




# Global Marketing

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## The Global Trade Environment Chapter 3

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## Chapter Overview

This Chapter looks at:

- WTO's role
- Preferential trade agreements around the world including the EU and the euro zone

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## 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

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## The World Trade Organization

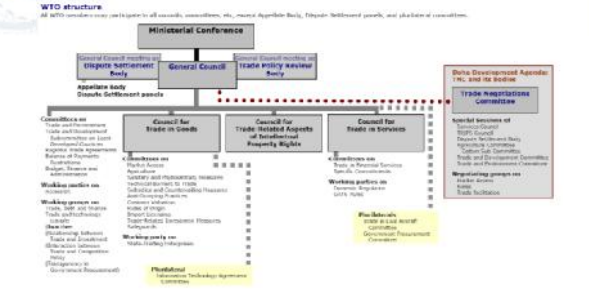
- Forum for trade-related negotiations among 153 members
  - Based in Geneva
  - Serves as dispute mediator through DSB
  - Has enforcement power and can impose sanctions



The 2011 meeting was held in Geneva, Switzerland and in 2013 Bali, Indonesia.

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## WTO Structure

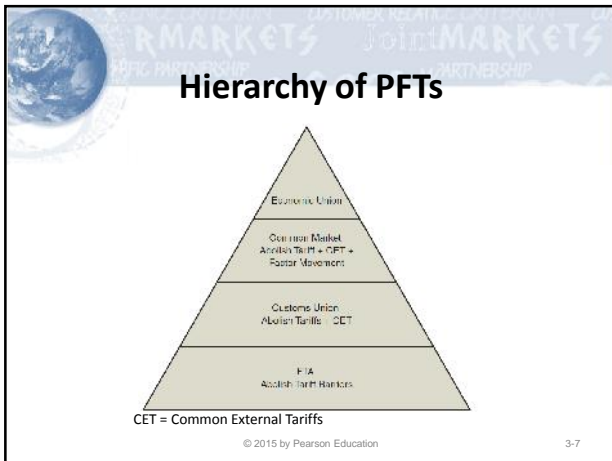


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## Preferential Trade Agreements

- 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

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### 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

NAFTA Protest in Ottawa

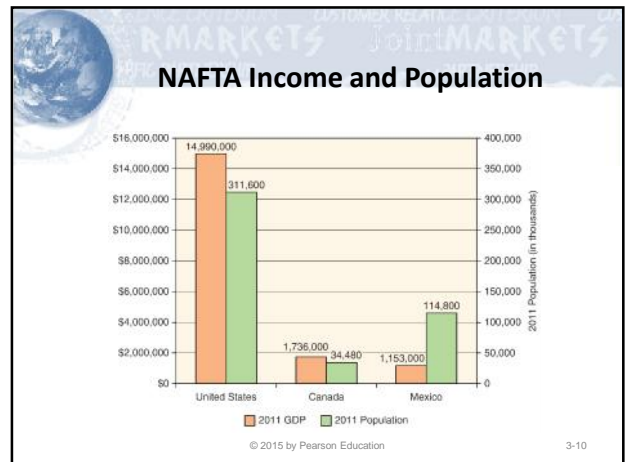
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### North America—NAFTA

- 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

U.S.-Mexico Border Crossing

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### 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)

Mercosur

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### 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

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## 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

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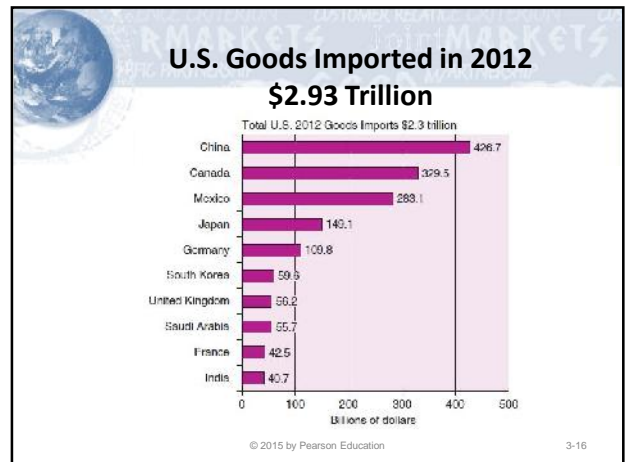
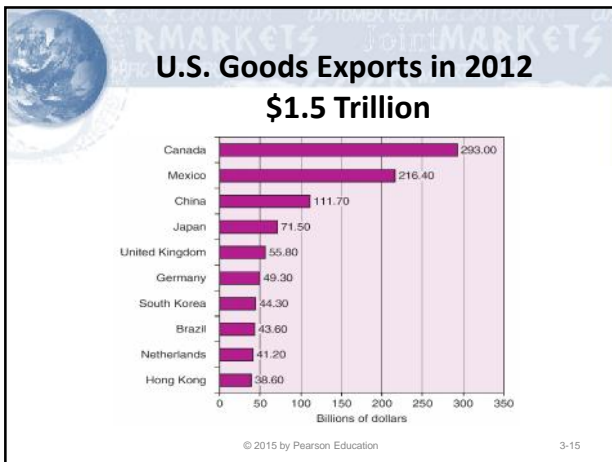
## Economic Union

- 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

European Union Flag



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### Latin America: SICA, 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

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### 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



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## Andean Community

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

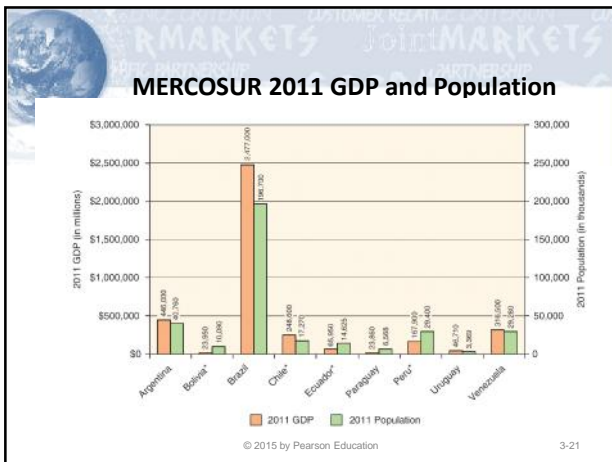


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## Common Market of the South (MERCOSUR)

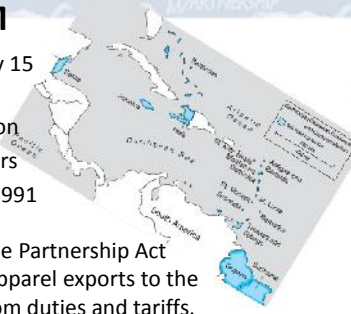
- Argentina, Brazil, Paraguay, Uruguay, Venezuela
- Customs union, seeks to become common market
  - Internal tariffs eliminated
  - Established common external tariffs up to 20%
  - In time, factors of production will move freely through member countries
- Bolivia, Chile, Ecuador, Peru
  - Associate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

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## CARICOM

- Founded in 1973 by 15 members
- 15 million population
- Stagnant for 20 years
- Customs Union in 1991



• 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.

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## Caribbean Community and Common Market (CARICOM)

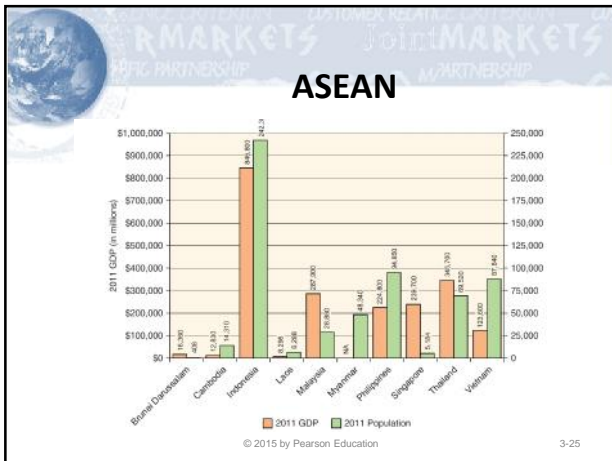
	2011 GDP (in millions)	2011 Population (in thousands)
Antigua and Barbuda	1,118	90
Bahamas	7,788	347
Barbados	3,685	274
Belize	1,448	357
Dominica	484	68
Grenada	816	105
Guyana	2,577	756
Haiti	7,346	10,120
Jamaica	14,440	2,709
Montserrat	Na	Na
St. Kitts and Nevis	688	53
St. Lucia	1,259	176
St. Vincent and Grenadines	688	109
Suriname	4,351	52
Trinidad and Tobago	22,400	1,346
<b>Total</b>	<b>\$69,088*</b>	<b>16,562*</b>

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

- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
- 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

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### Singapore

- World's 2<sup>nd</sup> largest container port
- 2<sup>nd</sup> highest standard of living in the region behind Japan
- 4.2 million people
- 93% literacy rate
- Over 3,000 companies
- Crime is nearly nonexistent

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### The European Union (EU)

- 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)

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### European Union

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

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### 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 12<sup>th</sup>, UAE is 28<sup>th</sup>, Saudi Arabia is 82<sup>nd</sup>
  - Oil prices drive commerce
  - 25% of world's oil in Saudi Arabia
  - Arab Spring 2011

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### Gulf Cooperation Council

Country	2011 GDP (in billions)	2011 Population (in thousands)
Bahrain	22,866	1,324
Kuwait	176,830	2,972
Oman	71,799	2,984
Qatar	173,000	1,870
Saudi Arabia	576,900	28,080
United Arab Emirates	369,258	7,201

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

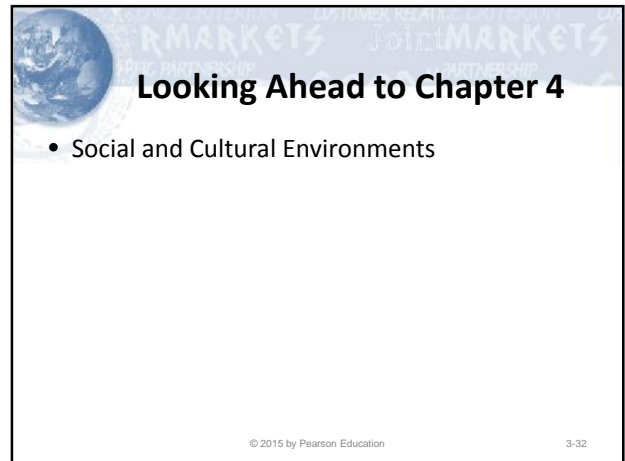
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## Africa

- 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

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## Looking Ahead to Chapter 4

- Social and Cultural Environments

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