Global Marketing

Contemporary theory, practice and cases

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Chapter 3

Regional Trade and Emerging Markets

Learning objectives

After reading this chapter you should be able to:

- Be aware of the difference between regional and global trade agreements
- Understand the difference between various types of regional economic blocs.
- Understand the key issues and concepts associated with emerging markets, especially the BRIC countries.
- Discuss why there is more regional than global trade.
- Make an argument for “fair trade”.
- Determine which emerging markets have the most potential and why.

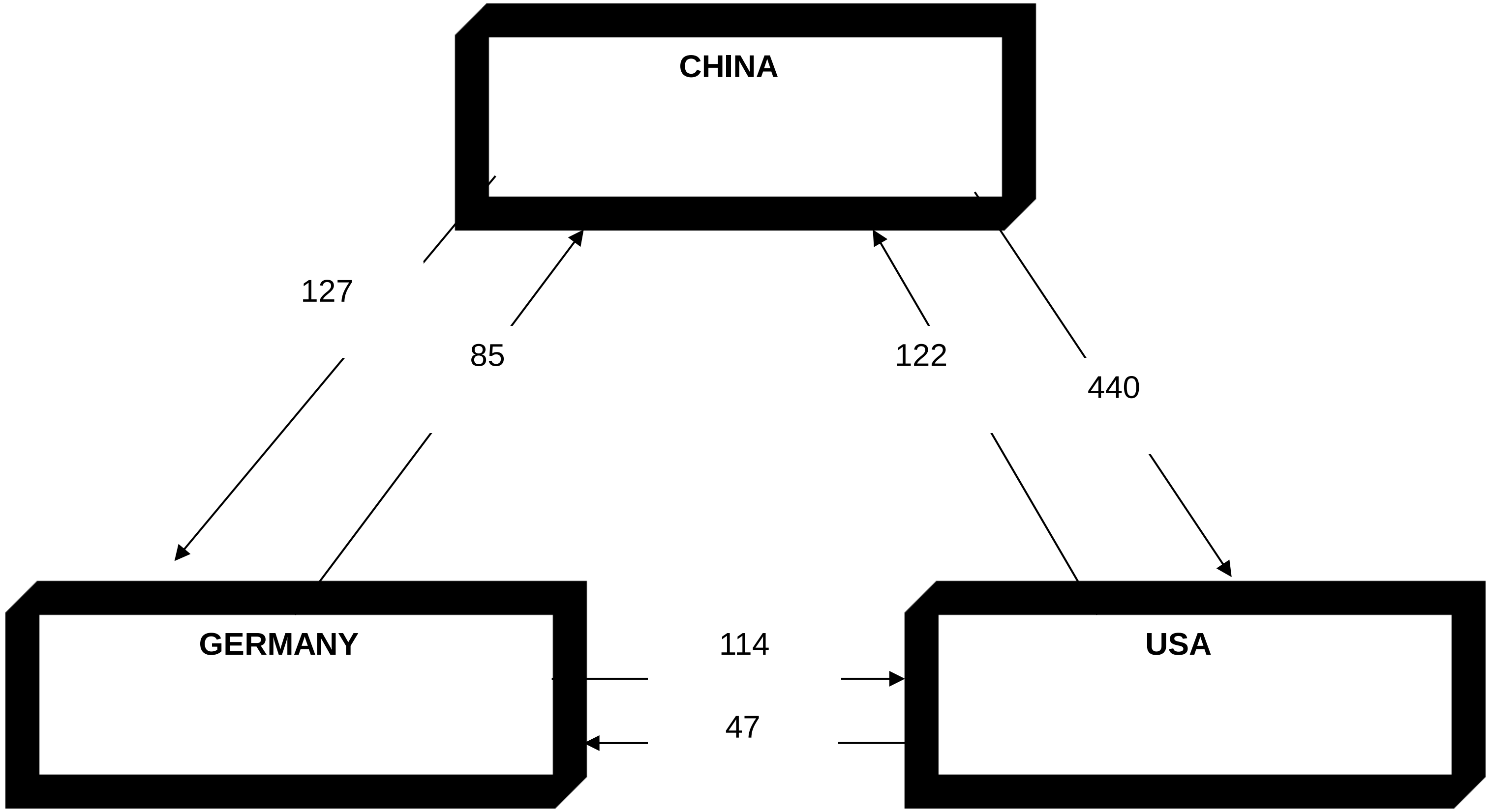
Regionalism or globalism?

- A **global trade agreement** would allow many countries to enjoy trade with each other free from most restrictions.
- A **regional trade agreement** lowers trade barriers among members without having to lower barriers for non-members.
- Regional trading blocs have resulted in a **concentration of trade within regions** rather than globally.
- The formation of regional blocs also influences **market entry**:
  - Preferential trading terms reduce the cost of exporting to member country markets.
  - The costs of serving multiple countries within a trading bloc may differ depending on the base of operations. Strategically locating in one country can lead to greater efficiencies than investing in another country outside of the bloc.
  - It may be easier to harmonize marketing standards on a regional level than globally.

Regional trade

- Foreign trade flows are concentrated in developed countries, especially by the **Triad Nations**: China, The United States, and Germany.
- **Much of world trade** increasingly occurs within regions and between three major economic areas: **North America and Mexico, Asia, and Europe**.
- **Triad and regional trade are dominant**, e.g. 60 percent of EU member's exports and imports (intra-trade) are to other EU countries.
- **Most multinational corporations pursue regional, not global strategies**, e.g. approximately 90 percent of all cars manufactured in Europe are sold in Europe, while 75 percent of all cars manufactured in North America are sold in North America.

Merchandise trade in the Triad *($ Billion, 2013)*



The world's largest merchandise exporters and importers *(US$ Trillions – 2011)*

1. European Union (27)	4.47
2. China	3.93
3. United States	3.88
4. Germany	3.87

Source: World Trade Organization

TNC's Top Prospective Host Economies, 2013-2015

RANK	COUNTRY	PERCENT RESPONDING*
1	CHINA	45
2	UNITED STATES	43
3	INDIA	30
4	INDONESIA	24
5	BRAZIL	19
6	GERMANY	19
7	MEXICO	18
8	THAILAND	15
9	UNITED KINGDOM	13
10	JAPAN	12

*Percentage of respondents` selecting economy as a top destination.
Source: UNCTAD survey. http://www.org/en/pages/publications/world-investment-prospects- survey.aspx.

Regional economic blocs

- The economic and political forces of globalization have led to the **regionalization of societies** thorough the establishment of integrated economies such as the European Union, NAFTA and Mercosur, so-called **"single markets"**.
- These "single markets" have provided the framework through which firms, including manufacturers, distributors and service providers **act under a new set of rules**: those of the **economic region in addition to those of the nation state**.
- **Regional trading blocs such as the EU, NAFTA and Mercosur were established to liberalize trade** between countries and facilitate the flows of goods, services, investment and communication.

Forms of cooperative agreements

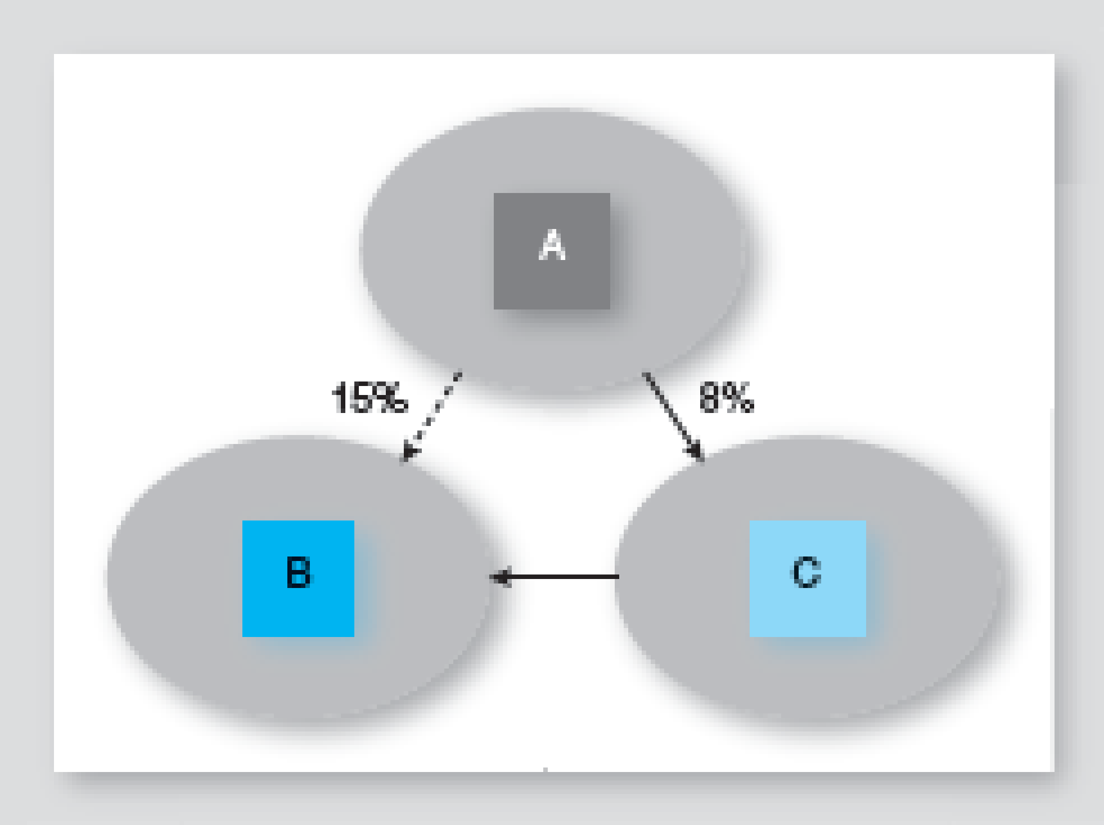
- A “single market” is the free movement from one member country to another of people, merchandise, services and capital. However, the extent to which these “movements” are implemented differs from one regional trading bloc to another.

- There are **three main forms of cooperative agreements:**
  - Free-Trade areas (between two or more countries)
  - Customs Unions
  - Common Markets

Free-trade areas (FTA)

- Free Trade Areas (FTAs) are arrangements done to **reduce or eliminate tariffs and non-tariff barriers on goods among member countries**.
- However, each country continues its normal trade policies with other countries, determining the extent of its **external tariffs with non-member countries outside of the FTA agreement**
- There are many ***bi-lateral*** (two countries) **and multi-lateral** (more than two countries) **FTAs *agreements:***
  - Examples of bilateral agreements: between the USA and Israel and the USA and South Korea.
  - Examples of multi-lateral agreements:
    - the **European Free Trade Area – EFTA** (Iceland, Liechtenstein, Norway and Switzerland) includes those countries that did not opt to join the EU since its inception;
    - the **North American Free Trade Agreement (NAFTA)**, signed between the US, Canada and Mexico in 1994.

Example of the Mechanisms of a Free-trade areas (FTA)



Today, most countries have domestic content legislation, which requires that **products must contain a minimum value added in the country of origin in order to be free of customs duties**.

Countries with which EFTA has concluded an FTA agreement

In 1994 the EU and EFTA established the European Economic Area (EEA) thereby creating a European Single Market. While not members of the EU, EFTA countries (**Iceland, Liechtenstein, Norway and Switzerland**) have **free movement of goods, capital, services and people**, **BUT WITHOUT a common monetary and agricultural policy or the same social welfare policies as the EU**. Each country is free to negotiate free trade agreements with other countries. All EFTA countries have a vast network of free trade and bilateral agreements. The table shows those countries with which EFTA has concluded an FTA agreement.

Eastern Europe	Balkans	Middle East & Africa	Americas & Asia
Bulgaria	Croatia	Israel	Chile
Romania	Macedonia	Morocco	Mexico
		Jordan	South Korea
		Lebanon	Singapore
		Tunisia	
		Turkey	
		Palestinian Authority	
		Southern African Customs Union	
		(Botswana, Lesotho, Namibia, South Africa, Swaziland)	

Customs Unions

- **Customs union** = **FTA + A common external tariff**

- There are a number of customs union trade blocs; examples include the **Eurasian Customs Union** (Russia, Belarus and Kazakhstan); the **East African Community** (Kenya, Uganda, Tanzania, Burundi, and Rwanda) and the **Southern African Customs Union** (South Africa, Botswana, Lesotho, Namibia and Swaziland).

Common Markets

- **Common market = FTA + Customs union + free movement of people and capital.**
- The largest of the common markets is the **European Union** (28 members), established as the European Economic Community in 1958 with six member countries.
- **The EU has two additional goals**: the establishment of a monetary and political union.

Monetary Union in the EU

- A monetary union requires at least **a common currency and a central bank**.
- Eleven countries of the EU – Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain – initially qualified to participate in the monetary union. This required them to adhere to criteria established by the **Maastricht Treaty regarding price stability, public finance (government deficits), interest and exchange rates**.
- Following this initial agreement, a **European Central Bank began functioning in 1998** and a **Euro area in 1999**. Euro notes and coins were introduced in 2002, replacing national ones.
- **Of the EU 28 members, 18 adopted the Euro** in addition to six non-EU members, Andorra, Kosovo, Monaco, Montenegro, San Marino and the Vatican City.

Political Union in the EU

- A final stage in the integration of countries belonging to a trade bloc is political union. While this stage is included in the Maastricht Treaty, it is far from fruition.
- **Political union means relinquishing some if not all national sovereignty to the union, which many countries are unwilling to do, especially Great Britain, Germany and France.**
- Some forms of political cooperation are possible, such as a common defense (NATO) and foreign policy. However, formal political union remains a distant goal to be achieved.
- **Ireland and the United Kingdom do not participate in the Schengen Agreement**, which eliminates internal EU border checks.

EU and NAFTA ($ Millions)

	INTRA-TRADE VOLUME	INTRA-TRADE SHARE (%)	REGIONAL GDP	REGIONAL GDP SHARE (%)
EU	3,886,173	64.7	17,586,699	25.2
NAFTA	1,101,189	48.3	17,992,982	25.8

Intra-Trade Volume=Trade volume between member countries.

Intra-Trade Share=Trade within the bloc/total trade volume of member countries.

Regional GDP=Sum of the GDP of members.

Regional GDP Share=GDP of member countries/world GDP.

Source: UN Commodity Trade Data Base (2011)

Trade Agreement examples

ORGANIZATION	MEMBERS
Association of Southeast Asian Countries (ASEAN)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
East African Community (EAC)	Kenya, Uganda, Tanzania, Burundi, Rwanda
Gulf Cooperation Council (GCC)	Bahrain, Qatar, Kuwait, Oman, Saudi Arabia, United Arab Emirates
Southern Common Market (MERCOSUR)	Brazil, Argentina, Paraguay, Uruguay

MERCOSUR

- South America's largest trading bloc with a combined GDP of $1.1 trillion
- Combined market encompasses more than 250 million people and accounts for more than three-quarters of the economic activity on the continent
- MERCOSUR tariff policies regulate imports and exports and the bloc can arbitrate trade disputes among its members.

EAST AFRICAN COMMUNITY (EAC)

- Combined population of 120 million people, land area of 1.85 million sq kilometers and a combined gross domestic product of $ 41 billion
- Working to form a common market and a monetary union; and ultimately a Political Federation of the East African States

ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEANS)

- Population of about 560 million, and a combined gross domestic product of US$ 1,100 billion
- Objective is to create a stable, prosperous and highly competitive economic region with a free flow of goods, services, skilled labor, investment and capital

GULF COOPERATION COUNCIL (GCC)

- Both a customs union and a common market, allowing for the free movement of goods, capital and people among member countries
- Members have some of the fastest growing economies in the world
- Economic and technical cooperation agreement with the EU, in the fields of energy, industry, agriculture, fisheries, and science

Free versus Fair Trade

- **Fair trade is an approach to international commerce** that aims to ensure that producers in developing countries receive:
  - a fair price for goods and services,
  - decent working conditions,
  - a commitment from buyers; security for sellers
- There are a number of non-governmental organizations (NGOs) that aim to promote fair trade, including The Fairtrade Foundation (www.fairtrade.org.uk), Oxfam International (www.oxfam.org), Traidcraft (www.traidcraft.org.uk) and the International Fair Trade Association, (IFAT, www.ifoam.org/partners/partners/ifat.html).
- These organizations have defined fair trade as "an alternative approach to conventional international trade. It is a **trading partnership which aims at sustainable development for excluded and disadvantaged producers**. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning".
- Global marketers should be aware of the **growing importance of these organizations**. Their market share has become significant in some countries. For example, 47% of all bananas, 28% of the flowers and 9% of the sugar sold in Switzerland are Fair Trade labeled.

Emerging Markets

- Term includes **all developing countries**
  - A measure of national income is the most used indicator of a country's development
  - Measures of national income in emerging markets are lower than developed countries
  - But market potential for many products is substantial

- An emerging market country can be defined as a **society transitioning from a dictatorship to a free market-oriented economy**, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions.

- One determinant of an ‘emerging market’ is **economic reforms** that result in
  - Stronger, more responsible performance
  - Transparency
  - Efficiency in capital markets.

- If reforms are successfully implemented, emerging countries are more likely to receive aid from developed countries and from organizations such as the **World Bank** and the **International Monetary Fund**

BRIC Countries

- **Brazil, Russia, India, China**
  - Offer high consumer potential and that could overtake the economies of the developed world by 2050

- The **combined GDP of the BRIC countries could exceed that of the G6** (US, EU, Australia, Japan, India and China) **countries combined**. China, especially, is at the forefront of world economic development. All BRIC countries had experienced real GDP growth until the financial crisis of 2008-2009.

- *BRIC* countries are not only a **major source for manufacturing**, but also **consumers of basic products like food and clothing**, and **high technology products** as well. Consumer products have to be **adapted to local requirements** and be **priced to make them accessible** to a large number of people.

- BRIC countries has key **strengths and weaknesses**.

Strength and weaknesses of BRIC Countries

COUNTRY	KEY STRENGTHS	KEY WEAKNESSES
Brazil	South America's leading economic power. Brazil is increasing investment in higher education. Abundant natural resources and a diversified economy.	GDP growth and consumer spending power is declining. More investment needed in the infrastructure.
Russia	Abundant natural resources and a skilled labor force.	The only BRIC country undergoing a population decline reducing the labor market and increasing the number of pensioners.
India	27% of the population will be younger than 15 in 2020, an important future consumer market. Economic growth averaged about 8% since 2003. Large population of world-class competitive industries, IT competent workforce. Stable financial institutions and strong legal system.	Limited foreign investment, inadequate infrastructure. Inadequate domestic savings that could fuel investment.
China	Strong economic growth averaging 10 percent per year. Large population of 1.3 billion can provide growing domestic consumption. Market-oriented reforms continuing (e.g. accession to the WTO).	Weak financial system, growing income gap could lead to social instability. There is a shortage of skilled management. Weak intellectual property laws.

Discussion questions

1. Look up export statistics for your State. Are there exports to emerging markets? If so, what is the proportion of exports compared to developed countries?

2. Do you agree that there is little difference between emerging markets and developing countries? Why or why not?

3. You are asked by the owner of a medium sized firm manufacturing digital alarm clocks. He thinks there is a market for his product in the BRIC countries. How would you advise him on what to look for first?