foreign markets.

Companies are adjusting their marketing mix strategies to reflect anticipated market differences in a single European market. In the past, companies often charged different prices in different European markets. Nontariff barriers between member states supported price differentials and kept lower-priced products from entering those markets where higher prices were charged.

As long as products from lower-priced markets could not move to higher-priced markets, such differential price schemes worked. Now, however, under the EU rules, companies cannot prevent the free movement of goods, and parallel imports from lower-priced markets to higher-priced markets are more likely to occur. Badedas Shower Gel is priced in the middle of the market in Germany and as a high-priced product in the United Kingdom.

In addition to initiating uniform pricing policies, companies are reducing the number of brands they produce to focus advertising and promotion efforts. For example, Nestlé's current brands of yogurt in the EU were reduced to a single brand. Unilever winnowed its 1,600 brands down to focus on 400 core brands.

Let's summarize what we learned in Chapter 10.

Marketing efficiency is effected through the development of mass markets, encouragement of competition, improvement of personal income, and various psychological market factors.

Production efficiency derives from specialization, mass production for mass markets, and the free movement of the factors of production. Economic integration also tends to foster political harmony among the countries involved; such harmony leads to stability and peace, which are beneficial to the marketer.

The marketing implications of multinational market groups may be studied from the viewpoint of firms located inside the market or of firms located outside, which wish to sell to the markets.

Regardless of the location of the marketer, however, multinational market groups provide great opportunity for the creative marketer who wishes to expand volume.

Market groupings make it economically feasible to enter new markets and to employ new marketing strategies that could not be applied to the smaller markets represented by individual countries.

At the same time, market groupings intensify competition by protectionism within a market group but may foster greater protectionism between regional markets.

Mercosur and ASEAN+3, for example, suggest the growing importance of economic cooperation and integration. Such developments will continue to confront the international marketer by providing continually growing market opportunities and challenges.