

The Global Trade Environment

Chapter 3

Global Marketing

GATT

- General Agreement on Tariffs and Trade
 - treaty among nations to promote trade among members
 - handled trade disputes
 - lacked enforcement power
 - replaced by World Trade Organization in 1995

World Trade Organization

- Provides forum for trade-related negotiations among 141 members
 - based in Geneva
 - serves as dispute mediators
 - empowered with ability to enforce rulings
- Countries found in violation of WTO rules are expected to change policies or else face sanctions

Preferential Trade Agreements

- Many countries seek to lower barriers to trade within their regions
 - Free Trade Areas
 - Customs Unions
 - Common Market
 - Economic Unions

Free Trade Area

- Two or more countries agree to abolish all internal barriers to trade amongst themselves
- Countries continue independent trade policies with countries outside agreement
- NAFTA

Customs Union

- Evolution of Free Trade Area
- Includes the elimination of internal barriers to trade (as in FTA) AND
- Establishes common external barriers to trade

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 Unions

- 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 Unions (cont.)

- Full evolution of economic union
 - creation of unified central bank
 - use of single currency
 - common policies on issues ranging from agriculture to taxation
 - requires extensive political unity

Major Regions

- North America
- Latin America
- Asia-Pacific
- Western, Central, and Eastern Europe
- Middle East
- Africa

North America

- Canada, United States, Mexico
- NAFTA established free trade area
 - 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

Latin America

- Caribbean, Central, and South America
- 4 preferential trade agreements in place
 - Central American Integration System
 - Andean Community
 - Common Market of the South
 - Caribbean Community and Common Market

Central American Integration System

- El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica, Panama
- All member countries conform to a common external tariff (CET) of 5 to 20% for most goods
- Common rules of origin were adopted to encourage freer movement of goods
- Integration remains a struggle

Andean Community

- Bolivia, Colombia, Ecuador, Peru, Venezuela
- Customs union
 - Agreement abolished foreign exchange, financial and fiscal incentives, and export subsidies
 - Common external tariffs were established

Common Market of the South (Mercosur)

- Argentina, Brazil, Paraguay, Uruguay
- Customs union, seeks to become common market
 - internal tariffs eliminated
 - common external tariffs up to 20% established
 - in time, factors of production will move freely through member countries
- Chile and Bolivia -
 - associate members
 - participation in free trade area but not customs union

Caribbean Community and Common Market (CARICOM)

- Antigua, Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts, St. Lucia, St. Vincent, the Grenadines, Trinidad, Tobago
- Replaced Caribbean Free Trade Association
- Agreed to establish economic union with common currency in 1998

Asia-Pacific

- Includes 23 countries and 56% of world population
 - Japan
 - Newly industrializing economies
 - Association of Southeast Asian Nations

Japan

- Generates 14% of world's GNP
- Key factors
 - population density
 - geographic isolation
- Recent economic struggles despite status as high income country
- Strong culture requires flexibility and commitment from global marketers

Newly Industrializing Economies (NIEs)

- Strong economic growth in recent decades
 - foreign investment
 - export-driven industrial development
- Sometimes called the 4 Tigers of Asia
 - South Korea
 - Taiwan
 - Singapore
 - Hong Kong

Association of Southeast Asian Nations (ASEAN)

- Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Cambodia, Laos, Burma
- Goal to implement a free trade area by 2003
 - Tariffs of 20+% will be reduced to 0 - 5%
- Singapore represents great success among ASEAN nations

Europe

- European Union
- European Free Trade Area
- European Economic Area
- The Lome Convention
- Central European Free Trade Association (CEFTA)

European Union

- Initially began with the 1958 Treaty of Rome
- Objective 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)

Current EU Members

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg*
- Netherlands
- Portugal
- Spain
- Sweden
- United Kingdom*
- Expected to join by 2002
 - Czech Republic
 - Hungary
 - Poland
 - Estonia
 - Slovenia

*Countries have chosen not to adopt the Euro

European Free Trade Area and the European Economic Area

- Austria, Finland, Sweden, Norway, Iceland, Liechtenstein, Switzerland
- Free trade area
- Members (excluding Switzerland) chose to establish European Economic Area (EEA)
 - Non-EU members of the EEA are expected to adopt EU guidelines
- Norway, Iceland, Liechtenstein, and Switzerland maintain free trade agreements with other countries as well

The Lome Convention

- An accord between EU and 71 countries in Africa, Caribbean, and the Pacific
- Promotes trade and provides poor countries with financial assistance from a European Development Fund
- Currently working to establish a successor agreement

Central European Free Trade Association (CEFTA)

- Hungary, Poland, Czechoslovakia
- Allows for cooperation in many areas including:
 - infrastructure and telecommunications
 - sub-regional projects
 - inter-enterprise cooperation
 - tourism and retail trade

The Middle East

- Afghanistan, Cyprus, Bahrain, 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
- 3 key regional organizations
 - Gulf Cooperation Council
 - Arab Maghreb Union
 - Arab Cooperation Council

Africa

- 53 nations over three distinct areas
 - Republic of South Africa
 - North Africa
 - Black Africa
- Regional agreements
 - Economic Community of West African States
 - East African Cooperation
 - South African Development Community

Economic Community of West African States (ECOWAS)

- Benin, Burkina Faso, Cape Verde, The Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo
- Free trade area with unified monetary zone

East African Cooperation

- Kenya, Uganda, Tanzania
- Free trade area with possibility of expansion to a customs union

South African Development Community (SADC)

- Angola, Botswana, Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Swaziland, Tanzania, Zambia, Zimbabwe
- Mechanism to promote trade, cooperation, and economic integration by black-ruled states
- Ultimately seeks to form customs union