Chapter 10

Europe, Africa, and the Middle East

CHAPTER OUTLINE

Global Perspective: Might Free Trade Bring Peace to the Middle East?

La Raison d'Etre

- Economic Factors
- Political Factors
- Geographic and Temporal Proximity
- Cultural Factors

Patterns of Multinational Cooperation

Global Markets and Multinational Market Groups

Europe

- European Integration
- European Union
- Eastern Europe and the Baltic States
- The Commonwealth of Independent States

Africa

Middle East

Implications of Market Integration

- Strategic Implications
- Market Metrics
- Marketing Mix Implications

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 10:

LO1 The reasons for economic union

LO2 Patterns of international cooperation

LO3 The evolution of the European Union

LO4 Evolving patterns of trade as eastern Europe and the former Soviet states embrace free-market systems

LO5 Strategic implications for marketing in the region

LO6 The size and nature of marketing opportunities in the European/African/Middle East regions

Global Perspective

MIGHT FREE TRADE BRING PEACE TO THE MIDDLE EAST?

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 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 27 member nations and 3 candidate countries set to join during the next few years. The economies have burgeoned, but more important, peace has persisted.

Might such an approach work in the war-torn Middle East? Let's consider the possibilities and potential of a Middle Eastern Union. The crux of the problem is Jerusalem. The holy Old City is a matter of faith to so many. For Christians it is sacred because of its associations with Christ. For Jews it has served as the center for their people—not only in a national way but, more important, in a religious sense. For Muslims only Mecca and Medina are more important spiritual places. And the fighting over the real estate that represents its spiritual events appears perpetual.

Jerusalem can be a primary part of the solution. But we must look beyond the rockets and bombs of the day. We must imagine a safe, prosperous, and peaceful place. Imagine an international shrine. Perhaps the Old City would be administered by Buddhists or Norwegians or the United Nations. Israel would have its grand capital to the west, in the New City, and the Palestinians to the east a bit.

Religious tourism would feed the economies in both countries, as well as the surrounding area. Imagine the possibilities! In 2000, before the most recent insanity of violence, tourism brought in $3.2 billion in revenues for Israel. Compare that with Disneyland in Orange County, California. That park's yearly 10 million visitors spend about $100 each on tickets, food, and souvenirs. Add in the transportation, hotel, and restaurant revenues appreciated in the neighborhood, and that's more than a couple of billion dollars a year coming to the Anaheim environs.

The Church of the Holy Sepulcher (built over the tomb of Jesus) would draw Christians. The Wailing Wall is the most holy place for Jews. Muslims would flock to the Dome of the Rock (Mohammed was carried by the angel Gabriel for a visit to Heaven after praying at the Rock). The most enlightened tourists would visit all three. Disney might consult on the queuing problems. Staying open 24/7 would expand capacity by allowing jet-lagged pilgrims access to the more popular places. And outside the Old City are Bethlehem, Hebron, Nazareth, Jericho, the Sea of Galilee, the Dead Sea, and the Red Sea, to name only the more obvious attractions. We're talking $10 billion to $20 billion in annual revenues if things are done right—that's about 10 to 15 percent of the current GDP of Israel.

To the east, the new Hijaz Railway Corp. is already working on a line connecting Iran and Jordan via Syria and is talking about lines connecting Iraq, Turkey, and Europe as well—all for the sake of religious tourism. Indeed, the line's original purpose was taking pilgrims to Medina from Damascus—that was, before Lawrence of Arabia severed it for carrying arms and troops during World War I. The current company executives reckon the two-day trip from Tehran to Amman will cost only about $100 and the Shiite Muslims of Iran will flock to their holy sites in the area. Why not run the line all the way to east Jerusalem?

How about Jerusalem as the site for the 2020 Olympic games? That's another $5 billion in revenues. And ignoring the dollars for a moment, please consider the sentiments associated with "the 2020 Jerusalem Games" juxtaposed with the disaster of Munich in 1972. And ignoring the dollars for another moment, imagine the spiritual splendor for so many millions visiting the sources of their faith, treading some of the original paths of David, Jesus, and Mohammed.

This little fantasy presumes a peaceful political division of Israel and Palestine along the lines reaffirmed in the Oslo Accords. It presumes a dropping of all commercial boycotts in the region. It presumes that Palestinians won't have to risk being shot while "hopping the fence" to work in Israel. It presumes that companies like Nestlé will be able to integrate the operations of their complementary plants in the area. It presumes that the United States and other countries will send to the region legions of tourists rather than boatloads of weapons. It presumes an open, international, and, most important, a whole Old City of Jerusalem. And it presumes free trade and travel among all nations in the region allowing all to prosper in new ways.

Finally, as Pulitzer Prize–winner Jared Diamond points out, the Middle East, historically referred to as the

Within a short walk of one another in the Old City of Jerusalem are three of the most important holy sites for Muslims (the Dome of the Rock), Jews (the Wailing Wall), and Christians (the Church of the Holy Sepulchre). Peace in the region would yield a bonanza of religious tourism.

Fertile Crescent, was the cradle of civilization. It became so long ago because of innovation and trade in the region. One can only imagine what free trade in the area would produce now.

Sources: John L. Graham, "Trade Brings Peace," paper delivered at the Global Ethics and Religion Forum; Clare Hall, Cambridge University conference, *War and Reconciliation: Perspectives of the World Religions,* May 26, 2003, Cambridge, England; Jared Diamond, *Collapse: How Societies Choose to Fail or Succeed* (New York: Viking, 2005).

Following the success of aforementioned European Steel and Coal Community, a global economic revolution began in 1958 when the European Economic Community was ratified and Europe took the step that would ultimately lead to the present-day European Union (EU). Until then, skeptics predicted that the experiment would never work and that the alliance would fall apart quickly. It was not until the single market was established that the United States, Japan, and other countries gave serious thought to creating other alliances. The establishment of common markets, coupled with the trend away from planned economies to the free market system in Latin America, Asia, and eventually the former Soviet Union, created fertile ground that sparked the drive to form trade alliances and free markets the world over. Nation after nation embraced the free market system, implementing reforms in their economic and political systems with the desire to be part of a multinational market region in the evolving global marketplace. Traditions that are centuries old are being altered, issues that cannot be resolved by decree are being negotiated to acceptable solutions, governments and financial systems are restructuring, and companies are being reshaped to meet new competition and trade patterns.

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 between[1] and within countries.[2] The world

[1]By far the strongest evidence for the "trade causes peace" notion is that provided by Solomon W. Polachek, "Why Democracies Cooperate More and Fight Less: The Relationship between International Trade and Cooperation," *Review of International Economics* 5, no. 3 (1997), pp. 295–309; additional evidence is supplied at http://www.cpbp.org, click on Peace Monitor, then Countries; Jonathan Schell, *The Unconquerable World* (New York: Metropolitan Books, 2003); Thomas Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

[2]Studies of the causes of civil wars supports their belief; see Paul Collier, "The Market for Civil War," *Foreign Policy,* May/June 2003, pp. 38–45.

is awash in economic cooperative agreements as countries look for economic alliances to expand access to free markets. Indeed, part of the efforts of the 192 member countries in the United Nations include mutual economic development; the World Trade Organization, with its 153 members and 30 observers, is wholly dedicated to making trade among nations more efficient.

Regional economic cooperative agreements have been around since the end of World War II. The most successful one is the European Union (EU), the world's largest multinational market region and foremost example of economic cooperation. Multinational market groups form large markets that provide potentially significant opportunities for international business. As it became apparent in the late 1980s that the European Union was to achieve its long-term goal of a single European market, a renewed interest in economic cooperation followed, with the creation of several new alliances. The North American Free Trade Agreement (NAFTA) and the Latin American Integration Association (LAIA) in the Americas and the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) in the Asian-Pacific Rim are all relatively new or reenergized associations that are gaining strength and importance as multinational market regions.

Along with the growing trend of economic cooperation, concerns about the effect of such cooperation on global competition are emerging. Governments and businesses worry that the European Union, 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.

La Raison d'Etre

LO1

The reasons for economic union

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. Many of the associations formed in Africa and Latin America have had little impact because perceived benefits were not sufficient to offset the partial loss of sovereignty.

Economic Factors

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, but not all cases, external and internal barriers are reduced because of the greater economic security afforded domestic producers by the enlarged market.[3]

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 European Union includes countries with diverse economies, distinctive monetary systems, developed agricultural bases, and different natural resources. It is significant that most of the problems encountered by the European Union have arisen over agriculture

[3]Michele Fratianni and Chan Hoon Oh, "Expanding RTAs, Trade Flows, and the Multinational Enterprise," *Journal of International Business Studies* 40, no. 7 (2009), pp. 1206–27.

and monetary policy. In the early days of the European Community (now the European Union), agricultural disputes were common. The British attempted to keep French poultry out of the British market, France banned Italian wine, and the Irish banned eggs and poultry from other member countries. In all cases, the reason given was health and safety, but the stronger motives were the continuation of the age-old policies of market protection. Such skirmishes are not unusual, but they do test the strength of the economic union. In the case of the European Union, the European Commission was the agency used to settle disputes and charge the countries that violated EU regulations.

Political Factors

Political amenability among countries is another basic requisite for the 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).

Geographic and Temporal Proximity

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.[4] That is, trade tends to travel more easily in north–south directions than it did in ancient times. However, transportation networks (basic to any marketing system) are likely to be interrelated and well developed when countries are close together. Issues of immigration, legal and illegal, also promote closer economic integration between close neighbors. One of the first major strengths of the European Union was its transportation network; the opening of the tunnel between England and France further bound this common market. 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.

Cultural Factors

As mentioned in the last chapter, the United States has bilateral free trade agreements in progress and approved with several nations in addition to multilateral agreements such as NAFTA and DR-CAFTA (Dominican Republic, Central American Countries, and the U.S.). 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. Although there is great cultural diversity in the European Union, key members share a long-established Christian heritage and are commonly aware of being European. However, even this aspect of diversity may be unimportant as negotiations proceed with Turkey about EU membership. Language, as a part of culture, has not created as much a barrier for EU countries as was expected. Nearly every educated European can do business in at least two or three languages, so the linguistic diversity of several major languages did not much impede trade.

[4]Contrast Jared Diamond's *Guns, Germs, and Steel* (New York: W. W. Norton, 1999) and Jennifer Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics*, 92 (2010), pp. 251–67.

Patterns of Multinational Cooperation

LO2

Patterns of international cooperation

Of course, at the most general level, the World Trade Organization represents the most important and comprehensive trade agreement in history. At this writing, it appears that Russia will soon be invited to join the WTO.[5] However, beyond the WTO, multinational market groups take several other forms, varying significantly in the degree of cooperation, dependence, and interrelationship among participating nations. 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.

Regional Cooperation Groups. 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. An example is the project between Colombia and Venezuela to build a hydroelectric generating plant on the Orinoco River. They shared jointly in construction costs, and they share the electricity produced.

Free Trade Area. 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. Essentially, an FTA provides its members with a mass market without barriers to impede the flow of goods and services.[6]

Customs Union. 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. Customs unions exist between France and Monaco, Italy and San Marino, and Switzerland and Liechtenstein, to name some examples.

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. It is a unified economy and lacks only political unity to become a political union. The Treaty of Rome, which established the European Economic Community (EEC) in 1957, called for common external tariffs and the gradual elimination of intramarket tariffs, quotas, and other trade barriers. The treaty also called for the elimination of restrictions on the movement of services, labor, and capital; prohibition of cartels; coordinated monetary and fiscal policies; common agricultural policies; use of common investment funds for regional industrial development; and similar rules for wage and welfare payments. The EEC existed until the Maastricht Treaty created the European Union, an extension of the EEC into a political union.

Political Union. **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. With the dissolution of the Soviet Union and the independence of the Eastern European bloc, COMECON was disbanded.

[5]Stephen Castle, "EU to Fast-Track Russia on WTO," *International Herald Tribune*, January 26–27, 2008, p. 13.

[6]The European Free Trade Area is a good example. See http://www.efta.int/, 2010.

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. Some of its members still recognize the British monarch as their symbolic head, though Britain has no political authority over any commonwealth country. Its member states had received preferential tariffs when trading with Great Britain, but when Britain joined the European Community, all preferential tariffs were abandoned. A commonwealth can best be described as the weakest of political unions and is mostly based on economic history and a sense of tradition. Heads of state meet every three years to discuss trade and political issues they jointly face, and compliance with any decisions or directives issued is voluntary.

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 members committed themselves to economic and political integration. The treaty allows for the free movement of goods, persons, services, and capital throughout the member states; a common currency; common foreign and security policies, including defense; a common justice system; and cooperation between police and other authorities on crime, terrorism, and immigration issues. Although not all the provisions of the treaty have been universally accepted, each year the EU members become more closely tied economically and politically. Now that the Economic and Monetary Union is put in place and all participating members share a common currency, the European Union is headed toward political union as well.

Global Markets and Multinational Market Groups

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.

This section presents basic information and data on markets and market groups in Europe, Africa, and the Middle East. Existing economic cooperation agreements within each of these regions are reviewed. The reader must appreciate that the status of cooperative agreements and alliances among nations has been extremely fluid in some parts of the world. Many are fragile and may cease to exist or may restructure into a totally different form. Several decades will probably be needed for many of the new trading alliances that are now forming to stabilize into semipermanent groups.

Europe

Within Europe, every type of multinational market grouping exists. The European Union, European Economic Area, and the European Free Trade Area are the most established cooperative groups (see Exhibits 10.1 and 10.2). Of escalating economic importance are the fledgling capitalist economies of eastern Europe and the three Baltic states that gained independence from the Soviet Union just prior to its breakup. Key issues center on their economic development and economic alliance with the European Union. Also within the European region is the Commonwealth of Independent States. New and untested, this coalition of 12 former USSR republics may or may not survive in its present form to take its place among the other multinational market groups.

European Integration

LO3

The evolution of the European Union

Of all the multinational market groups, none is more secure in its cooperation or more important economically than the European Union (Exhibit 10.3). From its beginning, it has made progress toward achieving the goal of complete economic integration and, ultimately, political union. However, many people, including Europeans, had little hope for the success of the European Economic Community, or the European Common Market as it is often called, because of the problems created by integration and the level of national sovereignty that would have to be conceded to the community. After all, 1,000 years of

Exhibit 10.1

European Market Regions Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Association	Country (year entered union)	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/ capita* ($)	Internet Users (per 1000 people)
European Union (EU)								
	Belgium (founder)[e]	10.6 (0.5)	469.8 (5.3)	381.5 (4.5)	356.9 (4.6)	20	44068 (4.8)	735 (6.5)
	Denmark (1973)	5.5 (0.4)	319.5 (5.4)	93.3 (4.3)	84.1 (4.7)	5	57968 (4.9)	868 (2.6)
	Germany (founder)[e]	82.0 (−0.1)	3322.8 (3.7)	1137.8 (4.6)	950.5 (5.8)	27	40521 (3.8)	785 (5.2)
	Greece (1981)[e]	11.3 (0.4)	326.4 (7.3)	20.2 (5.8)	60.0 (2.7)	100	29010 (6.9)	359 (12.3)
	Spain (1986)[e]	45.5 (1.5)	1368.9 (6.9)	217.2 (3.8)	295.8 (2.8)	51	30072 (5.4)	627 (9.3)
	France (founder)[e]	62.4 (1.6)	2691.4 (5.3)	474.9 (2.4)	534.3 (4.6)	31	43089 (4.6)	591 (8.5)
	Ireland (1973)[e]	4.4 (2.0)	197.2 (4.5)	116.6 (2.1)	61.2 (−0.8)	7	44327 (2.4)	703 (15.3)
	Italy (founder)[e]	60.1 (1.7)	2085.4 (3.9)	408.2 (3.0)	415.7 (4.0)	74	34726 (3.2)	518 (2.0)
	Luxembourg (founder)[e]	0.5 (1.2)	43.2 (7.7)	12.5 (0.5)	15.3 (−1.9)	53	99970 (6.4)	844 (5.3)
	Netherlands (founder)[e]	16.4 (0.2)	799.2 (5.0)	435.2 (6.5)	383.5 (6.2)	28	48700 (4.8)	530 (4.5)
	Austria (1995)[e]	8.4 (0.6)	374.6 (5.5)	132.2 (3.4)	138.8 (4.1)	26	44682 (4.8)	633 (3.4)
	Portugal (1986)[e]	10.7 (0.4)	232.3	44.0 (5.9)	69.8 (7.2)	48	21682	444 (8.9)
	Finland (1995)[e]	5.4 (0.4)	245.8 (5.2)	60.4 (−0.2)	61.3 (3.9)	14	46167 (4.8)	847 (3.8)
	Sweden (1995)	9.2 (0.5)	413.5 (3.0)	131.6 (1.3)	148.6 (3.6)	17	44939 (2.5)	839 (0.4)
	United Kingdom (1973)	6.16 (0.6)	2231.3 (0.0)	358.0 (0.5)	485.6 (1.0)	6	36215 (−0.7)	836 (5.9)
	Czech Republic (2004)	10.3 (0.2)	44.7 (11.5)	114.7 (11.3)	105.5 (9.1)	66	17269 (11.2)	578 (12.5)
	Estonia (2004)	1.3 (−0.3)	17.7 (9.2)	9.0 (8.8)	10,2 (4.1)	22	13317 (9.5)	724 (7.9)
	Cyprus (2004)[e]	0.9 (1.1)	22.4	1.5 (6.0)	10.0 (12.2)	36	25732 (7.0)	434 (6.3)
	Latvia (2004)	2.6 (−0.6)	25.2 (13.4)	7.2 (12.6)	9.1 (5.3)	29	11194 (14.0)	641 (14.2)
	Lithuania (2004)	3.3 (−0.6)	35.4 (9.9)	16.5 (12.1)	18.4 (8.3)	25	10582 (10.6)	569 (14.4)
	Hungary (2004)	10.0 (−0.2)	142.3	84.6 (9.0)	77.9 (5.5)	41	14230	592 (16.1)
	Malta (2004)[e]	0.4 (0.4)	2.3 (6.2)	2.6 (−0.3)	4.2 (2.0)	—	5741 (5.8)	530 (8.9)
	Poland (2004)	38.0 (−0.1)	517.4	140.0 (1.13)	146.5 (10.9)	72	13605	550 (13.4)
	Slovenia (2004)[e]	2.0 (0.3)	45.8 (7.3)	22.9 (7.6)	23.7 (6.1)	57	22635 (7.0)	524 (7.5)
	Slovak Republic (2004)	5.4 (0.1)	91.6	56.2 (8.9)	54.0 (6.8)	35	16963	559 (15.7)
	Bulgaria (2007)	7.5 (−0.7)	44.7 (12.4)	17.1 (21.3)	23.8 (10.5)	42	5950 (13.1)	337 (16.1)
	Romania (2007)	21.4 (−0.3)	192.0	41.2 (11.9)	54.6 (10.8)	45	8971	312 (21.0)
EU Candidate Countries								
	Croatia	4.4 (−0.1)	66.9	9.7 (3.9)	21.3 (5.1)	110	15636	557 (12.5)
	Macedonia, FYR	2.0 (0.1)	9.4	2.8 (11.1)	5.1 (11.6)	69	4673	452 (16.4)
	Turkey	71.5 (1.3)	785.5	103.9 (10.5)	138.2 (7.2)	63	10910	388 (22.7)
European Free Trade Area (EFTA)								
	Iceland	0.3 (2.0)	11.4 (−2.1)	3.8 (5.8)	3.3 (−2.8)	11	35386 (−4.1)	675 (3.2)
	Liechtenstein	.04 (0.9)	—	—	—	—	—	662 (0.6)
	Norway	4.8 (1.0)	382.5 (8.1)	120.6 (7.9)	69.8 (7.4)	10	79709 (7.1)	869 (2.9)
	Switzerland	7.6 (0.5)	533.5	169.1 (7.5)	148.6 (6.1)	19	64015	796 (3.5)

*Current U.S. $.

[e]Eurozone.

Source: Euromonitor International, 2010; World Bank, 2010.

Some in Warsaw suggest the picture includes two icons of imperialism. Soviet dictator Joseph Stalin "gave" the people of Poland his 1950s version of great architecture. The Poles have now turned his infamous Palace of Culture and Science into a movie theater (Kinoteka) and office tower. Others see Coca-Cola and its ever-present, powerful advertising as a new kind of control. The argument about globalization goes on.

economic separatism had to be overcome, and the European Common Market is quite heterogeneous. There are language and cultural differences, individual national interests, political differences, and centuries-old restrictions designed to protect local national markets.

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. Such restrictive standards kept competing products, whether from other European countries or elsewhere, out of their respective markets. Skeptics, doubtful that such cultural, legal, and social differences could ever be overcome, held little hope for a unified Europe. Their skepticism has proved wrong. Today, many marvel at how far the European Union has come. Although complete integration has not been fully achieved, a review of the structure of the European Union, its authority over member states, the Single European Act, the European Economic Area, the Maastricht Treaty, and the Amsterdam Treaty will show why the final outcome of full economic and political integration now seems more certain.

Exhibit 10.2

The European Economic Area: EU, EFTA, and Associates

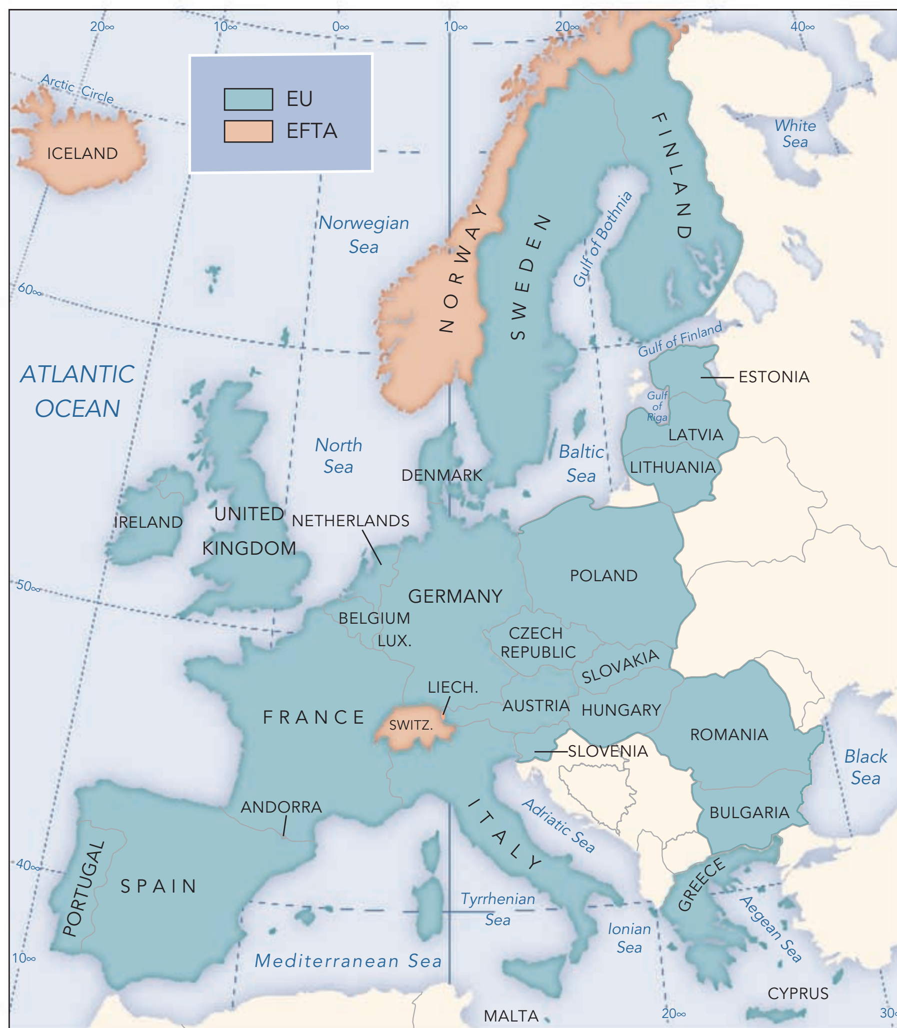


Exhibit 10.3
From the European Coal and Steel Community to Monetary Union

Source: "Chronology of the EU," http://www.europa.eu.int/ (select Abc). Reprinted with permission from the European Communities.

Year	Event	Description
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. Established procedures for expansion to Central and Eastern Europe.
1997	**Amsterdam Treaty**	
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.

Even though several member states are not fully implementing all the measures, they are making progress. The proportion of directives not yet implemented in all 27 member states has fallen dramatically. Taxation has been one of the areas where implementation lags and reform continues to be necessary. Value-added and registration taxes for automobiles, for example, at one time ranged from 15 percent in Luxembourg to 218 percent in Denmark. Then a midsized Mercedes in Haderslev, Denmark, cost $90,000, nearly triple the amount you would have paid in Flensburg, Germany, just 30 miles south. A Honda Civic cost the British consumer 89 percent more than it cost continental customers. Scotch in Sweden had an $18 tax, nine times the amount levied in Italy. The EU finance ministers have addressed these issues and made some progress, even though tax-raising ability is a sacred power of the nation-state. The full implementation of the legislation is expected to

Each month the European Parliament meets for three weeks here in Brussels, Belgium, and then moves for one week to meet in Strasbourg, France. The inconvenience of the fourth week move was a concession to French pride—or perhaps the cheese is better there?

take several years. Although all proposals have not been met, the program for unification has built up a pace that cannot be reversed.

European Union[7]

EU Institutions. 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, respectively. 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.

The European Commission initiates policy and supervises its observance by member states, and it proposes and supervises execution of laws and policies. Commission members act only in the interest of the European Union, and their responsibilities are to ensure that the EU rules and the principles of the common market are respected. For example, in separate actions, the Commission recently approved the sale of Sun Microsystems to Oracle,[8] but it has pushed Google and others to shorten the time they store consumer data.[9]

The Council of Ministers is the decision-making body of the European Union; it is the Council's responsibility to debate and decide which proposals of the **Single European Act** to accept as binding on EU members. The Council can enact into law all proposals by majority vote except for changes in tax rates on products and services, which require unanimous vote. The Council, for example, drafted the Maastricht Treaty, which was presented to member states for ratification.

The **European Parliament** originally had only a consultative role that passed on most Union legislation. It can now amend and adopt legislation, though it does not have the

[7] http://europa.eu.int, 2008.

[8] Matthew Saltmarsh, "Sale of Sun Micro to Oracle Wins Approval of Europeans," *The New York Times,* January 22, 2010, p. B2.

[9] Eric Pfanner, "In Europe, Challenges for Google," *The New York Times*, February 2, 2010, pp. B1, B5.

CROSSING BORDERS 10.1 Lost in Translation

There are any number of things that Europeans don't like about the European Union—including its very declaration. Sharp-eyed professors have spotted what they say is evidence of the "political translation" of the EU's Berlin Declaration. Specifically, both the Danish and English versions downplay the emotional language of the original German, they claim. Instead of stating that the EU member states are united in "happiness," the translation notes they have united "for the better" or "for the common good."

An EU spokesman argues the texts had been agreed by the national governments. The German-language version of the declaration reads: "We, the citizens in the European Union, are united *zu unserem Gluck*." The controversy stems from that final phrase, which might be rendered in English as "united in our fortune/happiness." Instead, the English-language version reads: "We, the citizens of the European Union, have united for the better."

In the Danish version, the word "*Gluck*" has been replaced with "*vor faelles bedste*," meaning "for the common good." Professor Henning Koch from Copenhagen University told the Danish paper *Politiken* that the low-key translation could be no coincidence. "It would come as a big surprise to me if the translators are bad at German. So then it's a political translation," he said. Gushing added that emotional terms were something Danes feared.

Professor Rudinger Gorner, head of the German department at University of London, echoed Koch's point, looking at the English version of the Declaration. He told the BBC that the German phrase used in the declaration implies that it is "really a fortunate thing we have united." Instead, he said, "The English rendering certainly downplays the meaning. There's no doubt that if one wanted to express the German sentiment, one could do so." He also noted a subtle difference, in that the English version "suggests something happening in the future."

Mats Persson of the Eurosceptic thinktank Open Europe, which focuses on EU reform, concedes the clear struggle over the translation of the declaration: "It is quite common that people use the maximum room available to accommodate shades of meaning." He also noted, "The Swedish version . . . reads quite awkwardly. The Berlin Declaration is a reflection of a political compromise, and this is reflected in the translations."

Finally, a spokesman for the EU Council said all the translations of the declaration were "official" and had been agreed to by the national delegations of the member states.

Sources: "EU Effusion 'Lost in Translation,'" *BBC News*, March 27, 2007; D. Cooper, "Berlin Declaration Bypasses EU's Citizens," *Financial Times*, June 23, 2007, p. 8.

power to initiate legislation. It also has extensive budgetary powers that allow it to be involved in major EU expenditures.

The European Court of Justice (ECJ) is the European Union's Supreme Court. It is responsible for challenging any measures incompatible with the Treaty of Rome and for passing judgment, at the request of a national court, on the interpretation or validity of points of EU law. The court's decisions are final and cannot be appealed in national courts. For example, Estée Lauder Companies appealed to the ECJ to overrule a German court's decision to prohibit it from selling its Clinique product. The German court had ruled that the name could mislead German consumers by implying medical treatment. The ECJ pointed out that Clinique is sold in other member states without confusing the consumer and ruled in favor of Estée Lauder. This decision marked a landmark case, because many member countries had similar laws that were in essence nontariff trade barriers designed to protect their individual markets. If the German court ruling against Estée Lauder had been upheld, it would have made it difficult for companies to market their products across borders in an identical manner. This case is but one example of the ECJ's power in the European Union and its role in eliminating nontariff trade barriers.

Economic and Monetary Union (EMU). The EMU, a provision of the Maastricht Treaty, established the parameters of the creation of a common currency for the European Union, 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

Exhibit 10.4
The Euro

Source: Euro, http://www.europa.eu.int/euro. Reprinted with permission from the European Communities.

Notes. There are seven euro notes in different colors and sizes, denominated in 500, 200, 100, 50, 20, 10 and 5 euros. The designs symbolize Europe's architectural heritage, with windows and gateways on the front side as symbols of the spirit of openness and cooperation in the European Union. The reverse side features a bridge from a particular age, a metaphor for communication among the people of Europe and the rest of the world.

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. Regardless of the motif, every coin can be used and will have the same value in all the member states.

Sign. 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."

It took some selling for the Greeks to adopt the euro instead of the 2,500-year-old drachma. The truck seen here in Athens's Syntagma Square was equipped with video projectors and euro information stands and traveled to 40 Greek towns, informing folks about the new currency.

coins was completed (see Exhibit 10.4), and the legal tender status of participating members' banknotes and coins was canceled. To participate, members must meet strict limits on several financial and economic criteria, including national deficit, debt, and inflation. The 12 member states employing the euro beginning in January 1, 2001, were Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Denmark voted in 2000 not to join the monetary union, leaving Britain and Sweden still undecided. Denmark's rejection of the euro caused a broader debate about the EU's future. Anti-euro advocates exploited fears of a "European superstate" and local interference from Brussels rather than relying on economic arguments when pushing for rejection. However, in 2007 Slovenia and in 2008 both Malta and Cyprus switched their currencies to the euro. Others may choose to follow[10] or not[11] depending, it seems, on the relative strength of the euro versus the U.S. dollar.

The original 40-year-old operating rules of the EC were proving to be inadequate in dealing with the problems that confront the European Union today. Expansion beyond its present 27 members (see Exhibit 10.1), managing the conversion to the euro and EMU, and speaking with one voice on foreign policy that directly affects the European continent are all issues that require greater agreement among members and thus more responsibility and authority for the institutions of the European Union. The **Amsterdam Treaty** increases the authority of the institutions of the European Union and is designed to accommodate the changes brought about by the monetary union and the admission of new members.

Expansion of the European Union. The process of enlargement has been the most important item on the EU's agenda. Ten new countries were added in 2004, some ahead of schedule. Bulgaria and Romania entered as planned in 2007, and talks with Turkey, Macedonia, and Croatia are continuing. Negotiations with Turkey have had their

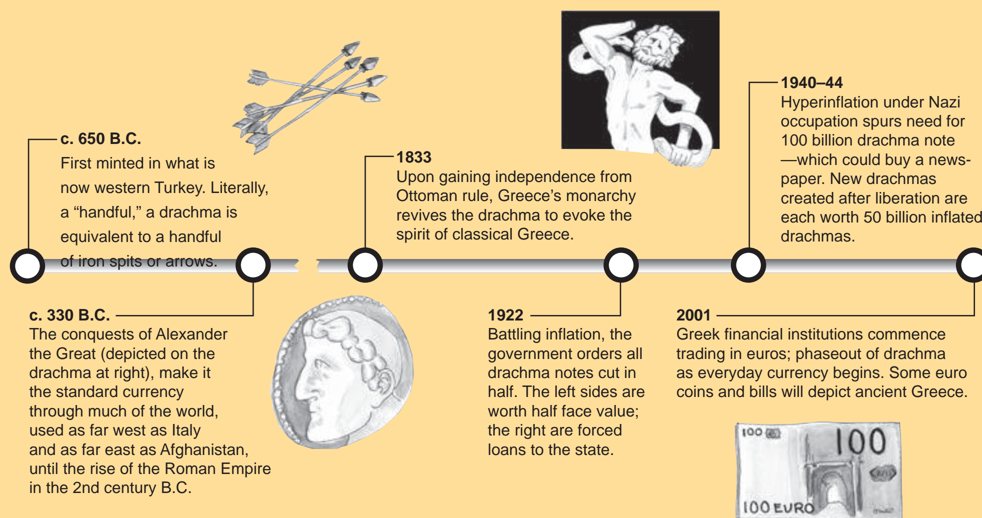
[10]"Cyprus, Malta Change to the Euro," *The Wall Street Journal* (online), January 2, 2008.

[11]Andrew E. Kramer, "Seeing Trouble in Greece, Baltic States Rethink Euro Plans," *The New York Times*, February 12, 2010, pp. B1, B6.

CROSSING BORDERS 10.2 The Death of the Drachma

Having officially joined the European Union on January 1, 2001, Greece began phasing out the -drachma, Europe's oldest currency and the survivor of some 2,500 years of war and economic turmoil. Below, highlights from its storied history. —MEGAN JOHNSTON

Source: March 2001 *Money*. Used by permission of *Money* magazine.



ups and downs, but the Muslim majority nation has economically benefited from its new openness.[12] A broader preoccupation for the European Union is the prospect of illegal immigrants from former Soviet states surging across poorly guarded borders of the newer and/or candidate states and making their way farther west within the EU. The European Union is demanding that borders be sealed, but the new and candidate states are reluctant to jeopardize relations with neighboring communities. Furthermore, the European Union fears a flood of cheap labor even if the borders are closed; it wants a long transition period before freedom of movement of labor, whereas the applicants say their citizens should be allowed to work anywhere in the EU once they are members.

In 2007 the European Union celebrated its golden anniversary. Most would agree that it has been a tremendous success, delivering peace and prosperity to hundreds of millions of people that previously had lived with frequent wars and accompanying economic and social hardships. The 2008–2009 global recession has posed daunting short-term challenges to the integrity of the Union though; an early recovery[13] stalled in late 2009,[14] and Ireland, Portugal, Spain, and particularly Greece[15] are experiencing continuing problems. The long-term challenges facing the Union in the next 50 years appear to fall into three categories: (1) improving the Union's economic performance, (2) deciding how to limit the political aspects of union, and (3) deciding about further enlargement. The last

[12]Stanley Reed, "Turkey Turns Outward," *BusinessWeek*, October 12, 2009, pp. 40–41.

[13]Marcus Walker and David Gauthier-Villars, "Europe Recovers as U.S. Lags," *The Wall Street Journal*, August 14, 2009, pp. A1–2.

[14]Paul Hannon, "Euro-Zone Economy Stumbles," *The Wall Street Journal*, February 12, 2010, online.

[15]Nicholas Kulish, "Germany, Forced to Buoy Greece, Rues Euro Shift," *The Wall Street Journal*, February 11, 2010, pp. A1, A3.

problem may well disappear as both multilateral and bilateral agreements continue to multiply around the world and as the WTO continues to gain influence and traction in trade barrier reduction.

Eastern Europe and the Baltic States

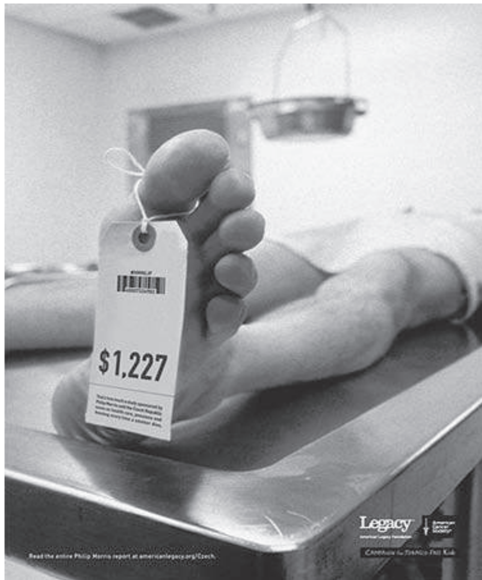
LO4

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

Eastern Europe and the Baltic states, satellite nations of the former Soviet Union, have moved steadily toward establishing postcommunist market reforms. New business opportunities are emerging almost daily, and the region is described as anywhere from chaotic with big risks to an exciting place with untold opportunities. Both descriptions fit as countries continue to adjust to the political, social, and economic realities of changing from the restrictions of a Marxist–socialist system to some version of free markets and capitalism. However, these countries have neither all made the same progress nor had the same success in economic reform and growth.[16]

Eastern Europe. It is dangerous to generalize beyond a few points about eastern Europe, because each of the countries has its own economic problems and is at a different stage in its evolution from a socialist to a market-driven economy. Most eastern European countries are privatizing state-owned enterprises, establishing free market pricing systems, relaxing import controls, and wrestling with inflation. The very different paths taken toward market economies have resulted in different levels of progress. Countries such as the Czech Republic,[17] which moved quickly to introduce major changes, seem to have fared better than countries such as Hungary, Poland, and Romania, which held off privatizing until the government restructured internally. Moving quickly allows the transformation to be guided mainly by the spontaneity of innovative market forces rather than by government planners or technocrats. Those countries that took the slow road permitted the bureaucrats from communist days to organize effectively to delay and even derail the transition to a market economy.

Yugoslavia has been plagued with internal strife over ethnic divisions, and four of its republics (Croatia, Slovenia, Macedonia, and Bosnia/Herzegovina) seceded from the federation, leaving Serbia and Montenegro in the reduced Federal Republic of Yugoslavia. Soon after seceding, a devastating ethnic war broke out in Croatia and Bosnia/Herzegovina that decimated their economies. A tentative peace maintained by United Nations peacekeepers now exists, but for all practical purposes, the economies of Croatia and Bosnia are worse now than ever before. Most recently, the Kosovo region of Serbia also declared its independence, and political tension remains.[18]



As demand for tobacco declines in more-developed countries, manufacturers direct more marketing efforts in the direction of emerging economies. Indeed, recently Philip Morris published a report estimating the cost savings for the Czech government at $1,227 every time a smoker dies. Apparently, the company did not think through the public relations implications of this grisly bit of research.

Nevertheless, most countries in the region continue to make progress in building market-oriented institutions and adopting legislation that conforms to that of advanced market economies. The Czech Republic, Hungary, the Slovak Republic, and Poland have become members of the OECD.[19] Joining the OECD means they accept the obligations of the OECD to modernize their economies and to maintain sound macroeconomic policies and market-oriented structural reforms. The four also became members of the European Union in 2004, along with Bulgaria and Romania in 2007. And they are eager to stabilize their developing democracies and their westward tilt in foreign and security policies.

---

[16] Clifford J. Schultz II, Timothy J. Burkink, Bruno Grbac, and Natasa Renko, "When Policies and Marketing Systems Explode: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37.

[17] Judy Dempsey, "In a Car, a Lesson in Russian-European Trade," *The New York Times*, January 1, 2008.

[18] Tracy Wilkinson, "Kosovo Takes a Big Leap of Faith," *Los Angeles Times*, February 18, 2008, pp. A1, A6.

[19] http://www.oecd.org.

The Baltic States. The Baltic states—Estonia, Latvia, and Lithuania—are a good example of the difference that the right policies can make. All three countries started off with roughly the same legacy of inefficient industry and Soviet-style command economies. Estonia quickly seized the lead by dropping the ruble, privatizing companies and land, letting struggling banks fail, and adopting the freest trading regime of the three countries. Its economic growth has handily outpaced Latvia's and Lithuania's. Since regaining independence in 1991, Estonia's economic reform policy has led to a liberalized, nearly tariff-free, open-market economy.

Although Latvia and Lithuania have made steady progress, government bureaucracy, corruption, and organized crime—common problems found in the countries of the former Soviet Union—continue. These issues represent the most significant hurdles to U.S. trade and investment. The governments and all major political parties support a free market system, yet traces of the Soviet methodology and regulatory traditions at the lower levels of bureaucracy remain visible. All three Baltic countries are WTO members and, as of 2004, EU members.

The Commonwealth of Independent States

Europe (and Asia) has one other trade group that has emerged and persisted since the dissolution of the Soviet Union: the Commonwealth of Independent States (CIS).[20] 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 (see Exhibit 10.5).

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

[20] http://www.cisstat.com, 2008.

Exhibit 10.5
Commonwealth of Independent States (CIS) Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Russia	141.9 (−0.3)	1557.2	300.8 (11.9)	190.3 (14.3)	118	10966	285 (17.3)
Ukraine	45.9 (−0.7)	116.1 (12.6)	40.3 (4.3)	44.7 (9.1)	145	2527 (13.3)	232 (17.1)
Belarus	9.7 (−0.4)	50.0 (16.7)	21.5 (9.3)	27.1 (10.5)	82	5169 (17.1)	317 (4.8)
Armenia	3.0 (0.1)	12.4	0.6 (−3.3)	3.2 (18.5)	50	3873	81 (10.5)
Moldova	3.6 (−1.2)	5.4 (12.6)	1.3 (5.3)	3.1 (11.9)	108	1485 (13.9)	391 (29.8)
Azerbaijan	8.7 (1.1)	41.0	27.3 (48.8)	5.3 (8.6)	38	5330	132 (21.7)
Uzbekistan	27.5 (1.1)	27.9	10.6 (29.8)	8.3 (18.8)	146	1022	108 (33.1)
Turkmenistan (associate member, withdrew 2005)	5.1 (1.4)	17.1	9.0 (20.7)	4.8 (12.4)	—	3633	20 (21.2)
Tajikistan	7.0 (1.5)	5.0	1.3 (6.9)	2.9 (19.8)	164	751	97 (62.7)
Kazakhstan	15.8 (1.1)	83.2 (15.6)	43.5 (16.7)	29.4 (18.2)	64	5276 (14.4)	23 (46.2)
Kyrgyzstan	5.5 (1.2)	4.6 (16.6)	1.1 (9.2)	3.0 (25.9)	80	832 (15.3)	181 (28.9)
Georgia (outside defense pact, withdrew 2006)	4.4 (0.3)	12.6	1.2 (13.0)	4.5 (19.3)	16	2931	95 (18.6)

*Current U.S. $.

Source: Euromonitor International, 2010; World Bank, 2010.

CROSSING BORDERS 10.3 Refusing to Pass along the Gas

Russia and Ukraine have escalated their dispute over natural gas supplies, raising the possibility that supplies of Russian fuel to Europe could be threatened if the tensions drag out. Seeking to force Kiev to sign new contracts and pay what it says are $600 million in debts, the Russian natural gas giant OAO Gazprom slashed gas supplies to Ukraine twice in two days and warned that further reductions could follow. Ukrainian state energy company NAK Naftogaz in turn threatened to dip into transit shipments of Russian natural gas to European customers to make up for the cuts. At least initially, those supplies weren't affected.

European Energy Commissioner Andris Piebalgs and Andrej Vizjak, the economy minister of EU president Slovenia, insisted that supplies to the European Union must remain uninterrupted. Despite Gazprom's supply cuts, Naftogaz said the combination of warm weather and ample natural gas in storage prevented the need for cutbacks to consumers in Ukraine or export flows—for now. Nonetheless, the latest ultimatum raised fears of a repeat of the January 2006 crisis in which European supplies were interrupted when Gazprom cut shipments to Ukraine in a price dispute. Gazprom quickly resumed pumping, but the episode sparked concerns across Europe about the company's reliability as a supplier. Europe gets about one-fourth of its gas from Russia, and the bulk of that is carried by pipeline across Ukraine.

Russian officials insist the current tensions are purely economic and blame Kiev for failing to fulfill a compromise deal on the debts. Critics denounced the Kremlin for using gas supplies as a political weapon, noting that Gazprom's threats came amid rising political tension in Kiev. Yet the leaders of two countries, Vladimir Putin and Viktor Yuschenko, claimed their differences had been resolved.

Sources: Gregory L. White, "Gas-Supply Battle Escalates between Russia, Ukraine," *The Wall Street Journal* (online), March 4, 2008; "Heading into 2010: Key Risks to Watch," *Emerging Europe Monitor: Russian and CIS*, January (2010), pp. 4–5.

The hammer and sickle logo of the old USSR has been replaced by signs of free enterprise in Russia. Here in the main shopping district of St. Petersburg, Nike Sport is prominent, along with Coca-Cola red umbrellas.

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.

The three Slavic republics of Russia, Ukraine, and Belarus have interests and history in common, as do the five Central Asian republics. But the ties between these two core groups of the CIS are tenuous and stem mainly from their former Soviet membership. At this writing, Russia and Ukraine are involved in a nasty dispute over the price and payments of gas shipped by the former to the latter.[21] The CIS is by no means coming apart, though it has not solidified to the point of having a stable membership and purpose.[22] Under Vladimir Putin, Russia showed renewed interest in the CIS, and a free trade zone, which Russia had blocked since the CIS was created, may become a reality.

Of all the former republics, Azerbaijan, Georgia, and Armenia have been the most economically successful since leaving the former USSR. After the USSR collapsed, their economies had all imploded to less than half their peak size during Soviet days. Now, however, they are showing sustained signs of commercial renewal—and multinational icons

[21]Andrew Osborne, "Ukraine Natural-Gas Dispute Intensifies," *The Wall Street Journal*, March 4, 2008, online.

[22]The Economist Intelligence Unit, "Kazakhstan: Transport and Communications," *Views Wire*, September 1, 2005, p. 15.

like Intel have made investments in the area. Although initially Russia experienced serious economic problems, it now has returned to more robust growth in large part due to the successful marketing of its vast energy resources.[23] Even the Disney Channel is headed there in the near future.[24] All members of the CIS have had economic growth, and inflation has been held between a high of 5.9 percent for Tajikistan and a low of 0.2 percent for Kazakhstan.

Africa

Africa's multinational market development activities can be characterized as a great deal of activity but little progress. All the countries on the continent (save Morocco) have joined a loosely defined African Union,[25] and they are listed in Exhibit 10.6. Including bilateral agreements,[26] an estimated 200 other economic arrangements exist among African countries. Despite the large number and assortment of paper organizations, there has been little actual economic integration because of the political instability[27] that has characterized Africa in recent decades and the unstable economic base on which Africa has had to build. The United Nations Economic Commission for Africa (ECA) has held numerous conferences but has been hampered by governmental inexperience, undeveloped resources, labor problems, and chronic product shortages.

The Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the East African Community (EAC)[28] are the three most active regional cooperative groups. A 15-nation group, ECOWAS has an aggregate gross domestic product of more than $60 billion and is striving to achieve full economic integration. The 20th ECOWAS summit in 1997 approved a plan to accelerate subregional economic integration and development, with emphasis on a full commitment to regional monetary integration and the eventual adoption of a single West African currency. 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 many 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.

Cell phone service is available even in African countries with per capita incomes among the lowest in the world.

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.

South Africa's economic growth has increased significantly now that apartheid is officially over and the United Nations has lifted the economic embargo that isolated that nation from much of the industrialized world. Unlike Vietnam, South Africa has an industrial base that will help propel it into rapid economic growth, with the possibility of doubling its GNP in as few as 10 years. The South African market also has a developed infrastructure—airports, railways, highways, telecommunications—that makes it

[23]"Gazprom Eyes 10% of French Gas Market in 4–5 Years," *Dow Jones International News*, January 3, 2008.

[24]Dawn Chmielewski, "Russia Next Frontier for Disney Channel," *Los Angeles Times*, December 17, 2008, p. C3.

[25]"Get Still More Serious," *The Economist*, February 6, 2010, p. 14.

[26]Isaya Muriwo Sithole, "Zimbabwe, SA in Perspective," *All Africa*, September 2, 2005, p. 16.

[27]Adam Nossiter, "Nigeria Fills Void with Acting Leader," *The New York Times*, February 10, 2010, p. A4.

[28]"It May Really Happen," *The Economist*, January 2, 2010, p. 36.

Exhibit 10.6
African Union Countries and Other Market Groups Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Algeria	34.9 (1.5)	171.9	67.1 (15.8)	34.5 (14.0)	134	5060	110 (19.0)
Angola[3]	18.5 (2.8)	71.0	40.8 (25.8)	15.9 (19.1)	170	4627	39 (52.8)
Benin[2]	8.9 (3.3)	6.7	0.6 (15.8)	11.2 (17.9)	172	771	21 (12.2)
Botswana[3]	1.9 (1.4)	12.7	3.8 (1.4)	4.3 (6.0)	39	6808	46 (6.9)
Burkina Faso[2]	15.8 (3.5)	7.9 (9.9)	0.6 (3.7)	1.7 (6.2)	155	500	11 (2.3)
Burundi[4]	8.3 (3.0)	1.3 (15.2)	0.06 (4.9)	0.4 (18.7)	177	158 (11.8)	9 (21.4)
Cameroon	19.5 (2.3)	23.1	4.4 (12.0)	4.3 (12.4)	167	1238	49 (37.9)
Cape Verde[2]	0.5 (1.5)	1.7	0.03 (16.5)	0.8 (14.0)	147	3468	291 (40.5)
Central African Republic	4.4 (1.9)	2.0 (9.2)	0.2 (6.6)	0.3 (15.2)	183	250 (7.2)	52 (18.3)
Chad	11.2 (2.9)	6.7	2.8 (20.4)	0.7 (11.4)	176	755	16 (34.3)
Comoros	0.7 (2.3)	0.5	0.01 (−5.3)	0.2 (17.8)	153	824	42 (26.0)
Congo, DR[3]	66.0 (2.9)	10.2 (10.4)	3.5 (13.8)	4.0 (14.9)	182	154 (7.3)	7 (29.0)
Congo, B	3.7 (2.0)	7.7 (18.5)	7.3 (16.6)	2.4 (21.2)	179	2084 (16.2)	62 (42.1)
Cote d'Ivoire[2]	21.1 (2.3)	22.4	9.4 (6.2)	6.7 (9.2)	163	1137	44 (39.0)
Djibouti	0.9 (1.8)	1.0	0.08 (14.6)	0.7 (21.7)	157	1032	22 (13.9)
Egypt	76.7 (1.9)	164.2	22.2 (23.6)	45.1 (28.5)	116	2133	190 (27.7)
Equatorial Guinea	0.7 (2.7)	11.9	11.0 (19.2)	1.8 (3.1)	169	11668	21 (19.4)
Eritrea	5.1 (3.3)	1.6	—	—	175	331	39 (27.2)
Ethiopia	82.8 (2.6)	26.5	1.7 (20.9)	9.3 (24.8)	111	320	6 (30.0)
Gabon	1.5 (1.9)	6.0	6.3 (11.6)	1.9 (9.5)	151	4490	76 (20.6)
Gambia[2]	1.7 (2.9)	0.7	0.01 (−5.2)	0.3 (4.7)	135	471	88 (21.6)
Ghana[2]	23.8 (11.2)	15.9	5.1 (15.6)	9.5 (18.4)	87	690	53 (25.4)
Guinea Bissau[2]	1.6 (2.3)	0.4	0.1 (1.9)	0.2 (9.7)	181	273	25 (6.9)
Guinea[2]	10.1 (2.2)	4.2	1.3 (11.8)	1.6 (18.9)	171	434	11 (16.6)
Iran	74.2 (1.2)	336.9 (16.0)	113.5 (22.2)	52.7 (10.5)	142	4540 (14.7)	360 (18.9)
Iraq	30.7 (2.2)	—	64.8 (32.1)	20.1 (14.6)	158	—	9 (48.2)
Israel	7.4 (1.7)	187.5 (8.9)	41.6 (4.2)	46.8 (3.0)	30	25322 (7.0)	306 (6.8)
Jordan	6.3 (3.2)	22.9 (14.6)	6.0 (8.8)	15.3 (13.4)	104	3627 (11.1)	289 (20.0)
Kenya[4]	39.8 (2.7)	31.4 (14.3)	5.0 (13.1)	11.6 (20.6)	104	790 (11.3)	95 (25.6)
Kuwait	2.4 (2.6)	112.5 (11.7)	62.4 (16.9)	17.1 (6.2)	52	46033 (8.9)	442 (9.6)
Lesotho[3]	2.1 (0.9)	2.0	0.9 (5.1)	2.0 (6.6)	128	946	40 (12.7)
Liberia[2]	4.0 (4.2)	0.7	0.7 (−5.2)	12.4 (20.5)	159	229	11 (104.0)
Libya	6.4 (2.0)	101.4	41.6 (15.3)	7.7 (4.1)	—	15920	57 (9.9)
Madagascar[3]	19.6 (2.8)	8.8	1.2 (4.6)	4.0 (19.1)	144	469	18 (27.5)
Malawi[3]	15.3 (2.8)	2.9 (9.3)	0.9 (14.0)	1.9 (15.4)	131	190 (6.3)	23 (45.6)
Mali[2]	13.0 (2.4)	8.5	1.6 (10.5)	2.5 (13.2)	162	688	12 (23.3)
Mauritania	3.3 (2.5)	2.8	2.1 (23.3)	1.7 (11.4)	161	893	26 (39.6)
Mauritius[3]	1.3 (0.7)	8.9 (6.9)	2.4 (3.8)	4.9 (12.0)	24	6869 (6.1)	315 (10.3)
Morocco[1]	32.0 (1.2)	91.4 (8.5)	15.4 (9.2)	34.4 (14.0)	130	2858 (7.2)	388 (27.3)
Mozambique[3]	22.9 (2.4)	8.7	24 (10.6)	3.6 (1.4)	140	447	18 (21.6)
Namibia[3]	2.2 (2.0)	8.1 (7.0)	3.1 (10.9)	4.9 (15.0)	54	3742 (5.0)	59 (9.0)
Niger[2]	15.3 (3.9)	5.3	0.8 (30.0)	1.4 (14.3)	174	365	7 (29.2)
Nigeria[2]	154.7 (2.4)	197.3	68.6 (17.1)	35.6 (20.2)	174	1273	89 (47.2)
Oman	2.8 (2.1)	51.1 (16.1)	24.7 (13.1)	18.3 (15.7)	37	17970 (13.7)	113 (45.4)
Rwanda[4]	10.0 (2.5)	4.4	0.3 (24.7)	1.3 (35.0)	143	458	13 (25.2)
Sao Tome and Principe	0.2 (1.6)	0.2	0.01 (13.8)	0.1 (22.1)	180	1085	160 (3.8)
Saudi Arabia	25.7 (2.2)	379.0 (8.5)	271.4 (16.6)	94.3 (16.1)	15	14735 (6.1)	321 (25.7)
Senegal[2]	12.5 (2.7)	8.4	2.1 (7.1)	5.3 (13.2)	152	768	100 (17.9)
Seychelles[3]	.09 (0.6)	0.8	0.3 (2.4)	0.8 (11.2)	105	9649	384 (10.3)

Exhibit 10.6 *(continued)*

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Sierra Leone[2]	5.7 (2.9)	1.9	0.2 (8.3)	0.6 (15.0)	156	351	3 (5.2)
Somalia	9.1 (2.3)	0.6	—	—	—	—	13 (3.4)
South Africa[3]	50.1 (1.1)	270.4 (5.0)	62.6 (6.3)	66.6 (6.9)	32	5396 (3.9)	88 (3.4)
Sudan	42.3 (2.2)	52.4	12.1 (26.2)	7.9 (14.1)	149	1413	97 (65.1)
Swaziland[3]	1.2 (1.2)	2.7	1.7 (−2.5)	2.2 (2.2)	114	224	45 (7.0)
Syria	21.9 (3.4)	54.1	13.3 (12.5)	17.1 (15.2)	138	2601	197 (35.4)
Tanzania[3,4]	43.7 (2.9)	19.9	2.5 (11.1)	6.1 (17.5)	126	321	14 (9.2)
Togo[2]	6.6 (2.5)	2.8	0.7 (42)	1.5 (10.4)	166	437	56 (8.1)
Tunisia	10.3 (1.0)	37.6 (6.8)	13.7 (7.3)	17.9 (6.9)	73	3659 (5.8)	389 (31.8)
Uganda[4]	32.7 (3.3)	14.2	1.9 (24.4)	5.1 (24.0)	106	459	100 (69.2)
United Arab Emirates	4.6 (3.2)	103.9	205.3 (17.7)	139.5 (14.1)	47	38463	888 (24.2)
Yemen	23.6 (2.9)	26.2 (14.9)	8.6 (13.0)	9.3 (18.4)	103	1110 (11.6)	20 (1.6)
Zambia[3]	12.9 (2.4)	13.0	4.2 (21.9)	4.2 (15.9)	99	893 (15.0)	64 (25.9)
Zimbabwe[3]	12.5 (0.0)	3.2	1.7 (−1.9)	2.2 (0.4)	160	274	130 (14.7)

*Current U.S. $.
[1]Morocco withdrew from the predecessor of the African Union in 1984.
[2]Member of Economic Community of West African States (ECOWAS).
[3]Member of Southern African Development Community (SADC).
[4]Member of East African Community.

Source: Euromonitor International, 2010; World Bank, 2010.

important as a base for serving nearby African markets too small to be considered individually but viable when coupled with South Africa.

Upbeat economic predictions, a stable sociopolitical environment, and the reinforced vigor of the South African government in addressing the issues of privatization and deregulation while maintaining the long-term goal of making the country more investor friendly bode well for U.S. businesses seeking trading, investment, and joint venture opportunities in South Africa. The country has a fair-sized domestic market of nearly $300 billion with significant growth potential and is increasingly becoming free market oriented. It has yet to develop to its full potential, however, because of years of isolation, former inward-looking trade and investment policies, a low savings rate, and a largely unskilled labor force with attendant low productivity.

South Africa has the potential to become the newest big emerging market (BEM), but its development will depend on government action and external investment by other governments and multinational firms. In varying degrees, foreign investors are leading the way by making sizable investments.

One of the paradoxes of Africa is that its people are for the most part desperately poor, while its land is extraordinarily rich.[29] East Asia is the opposite: It is a region mostly poor in resources that over the last few decades has enjoyed an enormous economic boom. When several African countries in the 1950s (for example, Congo, the former Zaire) were at the same income level as many East Asian countries (for example, South Korea) and were blessed with far more natural resources, it might have seemed reasonable for the African countries to have prospered more than their Asian counterparts. Although there is no doubt that East Asia enjoyed some significant cultural and historical advantages, its economic boom relied on other factors that have been replicated elsewhere but are absent in Africa. The formula for success in East Asia was an outward-oriented, market-based economic policy coupled with an emphasis on education and healthcare. Most newly industrialized countries have followed this model in one form or another.

The Internet also facilitates education, a fundamental underpinning for economic development. The African Virtual University, which links 24 underfunded and ill-equipped

[29]"Kenya, Going Up or Down?" *The Economist*, June 9, 2007, pp. 49–50.

African campuses to classrooms and libraries worldwide, grants degrees in computer science, computer engineering, and electrical engineering. South Africa's School Net program links 1,035 schools to the Internet, and the government's Distance Education program brings multimedia teaching to rural schools. Google[30] and other companies are also investing there to build content in Swahili, for example.

Middle East

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 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. The idea is still alive, however, and is a topic of discussion whenever Arab foreign ministers meet. 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.

Iran, Pakistan, and Turkey, formerly the Regional Cooperation for Development (RCD), have renamed their regional group the Economic Cooperation Organization (ECO). Since reorganizing, Afghanistan and six of the newly independent states were accepted into the ECO. Impressive strides in developing basic industrial production were being made when the RCD was first organized, but the revolution in Iran ended any economic activity. ECO has as its primary goal the development of its infrastructure to pave the way for regional cooperation. Unfortunately, trade volume among ECO members constitutes only 7 percent of their total trade. However, a recent announcement from ECO indicated that there has been an agreement to reduce tariff and nontariff barriers to boost trade.

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.

Of course, the continuing turmoil in Iran and the wars in Iraq and Afghanistan remain troubling influences on political and economic relations in the region. Like China, the government of Iran has disrupted Internet communications to head off political

[30]Noam Cohen, "Hungry for Content, Google Tries to Grow Its Own in Africa," *The New York Times*, January 25, 2010, p. B3.

Old meets new in two big emerging markets. The Grand Bazaar in Istanbul is the oldest and largest covered marketplace in the world, dating back to the 15th century. In modern Istanbul, it competes for customers with the ubiquitous McDonald's. Faint in the background is the Blue Mosque, built in 1616. Of course, the pyramids at Giza near Cairo are much older. But new construction methods and development are competing for the skyline there as well.

CROSSING BORDERS 10.4 The U.S. to Dubai to Iran, Illegally

The ship's captain asks if I'm looking to smuggle something. We're standing alongside a busy stretch of Port Saeed, on Dubai Creek, which is not actually a creek but a mucky Palmolive-green waterway, trash-strewn and oily, that stretches about eight miles through a thicket of shiny skyscrapers before draining into the Persian Gulf. It's March, the sun is blasting down; the air is redolent of diesel fuel. The captain's name is Khaled, and he's headed to Bandar Abbas, Iran—about 100 miles northeast, nine hours by sea. "We're leaving in a week," he says.

The question of smuggling isn't so far-fetched. It comes up a lot as I walk around and talk to the sailors. There are rumors of captains moving weapons, cigarettes, drugs, even nuclear equipment. Khaled, an Iranian former taxi driver with a mashed nose and tobacco-stained teeth, points at his 60-foot dhow. It's flat-bottomed and has a swooping bow, a glassed-in wheelhouse, and a bashed-up hull that gives it the appearance of having done battle. Dozens of others are moored four and five feet deep, mostly destined for Iran. The scene is chaotic, with swinging cranes, fast-moving cargo trucks, and hundreds of dockworkers handling mountains of boxes and household appliances.

Khaled moves in close and then makes a confession: "I have many American products on my boat," he says. Of the dozens of boxes rising above the gunwales, he calculates, about half hold American goods—and all are headed to Iran, despite a firm U.S. trade embargo meant to choke the life out of the so-called rogue state.

Khaled's cargo, however, is either unmarked or simply reads "u.a.e." His boss had the American goods repackaged when they arrived at the Dubai shipping terminals Jebel Ali and Port Rashid "to keep things quiet." Other portside captains are less discreet. I see boxes of Carrier air-conditioning units and cartons of Crest toothpaste, and farther down the row are boxes labeled Black & Decker and Coca-Cola, along with stacks of Goodyear tires. I also spy a pallet of new Hewlett-Packard All-in-One printers, probably 200 of them, and another of Xerox copiers. When I ask a different Iranian captain about all these things going to America's enemy, he responds, "It's business, but please don't tell your president."

Despite sanctions aimed at stemming the sales of U.S. products to Iran, the goods are still getting there. U.S. sanctions were first imposed against Iran in 1979, during the hostage crisis. The current embargo dates back to 1987, though it has since been tightened, and U.N. sanctions have been added. U.S. companies are forbidden to sell goods to Iran or knowingly provide them to a company that will sell them to Iran, with a few exceptions, including medical supplies. The rules are enforced by the U.S. Treasury and Commerce Departments, and violations carry civil as well as criminal penalties. Although American companies aren't allowed to send goods directly to Iran, the U.A.E. does not impose the same limitations on its local distributors. Over time, that loophole has spawned what many agree is a decidedly murky trade, operating mainly under the public's radar. The business is estimated to be worth billions of dollars annually, much of which goes directly to the bottom line of American companies. Each year, the U.S. sends more goods to Dubai, and Dubai, in turn, sends more goods to Iran . . .

Source: Christopher S. Stewart, "Axis of Commerce," *Conde Nast Portfolio*, September 2008, pp. 112–19.

demonstrations.[31] Despite the U.S. embargo on Iran and the associated punishment of involved firms and executives,[32] American goods are still being smuggled into the country. The 100 miles by sea from Port Saeed of Dubai to Bandar Abbas in southern Iran seems to be a popular smuggling route.[33] Dubai itself, one of the United Arab Emirates (U.A.E.), has been a prominent center for international investment in the Middle East.[34] However, the Emirate suffered substantially as its aggressive commercial real estate activities collapsed during the 2008–2009 global economic downturn. There are signs of hope that trade can bring peace to the region. For example, a group of Iranian executives are intent on building a modern business school for their country.[35]

---

[31] Nazila Fathi, "Iran Disrupts Internet Communications," *The New York Times*, February 11, 2010, p. A6.

[32] Mark Landler, "U.S. Penalizes Companies Tied to Iran Corps," *The New York Times*, February 11, 2010, p. A6.

[33] Christopher S. Stewart, "Axis of Commerce," *Conde Nast Portfolio*, September 2008, pp. 112–19.

[34] Stanley Reed, "Why Dubai Matters," *Bloomberg BusinessWeek*, December 14, 2009, pp. 34–40.

[35] Stanley Reed, "Reading Keynes in Tehran," *Bloomberg BusinessWeek*, February 15, 2010, p. 31.

You may think Dubai is an odd place—an ostentatious and architecturally spectacular member of the United Arab Emirates that has teetered on the brink of a real estate collapse. So perhaps a change in perspective is in order, say, from outer space. Here's the Dubai coast, seen from the International Space Station. At left are the man-made Palm Jumeirah islands. At right is a development of 300, private, man-made islands shaped like a global map.

Implications of Market Integration

The degree of differences across regions in economic integration is manifest. The European Union continues to be the global pacesetter and therefore serves as the best model for understanding and predicting the processes of change in the other regions described previously. We can expect lessons learned there to be useful for international marketers contemplating entry and operations in the other regions in earlier stages of integration.

Strategic Implications

LO5

Strategic implications for marketing in the region

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. Production, financing, labor, and marketing decisions are affected by the remapping of the world into market groups.[36]

World competition will continue to intensify as businesses become stronger and more experienced in dealing with large market groups. For example, 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. These U.S. firms did not carry the cumbersome baggage of multiple national organizations dealing in many currencies, with differentiated pricing and administration, with which most EU firms had to contend. The advantage, however, was only temporary as mergers, acquisitions, and joint ventures consolidated operations of European firms in anticipation of the benefits of a single European market. Individual national markets still confront international managers with the same problems of language, customs, and instability, even though they are packaged under the umbrella of a common market. However, as barriers come down and multicountry markets are treated as one common market, a global market will be one notch closer to reality.

Regulation of business activities has been intensified throughout multinational market groups; each group now has management and administrative bodies specifically concerned with business. In the process of structuring markets, rules and regulations common to the

[36]Fratinanni and Oh, "Expanding RTAs."

group are often more sophisticated than those of the individual countries.[37] Despite the problems and complexities of dealing with the new markets, the overriding message to the astute international marketer continues to be opportunity and profit potential.

Opportunities. Economic integration creates large mass markets. Many national markets, too small to bother with individually, take on new dimensions and significance when combined with markets from cooperating countries. Large markets are particularly important to businesses accustomed to mass production and mass distribution because of the economies of scale and marketing efficiencies that can be achieved. In highly competitive markets, the benefits derived from enhanced efficiencies are often passed along as lower prices that lead to increased purchasing power.

Most multinational groups have coordinated programs to foster economic growth as part of their cooperative efforts. Such programs work to the advantage of marketers by increasing purchasing power, improving regional infrastructure, and fostering economic development. Despite the problems that are sure to occur because of integration, the economic benefits from free trade can be enormous.

Major savings will result from the billions of dollars now spent in developing different versions of products to meet a hodgepodge of national standards.[38] Philips and other European companies invested a total of $20 billion to develop a common switching system for Europe's several different telephone networks. This figure compares with the $3 billion spent in the United States for a common system and $1.5 billion in Japan for a single system.

Market Barriers. 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. Analysis of the interregional and international trade patterns of the market groups indicates that such goals have been achieved.

Companies willing to invest in production facilities in multinational markets may benefit from protectionist measures because these companies become a part of the market. Exporters, however, are in a considerably weaker position. This prospect confronts many U.S. exporters who face the possible need to invest in Europe to protect their export markets in the European Union. The major problem for small companies may be adjusting to the EU standards. A company selling in one or two EU member countries and meeting standards there may find itself in a situation of having to change standards or be closed out when an EU-wide standard is adopted.

A manufacturer of the hoses used to hook up deep-fat fryers and other gas appliances to gas outlets faced such a problem when one of its largest customers informed the company that McDonald's was told it could no longer use that manufacturer's hoses in its British restaurants. The same thing happened at EuroDisney. Unfortunately, when the common standards were written, only large MNCs and European firms participated, so they had the advantage of setting standards to their benefit. The small company had only two choices: Change or leave. In this particular case, it appears that competitors were working to keep the company out of the market. There are, however, enough questions about threaded fittings and compatibility that the company worked with individual countries to gain entrance to their markets—just as it had before a single market existed.

Market Metrics

LO6

The size and nature of marketing opportunities in the European/African/Middle East regions

In this section, we present three tables with fundamental metrics reflecting the size and character of markets in the eight most populous countries in the greater region. Looking across these tables, we see the widest disparity in standards of living, infrastructures, and consumer purchases. As in the Americas, the disparity appears to correlate with latitude,

[37] Kevin J. O'Brien, "EU Considers a Telecommunications 'Superregulator,'" *International Herald Tribune*, August 13, 2007, p. 10.

[38] John W. Miller, "EU Food-Safety Agency Backs Products from Cloned Animals," *The Wall Street Journal*, January 12, 2008, online.

Exhibit 10.7

Standard of Living in the Eight Most Populous Countries in the Europe/Africa/Middle East Region

Country	Population (millions)	GNI per Capita	Medical Resources Per 1000 persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
Nigeria	155	$ 1,273	0.4	—	34	23	63
Russia	142	10,966	4.4	9.6	97	97	63
Ethiopia	83	320	—	—	—	—	—
Germany	82	40,521	3.6	8.2	98	99	99
Egypt	77	2,133	0.6	2.4	87	93	78
Iran	74	4,540	0.9	—	—	—	—
Turkey	72	10,910	1.6	2.9	93	98	80
Congo, DR	66	154	—	—	—	—	—

Source: Euromonitor International, 2010.

with greater economic development associated with distance from the equator. We also see the lack of data for the least developed countries in Africa and the Middle East. And we have not included in these data direct measures of political instability and other risks—those can be found in other chapters, such as Chapters 5 and 17.

Exhibit 10.7 presents standards of living across the eight countries. The range of GNI per capita is astonishing, with Germany at more than $40,000 and the Democratic Republic of Congo at less than $200. Russia, Turkey, and Iran (as best as we can tell) are moving up the development ladder relatively fast.

Exhibit 10.8 compares the infrastructures of the countries. Again we see the wide disparities north to south. Perhaps the most interesting data involve the relative strength of Iran, particularly with regard to the numbers of university students. It is these university students that have been the catalyst for political protests in the country of late. But when it comes to opportunities for development and hiring good marketers in the future, these last numbers provide some hope.

Exhibit 10.9 briefly enumerates consumption patterns. For Ethiopia and the Democratic Republic of Congo, we can only guess, and it is quite difficult to imagine conducting systematic primary consumer research in either country. The dollars spent on education in Turkey are promising. Of course, the German statistics jump off the page across the columns. Indeed, perhaps the most shocking datum in this book is the German

Exhibit 10.8

Infrastructures of the Eight Most Populous Countries of the Europe/Africa/Middle East Region

Country	Travel by Rail (passenger-km per capita)	Passenger Cars/1000	Energy Consumption (tones oil equivalent)	Computers in Use per 1000 people	Mobile Phones in Use per 1000 people	Literacy Rate %	University Students per 1000 people
Nigeria	1	12	—	16	500	74%	5
Russia	1262	194	4.9	166	1434	100	56
Ethiopia	0.4	1	—	9	50	41	3
Germany	944	491	3.8	779	1336	100	28
Egypt	768	30	1.0	60	649	73	34
Iran	200	24	2.7	111	753	87	27
Turkey	75	93	1.5	76	983	90	26
Congo, DR	—	2	—	—	184	79	1

Source: Euromonitor International, 2010.

Exhibit 10.9

Consumption Patterns in the Eight Most Populous Countries in Europe/Africa/Middle East Region

		Household Expenditures ($/capita)								
Country	People per Household	Food	Alcohol, Tobacco	Clothing	Housing	Health Goods, Services	Transportation	Communication	Leisure	Education
Nigeria	4.9	1779	15	43	113	28	45	13	13	24
Russia	2.7	1068	87	431	489	142	999	161	327	75
Ethiopia	5.3	—	—	—	—	—	—	—	—	—
Germany	2.8	2628	819	1153	5757	1117	3074	703	2165	159
Egypt	4.1	716	42	120	391	85	62	43	47	72
Iran	3.8	656	13	125	761	180	129	88	106	44
Turkey	3.9	1466	242	347	1630	130	838	262	129	116
Congo, DR	3.6	—	—	—	—	—	—	—	—	—

Source: Euromonitor International, 2010

per capita expenditure on alcohol and tobacco, at some $819/year, more than double the entire annual per capita income in Ethiopia and more than four times that in the Democratic Republic of Congo! Of course, we do not blame the Germans, and recall that Canadians spend even more on the psychoactive substances (see Exhibit 9.5 in the previous chapter). Such contrasts in standards of living among human beings are simply incomprehensible.

Marketing Mix Implications

Companies are adjusting their marketing mix strategies to reflect anticipated market changes in the 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. For example, Colgate-Palmolive Company adapted its Colgate toothpaste into a single formula for sale across Europe at one price. Before changing its pricing practices, Colgate sold its toothpaste at different prices in different markets.

Beddedas Shower Gel is priced in the middle of the market in Germany and as a high-priced product in the United Kingdom. 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. Price standardization among country markets will be one of the necessary changes to avoid the problem of parallel imports. With the adoption of the euro, price differentials are much easier to spot, and the consumer can search for the best bargains in brand-name products more easily. Furthermore, the euro is making marketing on the Internet a much simpler task for European firms. On balance, a single currency will make competition in Europe a lot fairer and also a lot tougher.

In addition to initiating uniform pricing policies, companies are reducing the number of brands they produce to focus on advertising and promotion efforts. For example, Nestlé's several brands of yogurt in the European Union were reduced to a single brand. Unilever winnowed its 1,600 brands down to focus on 400 core brands. It plans to develop master brands in certain markets such as the European Union and to market others globally. A major benefit from an integrated Europe is competition at the retail level. Europe lacks an integrated and competitive distribution system that would support small and midsized outlets. The elimination of borders could result in increased competition among retailers and the creation of Europewide distribution channels.

Finally, all international marketers should see market integration around the world in a positive light. Trade among close neighbors will always be important—distance does make

a difference. But overall, local integration ultimately serves globalization and harmonization of the world trading system, thus reducing the costs of business and delivering greater choice to consumers and greater opportunities to marketers.

Summary

The experiences of the multinational market groups developed since World War II point up both the successes and the hazards such groups encounter. The various attempts at economic cooperation represent varying degrees of success and failure, but almost without regard to their degree of success, the economic market groups have created great excitement among marketers. In the near future, these regional groupings will continue to form trade agreement ties with other nations and regions, thus paving the way for truly globalized markets where consumers dominate.

For companies, the economic benefits possible through cooperation relate to more efficient marketing and production. 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 as well as the countries' citizens.

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. For each viewpoint the problems and opportunities are somewhat different; 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 (to be discussed in the next chapter), 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.

Finally, the European/African/Middle East regions include perhaps the greatest diversity in income levels and cultures possible, providing daunting challenges for international marketing managers with responsibilities in the area.

Key Terms

Multinational market regions
Free trade area (FTA)
Customs union
Common market
Political union
Maastricht Treaty
Single European Act
European Parliament
Amsterdam Treaty

Questions

1. Define the key terms listed above.
2. Elaborate on the problems and benefits that multinational market groups represent for international marketers.
3. Explain the political role of multinational market groups.
4. Identify the factors on which one may judge the potential success or failure of a multinational market group.
5. Explain the marketing implications of the factors contributing to the successful development of a multinational market group.
6. Imagine that the United States was composed of many separate countries with individual trade barriers. What marketing effects might be visualized?
7. Discuss the possible types of arrangements for regional economic integration.
8. Differentiate between a free trade area and a common market. Explain the marketing implications of the differences.
9. It seems obvious that the founders of the European Union intended it to be a truly common market, so much so that economic integration must be supplemented by political integration to accomplish these objectives. Discuss.
10. The European Commission, the Council of Ministers, and the Court of Justice of the European Union have gained power in the last decade. Comment.

11. Select any three countries that might have some logical basis for establishing a multinational market organization and illustrate their compatibility as a regional trade group. Identify the various problems that would be encountered in forming multinational market groups of such countries.
12. U.S. exports to the European Union are expected by some to decline in future years. What marketing actions might a company take to counteract such changes?
13. "Because they are dynamic and because they have great growth possibilities, the multinational markets are likely to be especially rough-and-tumble for the external business." Discuss.
14. Differentiate between a customs union and a political union.
15. Why have African nations had such difficulty in forming effective economic unions?
16. Discuss the implications of the European Union's decision to admit eastern European nations to the group.