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A multicultural perspective

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The world: a multicultural marketplace

After more than a decade of Levitt's (1983) argument of the world moving toward a global market, the debate still lacks consensual theoretical and empirical validation. Although, Levitt's assertion for a need toward greater standardization was supported (Boddewyn *et al*., 1986), increased standardization as a causal result of homogenization of global markets was not established (Whitelock and Pimblett, 1997). In fact, by 1990, it became increasingly clear that few US companies had been successful at adopting global strategies (Morrison, 1990). A valid argument can be made that as the cultures of the world merge with rapid increase in trade liberalization and formation of trading blocs, consumption patterns change also (McCracken, 1988; Manrai and Manrai, 1995). Adding to this impetus is the role of technology, which has augmented a convergence of consumer preference. However, while demand for many products has become more homogeneous across countries, cultural factors have strongly inhibited this change as well. In a multicultural world, cultural heterogeneity will continue to remain the most significant barrier to one global market (Kale, 1995).

Belk (1996) argues that globalization does not necessarily entail homogenization of markets, especially the assimilation of other cultures to the Euro-American models. Cultures transform global meanings into unique local meanings, which are interpreted very differently. Thus, cultures are resilient and enduring and so is the concept of global multiculturalism. Although globalization may not adequately homogenize cultures, it may polarize it on the

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basis of both material and abstract cultural differences (Manrai and Manrai, 1996).

At the global level, trading blocs may be viewed as a cluster of geographically close countries that share abstract and/or material culture in varying degrees. At the primary level of analysis, one could dichotomize the world into two cultures: "eastern" culture versus the "western" culture. High power distance, collectivism, femininity, and long term orientation characterize eastern cultures. Western cultures, on the other hand, are characterized by low power distance, individualism, masculinity, and short term orientation (Hofstede, 1980; 1991). For example, Japan compared to Western Europe, is a high power distance, collectivist, long-term oriented society. It is also a very strong uncertainty avoider, which is reflected, in tight, stable, and long-lasting relationships (Van Den Bosch and Van Prooijen, 1992). Another important distinction is that eastern countries are "high-context" cultures in comparison to western countries that are "low-context" cultures (Hall, 1976). This means that the social context of transactions is given high importance in eastern cultures. For example, Hall and Hall (1987) identified that eastern cultures have a polychronic view of time (multiple activities at a time) whereas western cultures have a monochronic view of time (single activity at a time).

At the secondary level of analysis, one can also see differences within each major grouping. Within the western culture, Anglo (e.g. Canada, Ireland, UK, USA) and Germanic countries (e.g. Austria, Germany, Switzerland) are high on masculinity whereas the Nordic countries (e.g. Denmark, Norway, Sweden) are high on femininity. Similarly, within the western culture, North America (USA and Canada) can be considered relatively higher in the cultural-context than Western Europe (Manrai and Manrai, 1995). Hence, in the continuum of time concept, East Asian countries are polychronic, Western European countries are monochronic, and North American countries lie in-between the two although closer to the Western European countries.

It is interesting to note that the three major regional trading blocs (i.e. the European Union, North American Free Trade Agreement, and the Association of South East Asian Nations) can be characterized by significant differences in culture. In the light of the triad blocs, Morrison and Roth (1992) advocate regionalization as opposed to globalization as a better strategy. Regionalization provides many scope and scale advantages of globalization while permitting the organizations to exploit existing competencies. With the rapid emergence of trading blocs in the multicultural market, the authors attempt to meet several objectives in this paper. First, we discuss the growing importance and underlying motives of regional trading blocs in a multicultural setting. The level of trading arrangements between nations is described and a brief overview of the three major trading blocs is then presented. The level of heterogeneity of each trading bloc is examined with implications for market segmentation. The critical role of strategic alliances in the context of regional trading blocs is discussed next. Finally, we recommend marketing strategies for firms marketing to countries within its trading bloc as well as to countries outside its trading bloc.

Growing importance of regional trading blocs in a multicultural setting

Background

A trading bloc is an association of countries that reduces intra-regional barriers to trade in goods and sometimes services, investment, capital, and labor as well (Schott, 1991). The emergence of trading blocs can be traced to the General Agreement on Trade and Tariff (GATT), a multilateral free trade organization with the main objective of creating one big economic community of all nations with a market economy. However, in recent years, there has been a major structural transformation in the world economy as the USA's strength as the economic power has been shared by others, mainly the European Union and Japan.

Critics opposed to regionalism argue that trading blocs can be inward looking and trade diverting (Bhagwati, 1990). On the one hand, it seems that regional trading blocs are based on geographical proximity at a time when the world is heading toward globalization, which transcends geography. This raises natural doubts if trading blocs would impede multilateralism and the globalization process. On the other hand, regional trading blocs can be capable of being outward looking since more than half of the world trade is inter-regional. For example, North America and Asia export two-thirds of their export outside their respective regions. Over 55 percent of US exports in 1990 were with Europe and Asia, about 20 percent with Canada, and only 8 percent with Mexico.

Trade flow patterns indicate that while intra-bloc trade is on the rise as a result of trading blocs, inter-bloc trade has also risen. A breakdown of the three regional trading blocs indicates that, in 1989, the intra-regional trade as a percent of total trade in East Asia and North America was about 37 percent and 36 percent respectively whereas in the European Community it was 59 percent (Frankel, 1991). Despite the high intra-regional European trade, only 40 percent of all world trade is intra-regional. In principle, the triad blocs support the multilateral system by holding important stakes in the other blocs, although the data is more supportive in the case of NAFTA and ASEAN blocs. This clearly points to an important message: that both multilateral and regional trade in a multicultural world is here to remain. Thus it is imperative for international marketers to understand the motives underlying the formation of regional trading blocs.

Motives underlying formation of trading blocs

Proactive move

Natural trading partners form a regional trading bloc based on the argument that the welfare gains are higher for countries joining a preferential trading area if the existing intra-regional trade is already high. For example, the larger the share of pre-existing trade among members, the more likely there will be net trade creation and less trade diversion. Hence the logic for the formation of trading blocs (Krueger, 1995). Countries join regional trading blocs primarily to facilitate the existing high and/or increasing trade relationships. Regional trading arrangements are more attractive to countries which trade heavily with each other (Bowles and MacLean, 1996; Frankel, 1991). For example, the USA and Canada are natural trading partners due to the sheer size of the bi-lateral trade between the two countries. In addition, Canada and Mexico are the largest and third largest trading partners of the USA respectively (Schott, 1991). Similar is the huge intra-regional trade within the developing Asian countries, and Western European countries (Summers, 1991).

Regardless of the natural trading partner status, the greatest motivation for countries to become members of a regional trading bloc is the potential for trade creation. The benefit from economic union comes when the trade creation effect seems to be greater than the trade diversion effect. Trade creation takes place when a member country's domestic production of an item falls and is displaced by lower cost of production from a partner country. Economic integration leads to the most efficient use of scarce resources due to allocation and production efficiencies (Hunter, 1991). While allocation efficiency stems from comparative advantage where resources are allocated among firms and industries in the least cost country, production efficiency stems from economies of scale as a result of increased market size. On the other hand, trade diversion takes place when a member country replaces imports from the rest of the world (which must have been the low cost source) with imports from the higher cost partner country. However, trade blocs consisting of countries that are "natural" partners may not trigger a serious trade diversion effect (Krugman, 1991).

With increased economies of scale in a trading bloc, additional foreign investments may be attracted. Trade creation results in higher real rate of return, which attracts foreign investments. Foreign direct investment (FDI) can act as a crucial force in integrating trading partners by exploiting complementarities between economies, fostering dependence on capital inflows and changing production practices. Bowles and MacLean (1996) argue that the Japanese and newly industrialized countries (NIC) FDI in East Asia is a critical factor in the formation of the East Asian Regional Trade Bloc. At a time when the share of FDI going to developing countries was declining, East Asia's share was increasing. During 1985-1988, 80 percent of all Japanese FDI in developing countries was channeled to East Asia (Riedel, 1991). Of course, this was partly the result of an increasing yen and also a favorable change in the government's attitude. Consequently, Japanese and NIC FDI inflows into East Asian countries provided a source of increased capital formation, lower costs of production and easy access to rapidly growing Asian market. Thus, trading blocs provide a mechanism for FDI to grow and be evenly distributed among member countries.

Reactive move

Besides the proactive motive, countries form a regional trading bloc for defensive reasons as well. Goto and Hamada (1995) offer one explanation for the recent emergence of trading blocs. Trading blocs are formed in three stages: pre-integration, initial integration, and counter integration. Considering four countries, in the pre-integration stage, all of these countries engage in trade with each other and all imported products are subject to the same tariff. In the initial stage, countries 1 and 2 are integrated and there are no trade tariffs between the two countries. However, countries 3 and 4 still have tariffs within themselves and between the free trade area. In the counter integration stage, it becomes clear that countries 3 and 4 are worse off after the integration of countries 1 and 2. This is because of trade creation effect within the bloc and trade diversion effect outside the bloc (Viner, 1950). Therefore, there is an incentive for countries 3 and 4 to form a counter bloc. The trade within the bloc is not subject to tariff while trade between blocs is subject to tariff. Consequently, the situation of the first bloc deteriorates as the second bloc improves. After the countervailing integration, the symmetric structure of the two blocs will be restored.

This can be used as a partial justification to explain the formation of the NAFTA as a response to the European Union (EU), and the strategic change of ASEAN as a response to both NAFTA and the EU. While the motivations underlying formation of trading blocs may be similar for each of the triad blocs, each one is at a different level of economic integration. The next section briefly describes the different levels of trading arrangements.

Levels of trading arrangements

The stages of economic integration between two or more national economies may be briefly outlined along the following continuum:

(1) *Zero integration*: no systematic economic interdependency primarily because there is little if any economic or social motive for trade (e.g. Outer Mongolia and the USA).

(2) *Bilateral treaties of limited scope*: permissive agreements covering specific sectoral trade flows (e.g. Commerce and Friendship Treaty between the USA and Australia).

(3) *Free trade areas*: each member state removes trade barriers to all of the member trading partners. There is minimum supervision required with no common set of external tariffs, and individual national trade policies prevail (e.g. North American Free Trade Agreement of 1994).

(4) *Customs union*: it entails the removal of formal trade barriers among the members and presupposes a far wider range of policy consultation and agreement among the member states. Common external tariffs, leading to a coordination of customs administration, require the creation of far more pervasive supranational institutions (e.g. the original Benelux was a customs union).

(5) *Common market*: it requires not only the free movement of goods internally and common external tariffs but also full factor of production

movement (labor, capital, etc.) within the defined market area. It implies a far more complicated legal and economic system with substantial supranational coordination (e.g. EC 1992).

(6) *Economic union*: it is the highest level of integration, short of merging members into one single political entity. It implies, more or less, complete harmonization of public policies and, in particular, the harmonization of monetary and fiscal policies as well as the acceptance of a fixed relationship between currency units. Member states must also be prepared to adopt similar and coordinated macroeconomic policies (i.e. full employment, inflation, etc.) (e.g. EU).

Each of these phases assumes a convergence of the key elements of the marketing mix among the members (Robson, 1984). At first, industrial and capital goods are immediately impacted, followed by intermediate products and then, eventually though far more slowly, consumer goods. It is axiomatic that a regional integration scheme which is entered into by national economies for purely economic reasons must make each country at least as well off as it would have been had it refrained from joining (this is known as the condition of Pareto optimality) and as many as possible better off.

Brief overview of regional trading blocs

According to Schott (1991), successful trading blocs can be characterized by the following factors:

- similar levels of per capita GNP;
- geographic proximity;
- similar or compatible trading regimes; and
- political commitment to regional organization.

Blocs with wide disparities in national incomes face problems with redistribution of income and employment. While geographic proximity aids in transportation and communications, it does not always guarantee success particularly among developing countries. The last two factors pertain to the durability and sustainability of the trading blocs. Next, we present a brief overview and an evaluation of each of the three major trading blocs in the order of their levels of integration: the EU, NAFTA, and the Association of South East Asian Nations.

European Union (EU)

The 1986 Single European Act defines a single internal market area "as an area without internal frontiers in which the free movement of goods, persons, services, and capital is ensured". Such a goal had seemed to be out of reach throughout the 1970s, as the European Community (EC) seemed to have reached a deadlock and to be running out of steam (Mendes, 1986). The 1986 Act incorporated the broad objectives outlined in the famous Lord Cockfield

White Paper, made public in 1985, and entitled *Completing the Internal Market*. It contains some 300 highly specific measures designed truly to implement a single market and set out a detailed timetable for internalizing the proposed changes into the 12 members' national laws. These 12 member nations of the EC were Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, and the UK.

The 1992 program to end specific physical, technical, and fiscal barriers was the harbinger of a new approach to marketing in the EC. The market(ing) impacts of the 1992 program were felt, as a consequence, in the following areas: the structure of the market itself (with a wave of mergers and acquisitions across boundaries), pricing policy (as a consequence of value added tax harmonization), product policy (as corporations are continuing to create Eurobrands, etc.), distribution policy (as physical barriers are abolished), and then later on the organization of the marketing function itself.

The final step in the EC was the ratification of the Maastricht Treaty, which formed the basis of the EU. This provided for the Economic and Monetary Union (EMU) and the EU. Under this agreement, the EC would create a European Central Bank by 1998 and introduce fixed exchange rates and a single currency by 1997. Three new members were included to the earlier EC members: Austria, Finland and Sweden in 1995 (Cateora, 1996). The 15-member EU has a combined gross domestic product (GDP) of 7.58 trillion dollars with a population of over 371 million consumers (World Bank, 1996). By the year 2000, it is anticipated that Iceland and Switzerland will join the EU. In recent years, some Eastern European countries (Poland, Hungary) have obtained associate status and Turkey, Cyprus and Malta are seeking membership. Changes in Eastern Europe should contribute to market growth in the long run. This trend indicates that the EU will soon position itself as the world's largest economic power (Cohen, 1992).

It is hoped that the removal of the multiple technical standards will eventually make possible the designing and marketing of truly European products. On the production side, it will lead to longer production runs and fewer producers. This is a reflection of the supply-side emphasis of the EC 1992 program. However, it will be a long while before the new Eurobrands replace well-established products, probably with significant following at first among the younger generations of European consumers. In a like fashion, increased competition and production capacity among fewer and larger companies will heighten an initial price cutting to gain market shares on a European-wide scale.

North American Free Trade Agreement (NAFTA)

The Free Trade Agreement (FTA) of 1989 between the USA and Canada was extended to include Mexico in 1994 which became known as the North American Free Trade Agreement (NAFTA). The objective of NAFTA is to create synergy among the three economies that could generate income and employment gains and enhance global competitiveness of firms throughout the region. Both Canada and Mexico conduct two-thirds and three-quarters of their trade with the USA and the USA conducts about one-quarter of its trade with the two combined. The combined intra-regional trade of the three countries represents about 40 percent of their total exports (Hufbauer and Schott, 1992). NAFTA has created a free-trade market of 378 million people with a GDP of 7.68 trillion dollars, marginally exceeding the size of the EU (World Bank, 1996). However, as compared with the EU, NAFTA is an integration of a lesser kind. As a free trade zone, it is not an economic union with a single currency and a central bank in the offing and a potential for a political union in the future.

NAFTA eliminates tariffs between the USA, Canada, and Mexico, thereby lowering the cost of imports to consumers in each country (Brown *et al.*, 1991; Sobarzo 1992). It offers a level playing field with gradual and total elimination of tariffs and all non-tariff barriers. Tariffs on about half of most US exports to Mexico will be removed immediately and the remaining tariffs will be phased out within 15 years. For example, tariffs on autos will be halved to 10 percent immediately and eliminated totally in ten years requiring a minimum of 62.5 percent North American content to qualify for duty free status. In addition, it also establishes a legal framework to address subsidy, countervailing, and anti-dumping measures. Under NAFTA, the US and Canadian consumers increase their purchase of Mexican-made products because of lower imported prices (McCleery, 1992).

The removal of non-tariff trade barriers also allows more Mexican-made consumer products to enter the USA and Canada. Hence, Mexican exports to the USA and Canada are expected to increase due to trade liberalization under NAFTA (Bachrach and Mizrahi, 1992; Hufbauer and Schott, 1993; Shiells and Shelburne, 1992). Bachrach and Mizrahi (1992) estimated that Mexican exports to the USA would rise by 4.2 percent as a result of NAFTA. If additional capital is available in Mexico, then Mexican exports to the USA will rise by 12.9 percent. The general consensus of studies conducted is that the USA, Canada and Mexico would all benefit economically from NAFTA, with the benefits for Mexico exceeding those for the USA and Canada (Brown *et al.*, 1991; Hinojosa-Ojeda and Robinson, 1991; Sobarzo, 1992; Weintraub, 1993). According to the US International Trade Commission (1993), the Mexican economy is projected to grow 6 percent per year in the 1990s and that Mexico will grow “substantially more” than the USA and Canada from NAFTA.

With tariff-free access to the North American market, Mexico is likely to increase its market shares in both the USA and Canadian markets under trade liberalization (Cox and Harris, 1991). Mexican firms will benefit from economies of scale, improved access to technology, greater employment opportunities and advanced production sharing. Mexico wants secure long term access to US markets, a level playing field, gradual and total elimination of tariffs, phasing out and eventual elimination of all non tariff barriers, and the establishment of dispute settlement mechanism. According to the Institute for International Economics (IIE), it is estimated that the two-way trade between Mexico and the USA would continue to rise. Two-way trade between Canada and Mexico is relatively small, but by 1999 it is expected to increase to over $5 billion per year.

Intra-regional trade may likely increase if the NAFTA is extended to include other affluent OECD countries such as Chile and Venezuela.

Similarly, Canadian firms have access to the large US market, which helps them to enjoy economies of scale and thereby compete globally in the world market. The free trade agreement (FTA) with Canada has led to the avoidance and bi-national resolution of disputes rather than the previously unilateral US approach. Although, there have been widespread job losses and closing of Canadian subsidiaries of US firms, access to the US market has been rewarding. Between 1989 and 1991, Canadian exports to the USA rose by 8 percent and both domestic and foreign direct investment in Canada have increased.

Association of South East Asian Nations (ASEAN)

Since its creation in 1967, ASEAN has evolved into a dynamic and pivotal regional trading bloc. Currently, there are seven member countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) with a possibility of expanding to ten members before the turn of the century. The member countries are among the fastest growing countries in the world with a combined GDP of 0.5 trillion dollars and a population of 400 million consumers. Since 1977, these nations have averaged annual average gross national product (GNP) growth of more than 5 percent (Naya and Imada, 1990). Studies have forecasted that the ASEAN's free market economies are likely to achieve a very high rate of growth in the Asia-Pacific region in the 1990s (World Bank, 1993). If the rates are sustained, it is likely to become larger than North America by 2011 and Europe by 2016 (Yamazawa, 1992).

The intra-regional trade has grown proportionately over the last decade. Although not a member of the ASEAN, Japan's role in East Asia has expanded considerably in the past two decades. Japan's FDI into East Asia grew at an annual average rate of 62 percent partly due to the appreciating yen and rising protectionism triggered by US and European trading blocs. The ASEAN countries represent the fifth largest export market for the USA with total exports of US$24 billion.

Politically, ASEAN is a stable region with accords signed toward peace, freedom and neutrality. Enhancing intra-ASEAN trade has been a long and important economic objective. The ASEAN Preferential Trading Arrangement (PTA) was introduced in 1977 to liberalize and enhance intra-regional trade. Tariff preference and the liberalization of non-tariff barriers are extended to products with at least 50 percent local content. For example, the margin of preference (MOP) on tariffs is 50 percent of the prevailing most-favored-nation (MFN) rate of the importing countries. Also, the common effective preferential tariff (CEPT) scheme covers more than 90 percent of the total tariff lines in the manufacturing and agricultural sector. The CEPT scheme entails tariff reduction (0-5 percent) all across the board within 15 years and the elimination of quantitative restrictions and non-tariff barriers. Additionally, establishment of the Green Lane system to expedite customs clearance of CEPT products has been intensified.

It is hoped that by the year 2003, ASEAN would establish the ASEAN free trade area (AFTA) (Kenevan and Winden, 1993). AFTA aims to promote greater foreign direct investment and intra-ASEAN investment in the bloc with a strong production base geared toward servicing the global market. The ASEAN industrial joint ventures (AIJV), a scheme started in 1983, for private-sector cooperation permits foreign investors (after 1987) to own 60 percent of AIJV projects.

Triad blocs: an assessment

Of the three regional trading blocs, the EU is the broadest in its geographic scope and with the highest level of integration. It also best meets the four characteristics of a successful economic bloc stated earlier. The countries are similar in economic development (although recent inclusions have increased the variance) and quite proximate to each other. Furthermore, external trade policy harmonizes national laws and regulations with a political commitment to the community (Schott, 1991). In the case of NAFTA, political and business interest accelerated the bloc formation process of the three already integrated economies. Despite the disparity in the level of economic development between Mexico, USA and Canada, NAFTA exhibits most of the characteristics of a successful trading bloc. The members are in close geographic proximity, have a strong political will to regionalization, and a converging trading system as a result of Mexico's economic reforms. Moreover, NAFTA, unlike EU, supports the multilateral system by holding important stakes in the other blocs.

Finally, ASEAN is in the evolution process with an increased intra-regional trade although the same pattern has been seen at the extra-regional level. In comparison to EU and NAFTA, ASEAN has a small market (relatively small GDP) at an early stage of integration coming close to Latin American regional associations. The case could be much stronger if ASEAN countries expand to form an East Asian bloc to include Newly Industrialized Economies (Hong Kong, Taiwan, South Korea), China and Japan. Such a bloc may serve as a deterrent to the formation of closed trading blocs around the world. Panagariya's (1994) assessment is that the ASEAN free trade agreement (AFTA) promises marginal gains, if any, than what exists currently. By removing Singapore (since already a free trading country), the share of the remaining countries is 2.4 percent of the world exports. Moreover, the intra-regional trade pattern has been quite lopsided since the share of exports going to Singapore has been disproportionately larger than the remaining ASEAN countries. Preferential liberalization is most likely to benefit Malaysia and Singapore at the cost of Thailand, Indonesia and Philippines in lost tariffs from outside ASEAN.

Heterogeneity within trading blocs: segmentation in a multicultural setting

The literature on international marketing segmentation indicates that geographical proximity considerably simplifies the logistics of managing worldwide operations as transportation and communication are easier to handle on a regional basis (Jain, 1990). As reviewed earlier, one of the necessary criteria (although not sufficient) for successful trading blocs is close proximity of member countries. Geography is an essential requirement for a successful trading bloc. However, when segmenting the market within a regional trading bloc, geography no longer becomes a differentiating, critical factor. Countries could also be grouped according to the character of their political system. For example, Jain (1990) proposed four broad categories: demographic republics, communist dictatorship, dictatorship, and monarchies. Unfortunately, similarity of political regime rarely guarantees market resemblance. Intuitively, grouping countries by levels of economic development is preferable to geographic or political grouping since consumption is much more influenced by a country's economic status. However, this presupposes that the level of economic development is an important determinant of marketing strategy. The important role cultural factors play in shaping the marketing environment in any market is unquestionable. Cultural influences are prime determinants of the consumer's behavior, lifestyle, and consumption patterns. Thus, cultural factors are argued to be excellent grounds for segmenting the market (Boote, 1982; Douglas and Dubois, 1977; Jain, 1989). We next examine the degree of heterogeneity and segmentation in each of the regional trading blocs.

European Union

The regional economic integration among the industrialized nations of the EU promises to be the most successful example of integration (Harrop, 1989). In the case of the EU, the size of the member units is relatively homogeneous or, at least, there is no single hegemonic power so large that it dominates all the others. On an economic front (and without forgetting its impact on the social front) the countries of the EU vary significantly along key macro-indicators. While Luxembourg and Germany enjoy very high per capita GNP (US$39,600 and US$25,580 respectively), Greece and Portugal have relatively much lower per capita GNPs of US$7,700 and US$9,320 respectively. In addition to income disparities, Wierenga *et al*. (1996), argue that there are also tremendous differences in income spending patterns and values and lifestyles. For example, in 1989 total expenditure patterns ranged from 1,654 ecu per capita in Portugal to 8,336 ecu per capita in West Germany, which is a ratio of one to five. Also, while a negligible proportion of the labor force in a number of European countries is involved in agriculture (0 percent in Luxembourg, 2 percent in UK, 3 percent in Belgium and 4 percent in Germany), it jumps to almost a quarter of the Greek population and almost a fifth of the Portuguese population.

The cultural diversity of the countries of the EU is reflected in social indicators, representing ethnic groups, religious groups and languages found in each of the countries. Luxembourg, with less than 400,000 inhabitants, is made up of five ethnic groups (Luxemburger, Portuguese, Italian, French and German), all practicing one religion (Roman Catholic) and speaking one language (Letsemburgish). Belgium has six ethnic groups (Belgian, Italian, Moroccan, French, Dutch and Turkish) practicing three religions (Roman Catholic, Muslim and Secular), and speaking three languages (Dutch, French and German). Spain has four ethnic groups (Spanish, Catalan, Galician and Basque), with one primary religious background (Roman Catholic), speaking four languages (Spanish, Catalan, Galician and Basque). Portugal, on the other hand, is made up of one ethnic group (Portuguese), practicing one religion (Roman Catholic), and speaking one language (Portuguese).

Several studies have examined the level of heterogeneity within the EU market. Kale (1995) conducted a segmentation study of the Euro-consumers based on Hofstede's (1991) four cultural dimensions of power distance, uncertainty avoidance, individualism, and masculinity. A three-cluster solution emerged. These were:

- *Cluster I*. UK, Germany, Ireland, Italy, Switzerland and Austria.
- *Cluster II*. Belgium, France, Greece, Portugal, Spain and Turkey.
- *Cluster III*. Denmark, Sweden, Finland, The Netherlands and Norway.

Cluster I was small on power distance, medium on uncertainty avoidance and individualism and high on masculinity. Cluster II was medium on power distance, strong on uncertainty avoidance, varied on individualism, and low to medium on masculinity. Finally, Cluster III was small on power distance, low on uncertainty avoidance, high on individualism, and low on masculinity.

A study by Malhotra *et al*. (1992) questioned the validity of the single common market from a marketer's perspective. They used marketing (i.e. marketing mix variables) and non-marketing (political, economic, cultural and geographic) variables to segment the EC market. Three segments emerged based on subjective analysis. For marketing data, the clusters were:

- *Cluster I*. UK, West Germany, France, Ireland, Belgium and Luxembourg.
- *Cluster II*. Spain, Portugal, Italy and Greece.
- *Cluster III*. The Netherlands and Denmark.

For non-marketing data, the clusters were:

- *Cluster I*. UK and Ireland.
- *Cluster II*. West Germany, France, The Netherlands, Denmark, Belgium and Luxembourg.
- *Cluster III*. Spain, Portugal, Italy and Greece.

Another study by World Bank and Carta Gen Demographics in Geneva, Switzerland, found six cross-cultural, cross-national clusters. These were:

- *Cluster I*. UK, Northern Ireland and Republic of Ireland.
- *Cluster II*. French-speaking Belgium, Luxembourg and France.
- *Cluster III*. Portugal and Spain.
- *Cluster IV*. Southern Germany, Austria, Northern Italy and Corsica.

- *Cluster V*. Southern Italy, Sicily, Sardinia and Greece.
- *Cluster VI*. Flemish-speaking Belgium, The Netherlands, Northern Germany, Denmark, Norway, Sweden, Finland and Iceland (Vandermerwe and L'Huillier, 1990).

Usunier and Sissman (1986) identified four cultural Western European groups:

(1) Nordic Europe (*Denmark*, Finland, Sweden and Norway);

(2) Anglo-Saxon Europe (*UK* and *Ireland*);

(3) Central Lutheran Europe (*Germany*, *Belgium*, *Luxembourg*, Austria and Switzerland); and

(4) Mediterranean Europe (*France*, *Greece*, *Italy*, *Portugal* and *Spain*).

As can be seen, EU countries (identified in italics) were spread over the four cultural groups.

Each of the studies indicated that the EU member countries are fairly heterogeneous. While it is true that the EU reforms will ease access to the member countries, it will, however, not erode generations of well-established historical, cultural, institutional, and geographic and other differences among the EU countries. These will survive much beyond any abstract time deadline. The differences in consumer behavior, for example, remain a telling reminder that the EU is far from having developed a truly homogeneous market. By looking at European socio-demographic factors (place of residence, education, family structure, and religious practices), Stoezel (1983) concluded that cultural subgroups exist in each and every European nation. Matching subgroups are present in other nations. A national subgroup would have a larger communality with another matching subgroup in another nation as compared to another subgroup within the same nation. Steozel's finding is shared by proponents of inter-market segmentation procedures that disregard political boundaries of countries and groups of consumers that transcend national borders but possess common characteristics of relevance to the marketing activity (Baalbaki and Malhotra, 1993).

NAFTA

While the USA and Canada are developed industrialized countries, Mexico is a NIC. In 1994, for example, the GNP per capita was US$25,880 in the USA and US$19,510 in Canada, while it was US$4,180 in Mexico (World Bank, 1996). In addition, Mexico's average labor cost is only about one-tenth that of the USA.

In many respects, the USA and Canada are very similar in terms of economic and political conditions. Both countries are advanced industrialized countries with similar standards of living and established democratic traditions. Since 1965, Canada and the USA have had a free trade auto pact and since 1989, a USA-Canada free trade agreement. In addition, both countries have long been GATT and OECD members.

The USA and Canada share not only a common boundary, but also a similar legal system and a common language. More importantly, Canada has been a great culture importer from the USA (Lambert and Curtis, 1979; Naegele, 1961), especially in the areas of mass media. It would appear that there are more similarities than differences in the institutions and cultural patterns of Canada and the USA (Arnold and Barnes, 1977). Both countries have a long history of attracting immigrants, which has been the basis of a pluralistic, multicultural society. However, ignoring the sub-cultural and regional differences, it could be said that the USA and Canada share economic, political, legal, cultural and geographic similarities. According to Hofstede's cultural dimensions, both countries are individualistic societies with a low power distance. The cultural indices, for both countries are extremely close (Kogut and Singh, 1988).

In the case of Mexico, the situation is different. About 1 percent of the population (about 90 million) is very wealthy, about 8 percent form a part of the North American middle class and about 12 percent has disposable income to buy a limited range of goods. The remainder, about 70 percent, lives in rural poverty. Today, Mexico has a superior rating in terms of the government's macroeconomic policies than other Latin American countries and China (Miller, 1993). Over the last ten years, Mexico's economy has seen revolutionary change in privatization, controlled inflation (8 percent in 1993 down from 157 percent in 1987), trade liberalization, deregulation, and foreign investment. However, recent devaluation of Mexican peso in late 1994 caused some serious concerns to its trading partners.

In terms of Hofstede's (1980) cultural dimensions, individualism is the strongest in northern Mexico (along the Mex-Tex border) and becomes more and more collectivist down south. However, power distance remains a potent force throughout Mexico. Two segments of consumers can be identified in Mexico. These are:

- *Segment I*. A small number of innovators who have switched to North American lifestyle and purchase behavior.
- *Segment II*. A large number of imitators who watch the innovators and who are moving in large numbers to the North American consumption patterns (Lamont, 1996).

The rest would be the "traditional Mexico" with the Spanish and Indians who are too traditional to change to the North American lifestyle. With NAFTA, product diffusion will occur more rapidly among the non-ethnocentrist and slowly among the ethnocentrist. However, power distance, income inequality, and lack of disposable income may slow the diffusion process.

ASEAN

ASEAN countries differ substantially in terms of race and religious composition (minority Chinese controlling majority investments). Christianity (Catholicism) is fairly influential in the Philippines, while Moslem is the main religion of Malaysia and Indonesia. The member countries are also in different stages of economic development. These countries can be classified as follows:

- Singapore – very affluent (US$22,500 GNP per capita);
- Malaysia – relatively affluent (US$3,480 GNP per capita);
- Thailand (US$2,410 GNP per capita), Philippines (US$950 GNP per capita) and Indonesia (US$880 GNP per capita) – less affluent with dual economies; and
- Vietnam – low income economy (US$200 GNP per capita) (World Bank, 1996).

Lasserre (1995) classifies the ASEAN countries in terms of the market development. For example, while Vietnam is in the emerging market stage, Thailand, Indonesia, Philippines and Malaysia are in the growth market stage.

Among the member nations of ASEAN, Singapore is clearly a case of an outlier in terms of economic standards. Some facts, therefore, deserve mention. Singapore has the world's highest foreign reserves per capita. Added to this, is the high saving rate (46 percent) and a low unemployment rate (2.7 percent) which makes an average Singaporean the most potential consumer in Asia. It is a multi-ethnic society with Chinese representing 78 percent, Malays 14 percent, Indians 7 percent and others 1 percent. A study by Tai and Tam (1996) showed that Singapore consumers were more oriented toward home and family, environmentally conscious, and showed more concern for quality than price.

The political systems vary greatly as well. Although, most of the countries are now market economies, few transitional economies of Asia (TEAs) are often close to the dictatorial system. It is interesting to note that historically these countries had different colonial influences. For example, the Philippines have the history of American colonial influence; Hong Kong, Singapore and South Asian countries were under British colonial influence; and Republic of Korea and Taiwan were under the Japanese influence.

Hofstede's (1980) work on cultural dimensions also reveals differing profiles among the ASEAN countries. For example, Thailand is very low on masculinity, the Philippines is high on power distance, and Singapore is low on uncertainty avoidance comparable to the USA and Canada. Because of this diversity both in terms of economic development and cultural orientation, ASEAN is also still far from achieving the status of a single common market.

In summary, it is evident that each of the triad blocs is fairly heterogeneous with EU being the most complex, followed by ASEAN and NAFTA. To address the issue of multiculturalism in the trading blocs, firms need to carefully understand the cultural differences both within and across national borders. This calls for a critical need to enter into a strategic alliance relationship with a local firm in the host country. In the next section, we discuss the role and underlying motives of strategic alliances in the context of trading blocs.

Strategic alliances and trading blocs

Strategic alliances have come a long way in the decade, and many experts predict that they are pointing the way that company-to-company relationships will develop in the coming decade. Strategic alliances, whether taking the form of joint ventures, cooperative agreements, etc., are partnerships among firms that work together to attain some strategic objective. A strategic alliance may be either equity based distinct corporate entity (joint ventures) or a nonequity based interorganizational entity (such as joint technology or product development center) to which the alliance partners commit agreed on skills and resources (Varadrajan and Cunningham, 1995).

The goals of strategic alliances are to leverage critical capabilities, increase the flow of innovation, and improve the flexibility in responding to market and technological changes. Competitive strength and strategic positioning comes into play to a large degree in alliances forged for technology commercialization. Since 1983, the number of strategic alliances in some industries, such as communication systems and services, computer software and hardware, financial services has gone up. The lone ranger attitude is losing ground. Increasingly, firms are not only accepting the idea of working together in some operational kind of way but as part of their overall strategic plan as well.

Strategic alliances bring together partners that may be horizontally (such as Ford and Mazda) or vertically related (Ford and auto part suppliers), but need not be related to each other at all. Such alliances could also mean licensing agreements to technology transfer and R&D partnerships to supplier and marketing arrangements. It is central to a company's direction and to achieving future global competitive advantages. Its importance has taken a critical turn with the emergence of regional trading blocs. The formation of the trading blocs has posed a formidable task for international marketers to enter foreign markets with competitive offerings. Strategic alliance as an alternative mode of entry provides an excellent strategic fit especially between firms located in different multicultural trading blocs. We next discuss the motivations of firms in joining strategic alliances in the context of regional trading blocs.

Motives underlying strategic alliances across regional trading blocs

Blurring of market boundaries

The rapid pace of technological changes is increasingly blurring market boundaries and redefining markets (Day, 1990). Recognizing the limitations of skills and resources to exploit growing technology and sustain competitive advantage, firms are engaging in intra and inter-industry alliances both at the national and international level (Thompson, 1990). Today there is hardly any field of research where a narrow definition of technology is valid. New biotechnology companies form alliances with multinational drug companies and computer hardware companies with telecommunications companies. As an example of interindustry, intranational alliance, companies like America On-line, Prodigy and Compuserve (Internet content providers), have alliances with Netscape and Microsoft (software technology providers) and AT&T and Sprint (telecommunications providers). Trading blocs provide a unified environment in which firms across member countries can tap into emerging technologies. In the EU, efforts are directed in reducing duplication of research and development efforts and cost thus enabling them to compete with other industrial powers outside the bloc (McDonald, 1990). Efficiency-based pooled R&D projects that cut across industries, national boundaries, and regional trading blocs can be undertaken via strategic alliances.

Circumvent entry barriers

In general, entry barriers are a key determinant of the attractiveness of an industry. Knowledge of such entry barriers are useful in knowing whether the strategic windows of market opportunity are open (Abell, 1978). Entry barriers are forces that discourage firms from investing in a particular industry (or niche of an industry) that appears attractive. Industries characterized by such high entry barriers have generally been considered to be more profitable in the long run. Trading blocs further add to the industry-specific structural entry barriers to a greater extent for non-member countries. This can potentially create trade diversion away from non-member countries toward member countries. For example, with NAFTA there has been discussion of the potential of trade diversion away from South Korea into Mexico. Similarly, some companies within the EU (e.g. Greece, Spain and Portugal) may create trade diversion away from developing countries.

These obstacles come in the way of tariff and nontariff barriers such as stringent technical and standard requirements, local content laws and cooperative distribution system. Strategic alliance helps circumvent trade and industry-specific barriers. For example, Ford's alliance with Mazda opens up the impregnable Japanese distribution system through Mazda's network of Autorama showrooms. Similarly, General Mills formed an alliance with Nestlé S.A. to market its cereal brand in Western European countries by taking advantage of Nestlé's widespread recognition and its salesforce and distribution infrastructure. Likewise, Nestlé S.A. took advantage of General Mills established brand names and strong marketing skills. Partnering with firms in the host countries can circumvent legal, political and other regulatory barriers to entry (Varadrajan and Cunningham, 1995). Strategic alliance, therefore, offers a promising alternative strategy to trade creation with the non-member country.

Reduce threat of potential competitors

One of the primary objectives toward the formation of a trading bloc is welfare economic gain and global competitiveness. For instance, the EU is striving to achieve this objective. As a competitive trade response, NAFTA was initiated to globally compete with the EU. Currently, the ASEAN is progressively organizing itself into a free trade area to remain competitive against both the EU and NAFTA. A sustainable competitive advantage warrants understanding of current and potential competitors (Day and Wensley, 1988). A technology licensing based strategic alliance can eliminate the threat of future potential competitors. Where competitive pressures are high with regards to imitation of new products (lead-time), global alliances offer enhanced protection against future competitors (Klien and Zif, 1994). For example, General Electric licensed its advanced gas turbine technology to foreign producers that it viewed as potential competitors. The result was elimination of threat and a secure captive market in those countries (Watson, 1982). On the same note, a strategic alliance between a market leader in the home country and a market follower in the host country can drain the resources of the host country market leader thus protecting its home market position. In the retailing sector, many EU retailers have joined strategic alliances as a form of defensive competitive strategy against foreign competition. For example, the Ahold group (The Netherlands), despite its dominance in the Dutch grocery market, joined alliance with Argyll (UK) and Groupe Casino (France) to form the European Retail Alliance (ERA).

Innovations

Regional trading blocs provide greater market access primarily to member countries although non-member countries may also have access on the basis of the principle of reciprocity. Such increased market potential requires resources and sustainable competitive strengths for the firm. Interestingly, trading blocs bring together countries with different technologies. Merging of heterogeneous technologies reshapes industry structure and wipes out sources of existing competitive advantage by creating new technological standards. Strategic alliance provides a means to sustain competitive advantage by allowing the firm to conform to the new technological standard. For example, new technical and technological standards are being established within the EU to enhance global competitiveness (McDonald, 1990). Marketing to countries within the EU would mean greater price and technology-based competition. Leeflang and de Mortanges (1993) suggest that the EU will lead to greater price competition due to cost leadership and also to greater technology competition based on product differentiation. One notable progress within the EU is the attempt to coordinate high technology and research efforts. It is expected that the EU will help reduce duplication of research and development efforts and cost, thus enabling them to compete with other industrial powers outside the bloc (Hagigh, 1992; McDonald, 1990). Strategic alliances offer new economic power centers and technology to cater to increased and specialized demand. This can increase the demand for new product designs, new production processes and innovations which in turn can stimulate primary demand for the growth market.

Flexible response system

Strategic alliances today also entail change in manufacturing thrust. As we approach the twenty-first century, there is an increasing realization of the critical importance of time as a strategic resource to compete globally. The concept of fast response manufacturing has emerged. Increasing volatility of consumer buying pattern demand the highest quality goods in the shortest possible time. Also, faster diffusion of technologies can transform industries, production methods, and product designs, in a matter of days. Haskins and Petit (1988) advocate the shift to a new manufacturing strategy of flexible specialization. The formation of trading blocs results in harmonization of technical standards and designs, which in turn quickens the diffusion of new technology and product among member countries. Flexible manufacturing systems allow for the incorporation of local adaptations in otherwise standardized products in a multi-cultural environment (Amine, 1992).

In the last decade, all of these factors have contributed to a tremendous growth of strategic alliances in the Pacific Rim countries, Europe and in North America. As firms in developing countries face shorter product lines, deregulation, and import competition, more and more firms are candidates for strategic alliances. With the future intensification of the regional trading blocs, and for firms fighting for greater global competitiveness, the number of strategic alliances will be on the rise.

Global marketing strategies: guidelines and recommendations

Marketing to countries inside the firm's trading bloc

Trade flow patterns indicate that intra-bloc trade is on the rise as a result of trading blocs. Therefore, it is strategically imperative for firms to take advantage of the structural benefits that a trading bloc offers to member countries. Several guidelines and recommendations are suggested for international marketers. First, the firm must assess the degree of heterogeneity within the trading block in order to determine market segmentation strategies. Second, finding the right collaborating partner in the host country is important. Third, the appropriate mode of entry needs to be determined. Since, the issue of heterogeneity and segmentation has been discussed in detail earlier we next focus on finding the right partner in the host country.

Matching potential partner in the host country. It is no secret that a regional trading bloc frees a lot of the mobility barriers that can exist between the member countries, thereby facilitating geographic expansion of companies. However, one must not forget a key element of marketing which is the means through which companies attempt to satisfy the customers' needs and wants: the product. Gogel and Larreche (1991) propose a framework on the international competitive posture matrix distinguishing between four groups of companies defined by two dimensions: product strength dimension and geographic coverage dimension. Companies having broad geographic coverage and strong product portfolio are labeled as kings. Given their strong competitive position and their wide market reach, they are considered to be the most powerful within the trading bloc. The second group, labeled barons, is characterized with strong products whose availability is limited to a small number of countries. The formation of a regional trading bloc makes geographic expansion appealing to barons. Also, they themselves become attractive to other companies who are seeking to acquire strong products. Crusaders, on the other hand, lack strong products, but are actively present in a large number of countries. The increasingly competitive environment ushered in by the formation of the trading bloc particularly affects them. Their goal would be to strengthen their product position either through internal product development or external product acquisitions. Finally, commoners suffer from a narrow geographic coverage and a weak product portfolio. They were able to survive within their limited markets because of the barriers to trade and mobility that used to exist. However, the creation of the trading bloc brought with it an alarming environment with a much tougher competition. Commoners are in a very vulnerable position, and have to act by strengthening their products before thinking of broadening their geographic presence.

Gogel and Larreche (1991) caution the need for a rightful balance between geographic expansion and product strength. For example, in the case of the European Union, they comment: "The creation of the single European market is making the geographical dimension of corporate expansion much more important than the product one. Consequently, corporate strategies will have to be systematically reassessed in order to avoid the danger of the two extreme positions: strategic immobility resulting in missed opportunities, and strategic overreaction leading to excessive geographical dispersion". Management of the above mentioned dimensions should be done in a balanced way. Too much focus on the product development dimension at the expense of the geographic expansion dimension may result in missed regional and international opportunities. Also, too much focus on the geographic expansion dimension at the expense of the product development may result in weakening of the firms' competitive product position.

We modify the framework of Gogel and Larreche (1991) in two important ways. First, we explicitly recognize the degree of heterogeneity within the trading block and segment the block to identify the players who are following concentrated (one or a few segments) versus differentiated strategies (many or all segments). Firms following a concentrated strategy are narrowly positioned while firms following a differentiated strategy are broadly positioned. Second, we expand the product strength to marketing strength. This distinction is important as there have been many firms like Phillips of The Netherlands, which have historically produced strong products but have lacked the marketing skills to exploit their potential. Hence, firms are characterized as leaders or followers in terms of their marketing strengths. The resulting framework is depicted in Figure 1. If the goal is to become a broad leader, a narrow leader should expand its market coverage. If internal resources are lacking, due to financial constraints for example, then a narrow leader should seek a strategic alliance, merger, or acquisition with a broad follower, who in turn is looking for marketing leadership. Similarly, a broad follower could become a broad leader by either building marketing expertise internally or via a strategic alliance, merger, or acquisition with a narrow leader. A narrow follower should, in general, first add marketing expertise

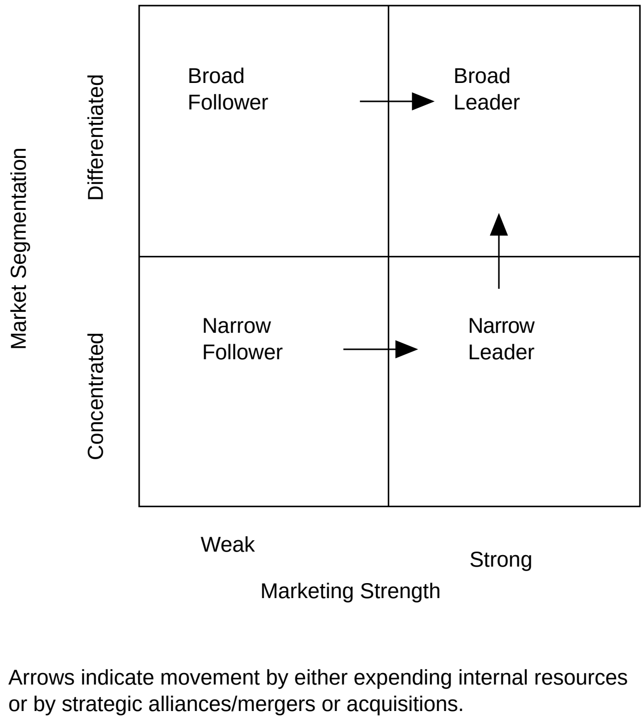

Figure 1.
Marketing to countries inside the firm's trading bloc

and strength to become a leader in existing segments, and then expand market coverage.

Mode of entry. Both strategic alliances and acquisitions and mergers can be profitable entry modes to countries inside the trading bloc. Bleeke and Ernst (1991) found that firms which enter into a strategic alliance relationship are successful when both partners serve separate geographic markets with a minimal overlap. When both partners have a presence in the same geographic markets, alliances often lead to competitive conflicts. On the other hand, firms that form partnerships through mergers and acquisitions are successful when both partners serve existing markets with moderate to high geographic overlap. Therefore, if a firm has a large overlapping geographic market shared by another firm within a trading bloc, we recommend partnership via merger and acquisition. In such situations, strategic alliances do not work since close cousins can be foes (Ohmae, 1985, p. 173). The EU, for example, witnessed a flurry of successful mergers and acquisitions across borders in the past few years to better position for outside competition. In turn, such moves are changing the face of the competitive environment of the EU market with the formation of "dominant positions, barriers to entry of new firms, market sharing, predatory pricing, and disguised forms of protectionism" (Jacquemin, 1992, p. 142).

For marketing to countries inside the trading bloc, non-equity method may also be an alternative mode of entry especially for small and medium-sized firms. Non-equity operations would include exports, assembly operations, and contract manufacturing. Exports are less expensive since tariffs are initially lowered with the possibility of total elimination in the future. Cost leadership is a result of elimination of entry barriers, less customs' documents, finance, and inspection costs. In addition, exporting to countries within the regional trading bloc necessarily implies relatively lower geographical distance and therefore lower transportation cost. Another variable is the lower labor cost in some countries. Assembly operations and contract manufacturing become advantageous when a trading bloc contains at least one country that has a disproportionately low wage structure. This is a common characteristic of each of the triad blocs. For example, Mexico within NAFTA, Portugal and Greece within the EU, and Vietnam, Thailand and Indonesia within ASEAN are promising candidates for assembly operation and contract manufacturing.

Marketing to countries outside the firm's trading bloc

While intra-bloc trade is on the rise as a result of trading blocs, inter-bloc trade has also risen although it has been more pronounced for the NAFTA and ASEAN. However, marketing to countries in other trading blocs presents a new set of challenges. Several guidelines and recommendations are suggested for international marketers (see Figure 2). First, a firm may want to examine the existing bi-lateral trading relations between the two trading blocs. Second, the firm should evaluate the degree of harmonization as initiated by the host-

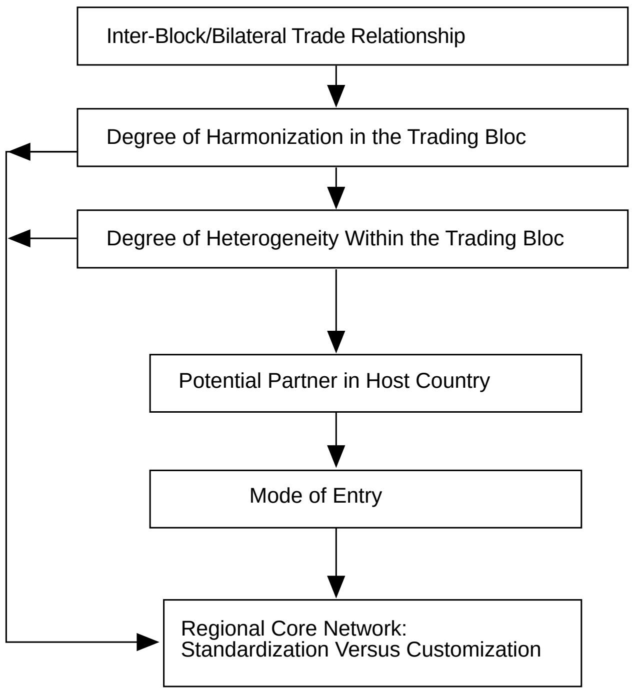

Figure 2.
Marketing to countries outside the firm's trading bloc

trading bloc. Third, the firm should examine the degree of heterogeneity within the host-trading block with a view to segmenting the market. Fourth, finding the right collaborative partner in the host country is important. Fifth, the appropriate mode of entry needs to be determined. Finally, after entering the bloc, the firm should strengthen its regional core network and then assess the marketing implications of standardization versus customization. These steps are discussed in more detail.

Inter-bloc trade relationship. Unlike the traditional multi-domestic or global marketing concept, marketing to a regional trading bloc may assume a different flavor. The new relations between nations can be described as "regional bilateral trading blocs", i.e. blocs composed of nations in one region which establishes contacts with other blocs on a bilateral basis. Because of the principle of reciprocity, increasing two-way trade between blocs renders it easier for member countries to strengthen its presence in the other trading bloc. Traditionally, the US-Western European trade has always surpassed that of US-Asia-Pacific trade. However, the US-Asia-Pacific trade roughly equaled the US-Western European trade by 1980 and in 1991 surpassed it by 43 percent reaching a total of $316 billion. In the Eleventh ASEAN-US dialog (1993), the USA assured ASEAN that NAFTA would raise no barriers to trade from outside North America and it intended to complement and extend trade liberalization in the Uruguay Round. ASEAN hoped that NAFTA would be outward looking and that AFTA and NAFTA would complement each other. It was emphasized that such regional arrangements were not substitutes for global trade liberalization. However, recently the Asia-Pacific's growing export and trade surpluses have created serious friction with the major trading partners. This has resulted in increasing use of protectionist measures against Asia-Pacific imports including the use of antidumping duties, quantitative restraints and local content rules.

Similarly, the ASEAN-EU relations have made significant progress as both groups are outward looking, and supportive of the process of trade liberalization and multilateral trading system. Both ASEAN exports to the EU and EU exports to ASEAN continued to grow faster than their exports to any other market. In 1992, two-way trade exceeded $50 billion. Ever since the 1988 investment boom in ASEAN, European foreign direct investment and transfer of technology into ASEAN has increased. The EC investment partner (ECIP) scheme was set up in 1989 to promote more ASEAN-EU joint ventures. This scheme has financed over 100 potential joint ventures between companies in the EU and ASEAN.

Assessing level of harmonization in the host trading bloc. The enforcement of many common technical standards makes longer and more efficient production runs of standardized products appealing to manufacturers. Standardized products, based on standardized components, built by standardized production runs, will greatly decrease production costs. This will also permit greater specialization of component manufacturers in their field as more standardized components are demanded, resulting in improved quality of components. The net result will be lower costs of higher quality components. As for the ultimate consumer, he/she will benefit from greater product value (De Meyer, 1991).

The level of harmonization within the EU is high since it is at an advanced stage of economic integration as compared with the NAFTA and ASEAN. In the EU, a greater standardization of demand and product quality is expected (Leeflang and de Mortanges, 1993). US-based exporters that are typically small- and medium-sized firms may want to identify the consumer preference at the national level and try to satisfy the member states national regulations. Then, the product may travel to other members through the principle of mutual recognition of product standards. The product must be approved by the European Technical Approvals (ETA) and get a proof of conformance and then be registered under the European Patent Convention (Linville, 1990). Local content rule within the EU requires a minimum amount of EU value added for a product. Great care should be taken on technical design standards, especially the ISO.

Similarly, the distribution system is also getting standardized and internationalized (Leeflang and de Mortanges, 1993). To enter the distribution network, US firms may face the additional challenge of marketing Euro-brands to a much stronger retailer network. For example, grocery supermarkets have consortia and entered into cooperative agreements (Associated Marketing Services and Eurogroup) to assure higher quality of products under their own brand name or a Euro-brand. With a rapid growing international retail trade within the EU, a distribution-based strategic alliance would help to penetrate the market.

While product and distribution based harmonization rules are in progress, the areas of pricing and promotion are far from a uniform structure. Wide differential base prices and VAT rates across EU member countries pose a problem in pricing. US firms may need to price in terms of the lowest base and VAT rate to remain competitive since Euro consumers are free to travel to the country with the lowest price, especially if home country product registration is not a requirement. Similarly, although deregulation and advances in technology would bring about a Pan-European communications trend within the EU, the issue of language poses another major challenge. It may be possible to use a global theme with local language programming since viewers mostly stay tuned toward their local stations. However, there is also an optimistic side to this challenge. Given the moderately strong ethnocentric focus of Euro-consumers regarding habits and tastes, a recent survey indicated that Euro-consumers prefer American products to those from other EU countries (*Frontiers*, 1991).

Although at a relatively developmental stage, ASEAN cooperation among member countries in the areas of trade, investment, banking, tax, and insurance have to some extent also harmonized the economic structure. For example, the ASEAN Swap Arrangement (set up by the ASEAN central banks) helps member countries bridge temporary international liquidity problems in times of crisis. Collaborative efforts are being undertaken in the critical areas of energy (1986 ASEAN Energy Cooperation Agreement), transportation and communications (plan of action in transport and communications), services

(ASEAN framework agreement on services would negotiate commitments in priority sectors such financial services, telecommunications, tourism, air transportation, etc.) and intellectual property (measures are being taken to set up ASEAN patent system and ASEAN trademark system). Except for Thailand and the Philippines, intellectual property rights protection has improved considerably in the ASEAN countries (O'Neill, 1992).

Heterogeneity within the regional trading blocs: a need for market segmentation. While harmonization of rules within a trading bloc will push firms toward standardization of products, cultural realities will continue to point toward a need for customization both in the host and home trading bloc countries. In addition to the level of harmonization within a trading bloc, the question of the degree of standardization versus customization decision is further refined by assessing the degree of market heterogeneity that may exist both at the home and host-trading blocs. Although trading blocs initiate a planned harmonization of trade regulations for member countries over a period of time, cultural differences do not disappear easily. As noted earlier, cultural differences across member countries in each trading bloc are quite complex and sometimes subtle. The firm needs to evaluate the degree of heterogeneity among the member countries within the trading bloc in order to effectively segment the market.

The appealing prospects of standardization eased by the harmonization of rules within a trading bloc do not necessarily negate the possibility of product differentiation. Greater technological flexibility such as flexible manufacturing system will allow for some form of product customization even when mass production and standardization are largely maintained. Within the production line, the manufacturing of a product is to be standardized extensively while leaving the door open for some form of customization at the final stages of the manufacturing process when special components and specific product features conforming to localized requirements are included. Such "delayed differentiation allows the harnessing of as many economies of scale as possible while at the same time permitting product differentiation in order to meet local conditions" (De Meyer, 1991, p. 127).

Matching potential partner in the host country. The framework of Figure 1 could also be extended to give guidelines for firms wishing to penetrate other regional trading blocs. A firm from outside the trading bloc that is wishing to locate inside the trading bloc could do so by finding the right partner. Broad leaders, narrow leaders, broad followers, and narrow followers are potential targets. Narrow followers might be the easiest targets for firms to place a foothold inside the bloc, given their relatively weak position. However, Bleeke and Ernst (1991) found that a strategic alliance between a strong partner and a weak partner often results in a failure. The "weak link" becomes a drag on the venture's competitiveness and causes friction between the parents. Therefore, we believe that collaborations with broad followers would offer the best results. Broad followers have an active presence in a number of countries inside the trading bloc; however, they lack marketing strength. Outside firms armed with marketing skills have a lot to benefit from the reaching arm of the broad followers. The resulting marriage complements the broad geographic coverage with strong marketing, thus turning broad followers into broad leaders.

Mode of entry. Regional trading blocs emerge in pursuit of global competitiveness by way of efficient resource allocation and utilization, thus enhancing trade creation among member countries. Firms from non-member countries outside the bloc can take advantage of strategic alliances with firms inside the trading bloc to counter newly generated competitive advantage. Bleeke and Ernst (1991) reconfirm that firms that enter into a strategic alliance relationship are very successful when both partners serve separate geographic markets so as to minimize competitive conflicts. As discussed earlier, strategic alliances offer the best alternative to circumvent market entry barriers and to remain competitive through innovations. A strategic alliance is also the recommended mode of entry where technological and competitive uncertainty is high (Sengupta and Perry, 1997). Inter-bloc strategic alliances provide easy access to lead markets (USA in NAFTA, Germany in the EU and Japan in the Pacific-Rim) in each of the triads to reduce competitive uncertainty. Knowledge of lead markets is crucial to remain ahead in the game especially when lead markets change over time.

On the other hand, if greater adaptability and control are more important for firms representing countries with a high cultural distance, equity-based joint ventures are the recommended mode of entry (Agarwal, 1994). Joint ventures are typified with joint ownership rights and mutual commitment of resources, which provides greater adaptability and control (Kogut, 1988). While the cultural distance of intra-bloc countries may range from high (such as in EU) to relatively low (ASEAN), it is conceivable that the average cultural distance of inter-bloc countries (at the bloc level) may be fairly high. The more heterogeneous the regional trading bloc, the greater its cultural variance. Therefore, even if two countries from different blocs are culturally close, they may not necessarily be close at their representative bloc level. For example, although the USA and the UK have cultural similarities, NAFTA and EU may have a large cultural distance. This is primarily because of the large number of divergent cultures present within the EU, which shifts its mean cultural index.

Building networks inside the host trading bloc. Firms marketing to countries outside its trading bloc can gain valuable “insider” status by establishing regional core networks in the other two blocs of the triad. This strategy means that foreign direct investment and other non-equity based strategic alliances in the major blocs, in essence, would substitute export, and allow firms to become insiders. For example, increased Japanese FDI in the USA and the European Community after the mid-1980s was to become an insider at a time when major trading blocs were emerging. Instead of importing parts from Japan, Japanese transnationals purchased from other Japanese suppliers who had already entered the bloc, thus strengthening regional core networks. UNCTC (1991, p. 42) explains as follows: in both the EC and the USA as well as Asia, there is evidence that Japanese transnational corporations are building regionally integrated, independently sustainable networks of overseas investments centered on a triad member ("regional core networks").

Conclusion

Regional trading blocs can be building blocks rather than stumbling blocks to world trade. However, to develop successful marketing strategies for penetration, whether internally from within or externally from outside the bloc, firms must take into account the degree of heterogeneity within the trading bloc. This paper provides a multicultural perspective of the level of heterogeneity of the regional trading blocs. Among the triad blocs, while the European Union is at the most advanced level of economic integration, it is also the most culturally complex and heterogeneous trading bloc as compared to the NAFTA and the ASEAN. A big part of the reason is the large number of diverse countries represented that adds to the multicultural eclectic market. Different national cultures embody different attitudes, values, and beliefs in specific business cultures, styles and practices (Hofstede, 1983; Kogut and Singh, 1988). With the prospects of some Eastern European countries joining the EU in the future, these segments may get even more heterogeneous. With the exception of Mexico, NAFTA is probably the most homogenized regional trading bloc. However, with the recent economic changes and trade liberalization occurring in Mexico, such gap may gradually be narrowed in the future. ASEAN countries reveal similar heterogeneity with respect to religion, ethnicity, and economic standards. Over time, each trading bloc is likely to become more homogeneous due to similarities in government policies and business practices as initiated by the harmonization process. Yet, consumer behavior within a bloc is likely to retain a certain degree of heterogeneity due to persisting cultural differences. Thus, segmentation strategies are likely to be more successful for penetrating a trading bloc from within or from the outside. Strategic alliances certainly offer a promising alternative entry mode for firms entering the trading bloc from outside, although it can also be effectively used for firms marketing to new markets across borders within the home trading bloc. The framework that we have presented provides several guidelines for formulating such strategies. We hope that our paper will encourage more research in this important area.

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