International Marketing

Global Trade Environment

World Trade Organization (WTO) and GATT

- The year 2012 marks the 65th anniversary of the General Agreement on Tariffs and Trade (GATT), a treaty among nations whose governments agreed, at least in principle, to promote trade among members. GATT was intended to be a multilateral, global initiative, and GATT negotiators did succeed in liberalizing world merchandise trade. GATT was also an organization that handled 300 trade disputes—many involving food—during its half-century of existence.

> ***"For the WTO process to work, countries have to start liberalizing policies in politically sensitive sectors."*** Daniel Griswold, Center for Trade Policy Studies, Cato Institute

- GATT itself had no enforcement power (the losing party in a dispute was entitled to ignore the ruling), and the process of dealing with disputes sometimes stretched on for years. Little wonder, then, that some critics referred to GATT as the "General Agreement to Talk and Talk."

- The successor to GATT, the World Trade Organization (WTO), came into existence on January 1, 1995. From its base in Geneva, Switzerland, the WTO provides a forum for trade- related negotiations among its 153 members. The WTO's staff of neutral trade experts also serve as mediators in global trade disputes. The WTO has a Dispute Settlement Body (DSB) that mediates complaints concerning unfair trade barriers and other issues between the WTO's member countries. During a 60-day consultation period, parties to a complaint are expected to engage in good-faith negotiations and reach an amicable resolution. If that fails, the complainant can ask the DSB to appoint a three-member panel of trade experts to hear the case behind closed doors. After convening, the panel has 9 months within which to issue its ruling.1 The DSB is empowered to act on the panel's recommendations. The losing party has the option of turning to a seven-member appellate body. If, after due process, a country's trade policies are found to violate WTO rules, it is expected to change those policies. If changes are not forthcoming, the WTO can authorize trade sanctions against the loser. Table lists some recent cases that have been brought to the WTO.

TABLE: Recent WTO Cases

Countries Involved in Dispute	Nature of Dispute and Outcome
United States, European Union, and Canada versus China	In 2006, the complainants asked the DSB to consider Chinese tariffs on imported auto parts. The complainants argued that their auto manufacturers were at a disadvantage because Beijing required them to buy components locally or pay high tariffs. In 2008, the WTO ruled that China had violated trade rules.
United States versus Brazil	In 2003, Brazil filed a complaint against the United States charging that cotton subsidies depressed prices and disadvantaged producers in emerging markets. In 2004, the DSB, in its first-ever ruling on agricultural subsidies, agreed that cotton subsidies violate international trade rules.
Antigua and Barbuda versus the United States	In 2003, Antigua filed suit charging that by prohibiting Internet gambling the United States was violating global trade agreements. In 2004, the WTO ruled in favor of Antigua.
United States versus European Union	In 2002, U.S. President Bush imposed 30 percent tariffs on a range of steel imports for a period of 3 years. The EU lodged a protest, and in 2003 the WTO ruled that the tariffs were illegal. President Bush responded by lifting the tariffs.

- Trade ministers representing the WTO member nations meet annually to work on improving world trade. It remains to be seen whether the WTO will live up to expectations when it comes to additional major policy initiatives on such vexing issues as foreign investment and agricultural subsidies. The current round of WTO negotiations began in 2001; the talks collapsed in 2005, and attempts to revive them in the years since have not been successful.

Preferential Trade Agreements

- The WTO promotes free trade on a global basis; in addition, countries in each of the world’s regions are seeking to liberalize trade within their regions. A preferential trade agreement (PTA) is a mechanism that confers special treatment on select trading partners. By favouring certain countries such agreements frequently discriminate against others. For that reason, it is customary for countries to notify the WTO when they enter into preferential trade agreements. In recent years, the WTO has been notified of approximately 300 preferential trade agreements. Few fully conform to WTO requirements; none, however, has been disallowed.

Free Trade Area

- A free trade area (FTA) is formed when two or more countries agree to eliminate tariffs and other barriers that restrict trade. When trading partners successfully negotiate a free trade agreement, the ultimate goal of which is to have zero duties on goods that cross borders between the partners, it creates a free trade area. In some instances, duties are eliminated on the day the agreement takes effect; in other cases, duties are phased out over a set period of time. Countries that belong to an FTA can maintain independent trade policies with respect to third countries. Rules of origin discourage the importation of goods into the member country with the lowest external tariff for trans-shipment to one or more FTA members with higher external tariffs; customs inspectors police the borders between members.

Free Trade Area (contd.)

- For example, because Chile and Canada established an FTA in 1997, a Canadian-built Caterpillar grader tractor imported into Chile would not be subject to duty. If the same piece of equipment was imported from a factory in the United States, the importer would pay about
- $13,000 in duties. Could Caterpillar send the U.S.-built tractor to Chile by way of Canada, thereby allowing the importer to avoid paying the duty? No, because the tractor would bear a “Made in the U.S.A.” certificate of origin indicating it was subject to the duty. Little wonder then that the U.S. government negotiated its own bilateral free trade agreement with Chile that entered into force in 2003.

Free Trade Area (contd.)

- According to the Business Roundtable, to date more than 300 free trade agreements have been negotiated globally; roughly 50 percent of global trade takes place among nations linked by FTAs. Additional examples of FTAs include the European Economic Area, a free trade area that includes the 27-nation EU plus Norway, Liechtenstein, and Iceland; the Group of Three (G-3), an FTA encompassing Colombia, Mexico, and Venezuela; and the Closer Economic Partnership Agreement, a free trade agreement between China and Hong Kong. In October 2011, the United States Congress finally ratified the long-delayed FTAs with South Korea, Panama, and Colombia

Free Trade Area (contd.)

- Many small business owners are advocates of free trade agreements. Speaking on behalf of the Consumer Electronics Association, the CEO of electronics manufacturer Thiel notes, ***"Today we're a leading maker of high-performance speakers with 30 American employees and thousands of global trade partners. We're also one of 2,200 CEA members growing our economy thanks to free trade. Speak out for free trade. Support free trade agreements with Colombia, Panama, and South Korea."***

Customs Union

- A customs union represents the logical evolution of a free trade area. In addition to eliminating internal barriers to trade, members of a customs union agree to the establishment of common external tariffs (CETs). In 1996, for example, the EU and Turkey initiated a customs union in an effort to boost two-way trade above the average annual level of $20 billion. The arrangement called for the elimination of tariffs averaging 14 percent that added $1.5 billion each year to the cost of European goods imported by Turkey. Other customs unions discussed in this chapter are the Andean Community, the Central American Integration System (SICA), Mercosur, and CARICOM.

Common Market

- A common market is the next level of economic integration. In addition to the removal of internal barriers to trade and the establishment of common external tariffs, the common market allows for free movement of factors of production, including labour and capital. The Andean Community, the SICA, and CARICOM, which currently function as customs unions, may ultimately evolve into true common markets.

Economic Union

- An economic union builds upon the elimination of the internal tariff barriers, the establishment of common external barriers, and the free flow of factors. It seeks to coordinate and harmonize economic and social policy within the union to facilitate the free flow of capital, labour, and goods and services from country to country. An economic union is a common marketplace not only for goods but also for services and capital. For example, if professionals are going to be able to work anywhere in the EU, the members must harmonize their practice licensing so that a doctor or lawyer qualified in one country may practice in any other.

Economic Union (contd.)

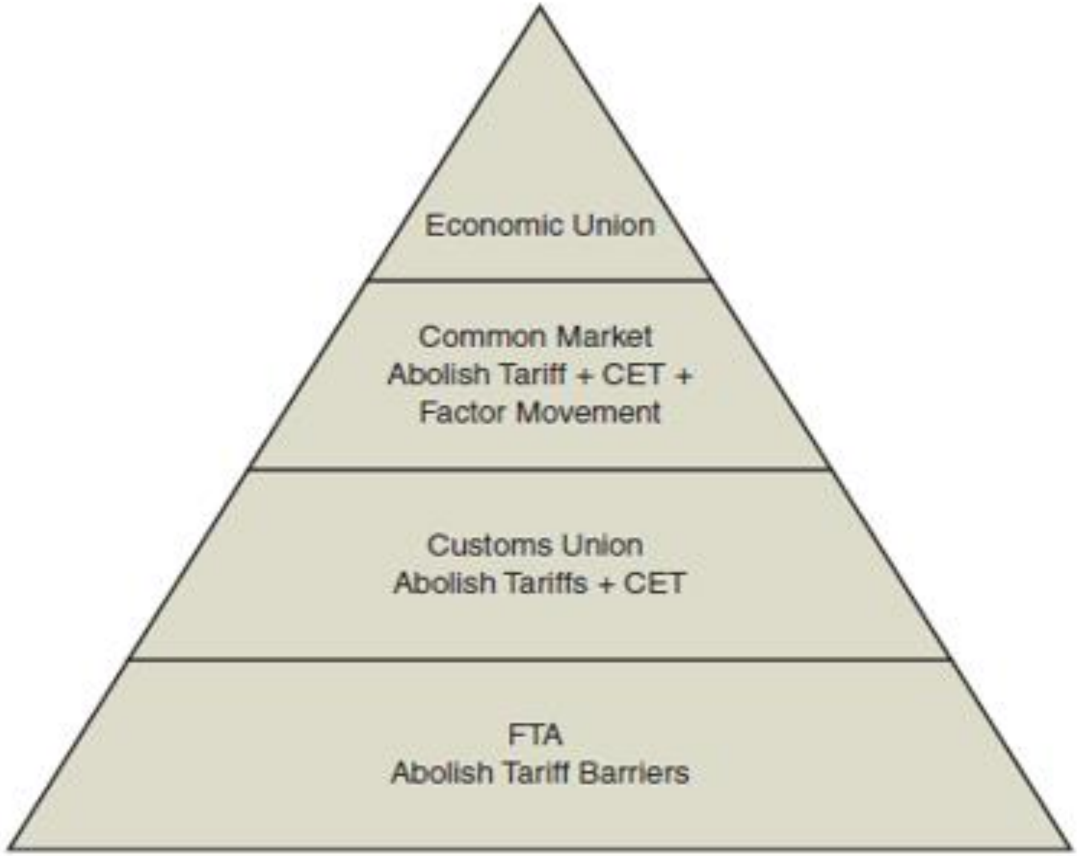
- The full evolution of an economic union would involve the creation of a unified central bank; the use of a single currency; and common policies on agriculture, social services, welfare, regional development, transport, taxation, competition, and mergers. A true economic union requires extensive political unity, which makes it similar to a nation. The further integration of nations that were members of fully developed economic unions would be the formation of a central government that would bring together independent political states into a single political framework. The EU is approaching its target of completing most of the steps required to become a full economic union, with one notable setback. Despite the fact that 16 member nations ratified a proposed European Constitution, the initiative was derailed after voters in France and the Netherlands voted against the measure.

Economic Union (contd.)

TABLE: Forms of Regional Economic Integration

Stage of Integration	Elimination of Tariffs and Quotas Among Members	Common External Tariff (CET) and Quota System	Elimination of Restrictions on Factor Movements	Harmonization and Unification of Economic and Social Policies and Institutions
Free Trade Area	Yes	No	No	No
Customs Union	Yes	Yes	No	No
Common Market	Yes	Yes	Yes	No
Economic Union	Yes	Yes	Yes	Yes

FIGURE: Hierarchy of Preferential Trade Agreements

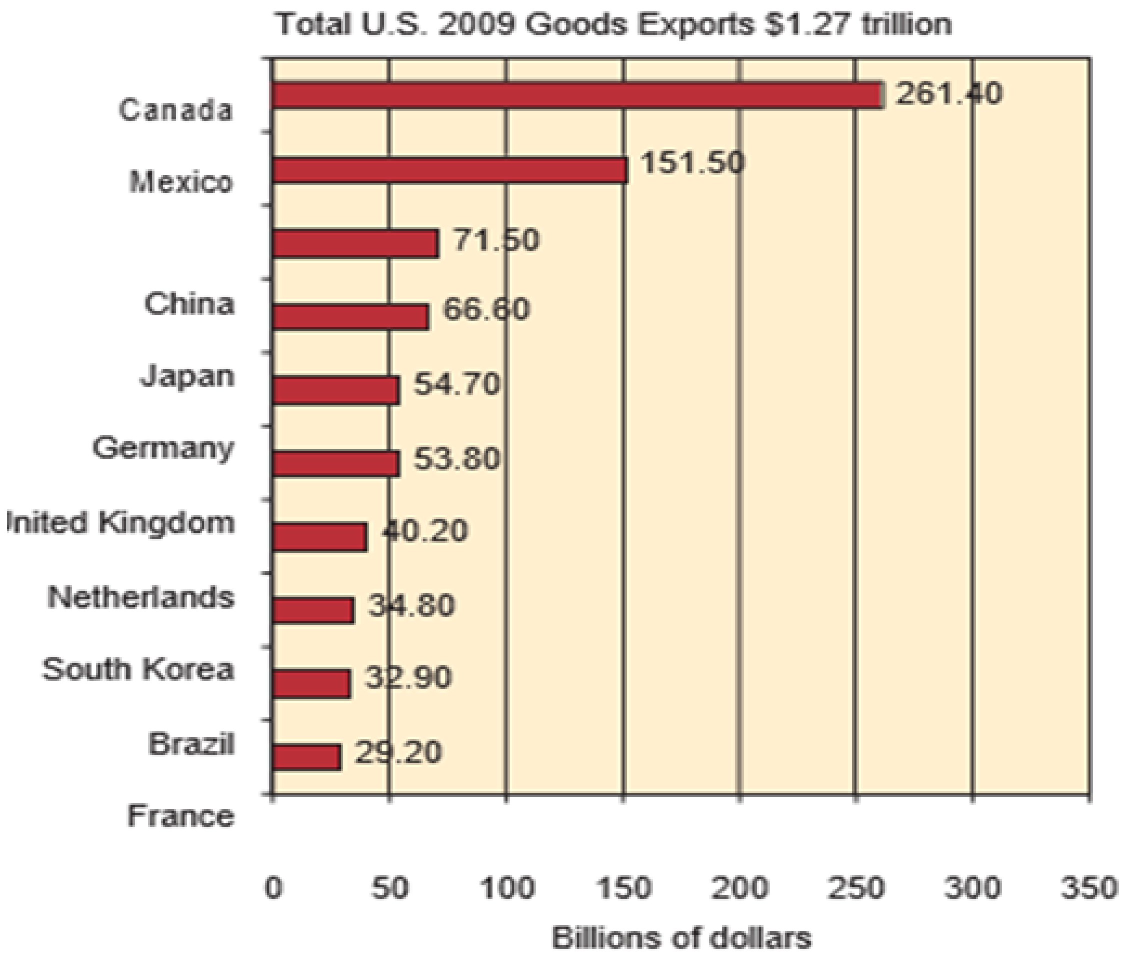


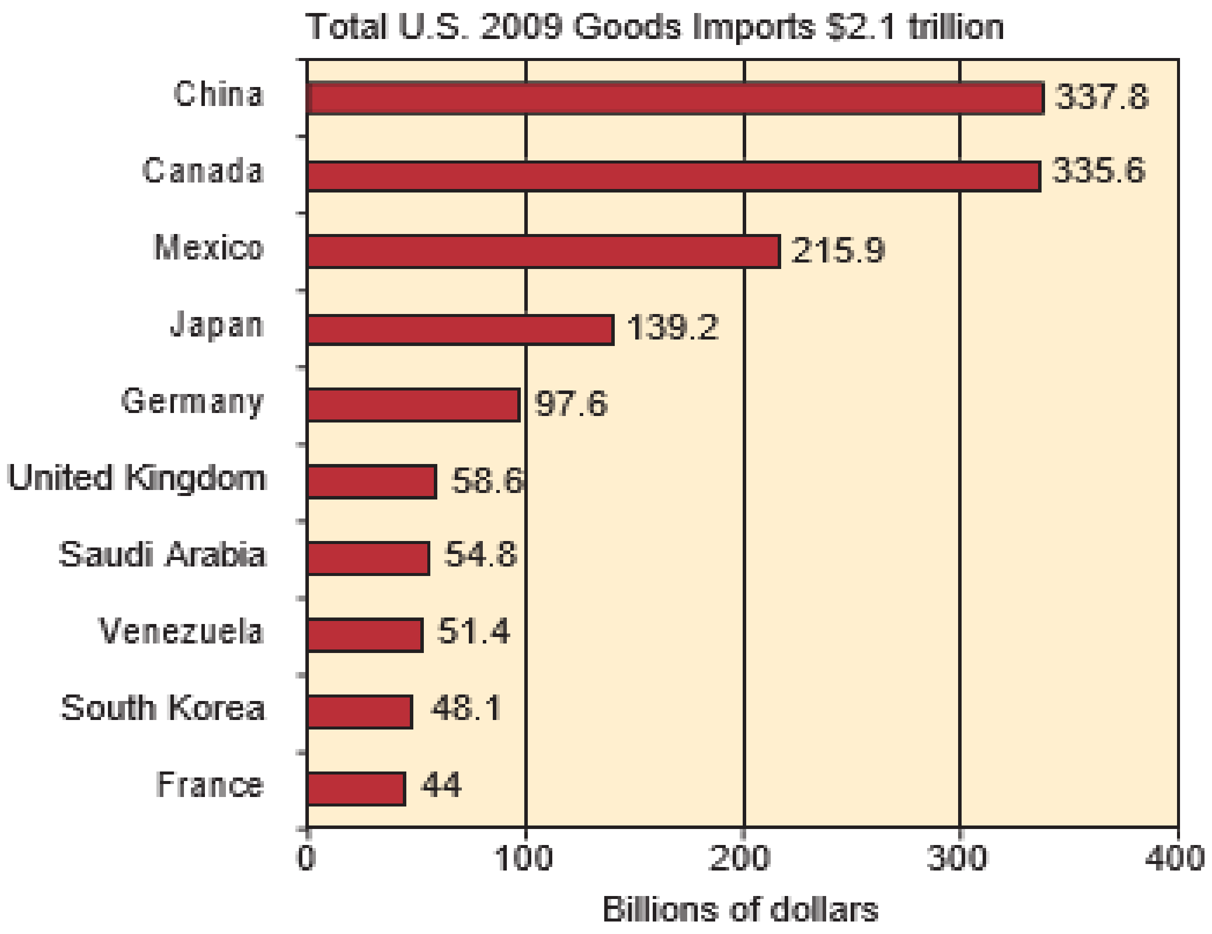
North America

- North America, which includes Canada, the United States, and Mexico, comprises a distinctive regional market. The United States combines great wealth, a large population, vast space, and plentiful natural resources in a single national economic and political environment and presents unique marketing characteristics. High product-ownership levels are associated with high income and relatively high receptivity to innovations and new ideas both in consumer and industrial products. The United States is home to more global industry leaders than any other nation in the world. For example, U.S. companies are the dominant producers in the computer, software, aerospace, entertainment, medical equipment, and jet engine industry sectors.

- In 1988, the United States and Canada signed a free trade agreement (U.S.-Canada Free Trade Agreement, or CFTA), and the Canada-U.S. Free Trade Area formally came into existence in 1989. This helps explain the more than $400 billion per year in goods and services that flow between Canada and the United States, the biggest trading relationship between any two single nations. Canada takes 20 percent of U.S. exports and the United States buys approximately 85 percent of Canada’s exports. Following figure illustrates the economic integration of North America: Canada is the number one trading partner of the United States, Mexico is second, and China ranks third.

U.S. Trade Partners, 2009





- American companies have more invested in Canada than in any other country. Many U.S. manufacturers, including GE and IBM, use their Canadian operations as major global suppliers for some product lines. By participating in the Canadian auto market, U.S. automakers gain greater economies of scale. The CFTA, which was fully implemented when all duties were eliminated effective January 1998, is creating a true continental market for most other products.

- In 1992, representatives from the United States, Canada, and Mexico concluded negotiations for the North American Free Trade Agreement (NAFTA). The agreement was approved by both houses of the U.S. Congress and became effective on January 1, 1994. The result is a free trade area with a combined population of roughly 450 million and a total GDP of almost $16.5 trillion

- Why does NAFTA create a free trade area as opposed to a customs union or a common market? The governments of all three nations pledge to promote economic growth through tariff elimination and expanded trade and investment. At present, however, there are no common external tariffs nor have restrictions on labour and other factor movements been eliminated. The issue of illegal immigration from Mexico into the United States remains a contentious one. The benefits of continental free trade will enable all three countries to meet the economic challenges of the decades to come. The gradual elimination of barriers to the flow of goods, services, and investment, coupled with strong protection of intellectual property rights (patents, trademarks, and copyrights), will further benefit businesses, workers, farmers, and consumers.

- The agreement does leave the door open for discretionary protectionism, however. For example, California avocado growers won government protection for a market worth $250 million; Mexican avocado growers can only ship their fruit to the United States during the winter months, and only to states in the northeast. Moreover, Mexican avocados are subject to quotas, so only $30 million worth of avocados reach the United States each year. One Mexican farmer Ricardo Salgado complained, ***"The California growers want to control all of the supply—that way they get the best prices. We'd love to have a bigger selling season, but right now we have to wait for the U.S. Congress to give us permission."*** Mexico engages in some protectionism of its own; for example, in 2003 a 98.8 percent tariff was imposed on chicken leg quarters beyond the first 50,000 metric tons imported. In addition, Mexico imposed a 46.6 percent tariff on red and golden delicious apples.

Latin America: SICA, Andean Community, Mercosur, and CARICOM

- Latin America includes the Caribbean and Central and South America (because of NAFTA, Mexico is grouped with North America). The allure of the Latin American market has been its considerable size and huge resource base. After a decade of no growth, crippling inflation, increasing foreign debt, protectionism, and bloated government payrolls, the countries of Latin America have begun the process of economic transformation. Balanced budgets are a priority, and privatization is underway. Free markets, open economies, and deregulation have begun to replace the policies of the past. In many countries, tariffs that sometimes reached as much as 100 percent or more have been lowered to 10 to 20 percent.

- With the exception of Cuba, most elected governments in Latin America are democratic. However, there is widespread scepticism about the benefits of participating fully in the global economy. As left-leaning politicians such as Venezuela’s President Hugo Chávez become more popular, concern is growing that free market forces may lose momentum in the region. Global corporations are watching developments closely. They are encouraged by import liberalization, the prospects for lower tariffs within sub-regional trading groups, and the potential for establishing more efficient regional production. Many observers envision a free trade area throughout the hemisphere. The four most important preferential trading arrangements in Latin America are the Central American Integration System (SICA), the Andean Community, the Common Market of the South (Mercosur), and the Caribbean Community and Common Market (CARICOM).

Central American Integration System

- Central America is trying to revive its common market, which was set up in the early 1960s. The five original members—El Salvador, Honduras, Guatemala, Nicaragua, and Costa Rica—decided in July 1991 to reestablish the Central American Common Market (CACM). Efforts to improve regional integration gained momentum with the granting of observer status to Panama. In 1997, with Panama as a member, the group's name was changed to the Central American Integration System (Sistema de la Integración Centroamericana, or SICA.

Map of SICA Countries

- The Secretariat for Central American Economic Integration, headquartered in Guatemala City, helps to coordinate the progress toward a true Central American common market. Common rules of origin were also adopted, allowing for more free movement of goods among SICA countries. SICA countries agreed to conform to a CET of 5 to 20 percent for most goods by the mid-1990s; many tariffs had previously exceeded 100 percent. Starting in 2000, import duties converged to a range of 0 to 15 percent.
- Despite progress, attempts to achieve integration in Central America have been described as uncoordinated, inefficient, and costly. Tariffs still exist on imports of products—sugar, coffee, and alcoholic beverages, for example—that are also produced in the importing country. As one Guatemalan analyst remarked more than a decade ago, ***"Only when I see Salvadoran beer on sale in Guatemala and Guatemalan beer on sale in El Salvador will I believe that trade liberalization and integration is a reality."***

- Implementation of the Central American Free Trade Agreement with the United States created a free trade area known as DR-CAFTA that includes five SICA members (El Salvador, Honduras, Guatemala, Nicaragua, and Costa Rica; Panama is excluded) plus the Dominican Republic. Implementation has been slow, but some changes have already taken effect. For example, 80 percent of U.S. goods and more than half of U.S. agricultural products can now be imported into Central America on a duty-free basis. Benefits to Central American companies include a streamlining of export paperwork and the adoption of an online application process. The region will attract more direct foreign investment as foreign companies see reduced risk thanks to clearer rules. In addition, a significant number of companies in Central America operated in the "shadow economy," with many commercial transactions going unreported. Government tax revenues should increase as companies join the formal economy to take advantage of CAFTA's benefits.

Andean Community

- The Andean Community (Comunidad Andina de Naciones, or CAN) was formed in 1969 to accelerate the development of member states Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela through economic and social integration. Chile withdrew in 1976. The remaining five members agreed to lower tariffs on intragroup trade and to work together to decide what products each country should produce. At the same time, foreign goods and companies were kept out as much as possible. One Bolivian described the unfortunate result of this lack of competition in the following way: ***"We had agreed, 'You buy our overpriced goods and we'll buy yours.'"***

- In 1988, the group members decided to get a fresh start. Beginning in 1992, the Andean Pact signatories agreed to form Latin America's first operating sub-regional free trade area. The pact abolished all foreign exchange, financial and fiscal incentives, and export subsidies at the end of 1992. Common external tariffs were established, marking the transition to a true customs union. Overall, however, the region's rural residents and urban poor have become frustrated and impatient with the lack of progress. As one Andean scholar put it, "After 10 or 15 years of operating with free-market policies, paradise hasn't come. People start wondering if the gospel was as good as advertised."

Andean Community (contd.)

- Blessed with a location near the equator, Ecuador's cut-flower industry generates hundreds of millions of dollars in sales each year. About 70 percent of Ecuador's flower harvest is exported to the United States; in all, about one-fourth of the cut roses sold in the United States come from Ecuador. For years, thanks to the Andean Trade Promotion and Drug Eradication Act, flowers from Ecuador, Colombia, Bolivia, and Peru were imported into the United States duty-free. The U.S. Congress passed the act to encourage Latin American farmers to cultivate ornamental flowers rather than plants that are part of the illegal drug trade. However, the act expired at the end of 2006; for Peru and Colombia, the flower trade is covered by bilateral trade agreements. Although Ecuador's duty-free status was extended, President Rafael Correa is opposed to free trade talks with the United States. His stance has prompted fears that flower production will plummet, resulting in thousands of lost jobs.

Andean Community (contd.)

- Competing ideologies help explain why intraregional trade is not yielding more benefits; Peru and Colombia are pursuing growth via capitalism, whereas the governments in Ecuador and Bolivia have socialist leanings. Venezuela withdrew from the Andean Community in 2006; President Hugo Chávez declared the community "dead" after Peru and Colombia began negotiating free trade agreements with the United States. Venezuela is currently in the process of becoming a full member of Mercosur.

Common Market of the South (Mercosur)

- March 2011 marked the 20th anniversary of the signing of the Asunción Treaty. The treaty signified the agreement by the governments of Argentina, Brazil, Paraguay, and Uruguay to form the Common Market of the South (Mercado Común del Sur or Mercosur).
- The four countries agreed to begin phasing in tariff reform on January 1, 1995. Internal tariffs were eliminated, and CETs of 20 percent or less were established. In theory, goods, services, and factors of production will ultimately move freely throughout the member countries; until this goal is achieved, however, Mercosur will actually operate as a customs union rather than as a true common market. Today, about 90 percent of goods are traded freely; however, individual members of Mercosur can change both internal and external tariffs when it suits the respective government. Much depends on the successful outcome of this experiment in regional cooperation. The early signs were positive, as trade between the four full member nations grew dramatically during the 1990s. However, the region has experienced a series of financial crises; for example, Brazil's currency was devalued in 1995 and again in 1999.

Mercosur (contd.)

- Argentina provides a case study in how a country can emerge from an economic crisis as a stronger global competitor. Argentina's economy minister responded to the financial crisis of 2001–2002 by implementing emergency measures that included a 29 percent currency devaluation for exports and capital transactions. Argentina was allowed to break from the CET and raise duties on consumer goods. The crisis had a silver lining: virtually overnight, Argentina's wine exports to the United States were worth four times more when dollar revenues were converted into pesos. The currency devaluation also made Argentine vineyard property cheaper for foreign buyers. Low prices for land, inexpensive labour, and ideal growing conditions for the Malbec grape have combined to make Argentina's wine industry a major player in world markets. As one winemaker noted, ***"You can make better wine here for less money than anywhere in the world."*** A new challenge looms, however; the dollar's weakness relative to the euro means that winemakers are paying 25 percent more for oak aging barrels imported from France.

Mercosur (contd.)

- The trade agreement landscape in the region continues to evolve. In 1996, Chile became an associate member of Mercosur. Policymakers opted against full membership because Chile already had lower external tariffs than the rest of Mercosur; ironically, full membership would have required raising them. (In other words, Chile participates in the free trade area aspect of Mercosur, not the customs union.) Chile's export-driven success makes it a role model for the rest of Latin America as well as Central and Eastern Europe.

- In 2004, Mercosur signed a cooperation agreement with the Andean Community; as a result, Bolivia, Colombia, Ecuador, and Peru have become associate members. The EU is Mercosur's number one trading partner; Mercosur has signed an agreement with the EU to establish a free trade area. Germany and France are opposed to such an agreement on the grounds that low-cost agricultural exports from South America will harm farmers in Europe.

Mercosur (contd.)

- Venezuela began the process of joining Mercosur in 2006, the same year that it withdrew from the Andean Community. For several years, Venezuela reaped the rewards of booming demand and high prices for oil; oil revenues account for 75 percent of its exports. Its president, Hugo Chávez, is a self-proclaimed revolutionary firebrand. After being elected in 1998, he proclaimed that his vision for Venezuela was "socialism for the twenty-first century." Even so, Venezuela offers significant market opportunities for global companies. General Motors produces vehicles at a plant in Valencia; even running three shifts per day, it is unable to meet demand. Procter & Gamble's Latin American headquarters are located in Caracas. Other global companies with operations in Venezuela include Cargill, Chevron, ExxonMobil, Ford, Kellogg, 3M, and Toyota.

> ***"The boom in the export of commodities to countries such as China and India has led to the emergence of Latin American countries with a large consumer demand. Agreements such as Mercosur facilitate trade within the region of products with higher levels of added value."***
>
> Mauricio Claveria, Abeceb Consultancy, Argentina

Map of Andean Community and Mercosur

Caribbean Community and Common Market (CARICOM)

- CARICOM was formed in 1973 as a movement toward unity in the Caribbean. It replaced the Caribbean Free Trade Association (CARIFTA) founded in 1965. The members are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The population of the entire 15-member CARICOM is about 15 million; disparate levels of economic development can be seen by comparing GNI per capita in Dominica and Grenada with that of Haiti.

- To date, CARICOM's main objective has been to achieve a deepening of economic integration by means of a Caribbean common market. However, CARICOM was largely stagnant during its first two decades of existence. At its annual meeting in July 1991, member countries agreed to speed integration; a customs union was established with common external tariffs. At the 1998 summit meeting, leaders from the 15 countries agreed to move quickly to establish an economic union with a common currency. A recent study of the issue has suggested, however, that the limited extent of intraregional trade would limit the potential gains from lower transaction costs.

CARICOM (contd.)

- If the original 1973 treaty were revised, CARICOM nations could qualify for membership in a proposed Free Trade Area of the Americas (FTAA). As Owen Arthur, then prime minister of Barbados, explained, “The old treaty limited the movement of capital, skills, and business in the region. The treaty has to be changed so that regional trade policy can be widened to deal with the FTAA and the EU, and such matters as bilateral investments treaties, intellectual property rights, and trade in services.”
- The English-speaking CARICOM members in the eastern Caribbean are also concerned with defending their privileged trading position with the United States. That status dates to the Caribbean Basin Initiative (CBI) of 1984, which promoted export production of certain products by providing duty-free U.S. market access to 20 countries, including members of CARICOM. Recently, CBI members requested that the CBI be expanded. The Caribbean Basin Trade Partnership Act, which went into effect on October 1, 2000, exempts textile and apparel exports from the Caribbean to the United States from duties and tariffs.

Map of CARICOM

Current Trade-Related Issues

- One of the biggest trade-related issues in the Western Hemisphere is the creation of a Free Trade Area of the Americas (FTAA). However, leaders in several Latin American countries—Brazil in particular—are frustrated by Washington's tendency to dictate trade terms that will benefit special interests in the United States. For example, a bipartisan coalition of U.S. policymakers favours the inclusion of labour and other non-trade-related requirements in trade treaties such as the FTAA. Labour law enforcement was included in the texts of the free trade agreements that the United States signed with Jordan and Morocco. However, several Latin American leaders are opposed to including labour standards in the FTAA.

- Now Brazil and its Mercosur partners are advocating a slower, three-stage approach to negotiations with the United States. The first stage would include discussions on business facilitation issues, such as standardized customs forms and industry deregulation; the second would focus on dispute settlement and rules of origin; and the third would focus on tariffs. Meanwhile, as previously noted, Mercosur, CARICOM, SICA, and the Andean Community are taking steps toward further intraregional integration and aligning with Europe.

EMERGING MARKETS: Brazil

- Brazil is an economic power-house in South America with largest geographical territory and the largest population in the region.
- It has emerged on the world stage as a strong exporter.
- Rapid economic growth has given policymakers a greater presence on the global stage and more clout at global trade talks.

One symbol of Brazil's new role in the global economy is Embraer, which is world's fourth-largest aircraft manufacturer

In the regional aircraft sector, Embraer is second only to Canada's Bombardier.

- Specializing in regional jets that seat fewer than 100 passengers, Embraer has won orders from JetBlue, Air Canada, Saudi Arabian Airlines, and other carriers. Embraer shared the cost of developing new models, such as the E-170/175, with more than a dozen partners, including General Electric and Honeywell. In order to sell more regional jets to China, Embraer has also established a $50 million joint venture with China Aviation Industry Corporation.
- Brazil's agricultural sector is also a leading exporter. Brazil is the world's number-one exporter of beef, coffee, orange juice (check the label on your orange juice carton), and sugar. Annual coffee bean production totals 40 million 60-kilo bags—one-third of the world total. JBS is the world's largest meat processor. Brazil is rapidly gaining a reputation as a producer of sugar-based ethanol, which can serve as a sustainable substitute for expensive gasoline. As Ermor Zambello, manager of the Grupo Farias sugar mill, notes, ***"Globalization has made us think more about foreign markets. Now, we have more of a global outlook, and we are concerned about global production."***

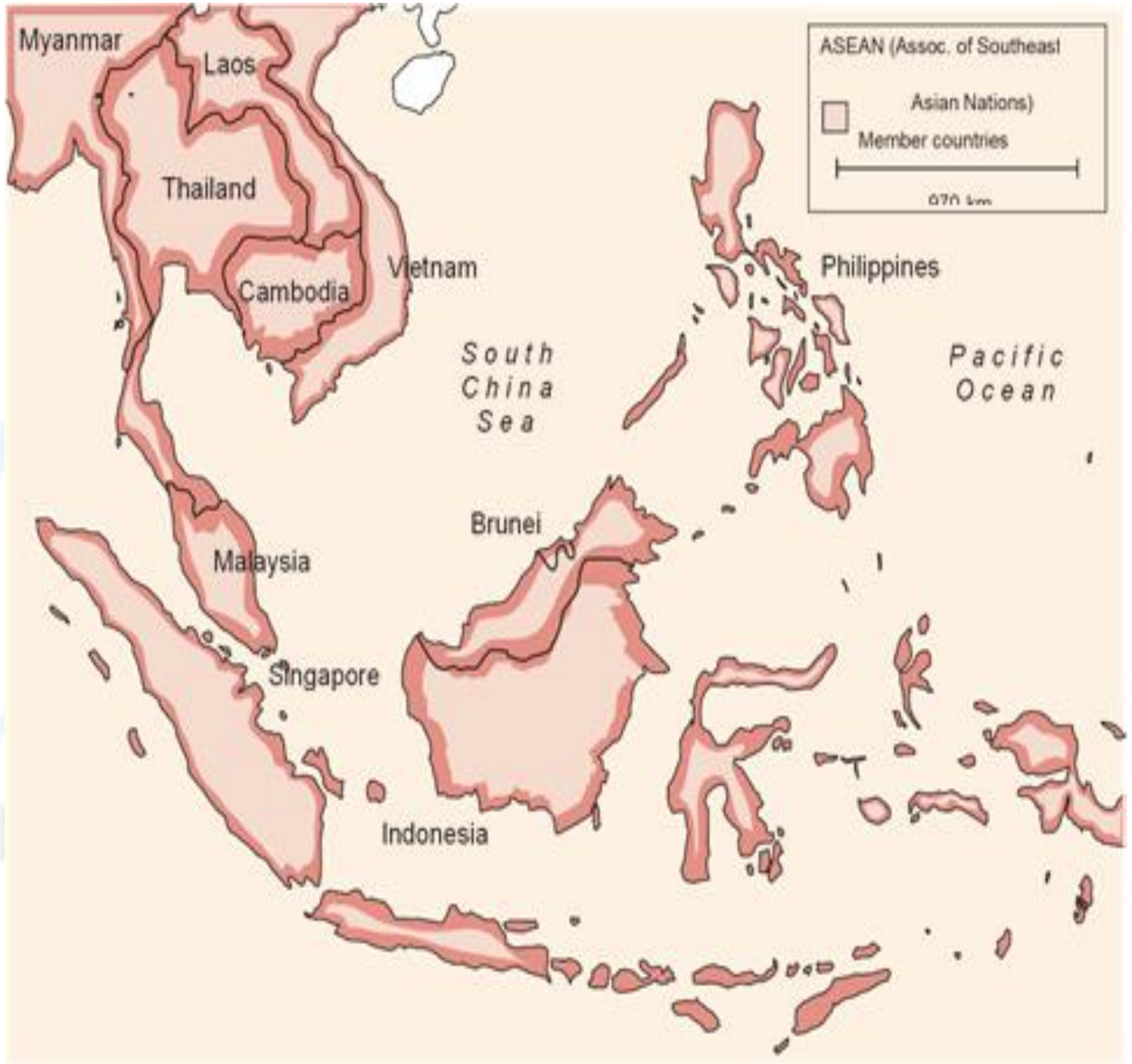
- The central issue in the Doha Round of WTO negotiations is agriculture. Brazil and India are taking the lead of the Group of Twenty developing nations calling for agricultural sector reform. For example, the average tariff on Brazil's exports to the 30 OECD nations is 27 percent. Government subsidies are also a key issue. In the EU, government spending accounts for about one-third of gross farm receipts; in the United States, the government provides about one-quarter of gross farm receipts. By contrast, Brazil's spending on farm support amounts to only about 3 percent of farm receipts.

- Moving forward, Brazil faces a number of other challenges. Steady appreciation of Brazil's currency, the real, may require exporters to raise prices. Embraer faces tough competition from Canada's Bombardier. The country's infrastructure remains woefully underdeveloped; significant investment is required to improve highways, railroads, and ports. Businesspeople speak of "the Brazil cost," a phrase that refers to delays related to excessive red tape.

- Trade with China is presenting both opportunities and threats. In 2009, China surpassed the United States as Brazil's top trading partner. China's explosive economic growth has created great demand for soybeans, iron ore, and other Brazilian commodity exports. However, Brazilian manufacturers in light-industry sectors such as toys, eyeglasses, and footwear are facing increased competition from low-priced Chinese imports.

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

- The Association of Southeast Asian Nations (ASEAN) was established in 1967 as an organization for economic, political, social, and cultural cooperation among its member countries. Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand were the original six members. Vietnam became the first Communist nation in the group when it was admitted to ASEAN in July 1995. Cambodia and Laos were admitted at the organization’s 30th anniversary meeting in July 1997. Burma (known as Myanmar by the ruling military junta) joined in 1998, following delays related to the country’s internal politics and human rights record. The original six members are sometimes referred to as ASEAN-6.



Map of ASEAN

- Individually and collectively, ASEAN countries are active in regional and global trade. ASEAN's top trading partners include Japan, the EU, China, and the United States. A few years ago, ASEAN officials realized that broad common goals were not enough to keep the association alive. Although the ASEAN member countries are geographically close, they have historically been divided in many respects. One problem was the strict need for consensus among all members before proceeding with any form of cooperative effort. An ASEAN Free Trade Area (AFTA) has finally become a reality, thanks to recent progress at achieving intraregional tariff reductions among the six founding ASEAN members. ASEAN's leaders are now working to establish a fully integrated, single-market ASEAN Economic Community by 2015.

- Recently, Japan, China, and Korea were informally added to the member roster; some observers called this configuration "ASEAN plus three." When the roster expanded again to include Australia, New Zealand, and India, it was dubbed "ASEAN plus six." The latter is working to establish an East Asian Community, with the first step being the establishment of an East Asian Free Trade Area. Although China's participation has met with some opposition, China's dynamic growth and increasing power in the region required a response. Rodolfo Severino served as ASEAN Secretary General from 1998 to 2002. As he noted a decade ago, ***"You can either close yourself off from China and crouch in fear or engage more closely. Although some industries will get hurt, the overall impact on both China and ASEAN would be beneficial."***

- January 1, 2010, marked the formal establishment of a new China/ASEAN FTA. Encompassing 1.9 billion people, the new FTA removes tariffs on 90 percent of traded goods. Overall, the FTA should benefit the region; Malaysia, for example, should experience an increase in commodity exports such as palm oil and rubber. However, some ASEAN industry sectors could be also hurt by a flood of low-cost Chinese imports. Thailand’s leaders are so concerned about the impact on the country’s steel and textile industries that they have asked for a delay in lifting tariffs.

- Singapore represents a special case among the ASEAN nations. In fewer than three decades, Singapore transformed itself from a British colony to a vibrant, 240-square-mile industrial power. Singapore has an extremely efficient infrastructure—the Port of Singapore is the world's second-largest container port (Hong Kong's ranks first)—and a standard of living second in the region only to Japan. Singapore's 5 million citizens have played a critical role in the country's economic achievements by readily accepting the notion that "the country with the most knowledge will win" in global competition. Excellent training programs and a 95 percent literacy rate help explain why Singapore has more engineers per capita than the United States. Singapore's Economic Development Board has also actively recruited business interest in the nation. The manufacturing companies that have been attracted to Singapore read like a who's who of global marketing and include Hewlett-Packard, IBM, Philips, and Apple; in all, more than 3,000 companies have operations or investments in Singapore.

- Singapore alone accounts for more than one-third of U.S. trading activities with ASEAN countries; U.S. exports to Singapore in 2010 totalled $39 billion, while imports totalled $27.1 billion. Singapore is closely tied with its neighbours; more than 32 percent of imports are re-exported to other Asian countries. Singapore's efforts to fashion a civil society have gained the country some notoriety; crime is nearly non-existent, thanks to the long-ruling People's Action Party's severe treatment of criminals.

Marketing Issues in the Asia-Pacific Region

- Mastering the Japanese market takes flexibility, ambition, and a long-term commitment. Japan has changed from being a closed market to one that's just tough. There are barriers in Japan in terms of attitudes as well as laws. Any organization wishing to compete in Japan must be committed to providing top-quality products and services. In many cases, products and marketing must be tailored to local tastes. Repeat visits and extended socializing with distributors are necessary to build trust. Marketers must also master the keiretsu system of tightly knit corporate alliances.

Marketing Issues in the Asia-Pacific Region (contd.)

- On the lighter side, it is worth noting that many consumer packaged goods marketed in Japan—including items that are not imported—have English, French, or German on the labels to suggest a cosmopolitan image and Western look.

- A Westerner may wonder, however, what the actual communication task is. For example, the label of City Original Coffee proclaims ***"Ease Your Bosoms. This coffee has carefully selected high quality beans and roasted by our all the experience."*** The intended message: Drinking our coffee provides a relaxing break and "takes a load off your chest."

- Casual wear and sports apparel are also emblazoned with fractured messages. Japanese retailers do not seem at all concerned that the messages are syntactically suspect. As one shopkeeper explained, the point is that a message in English, French, or German can convey hipness and help sell a product. ***"I don't expect people to read it,"*** she said.

MARKETING METRICS AND ANALYTICS: Bhutan and Gross National Happiness

- A sign hanging in Albert Einstein's office at Princeton University bore the inscription, "Not everything that counts can be counted, and not everything that can be counted counts." In this chapter and the last, national income data have been used to measure the total output of each of the world's economies. It has been argued, however, that indicators such as GDP and GNI per capita are inadequate. According to some economists and policymakers, supplemental indicators that measure things like social progress, quality of life, and sustainability are needed.
- Bhutan is a kingdom of 700,000 people in the Himalaya mountains. Per capita GNI is approximately $2,030; using this figure as a metric, Bhutan can be assigned to the lower-middle-income category of nations. However, for the past 40 years, Bhutan has relied on another measure besides economic growth, namely Gross National Happiness (GNH).

- The GNH Index includes both objective and subjective indicators: Psychological well-being, time use, community vitality, culture, health, education, environmental diversity, living standards, and governance. As Lyonpo Jigmi Thinley, home minister of Bhutan, explained, ***"We have to think of human well-being in broader terms. Material well-being is only one component. That doesn't ensure that you're at peace with your environment and in harmony with each other."***
- Not surprisingly, there is some disagreement among social scientists regarding the best way to define, track, and measure such intangibles as happiness and quality of life. In Britain, for example, officials have developed a summary of "sustainable development indicators" that include measures of traffic, pollution, and crime. In another approach, survey participants report the feelings they experience as they go about their daily routines. These can include a range of activities from paying bills to participating in sports activities. In France, President Nicolas Sarkozy established the Commission on the Measurement of Economic Performance and Social Progress.

- Meanwhile, officials in Bhutan have launched a number of initiatives to promote happiness in the kingdom. For example, teachers are rotated between rural and urban areas to ensure all school children have access to a top-quality education. As Thakur S. Powdyel, an official at Bhutan's Ministry of Education, puts it, ***"The goal of life should not be limited to production, consumption, more production and more consumption. There is no necessary relationship between the level of possession and the level of well-being."***

- With the global economic crisis as a backdrop, a first-ever Happiness Congress was held in Madrid in the fall of 2010. The Congress was sponsored by the Coca-Cola Company, which uses the tagline ***"Open Happiness"*** in its global advertising. The global beverage giant also established the Coca-Cola Institute of Happiness in Spain after research indicated that Spanish consumers associate Coke with happiness more than any other brand. Minister Thinley from Bhutan was the keynote speaker at the Congress; his address was titled ***"Happiness in Difficult Times."*** As Mr. Thinley told attendees, ***"Our economic models are greatly, deeply flawed. They are not sustainable."***

Western, Central, and Eastern Europe

- The countries of Western Europe are among the most prosperous in the world. Despite the fact that there are significant differences in income between the north and the south and obvious differences in language and culture, the once-varied societies of Western Europe have grown remarkably alike. Still, enough differences remain that many observers view Western Europe in terms of three tiers. Many Britons view themselves as somewhat apart from the rest of the continent; Euro-scepticism is widespread, and the country still has problems finding common ground with historic rivals Germany and France. Meanwhile, across the English Channel, Greece, Italy, Portugal, and Spain have struggled mightily to overcome the stigma of being labelled “Club Med nations,” “peripheral economies,” and other derogatory descriptions by their northern neighbours. Indeed, as noted in the chapter-opening case, these Southern European countries are at the centre of the sovereign debt crisis.

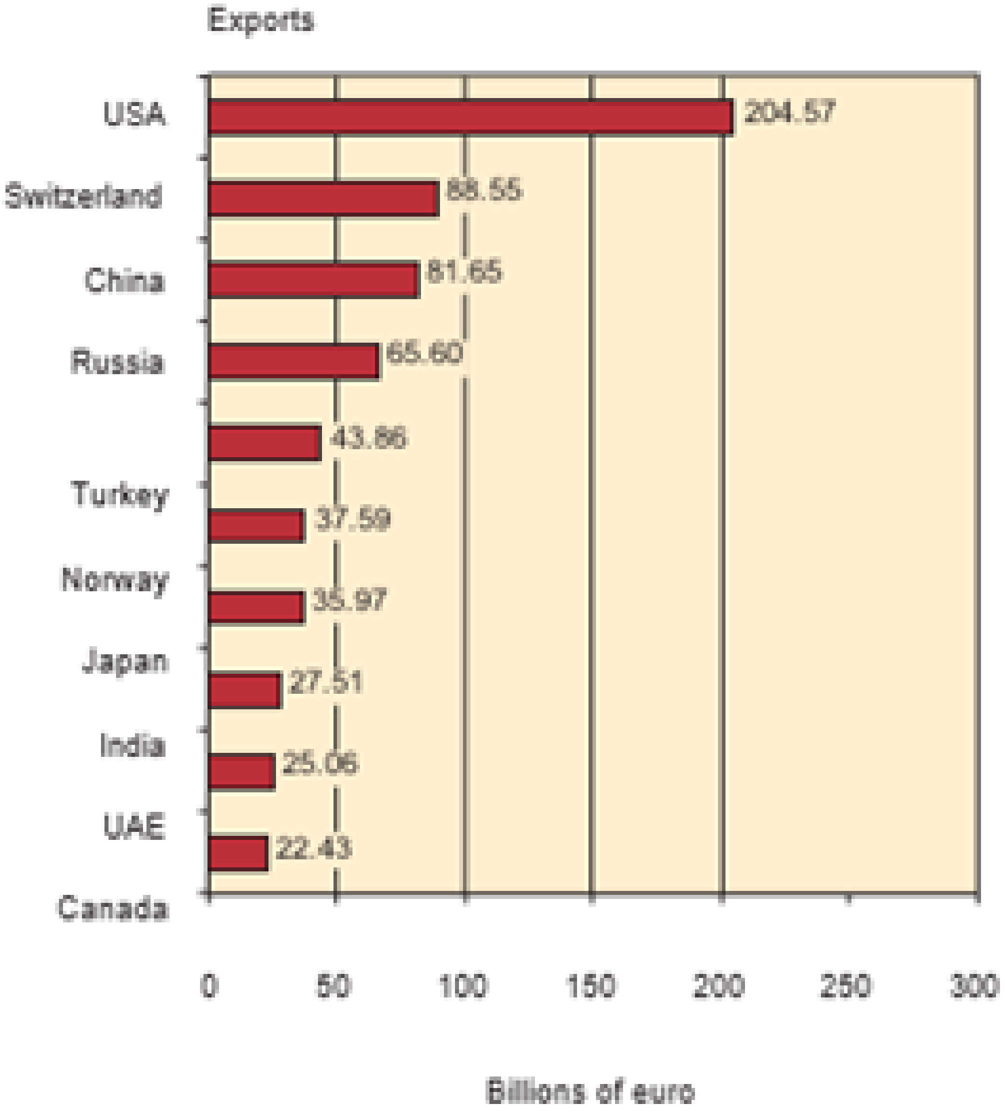
The European Union (EU)

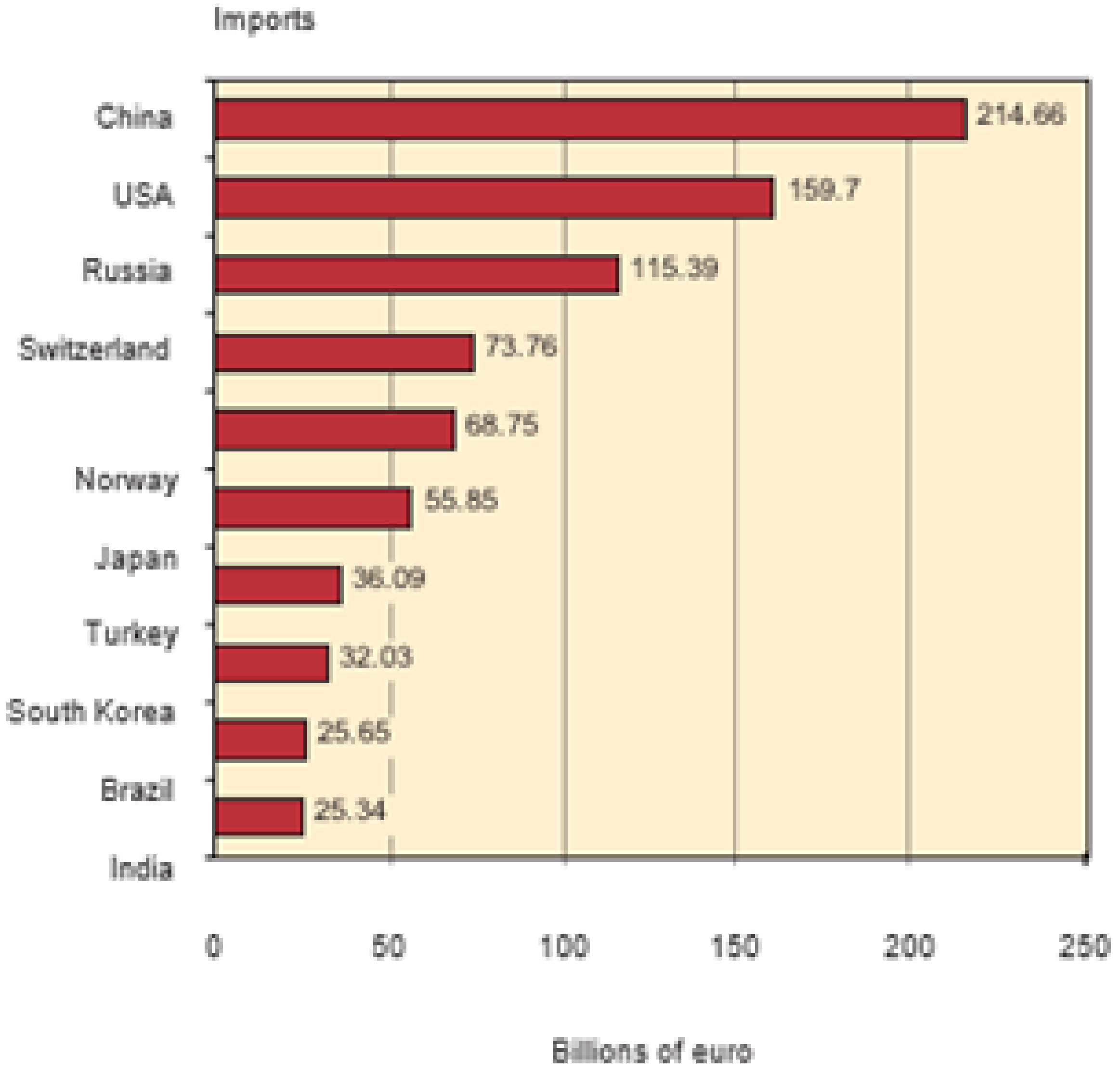
- The origins of the European Union (EU) can be traced back to the 1958 Treaty of Rome. The six original members of the European Community (EC), as the group was called then, were Belgium, France, Holland, Italy, Luxembourg, and West Germany. In 1973, Great Britain, Denmark, and Ireland were admitted, followed by Greece in 1981 and Spain and Portugal in 1986. Beginning in 1987, the 12 countries that were EC members set about the difficult task of creating a genuine single market in goods, services, and capital. In other words, the goal was to create a true economic union. Adopting the Single European Act by the end of 1992 was a major EC achievement; the Council of Ministers adopted more than 200 pieces of legislation and regulations to make the single market a reality.

EU (contd.)

- The objective of the EU member countries is to harmonize national laws and regulations so that goods, services, people, and money can flow freely across national boundaries. December 31, 1992, marked the dawn of the new economic era in Europe. Finland, Sweden, and Austria officially joined the EU on January 1, 1995. (In November 1994, voters in Norway rejected a membership proposal.) Evidence that this is more than a free trade area, customs union, or common market is the fact that citizens of member countries are now able to freely cross borders within the union. The EU is encouraging the development of a community-wide labour pool; it is also attempting to shake up Europe's cartel mentality by handing down rules of competition patterned after U.S. antitrust law. Improvements to highway and rail networks are now being coordinated as well.

EU Top 10 Trading Partners 2009





- Further EU enlargement is the big story in this region today. Cyprus, the Czech Republic, Estonia, Hungary, Poland, Latvia, Lithuania, Malta, the Slovak Republic, and Slovenia became full EU members on May 1, 2004. Bulgaria and Romania joined in 2007. Collectively, the 27 nations of the EU are home to 500 million people and constitute the world's largest economy with more than $15 trillion in combined GNI
- The 1991 Maastricht (Netherlands) Treaty set the stage for the creation of an economic and monetary union that includes a European central bank and a single European currency known as the euro. In May 1998, Austria, Belgium, Finland, Ireland, the Netherlands, France, Germany, Italy, Luxembourg, Portugal, and Spain were chosen as the 11 charter members of the euro zone.

- The single currency era, which officially began on January 1, 1999, has brought many benefits to companies in the euro zone, such as eliminating costs associated with currency conversion and exchange rate uncertainty. However, the euro zone is in crisis today. The euro existed as a unit of account until January 1, 2002, when actual coins and paper money were issued and national currencies such as the French franc were withdrawn from circulation. Greece joined in 2001; Slovenia became the 13th member on January 1, 2007. Cyrus and Malta joined in 2008, and Slovakia adopted the euro on January 1, 2009. On January 1, 2011, Estonia became the 17th EU nation to join the euro zone. Today, the euro zone has 23 members in all; Andorra, Kosovo, Montenegro, Monaco, San Marino, and the Vatican City use the euro but are not part of the EU.

Map of EU

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Marketing Issues in the European Union

- The European Commission establishes directives and sets deadlines for their implementation by legislation in individual nations. The business environment in Europe has undergone considerable transformation since 1992, with significant implications for all elements of the marketing mix:
  - **Product:** Harmonization means that content and other product standards that varied among nations have been brought into alignment. As a result, companies have an opportunity to reap economies by reducing the number of product adaptations.
  - **Price:** More competitive environment; improved transparency in the euro zone because the single currency makes it easier to compare prices for the same product in different countries.
  - **Promotion:** Common guidelines on TV broadcasting, uniform standards for TV commercials.
  - **Distribution:** Simplification of transit documents, elimination of customs formalities at border crossings.

- Case Europe, for example, manufactures and markets farm machinery. When it introduced the Magnum tractor in Europe in 1988, it offered 17 different versions because of country regulations regarding placement of lights and brakes. Thanks to harmonization, Case offers the current model, the Magnum MX, in one version. However, because different types of implements and trailers are used in different countries, the MX is available with different kinds of hitches.
- The advent of the euro on January 1, 1999, brought about more changes. Direct comparability of prices in the euro zone will force companies to review pricing policies. The marketing challenge is to develop strategies to take advantage of opportunities in one of the largest, wealthiest, most stable markets in the world. Corporations must assess the extent to which they can treat the region as one entity and how to change organizational policies and structures to adapt to and take advantage of a unified Europe.

- The enlargement of the EU will further impact marketing strategies. For example, food safety laws in the EU are different from those in some Central European countries. As a result, Coca-Cola had to delay launching its Powerade sports drink and other beverage products. Specifically, Polish and EU food law require the use of different ingredients. In addition to the harmonization of laws, the very size of the expanded EU offers opportunities. For example, Procter & Gamble executives foresee that in the event of shortages in a particular country they will be able to shift products from one market to another. A 27-nation EU also allows for more flexibility in the placement of factories. There will also be challenges. For example, South American banana growers now face 75 percent tariffs on exports to the new EU countries; previously, tariffs on bananas were virtually non-existent. Also, because tariffs and quotas protect sugar production in the EU, both consumers and food producers such as Kraft will face rising costs.

- Because they are in transition, the markets of Central and Eastern Europe present interesting opportunities and challenges. Global companies view the region as an important new source of growth, and the first company to penetrate a country market often emerges as the industry leader. Exporting has been favoured as a market-entry mode, but direct investment in the region is on the rise. With wage rates much lower than those in Spain, Portugal, and Greece, the region offers attractive locations for low-cost manufacturing. For consumer products, distribution is a critical marketing mix element because availability is the key to sales.

- One study examined the approaches utilized by 3M International, McDonald's, Philips Electronics, Henkel, Südzucker AG, and several other companies operating in Central Europe. Consumers and businesses in the region are eagerly embracing well-known global brands that were once available only to government elites and others in privileged positions. The study found a high degree of standardization of marketing program elements; in particular, the core product and brand elements were largely unchanged from those used in Western Europe. Consumer companies generally target high-end segments of the market and focus on brand image and product quality; industrial marketers concentrate on opportunities to do business with the largest firms in a given country.

The Middle East

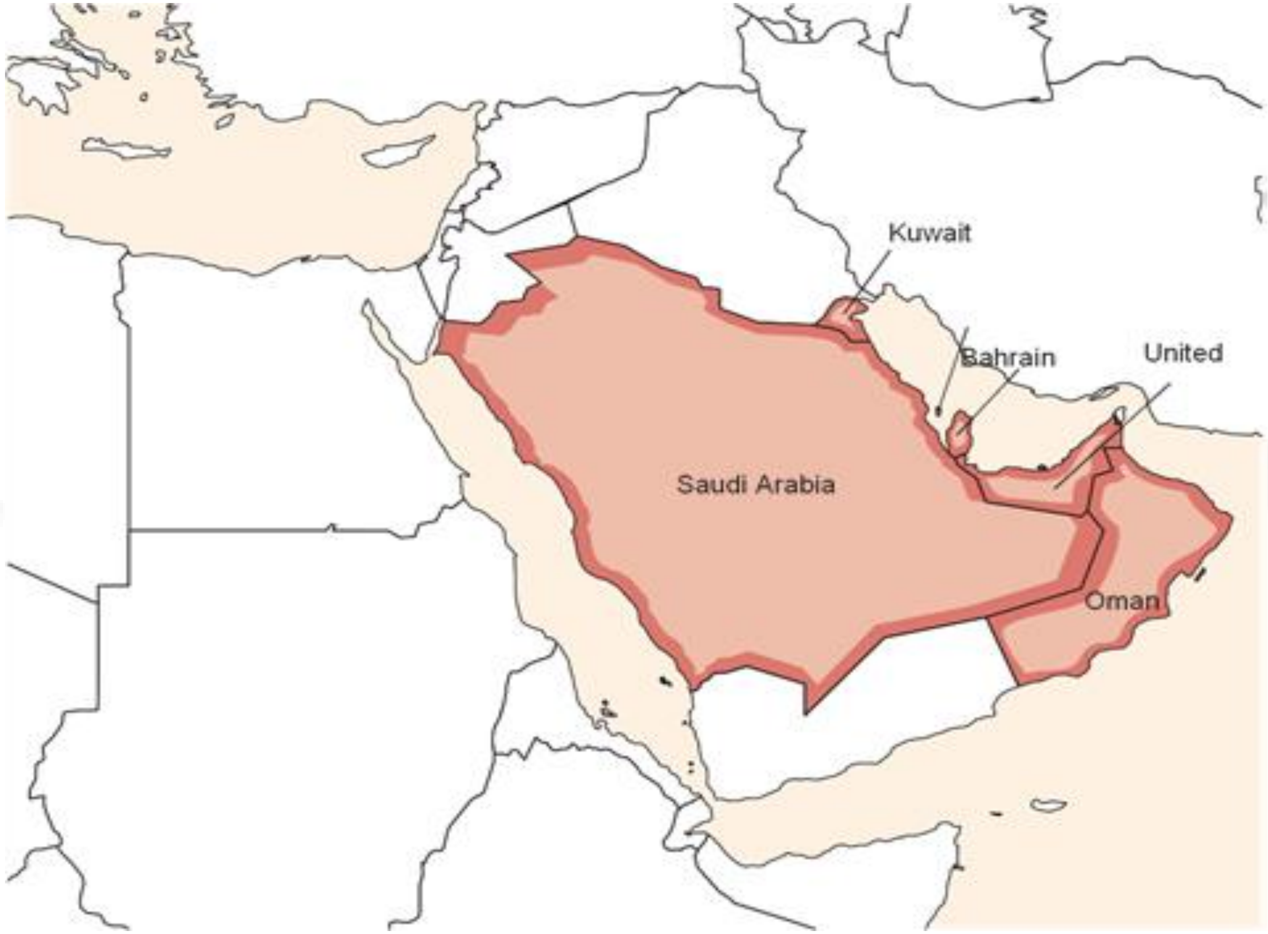
- The Middle East includes 16 countries: Afghanistan, Bahrain, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates (which include Abu Dhabi and Dubai), and Yemen.
- The majority of the population is Arab, a large percentage is Persian, and a small percentage is Jewish. Persians and most Arabs share the same religion, beliefs, and Islamic traditions, making the population 95 percent Muslim and 5 percent Christian and Jewish.
- Despite this apparent homogeneity, many differences exist. Middle Eastern countries are distributed across the index of economic freedom; Bahrain ranks the highest in terms of freedom, at 16. Kuwait, Saudi Arabia, and the United Arab Emirates are clustered in the mid-50s. Moreover, the Middle East does not have a single societal type with a typical belief, behaviour, and tradition. Each capital and major city in the Middle East has a variety of social groups that can be differentiated on the basis of religion, social class, education, and degree of wealth.

- The price of oil drives business in the Middle East. Seven of the countries have high oil revenues: Bahrain, Iraq, Iran, Kuwait, Oman, Qatar, and Saudi Arabia hold significant world oil reserves. Oil revenues have widened the gap between poor and rich nations in the Middle East, and the disparities contribute to political and social instability in the area. Saudi Arabia, a monarchy with 22 million people and 25 percent of the world's known oil reserves, remains the most important market in this region.

- In 2011 the region was rocked by demonstrations and protests that have been described as “the Arab awakening” and “the Arab spring.” The governments of Tunisia and Egypt were overthrown, civil war broke out in Libya, and Syria’s regime cracked down on insurgent activists. Elsewhere in the region, leaders were forced to make economic and political concessions. Prior to the uprisings, Syria had been a case study in the slow pace of change coming to the Middle East. Citing China’s success at opening its economy while maintaining social control, President Bashar al-Assad took steps to move Syria away from a rigid socialist economic model. Private banks opened for business, a stock market was established, and it became legal for Syrian citizens to possess foreign currency. Ties with the West were improving, too; U.S. President Barack Obama lifted some sanctions and named an ambassador to Syria. Entrepreneurs with ties to Syria began returning from Lebanon and the United States, a trend that helped spark a consumer culture. In Damascus, signs of economic rebirth include a Ford dealership, a KFC restaurant, and Benetton boutiques.

Cooperation Council for the Arab States of the Gulf

- The key regional organization is the Gulf Cooperation Council (GCC), which was established in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. These six countries hold about 45 percent of the world's known oil reserves, but production is only about 18 percent of world oil output. Ironically, Saudi Arabia and several other Middle Eastern countries post current-account deficits, largely because they must import most of the goods and services that their citizens consume.



Map of GCC

- The countries are heavily dependent on oil revenues to pay for their imports; efforts toward economic diversification are underway. For example, Saudi Arabia has developed new businesses in the petrochemical, cement, and iron industries; Bahrain is expanding its banking and insurance sectors; and the United Arab Emirates is focusing on information technology, media, and telecommunications.
- The organization provides a means of realizing coordination, integration, and cooperation in all economic, social, and cultural affairs. Gulf finance ministers drew up an economic cooperation agreement covering investment, petroleum, the abolition of customs duties, harmonization of banking regulations, and financial and monetary coordination. GCC committees coordinate trade development in the region, industrial strategy, agricultural policy, and uniform petroleum policies and prices. Current goals include establishing an Arab common market and increasing trade ties with Asia.

Marketing Issues in the Middle East

- Connection is a key word in conducting business in the Middle East. Those who take the time to develop relationships with key business and government figures are more likely to cut through red tape than those who do not. A predilection for bargaining is culturally ingrained, and the visiting businessperson must be prepared for some old-fashioned haggling. Establishing personal rapport, mutual trust, and respect are essentially the most important factors leading to a successful business relationship. Decisions are usually not made by correspondence or telephone. The Arab businessperson does business with the individual, not with the company. Most social customs are based on the Arab male-dominated society. Women are usually not part of the business or entertainment scene for traditional Muslim Arabs.

Dubai is one of the seven emirates that make up the United Arab Emirates (UAE). Compared to its neighbours, Dubai’s economy is relatively diversified: It is an important business hub for the manufacturing, IT, and finance sectors. Dubai has also become a popular tourism destination in the region. The global economic crisis has had a major impact on Dubai. Following 6 years of economic growth fuelled by a building boom and lavish consumer spending, real estate prices have collapsed and major construction projects have been cancelled. Workers—many of whom are expatriates—are losing their jobs and visas.

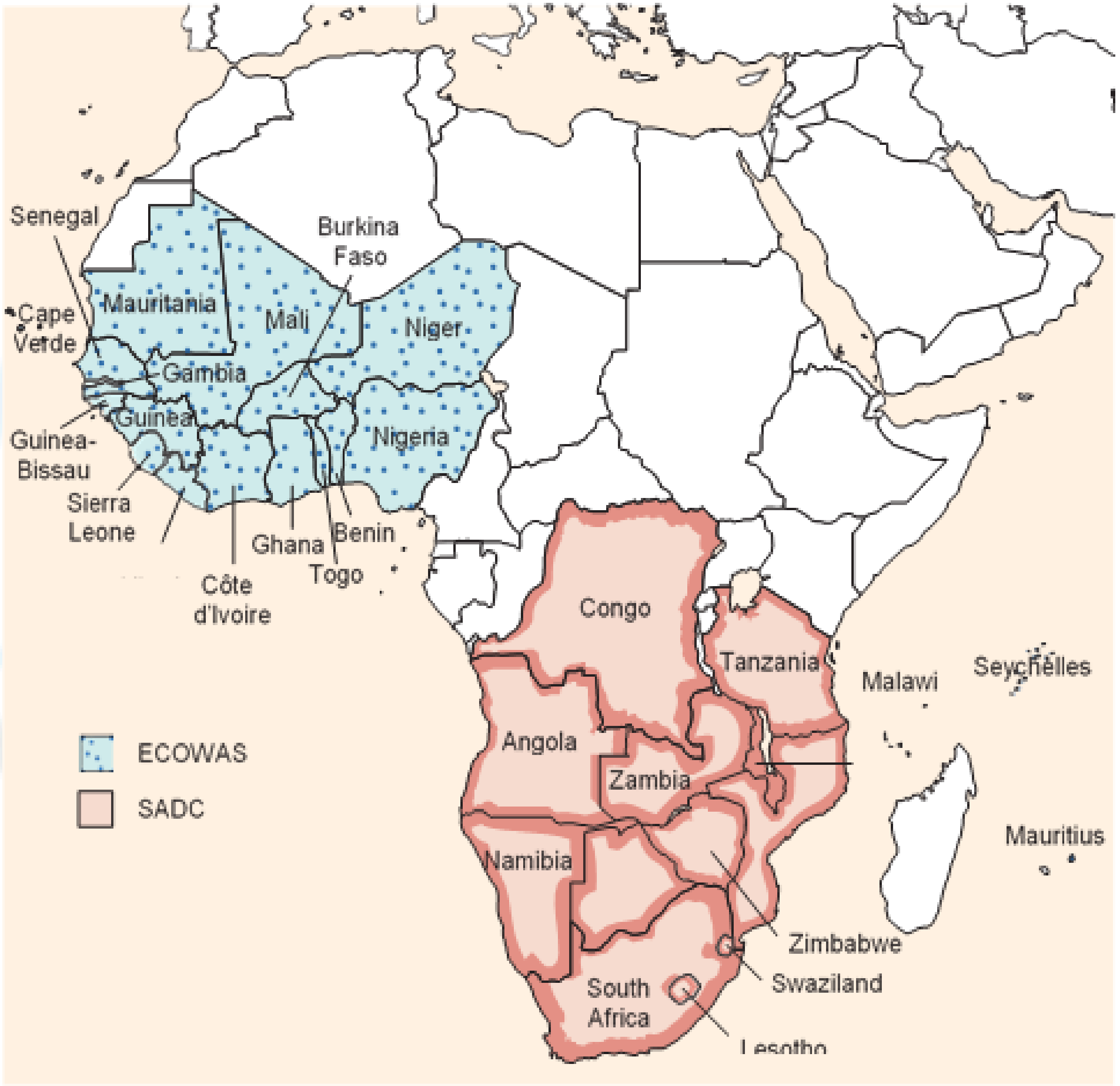
Africa

- The African continent is an enormous landmass with a territory of 11.7 million square miles; the United States would fit into Africa about three and a half times. It is not really possible to treat Africa as a single economic unit. The 54 nations on the continent can be divided into three distinct areas: the Republic of South Africa; North Africa; and sub-Saharan, or Black, Africa, located between the Sahara in the north and the Zambezi River in the south. With 1.3 percent of the world’s wealth and 11.5 percent of its population, Africa is a developing region with an average per capita income of less than $600. Many African nations are former colonies of Europe, and the EU remains the continent’s most important trading partner.

- The Arabs living in North Africa are differentiated politically and economically. The six northern nations are richer and more developed, and several—notably Libya, Algeria, and Egypt—benefit from large oil resources. The Middle East and North Africa are sometimes viewed as a regional entity known as "Mena"; as oil prices have soared, the International Monetary Fund (IMF) is encouraging Mena policymakers to invest the petrodollar windfall in infrastructure improvements as a way of sustaining economic growth. Most governments in the area are working to reduce their reliance on oil revenues and their public aid levels. The economies of non-oil-based, "emerging Mena" countries, which include Jordan, Lebanon, Morocco, and Tunisia, have also performed well in recent years.

Economic Community of West African States (ECOWAS)

- The Treaty of Lagos establishing the Economic Community of West African States (ECOWAS) was signed in May 1975 by 16 states with the object of promoting trade, cooperation, and self- reliance in West Africa. The members are Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. In 1980, the member countries agreed to establish a free trade area for unprocessed agricultural products and handicrafts. Tariffs on industrial goods were also to be abolished; however, there were implementation delays.



- By January 1990, tariffs on 25 items manufactured in ECOWAS member states had been eliminated. The organization installed a computer system to process customs and trade statistics and to calculate the loss of revenue resulting from the liberalization of intercommunity trade. In June 1990, ECOWAS adopted measures that would create a single monetary zone in the region by 1994. Despite such achievements, economic development has occurred unevenly in the region. In recent years, Ghana has performed impressively, propelled by deals related to its oil, gas, and mineral sectors. China has signed deals with a value of $15 billion. By contrast, Liberia and Sierra Leone are still experiencing political conflict and economic decline.

East African Community

- Kenya, Uganda, Tanzania, Rwanda, and Burundi are the five nations that comprise the world's newest common market. The East African Community's origins date back more than 40 years, but it has only been since 1999 that substantial progress has been made towards integration and cooperation. Today's East African Community has evolved through several of the stages.
- In 2005, a customs union was implemented. The formation of the common market in 2010 resulted in the free movement of people, goods and services, and capital within the community. Members also intend to move swiftly to establish an economic union. The first step will be creating a monetary union in 2012; a common currency will be introduced in 2015. There is even talk about forming a single nation. As one observer noted, "The idea of a United States of East Africa is less far-fetched than it was before."

Southern African Development Community (SADC)

- In 1992, the South African Development Community (SADC) superseded the South African Development Coordination Council as a mechanism by which the region’s black-ruled states could promote trade, cooperation, and economic integration. The members are Angola, Botswana, Democratic Republic of Congo (formerly Zaire), Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Swaziland, Tanzania, Zambia, and Zimbabwe.
- South Africa joined the community in 1994; it represents about 75 percent of the income in the region and 86 percent of intraregional exports. The SADC’s ultimate goal is a fully developed customs union; in 2000, an 11-nation free trade area was finally established (Angola, the Democratic Republic of Congo, and Seychelles are not participants). South Africa has been in discussions with the EU about the formation of a free trade area; other SADC members are concerned that such an arrangement would provide European global companies with a base from which to dominate the continent. South Africa, Botswana, Lesotho, Namibia, and Swaziland also belong to the Southern African Customs Union (SACU). Another concern is war in the Congo, which threatens to have a severe impact on economic growth in the region.

Marketing Issues in Africa

- In 2000, U.S. President George W. Bush signed the African Growth and Opportunities Act (AGOA) into law (see www.agoa.gov). Created with the theme of "Trade, not Aid," the law is designed to support African nations that make significant progress toward economic liberalization. Companies will find it easier to gain access to financing from the U.S. Export-Import Bank; AGOA also represents a formal step toward a U.S.-Africa free trade area. One of the Act's key provisions grants textile and apparel manufacturers in Kenya and Mauritius free access to the U.S. market up to a limit of $3.5 billion in exports each year. As Benjamin Kipkorir, Kenya's ambassador to the United States, observed a decade ago, ***"Every country that has industrialized, starting from England in the eighteenth century, began with textiles. We'd like to do the same thing."***

Marketing Issues in Africa (contd.)

- Under the Agreement on Textiles and Clothing negotiated during the Uruguay Round of GATT negotiations, global textile quotas were eliminated in 2005. Nevertheless, the textile provision in AGOA is controversial. The United States imports nearly $100 billion in textiles and apparel each year. The largest share—more than 40 percent—originates in China, with the balance from other parts of Asia plus Latin America and Africa. Wary legislators from textile-producing states fear job losses among their constituents.

- Despite such initiatives, only about 3 percent of annual foreign direct investment goes to Africa. Still, some Persian Gulf states are creating closer ties with Africa, investing billions of dollars in key sectors such as infrastructure, agriculture, and telecommunications. For example, Dubai World, a state-owned company, is negotiating a deal in Nigeria’s energy sector that could be valued at several billion dollars. Dubai also funded construction of a container terminal that opened recently in Djibouti. The largest terminal of its kind in sub-Saharan Africa, it will be managed by DP World, a subsidiary of Dubai World. Such investments are welcome at a time when investors in Europe, stung by economic losses in the developed world, are cutting spending. As Djibouti President Ismail Guelleh noted, ***“What the Arabs are doing for us is what colonialists should have done for Africa.”***