

Regional Trade Agreements: Non-market strategy in the context of business regionalization - Gabriele Suder, Melbourne Business School, The University of Melbourne.

Abstract

The editors state in Chapter 1 of this book that, "nonmarket strategy constitutes how at a senior management level firms anticipate, pre-empt and respond to actors, influences and actions emanating from the cultural/social and political/regulatory arenas". International strategy and business scholars have reached a consensus that globalization and regionalization are two complementary forms of economic evolution that influence corporate internationalization strategy. The form that regionalization takes is driven by political and regulatory actors in relative proximity of firms' home markets or extending those markets; they shape business context and they are shaped by them at the same time.

The regional nature of the world economy – determined in part by, or overlapping with, Regional Trade Agreements (RTAs) – hence necessitates a regional strategy that includes non-market action. This nonmarket strategy is increasingly multi-layered and multi-venued (national, regional and international) in scale and scope, and alters the internationalization knowledge available to the firm: The prominence of RTAs challenges firms through their increasingly complex interwoven network of preferential trade and investments conditions, demanding special attention by international business strategists. This chapter provides an overview of such networks and their impact on non-market strategy, and subsequently links non-market strategy in RTAs to performance gains in corporate internationalization.

Introduction

A complex network of Regional Trade Agreements (RTAs) is spanning our globalized world. Scholarly literature mostly terms these free trade agreements (FTA) although they may potentially constitute a variety of market groupings and

market integration constructs. Many of these RTAs emanate from the design of free trade agreements or customs unions, common markets, economic unions, currency unions or other political or geo-economic constructs ruled under preferential trade agreements. The FTA is typically limited to the elimination of certain tariffs; the customs union establishes additionally a common customs duty, and each one of the above-cited constructs has its own politically negotiated variations. These variations, in essence, establish different types of level-playing fields for firms with distinctive variants of harmonization effects that influence internal and external trade and investment conditions.

The most advanced form of economic integration in the world remains, to date, the European Union (EU) with its sixty-year's+ body of *acquis communautaire*, that is, a vast far-reaching set of complex yet incomplete harmonization of an Internal Market (Suder, 2012). It is far from being the only RTA: In 2013, the World Trade Organization (WTO) counted some 575 notifications of RTAs (counting goods, services and accessions separately) (WTO, 2013), which is a number excluding unilateral preferential trade agreements. This figure confirms the dynamics of RTA agreements negotiation and formalization amongst WTO members. Because it only lists WTO members entering into a regional integration arrangement through which it grants more favorable conditions to its trade with other parties to that arrangement than to other WTO members' trade (WTO, 2013), we can legitimately believe that the overall number of such agreements is yet even higher. The intentions of creating or joining RTAs can be considered to increase that number further.

Advocates of globalization appreciate their heydays as the 1990s-period and the millennium (Arestis et al., 2012). The op. cit. WTO data indicates that the regionalization phenomenon is not only worldwide in scope but also, has taken momentum since the end of the Cold War. Even more so, RTAs with specific reciprocal trade liberalization provisions for trade in goods constitute the majority of agreements since 2002. Most recently, developing countries surpass developed countries in the formalization of trade liberalizing agreements (Crawford, 2012, p. 2).

The most prominent regional networks, in addition to the EU, encompass the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR), the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), and the Common Market of Eastern and Southern Africa (COMESA). Many more illustrations of the on-going trend towards a dense regionalization network of the world can be found in the negotiation of agreements between Switzerland and China, EU and Japan, or Australia and the Gulf Cooperation Council (GCC), amongst many others.

Increasing regionalism enhances the dimension and impact of regionalization on non-market forces, specifically the complexity of political/regulatory arenas that senior level management anticipates, pre-empties, responds to and builds its strategy upon.

We will now turn to a literature review that sheds light on the scholarly understanding of RTA development as well as the distinction between the 'region', 'regionalism' and 'regionalization'.

Theoretical context: the link between globalization, regionalization and non-market strategy

Because of the complexity of RTA contexts and the resulting multi-polarity of stakeholders, non-market strategy locus, design and implementation, has become a key element defining corporate dynamic capabilities,

in that "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment" (Teece et al., 1997, p. 516; Douma & Schreuder, 2013) is increasingly challenged. 'Regionalism' refers to the general interpretation of a formalization of cooperation through a body of ideas and values on a geographically defined regional level. The term is mainly an issue in the political science literature. 'Regionalism' is described in the Dictionary of Trade Policy Terms (Goode, 2007), as "actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions".

The term 'regionalization', that we read mainly in economics and business literature derives from 'regionalism' and refers to the applied cooperation, convergence, coherence and identify-seeking construct itself (Schultz, 2001).

CONCEPT	Region	Regionalism	Regionalization	RTA
DEFINITION	A grouping or locational proximity of countries that "sustain(s) a central and self-assuring pole of familiarity".	"cooperation through a body of ideas and values"	"applied cooperation, convergence, coherence and identify-seeking construct"; "spatial reorganization of foreign investments and regional economic integration"	Regional trade agreement; networks that grant more favorable conditions to its trade with certain parties (typically, members or associated economies) than to others.
SCALE	"Physical continuity and proximity".	Geographically defined regional level.	Not necessarily subject to geographical limitations or proximity.	A variety of market groupings and market integration constructs that represent forms of regionalization/
AIM	Simplification of some of the complexities resulting from globalization.	"Actions by governments to liberalize or facilitate trade on a regional basis".	Deliberate or coerced adaptation of political and by consequence economic strategies.	Selective liberalization that induces by consequence, inherent discrimination of non-members.
SCHOLARLY ORIGIN	Geography, geo-economics, geopolitics	political science literature	economics and business literature	political economy; IB literature

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From a political economy perspective, the economic and political world is intertwined in a complex network of trade agreements under the denomination of regionalization or regionalism, which is often synonymous to the engagement into 'regional trade agreements' (RTA) and regional economic cooperation.

From a corporate perspective, the regional economic and political integration that results from RTAs enhances deliberate or coerced adaptation of market and non-market strategies of the firm that operates across borders.

While non-market strategy traditionally centered on national or local political decision-makers, the regionalization of governmental power agendas have added a venue in which a number of participating political decision-makers of different origins and with potentially varying agendas are influenced to reach a shared goal. For example, a German firm will not only strive to lobby Berlin but also Brussels, because decision-makers in both locations influence the regulatory environment in which it mainly operates. Because member states have decided to share specific sets of sovereignty and power, and not others, in the example of the EU a firm that engages into a cross-border merger will talk to national and regionalized (EU) decision-makers that interact to grant such mergers or not. The firm hence needs to adapt its non-market strategy to effective interest representation in more than one venue, and to adapt its strategy choices to the agendas and options available in those venues. Will the decision-makers in Brussels, who represent 28 member states of the EU, be attentive to the same argumentations used in one given members state only, when influencing the authorities? Which forces are in favor or against the proposed action, and why? This is part of the multi-level multi-venue analyses that regionalization of the regulatory environment for business enforces (van Schendelen, 2010; Suder, 2011). This is a crucial part of company strategy under the assumption that RTAs are, as Ravenhill (2011, p. 178) argues, undertaken vastly with political objectives in mind. Also, if it is efficient allocation of resources and the spread of welfare that are the main goals of RTA engagement, again, negotiating power of transnational business secures opportunity on regionalized level (p.180; Donas et al., 2014).

Many scholars acclaim regionalization not only as an addition or extension to the nation state, but as a complement or alternative to globalization that helps counteract "the inherent discrimination that liberalization on a preferential basis entails" (Crawford 2012, p.25). It varies in scale and scope of integration, that is, RTAs vary in

- the number of members,
- the depth of their integration and
- the degree of linkage to non-members and to other similar constructs.

We contend that these forms of regionalization are not necessarily limited to a geographical definition of a region or continent (Crawford, 2012; Suder, 2013), as defined by WTO. Yet in management literature, there is some disagreement about the geographical limitation of regionalization and its virtues: Arregle et al. (2009) for example assert the notion that defines regions as an alliance or grouping of countries with physical continuity and proximity" (p. 89). In any of these case and interpretations, scholars agree to the "crucial role of economic geography and raise questions about the spatial reorganization of foreign

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investments and regional economic integration" (Buckley & Ghauri, 2004).

This is of great importance to firms that engage into corporate political activity (CPA), which often constitutes the main part of non-market strategy; this encompasses their attempt to shape the development of integration in favorable terms coherent with business objectives.

Because firms that engage into CPA have various origins and agendas, scholars have also explored the threats that regionalization may represent for free trade (Borrmann & Koopmann, 1994) as a diversion of attention away from broad international negotiation (Collier et al., 2000, p. 104), in its latent exclusiveness that penalizes non-member economies and firms (Miller & Richards, 2002) and in the complexity that this may represent for internal networks (Rugman & Verbeke, 2007). Bhagwati (1998, p.1138/9) called this a 'spaghetti bowl effect' that potentially impedes diversified trade liberalization. He refers to a mix of regulatory norms and clauses such as those on rules of origin, that is, a complexity not as the consequence of the number of RTAs but rather, of the range of their scale and scope.

Questions are raised as to How an internationalizing firm can possibly cope with the many variations of tariffs, standards and rules that complete national and international sets of conditions. How can the firm influence agendas and outcomes of these sets? Which firms can and cannot influence them?

The international firm is subject to a mix of market and non-market forces that define its degree of operability, and that the firm strives to influence.

In this context, literature explores interest group influence and lobbying success (Kluever 20130) in securing favorable legislation or counteracting potentially damaging regulation; as well as the limits of business lobbying on multiple level. Krugman (1991) analyzed in particular the formation of the triad (EU, US/NAFTA and Japan/Asian integration) as a challenge to broader economic development in which trade is at the same time created (internally) and diverted (externally). Again, literature argues that trade diversion and trade creation is influenced by the non-market strategy exercised by firms that hope to shape the agenda of RTAs and integration, individually or in sector or geographic alliance with firms of similar objectives.

In the weakening of multilateral cooperation, Krugman then found, regional cooperation can benefit welfare and increase capabilities needed to enlarge and enhance such market integration mechanisms. In this context,

CPA literature argues that regional integration provides more efficient lobbying arenas than the very vast quasi-global multilateral negotiations for deregulation do.

Indeed RTAs benefit from the advantages of having relatively limited, selected numbers of candidates or members, which eases negotiations and CPA activity relative to those that are held on international multilateral level. This limited number of participants allows for better monitoring of internal rules than on vast multilateral (e.g., WTO) level. It counteracts or equilibrates, Krugman argues also, the 'hegemonic stability' in which a very small number of world powers are tempted to rule the international economy and inhibits broad multilateral efforts; and finally, it allows to better deal with institutional differences (pp. 73-75). The regionalization of power is thus both challenging and beneficial to market and non-market strategy of internationalizing firms, and for the interplay of business and political forces.

A great number of scholars assume that the progress of European integration and its Single Market has played the role of a main motivator for the contemporary spur in the number of regionalized constructs. In addition, its

somewhat difficult developments at certain moments in time of European integration, due to the complexity of its scale and scope, may well explain the preference of many countries to rather negotiate the simpler, less engaging form of free trade agreements versus any more advanced, in-depth forms of integration that require the pooling of what is traditionally part of national sovereignty.

Overall, the 'region' in our sense is a construct that is the basis of regionalization of political and corporate interaction. It allows economic actors by purpose to attempt to simplify some of the complexities resulting from globalization, with its compression of space and time (Harvey, 1990; Friedman 2005) and to align resources accordingly. This is dependent on the (potential) member states' willingness to develop further from the Westphalian model of geopolitics when submitting a certain degree of national sovereignty in an effort to pool policies for the benefit of mutual and reciprocal objectives of cooperation. It expands the geographic term of the region in that proximity is not a limiting factor and distance becomes an asset for diversification, market access and resource- and knowledge-seeking objectives. It is hence also dependent on the sense- giving and sense- making of the bias for the economic world and its firms that use a privileged environment to do (or enhance) business activity across borders.

While the term 'region' holds a range of interpretations in the political and economic literature, scholars agree that it effectively reflects a need to provide or sustain a central and self-assuring pole of familiarity in the international world. A RTA's "common functional and institutional arrangements" (Kacowicz, 1998) may be mainly (though not exclusively) state- or business- promoted (Rozman, 2003, p.7; in: Shadrina, 2006), translating into political, economic or social (business-expansional) integration, or they may formalise identity- or security-driven formations. In any of those circumstances, they allow the firm to develop and align strategies with an impact on national and regional level.

What constitutes a 'region' is contingent upon political and economic actors that aim to form a construct of (mainly: economic) integration; it may be geographically adjacent or dispersed.

This creates opportunity; the phenomenon shapes a macro-environment that is more than ever constituted by way of "a range of heterogeneous units in multiple, interwoven, and overlapping layers of governance" (Kobrin, 2001).

The WTO warns that the sheer number of RTAs registered with it, that is, "the proliferation of RTAs, especially as their scope broadens to include policy areas not regulated multilaterally, increases the risks of inconsistencies in the rules and procedures among RTAs themselves, and between RTAs and the multilateral framework. This is likely to give rise to regulatory confusion, distortion of regional markets, and severe implementation problems, especially where there are overlapping RTAs" (WTO, 2013b). Non-market strategy thus needs to align to RTA development and the opportunities lying there-in, to remain effective in an international business environment.

Regional Trade Agreements (RTAs): Impacts of regionalization on internationalization and non-market strategy

In theory RTAs constitute non-market forces at a similar level as the state. For corporations and organizations that engage into public affairs management and CPA, the decision-making members and bodies of RTAs become key venues for interest intermediation: As soon as governments of member states settle, to the

extend covered by the RTA and its provisions, on shared decision-making and implementation on policies that traditionally remained under the umbrella of the state, the firm can coordinate its lobbying activity accordingly.

The transfer of state's sovereignty is more or less extensive (Wang, 2013): For example, in East Asia, it is less pronounced than in Europe. This means that the RTA will have less influence on the business environment than in Europe: then venue for non-market strategy remains thus mainly on national and local (rather than regional) level.

RTAs potentially serve to support the efficient and effective functioning of member states' organizations: By definition, regionalization bequests favorable conditions for trade and, depending on the agreement's nature, for investment, across its members' borders. To some extent, firms that are located in states that benefit from a preferential partnership within a RTA, will thus benefit from facilitated business conditions when doing business with the partner member state(s) and potentially with its linkages (markets linked in by association).

This RTA conception aims to deter market failure and malfunction, and aims indirectly to increase firms' internationalization capability and performance, which is considered favorable for overall economic welfare and thus directly benefits shared political objectives.

The formal agreement of RTAs is part of its member states' international trade policies and foreign policies that broaden its political and economic reach to a polycentric political status (with a range of decision-makers), as opposed to mono-centric (state) constructs. In management literature, we will read this as a facilitator for a business environment that extends from the home market to the host market(s). For international business strategists, the main challenge in the negotiation and formalization of a RTA is hence to ensure that the design and implementation of RTAs or their evolution is business-friendly.

However, business' impact on FTA constructs is limited to a 'voice' only, not a vote or decision-making right – firms' influence remains indirect in effect. A solid understanding and assessment of RTA rules and their impact on business in this increasingly interwoven regionalized world is thus crucial, may be challenging, and requires attention to non-market strategy options in direct adaptation to regulations and policies that shape the business environment in both national and integrated regional markets.

By consequence, international business strategy is increasingly dependent on non-market strategy in home and host countries in home and host regions and in their nexus (e.g., association agreements with other RTAs or countries). Regions have gained importance as non-market forces: Firms need an increasingly multi-layered corporate knowledge specifically about institutional regulatory contexts and appropriate corporate political activity (CPA), and how to handle the originating issues.

Literature establishes that most enterprises are multi-national and specifically, regional in adaptation to market and non-market forces. By consequence of their resulting scale and scope, non-market strategy needs to be multi-layered and multi-venued, that is, national, regional and international in scale and scope.

In contemporary management and international business literature, multinational companies (MNCs) are viewed as organisations that mainly depend on their regional business (Collinson & Rugman, 2008; Rugman, 2000, 2005; Rugman & Verbeke, 2004a, 2005), in particular in regards to sales and assets, in which we distinguish:

- Home-regional firms: more than 50% of sales in the home region.
- Bi-regional firms: less than 50% of sales in the home region and more

than 20% in another region of the triad.

- Host-regional firms (a form of bi-regional firm; see Rugman, 2005: 11): more than 50% of sales in a triad region other than the home region.
- Global firms: less than 50% of sales in the home region and more than 20% in each of the other two triad regions. (Rugman et al, op.cit.; Osegowitsch & Sammartino, 2008, p.185)

MNC strategies are based on bilateral and unilateral factors, evaluated typically on the basis of Cultural, Administrative, Geographic and Economic ("CAGE") distance (Ghemawat, 2007), that demonstrate commonalities on regional and sub-regional level, as introduced by Enright (2005, p. 87). With differences fading over time and through regulatory arrangements, an increasing level of "semi-globalisation" (Ghemawat, 2003) appears, with variations in focus of firms on these home- country, sub-regions, home-region, bi-regional or global strategy (Osegowitsch & Sammartino, 2008, p.191), and a multi-regional, triangular strategy (as a subset of bi-regional strategy- yet not limited to the triad today) that follows the nexus of RTA relations.

For example, a firm that operated mainly in the EU and between EU member states may also, thanks to free trade negotiations, engage in new or enhanced trade with Korean and Singapore that also entertain preferential agreements with each other, and thus allow for potential norms- and tariff- advantageous, reducing costs in multiple RTA-based constellations.

International business literature therefore distinguishes between inter- and intra-regional business. In this manner, we understand that a firm that regionalizes in the sense of using regional integration to its benefit, in any of the two modes, is able to yield advantage from increased economies of scale and scope, to use 'competitive blindspots' (Ohmae, 1985), and the deployment of firm-specific advantages (FSA), for example brand awareness or internationalization capabilities. However, there is some debate about their transferability and acceptability (no matter if 'embodied in exports, transferred to licensees, or transferred to subsidiaries', Osegowitsch & Sammartino, 2008, p.186) that may ultimately be embedded in (home) region- boundedness of FSAs (Rugman & Verbeke, 2004, p. 13) or else become region-specific advances that can be transferred between regions, e.g. in the capability to yield advantage from economic integration and RTA business environments (Suder, 2013).

Limits are set by the inclusiveness of RTAs (that vary from case to case) and inherent protective measures that may hinder the deployment of firm-specific advantages in host-regions and affiliated or associated markets.

In this case, a liability of regional foreignness (LRF), that is, the costs of doing business across regions, becomes a barrier to entry or performance (Qian, Li & Rugman, 2013) through local government's discriminatory policies, local customers' bias, business networks; and privileged links with stakeholders (p.640). This liability adds to that of country foreignness and augments with the number of locations that a firm targets. Intuitively, one assumes that these costs may be higher when doing business on inter-regional level, that is, between regions, compared to intra-regional business, i.e., within on single region of either geographic or institutional proximity or both. Yet Osegowitsch & Sammartino (2008) posit that "the liability of interregional diversification is too small to discourage inter-regional diversification" (Qian et al. 2013, p. 636) while Qian et al. (2013) find that LRF is positively correlated with inter-regional diversification. Sethi and Judge (2009) distinguish liabilities of two categories, including Incidental LoFs, referring to "non-discriminatory costs of learning and adaptation to cope with the unfamiliarity and lack of roots" in a host location,

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which can be reduced relatively quicker than the second type, the more systemic discriminatory LoF, that includes costs stemming from, for instance, explicit regulations targeted at MNE subsidiaries to the benefit of domestic firms and implicit prejudices and nationalism (p.407). In any circumstances, liabilities are known to vary between locations and reduce with time and knowledge.

Non-market strategy that targets a beneficial business environment across a RTA thus sets a crucial scene to reduce costs of adaptation. The institutional relationships that a firm constitutes in a region have the potential to increase its opportunity gains, and to counteract loss and cost – yet the firm does not operate in a vacuum.

The vaster the scale and scope of the RTA and the transfer of sovereignty, the vaster the interests that firms and other influences attempt to exercise.

Kobrin (2009) contends that we may be on the way into an uncharted phase of opportunities and challenges characterized by new types of participants (governments, firms, nongovernmental organizations) who have more diverse and unaligned interests, purposes and preferences than in previous eras. Not only are the recent modifications in power patterns and balancing acts (as analyzed in geopolitics) now increasingly acknowledged by academics and practitioners: Now, globalization –it was conceded- has become a phenomenon accompanied by the loss of state governmental authority, for the benefit of multilateral, multinational forces and amongst them, the multinational enterprise (MNE) as one key vector of a new phase of globalization. In this era, while economic benefits spread more and more freely across the world, so have challenges, threats and crisis. As a consequence, globalization has become increasingly seconded by regionalization, from a political and economic perspective.

The positional analysis that determines strategy includes the analysis of "market forces, firm competencies and the non-market environment" that trade and investment choices are contingent upon (Aggarwal, 2001).

The phenomenon of regionalization, formalized in the various forms of RTAs, demand appropriate adaptation and adaptability from firms that operate across borders, because RTA alter the business environments in the home country, host country (-ies) and between them. Political economists define nonmarket forces as power-based correctives, a political "voice" or corporate political activity (CPA), that aim to mend the organization of economic, political, social and cultural nature to assure survival (e.g., Hirschman, 1970; McGuire et al., 2012).

Firms raise advantage through regional institutional knowledge and networking position.

These advantages are encompassed in non-market strategy, associated with cognitive, normative, and regulatory differences and similarities (Bell, Filatotchev, & Rasheed, 2012; Zaheer, 2002) and they constitute essential assets, because an important part of the liability of regional foreignness (in addition of that on country level) that a foreign firm may suffer is based on government bias (Qian et al., 2013), that is, unfavorable government policies towards firms from other regions outside of the integrational construct.

This non-market dimension of regionalization has yet to receive sufficient attention by scholars (as is the case in: Kaiser & Sofka, 2007; McGuire et al., 2012). Yet practitioners face its impacts on a routine level in cross-border trade and investments. For example, which customs tariffs, duties, quotas, standards, norms to respect, is defined not only by national authorities; in many regions, the integration of markets and market authorities by way of RTA determines those criteria for a number of member countries constituting a market grouping.

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In Europe, for instance, EU institutions determine them. Those institutions are constituted in various forms by member states.

Non-market strategy is thus a corporation's means to deter the 'spaghetti bowl effect' that McGuire et al. (2012) refer to as the regional LoF (liability of foreignness) or un-familiarity, and Qian et al. (2013) as LRF complexities.

Osegowitch and Sammartino (2008) explain that "Regionalisation theory and its concepts, such as the inter-regional LOF, are fundamentally dependent on intra-regional integration and enduring inter-regional differences" (p.192). Therefore, indeed, the regulatory mix is dense when firms work across borders.

Regionalized non-market strategy is hence about intra- and inter-regional alignment of internationalized business interest to political and regulatory integration. The process of adjusting non-market strategy into suitable relative position is meant to counterbalance the cost of doing business in the home-region and one or more host-regions. An arrangement or positioning of players is a pro-active or defensive alignment, seeking to create, improve or defend a firm's interests in the location that becomes part of a RTA or is influenced by RTA alterations (internally or in its networks) (Houghton Mifflin Co, 2009).

The role of the firm can therefore also be considered active when exercising political activity that directly drives or supports regionalization. As an example, the U.S. government explains the role of the U.S. auto industry in the negotiation of its free trade agreement with Korea of 2012

(<http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta>); the firm Coeur, Inc is only one example of the corporate actors noting their CPA in this field (<http://www.coeurinc.com/>). In Europe, a comprehensive example is BusinessEurope, an association of 41 industrial and employers' federations from 35 countries, provides detailed input about EU – India FTA negotiations, and harmonisation efforts in EU- China and EU- Russia relations (<http://www.businesseurope.eu/>).

In economic terms, non-market forces are viewed as rule-of-the-game leverage exercised by a number of actors that strive to gain competitive advantage.

Interregional forces also come into play in the context of the interregional negotiations between the EU and MERCOSUR (the Mercado Común del Sur) since 2000, the Trans-Pacific Partnership Agreement (TPP) in 2013, or the EU (as a whole) and U.S. negotiations of Transatlantic Trade and Investment Partnership (TTIP), expected to allow EU firms to sell an additional €187 billion worth of goods and services annually once ratified – "80% of the benefits of an agreement would result from reducing this regulatory burden and bureaucracy, as well as from opening up services and public procurement markets." (EU, <http://ec.europa.eu/trade/policy/in-focus/ttip/>, 2013); U.S. export are estimated to increase by 17% more than if negotiations fail (Erixon & Bauer, 2010) Consequently, the implication of firms in the shaping of regionalization is based on the yielding of opportunity and performance. Banalieva and Dhanaraj (2013) state with a study drawing on internalization theory "that technological advantage and institutional diversity determine firms' home-region orientation (HRO)", in which they find that "performance significantly reduces HRO, but HRO does not have a significant effect on performance."(p. 89). That is, firms that excel in performance are, in this sense, more prone to operate outside their home-region and consequently more likely to engage into the on-going regionalization in their international business arena than others, and to focus CPA on this level.

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In this regionalized world, there is consensus that the "vitality, salience and legitimacy of the state" (Hall & Biersteker, p.8, 2002) is thus insufficient as a locus for non-market strategy.

Given that the prevailing market –regulating authority in the modern world that impacts international business scale and scope is constituted of various regional layers in various locations, non-market strategy follows suit in the triangular trend of local, regional and international interplay of market strategy.

This is so because "Business firms need to manage their politico-social market as well as the business market" (Hadjikhani et al. 2008, p.912).

The interplay of corporate political activity and regionalization knowledge- advantage in corporate performance

Non-market strategy is a 'factor of production' or a 'firm resource' that can be seen as part of internationalization knowledge (IK) representing "higher-order" organizational capabilities (Fletcher et al., 2013); an increasing number of scholars recognize that "firms must manage in their international value-added chains" (Boddewyn & Brewer, 1994) and that those are similarly complex through interwoven forms of regionalization. They are considered instrumental in the reduction of regulatory uncertainty in the international business environment (Kingsley et al., 2012). The adaptation and adaptability of firms and the dynamic capabilities of MNEs that learn from this corporate and economic-political environment is considered crucial by all streams of literature that shed light on the phenomena of international business and internationalization, including the institutional, resources- and specifically, the knowledge-view (Barney, 1991; Douma & Schreuder, 2013).

Institutional theory teaches that an organization's field or, as some call it, arena, is constituted by actors that directly or indirectly determine a firm's strategic actions amongst legitimate options, defined by actors and practices normalized by market – (including customers, suppliers, etc) and non-market forces, including formal and informal institutions (Scott, 2001; DiMaggio & Powell, 1983; Deligonul et al. 2013). Knowledge of institutional contexts are thus assets (Teece et al., 1997); the more multi-layered this knowledge is, the more visibility the firm has about regionalization benefits and can thus strategize the knowledge.

The non-market dimension of corporate strategy is part of the firm's internationalization knowledge (IK) that is "experiential knowledge about internationalization" (Blomstermo et al. 2004, p. 358) and that takes an inter- and intra- regional dimension through RTA-related knowledge.

This knowledge of non-market forces of RTAs encompass dimensions including tariff- and customs- harmonization, red-tape and transaction cost reduction, standardized regulatory multi-countries markets, bi- and multi-regional economic linkages etc), and how to yield benefit there-of. If this knowledge is rare, imperfectly imitable, and non-substitutable, it has the potentiality of serving as a strategic asset: The resource-view (RBV) of international business (Barney, 1991) claims that this can result in considerable competitive advantage. We can derive from an inter-linkage of the discussion of IK (Fletcher et al., 2013) and regionalization (Qian et al., 2013) that region-centric internationalization knowledge (RIK) is path-dependent and contingent on firms' capability to transform learning from one regional construct "into responses to emerging international opportunities" (Cui, Griffith, & Cavusgil, 2005).

That is, on intra- and inter-regional level regionalization-benefit knowledge is a net contributor to gaining advantage over domestic or global competitors that lack such knowledge and this counterbalances effects of liabilities of foreignness.

In this context, "IK regarding the development, implementation, and operationalization of strategies in new territories is difficult to transfer or imitate because it comes from the systemization of accrued knowledge from other territories" (Fletcher et al., 2013, p. 50). This encompasses market and non-market knowledge that is embedded in processes, procedures and feeds into strategy development, deployment and change. Here, corporate political activity (CPA) is « central to firms' overall business strategies' (Oberholzer-Gee et al., 2007), Barron (2011) states that firms use non-market strategy to primarily influence home/domestic institutional environments, but not exclusively. Hillman and Keim (1995) notably affirmed the growing tendencies from the 1990s onwards to use CPA in other markets than at home, and Deligonul et al. (2013) recently strengthened our understanding of non-market networks "outside of ...indigenous institutional environments" (p.506). The interplay of home and host country and – regional dimensions is thus established for non-market strategy, as much as it is for market strategy: Through CPA, firms reduce potential dependence on socio-political actors' actions (cost, political risk, risk of passiveness or inertia, harm, coercion, lack of support), seek to influence public policy and to increase performance directly or indirectly. Mutual benefit may be maximized when interests are aligned. This results, it is anticipated, in "positive economics of regulations" (Stigler, 1975).

Scholars argue that the attractiveness of 'political markets' interaction for firm varies, depending whether "new or to-maintain existing policies ... affect their current business operations or future opportunities" (Bonardi et al., 2005). While we established earlier that non-market strategy is multi-layered and multi-venued, it is also multi-timed. CPA specifically varies between short- medium and long-term action and objective. In the short term, non-market strategy aims to create favorable conditions and to deter unfavorable conditions. In the long term, it strives for institutionalization of relations that are beneficial for the firm, through mutual interdependency, direct or indirect, of political and corporate entities (Boddewyn, 1988; Hadjikhani et al., 2008). Hillman (2003), for example, argues from an institutional perspective that CPA may be corporatist (with long-standing networks) versus pluralist (based on ad hoc action).

Its performance is typically measured on basis of the firm's relative power or influence on public policy and the impact of this power on firm performance. Hadjikhani et al. (2008) state, "the higher the influence, the more specific and heterogeneous is the impact of the government on different firms and the stronger is the firm's legitimate market position" (p.915). Lux et al. (2012) refer to this activity as influencing "government officials—such as politicians or bureaucrats—to act on the business' behalf. Through CPA, businesses expect officials to help them with (1) appropriations, (2) policy maintenance, (3) policy change, and/or (4) policy creation, which in turn can help improve business performance"(p. 310). Indeed, Lux et al. (2012) posit, through a meta-analysis of thirty years of CPA research, that there is a direct strong and positive link between CPA and business performance, despite certain inherent risks entailed in it. They note that "businesses that do (engage in CPA) tend to outperform competitors", in overall business performance.

The multiplicity-focused nature of regionalized non-market strategy improves the internationalization and business performance of the firm.

It is contingent on the adaptation and convergence of strategy within competing or concurring national, regional and international regulatory forces.

Current theory vastly acknowledges that firms' overall performance (no matter if considered by shareholder or stakeholder theory) is embedded in dependencies on governments (Ozer & Lee, 2009), competition of various forms, and resources (Cook & Fox, 2000). Effective (adaptive) non-market strategy underpins market strategy (Baron, 1997; Aggarwal, 2001); non-market and market strategies are integrated in firms with the relevant antecedents (including managerial drivers) (Hillmann et al., 2004), and leads to various degrees of convergence (Heritier et al., 2001). The 'logic of influence' of public policy (Richardson, 2012) is traditionally national, intensely regional and somewhat global. The adaptation to these dynamic forces is therefore crucial for performance. It encompasses a variety of strategies that are not mutually exclusive and that may focus on individual (based on firm-specific, thus heterogenous advantageous), collective (based on industry-, country- or other homogenous advantageous) and mixed approaches. In Europe, two-third of business related regulations are made on EU (that is, intra-regional) level.

Conclusion

This chapter explored regional nature of the world economy, and specifically, the regionalization of the business environment for multinational firms. It contributes to this book with a perspective on multi-level, multi-venued non-market strategy in RTAs as a lever for performance gains in corporate internationalization (Figure 1).

INSERT FIGURE 1 HERE

We shed light on non-market strategy with a focus on regulatory impacts of corporate lobbying in an increasingly regionalized business environment that is characterized by interwoven structures and process on political and geographic level. Stated in the outset, we argue that the focus that MNEs give to national, regional and global non-market strategizing in non-market activity is dependent on its cross-border reach, internationalization and regionalization pattern, and on the internationalization – regionalization knowledge that it creates, assesses and utilizes. The 'non-market environment of corporate activity' can be mastered despite its 'asymmetries, overlaps and complexities' (Kobrin, 2001) and its discriminatory nature, through the relevant assessment and strategizing of regionalization. Indeed, just as Kobrin (2009) stated, "MNEs have become actors with significant political power and authority which should entail responsibility and liability". On RTA level, non-market power can be key to competitive advantage and an important lever for corporate internationalization performance through the strategic utilization of knowledge, influence and political formalization of business regulation. This is contingent on the use of multi-level non-market forces as rule-of-the-game leverage on national, regional and international level.

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