MEASI INSTITUTE OF MANAGEMENT
CHENNAI-14
Approved by All India Council of Technical Education and
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute

MEASI INSTITUE OF MANAGAMENT

INTERNATIONAL BUSINESS COURSE MATERIAL

DR.B.SAIPRIYA
ASSISTANT PROFESSOR

MR.RIAZ AHMED
ASSISTANT PROFESSOR

MRS.A.NISHATH SULTANA
ASSISTANT PROFESSOR

MEASI INSTITUTE OF MANAGEMENT
CHENNAI-14
Approved by All India Council of Technical Education and
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute

VISION & MISSION STATEMENTS

VISION;

- To emerge as the most preferred Business School with Global recognition by producing most competent ethical managers, entrepreneurs and researchers through quality education.

MISSION;

- **Knowledge through quality teaching learning process**; To enable the students to meet the challenges of the fast challenging global business environment through quality teaching learning process.
- **Managerial Competencies with Industry institute interface**; To impart conceptual and practical skills for meeting managerial competencies required in competitive environment with the help of effective industry institute interface.
- **Continuous Improvement with the state of art infrastructure facilities**; To aid the students in achieving their full potential by enhancing their learning experience with the state of art infrastructure and facilities.
- **Values and Ethics;** To inculcate value based education through professional ethics, human values and societal responsibilities.

PROGRAMME EDUCATIONAL OBJECTIVES (PEOs)

PEO 1; Placement; To equip the students with requisite knowledge skills and right attitude necessary to get placed as efficient managers in corporate companies.

PEO 2; Entrepreneur; To create effective entrepreneurs by enhancing their critical thinking, problem solving and decision-making skill.

PEO 3; Research and Development; To make sustained efforts for holistic development of the students by encouraging them towards research and development.

PEO4; Contribution to Society; To produce proficient professionals with strong integrity to contribute to society.

Program Outcome;

PO1; Problem Solving Skill; Apply knowledge of management theories and practices to solve business problems.

PO2; Decision Making Skill; Foster analytical and critical thinking abilities for data-based decision making.

PO3; Ethical Value; Ability to develop value based leadership ability.

PO4; Communication Skill; Ability to understand, analyze and communicate global, economic, legal and ethical aspects of business.

PO5; Individual and Leadership Skill; Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment.

DR.B.SAIPRIYA
ASSISTANT PROFESSOR

MR.RIAZ AHMED
ASSISTANT PROFESSOR

MRS.A.NISHATH SULTANA
ASSISTANT PROFESSOR

MEASI INSTITUTE OF MANAGAMENT

PO6; Employability Skill; Foster and enhance employability skills through subject knowledge.

PO7; Entrepreneurial Skill; Equipped with skills and competencies to become an entrepreneur.

PO8; Contribution to community; **Succeed in career endeavors and contribute significantly to the community.**

Subject Code	Subject Name	L	T	P	S	C
PMFEB	INTERNATIONAL BUSINESS	3	0	0	0	3

	Course Objectives	Program Outcomes
C1	To understand and analyze international situations and evaluate international collaborative arrangements and strategic alliances.	PO2, PO4, PO7
C2	To apply knowledge of political, legal, economic and cultural country differences to develop competitive strategies in foreign, regional and global markets.	PO4, PO7
C3	To throw light on international trade theories and the management of business functional operations in an international context.	PO4, PO6, PO7
C4	To analyze and evaluate barriers, opportunities, market entry modes and the process of internationalization.	PO2, PO4, PO7
C5	To know about regional economic integration and contemporary issues in international business.	PO6, PO7, PO8

SYLLABUS

Unit. No.	Details	Hours
Unit I	INTRODUCTION: Introduction to International Business: Importance, nature and scope of International business-Modes of entry into International Business- Internationalization process and managerial implications Multinational Corporations and their involvement in International Business Issues in foreign investments, technology transfer, pricing and regulations International collaborative arrangements and strategic alliances- Counter Trade.	9
Unit II	INTERNATIONAL BUSINESS ENVIRONMENT AND CULTURAL DIFFERENCES: International Business Environment: Economic, Political, Cultural and Legal environments in International Business. Framework for analyzing international business environment. Differences in Culture: Introduction — Social Structure — Religion — Language — Education — Culture and the Workplace — Cultural Change — Cross-cultural Literacy — Culture and Competitive Advantage.	9
Unit III	INTERNATIONAL TRADE THEORY:Introduction — Mercantilism — Absolute Advantage — Comparative Advantage — Heckscher-Ohlin Theory — The New Trade Theory — National Competitive Advantage — Porter's Diamond — WTO & Development of World Trade — Regional Grouping of Countries and its Impact.	9
Unit IV	GLOBAL TRADING AND INVESTMENT ENVIRONMENT:World trade in goods and services — Major trends and developments- World trade and protectionism — Tariff and non-tariff barriers- Foreign investmentsPattern, Structure and effects- Movements in foreign exchange and interest rates and their impact on trade and investment flows-Functions of Foreign 9	9

	Exchange Market- Foreign Direct Investments — FDI in the World Economy — Horizontal and Vertical Foreign Direct Investment — Advantages of Host and Home Countries.	
Unit V	CONTEMPORARY ISSUES:Regional Economic Groupings in PracticeLevels of Regional Economic Integration- Regionalism vs. MultilateralismImportant Regional Economic Groupings in the World- Contemporary Issues in International Business- Role of International financial institutions like IMF and World Bank-Labour and Environmental Issues.	9

Reference Books	
1.	Bennet, Roger, International Business, Financial Times, Pitman Publishing, London.
2.	Bhattacharya, B., Going International: Response Strategies of the Indian Sector, Wheeler Publishing, New Delhi
3.	Hill, C.W.L. and Jain, A.K., International Business: Competing in the Global Marketplace, 6th Edition, Tata McGraw-Hill Education, 2008.
4.	Cherunilam, F., International Business: Text and Cases, 5th Edition, PHI Learning, 2010.
5.	Paul, J., International Business, 5th Edition, PHI Learning, 2010.

E-Sources	
1.	www.ibba.org
2.	www.trade.gov
3.	www.gapinternational.com
4.	www.zonta.org
5.	www.internationalbusinesscorporation.com
6.	www.ainonline.com

Assessment Tools Used			
1.	Assignments	6.	Group Discussion
2.	Internal Assessment Tests	7.	Simulation
3.	Model Exam	8.	Videos
4.	Seminars	9.	Synetics
5.	Case studies	10.	Quiz

Content Beyond Syllabus	
1.	INTERNATIONAL STRATEGIC MANAGEMENT - Strategic compulsions Standardization Vs Differentiation – Strategic options – Global portfolio management global Entry strategy – different forms of international business – advantages organizational Issues of international business – organizational structures – controlling Of international business – approaches to control – performance of global business performance Evaluation system.
2.	MANAGEMENT OF GLOBAL BUSINESS - Global production –Location –scale of Operations- cost of production – Make or Buy decisions – global supply chain issues – Quality considerations- Globalization of markets, marketing strategy – Challenges in Product development, pricing, production and channel management- Investment decisions – economic-Political risk – sources of fund- exchange –rate risk and management – strategic orientation – selection of expatriate managers- Training and development – compensation.

Additional Reference Books	
1.	P.Subba Rao., International Business, 4th Edition, Himalaya Publishing House, 2017.
2.	Deresky, H., International Management: Managing Across Borders and Cultures, 6th Edition, Pearson, 2011.

3.	Griffin, R., International Business, 7th Edition, Pearson Education, 2012.
Course Outcomes	
C1	The students would be aware international situations and evaluate international collaborative arrangements and strategic alliances.
C2	The students would have possessed knowledge of political, legal, economic and cultural country differences to develop competitive strategies in foreign, regional and global markets.
C3	The students would have learnt various international trade theories and the management of business functional operations in an international context.
C4	The students would evaluate barriers, opportunities, market entry modes and the process of internationalization
C5	The students will have better understanding on regional economic integration and contemporary issues in international business.

MEASI INSTITUE OF MANAGA

INTERNATIONAL BUSINESS

UNIT- I INTRODUCTION

Definition

"According to International Business Journal, 'International business is a commercial enterprise that performs economic activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries."

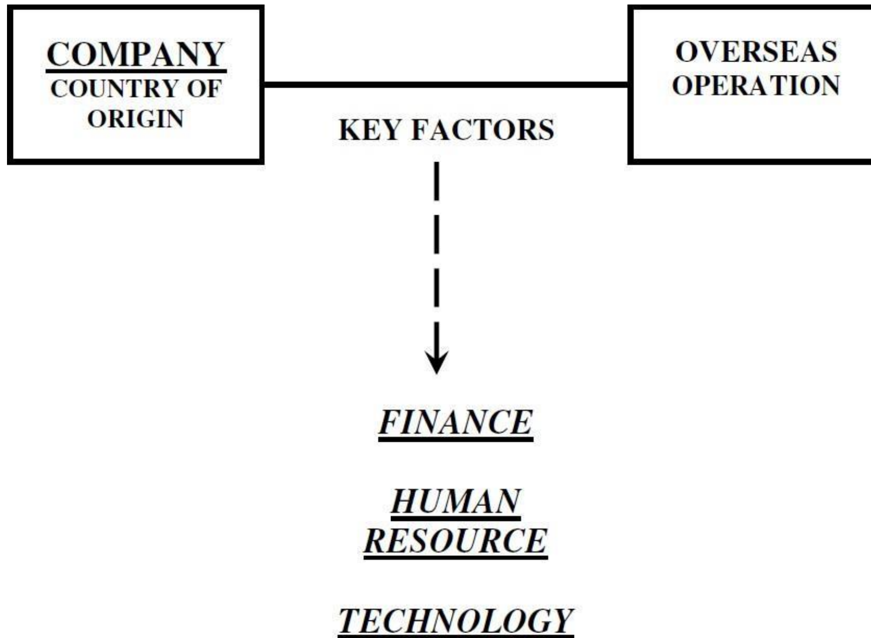
International Business is the process of focusing on the resources of the globe and objectives of the organizations on global business opportunities and threats, in order to produce, buy, sell, or exchange of goods and services worldwide.

International Business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations.

Importance of International Business

- Optimum utilization of resources
- Earn foreign exchange
- Achieve its objectives
- To spread business risks
- Improve organization efficiency
- To get benefits from government
- Expand and diversity
- Increase competitive capacity

MEASI INSTITUE OF MANAGAMENT



MEASI INSTITUE OF MANAGAMENT

ADVANTAGES OF INTERNATIONAL BUSINESS:

1. **Earning valuable foreign currency:** A country is able to earn valuable foreign currency by exporting its goods to other countries.
2. **Division of labor:** International business leads to specialization in the production of goods. Thus, quality goods for which it has maximum advantage.
3. **Optimum utilization of available resources:** International business reduces waste of national resources. It helps each country to make optimum use of its natural resources. Every country produces those goods for which it has maximum advantage.
4. **Increase in the standard of living of people:** Sale of surplus production of one country to another country leads to increase in the incomes and savings of the people of the former country. This raises the standard of living of the people of the exporting country.
5. **Benefits to consumers:** Consumers are also benefited from international business. A variety of goods of better quality is available to them at reasonable prices. Hence, consumers of importing countries are benefited as they have a good scope of choice of products.
6. **Encouragement to industrialization:** Exchange of technological know-how enables underdeveloped and developing countries to establish new industries with the assistance

of foreign aid. Thus, international business helps in the development of industry.

7. **International peace and harmony:** International business removes rivalry between different countries and promotes international peace and harmony. It creates dependence on each other, improves mutual confidence and good faith.
8. **Cultural development:** International business fosters exchange of culture and ideas between countries having greater diversities. A better way of life, dress, food, etc. can be adopted form other countries.
9. **Economies of large-scale production:** International business leads to production on a large scale because of extensive demand. All the countries of the world can obtain the advantages of large-scale production.
10. **Stability in prices of products:** International business irons out wide fluctuations in the prices of products. It leads to stabilization of prices of products throughout the world.
11. **Widening the market for products:** International business widens the market for products all over the world. With the increase in the scale of operation, the profit of the business increases.
12. **Advantageous in emergencies:** International business enables us to face emergencies. In case of natural calamity, goods can be imported to meet necessaries.
13. **Creating employment opportunities:** International business boosts employment opportunities in an export-oriented market. It raises the standard of living of the countries dealing international business.
14. **Increase in Government revenue:** The Government imposes import and export duties for this trade. Thus, Government is able to earn a great deal of revenue from international business.
15. **Other advantages:**

- Effective business education
- Improvement in production systems.
- Elimination of monopolies, etc.

MEASI INSTITUTE OF MANAGAMENT

Features of International Business

Large scale operations in international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.

Integration of economies International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labor from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

Dominated by developed countries and MNCs International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

1. Benefits to participating countries International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.
2. Keen competition International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favorable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.

Special role of science and technology International business gives a lot of importance to science

MEASI INSTITUTE OF MANAGAMENT

and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.

International restrictions International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.

International business approaches

The analysis provided by Wind and Douglas within the framework of the EPRG scheme is helpful in understanding the levels of involvement of firms in international business. The degree and nature of involvement in international business. One of the most striking trends in business, in recent years, has been growing internationalization of business. In today's world, growing number of companies involving them in international marketing. Many of the companies involving themselves in exporting and importing of various commodities. Not only is global trade is growing at healthy rate, but techniques of overseas marketing is also becoming more diversified and sophisticated. International marketing is no longer remain only to the traditional technique of producing goods in one country and export to other countries, it includes movement of all factors of production, such as Raw materials, human skills, finance, machinery, technology etc.

The trend of more and more internationalizations of business has thrown many challenges to international marketer. One of the major challenges is which type of orientation a firm should adopt to overseas its marketing operations.

To overcome from this problem one should adopt EPRG Framework, which identifies four types of orientation towards internationalizations of business operations –

- **Ethnocentrism**
- **Polycentrism**
- **Regiocentrism**
- **Geocentrism**.

MEASI INSTITUTE OF MANAGAMENT

These orientations reflect the objectives of a company towards international operations and to lead to different management strategies and planning procedures.

ETHNOCENTRIC ORIENTATION: Orientation towards international operations by a company, which consider export market has no difference with domestic market and hence applies domestic market techniques with overseas market.

GEOCENTRIC ORIENTATION: Orientation towards international an operation by a company, which considers the whole world as one market and hence develops global strategies which are applied in domestic market also.

POLYCENTRIC ORIENTATION: Orientation towards international operations by a company, which consider each market differ from other and hence applies different technique in different market.

REGIOCENTRIC ORIENTATION: Orientation towards international operations by a company, which recognizes the common features in countries belonging to a particular geographical region and hence applies the same strategy in all the countries in a particular region.

Circumstance under which EPRG should be employed

ETHNOCENTRIC ORIENTATION: Ethnocentric approach will better suit small firms just entering international operations. When company is small and is not in position to invest heavily in overseas operations, it is better for it to identify countries which have characteristic similar those of home country and export to them.

This approach appears most appropriate when overseas sales volume is insignificant in comparison to the total sales of the firm.

The major advantage of this Type of orientation is that it entails minimum risk on the part of the firm. Since not much investment is made in overseas operations so if loss may occur then firm can absorb shock without much difficulty

POLYCENTRIC ORIENTATION: Polycentric will prove idle for firms seriously committed to international marketing and have capacity to invest to the desired extent towards achieving their objectives. The major advantage of this type of orientation is that it will be the most

MEASI INSTITUTE OF MANAGAMENT

effective way of motivating the management, since the management in each country is given a free hand in framing policies and implementing them. Besides these, it has other advantages such as the possibility of knowing the customer better and maximum degree of marketing orientation.

REGIOCENTRIC AND GEOCENTRIC ORIENTATIONS: Since these orientations imply regional or global attitude to the development of marketing policies. They provide for improved coordination and control. These policies entail high cost. Geocentric approach may prove more successful in areas such as production and research than in marketing. Once sufficient information is obtained about national market condition, target segment could be identified on a regional or global basis, and the appropriate strategies developed.

MODES/ FORMS OF ENTRY IN INTERNATIONAL BUSINESS

1. EXPORTS

Export deals with physical movement of goods and services from one place to another through a customs port followings the rules of both the country of origin and country of destination. Depending upon the Involvement of the exporter, exports can be classified as direct or indirect. Direct exporters export their goods and services in their own name and the buyer directly remits proceeds, in a proper manner and through a proper channel. The proper channel means that the remittance is made through the banking channel in the currency, which is quoted in the invoice, and the proper channel means that the Goods are legally exported through a customs port. Indirect exporters supply goods to direct exporters. Lack of expertise, international contacts and manpower cause them to depend upon direct exporters. Farmers rarely export grains on their own. Artisans cannot develop international contacts to clinch business deals. Therefore, they become indirect exporters. Their products are to other countries but not in their names.

Exporters can be classified in several ways:

Depending upon the size of business, they are classified as small and large exporters. Current national trade policy provides incentives and facilities to promote both small & large exporters in different ways that are status holders due to their performance in earning foreign exchange.

Depending upon the product lines exported, they are classified as single product and multiple

MEASI INSTITUE OF MANAGAMENT

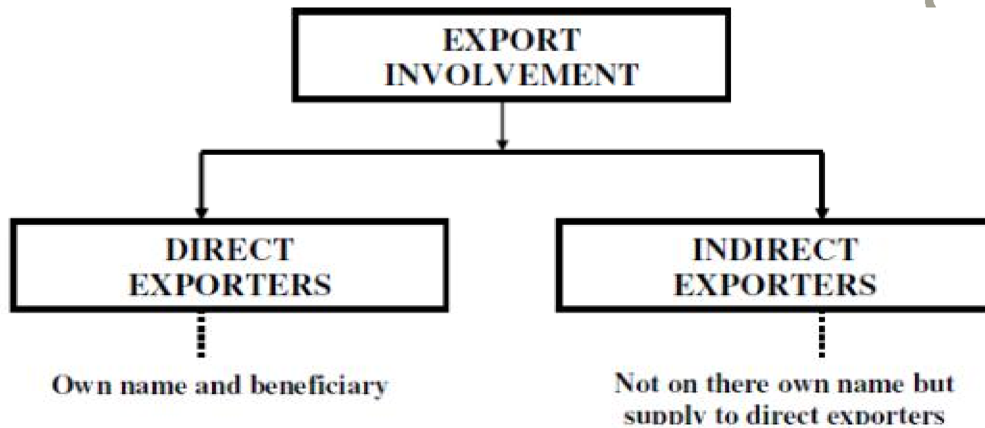
product line.

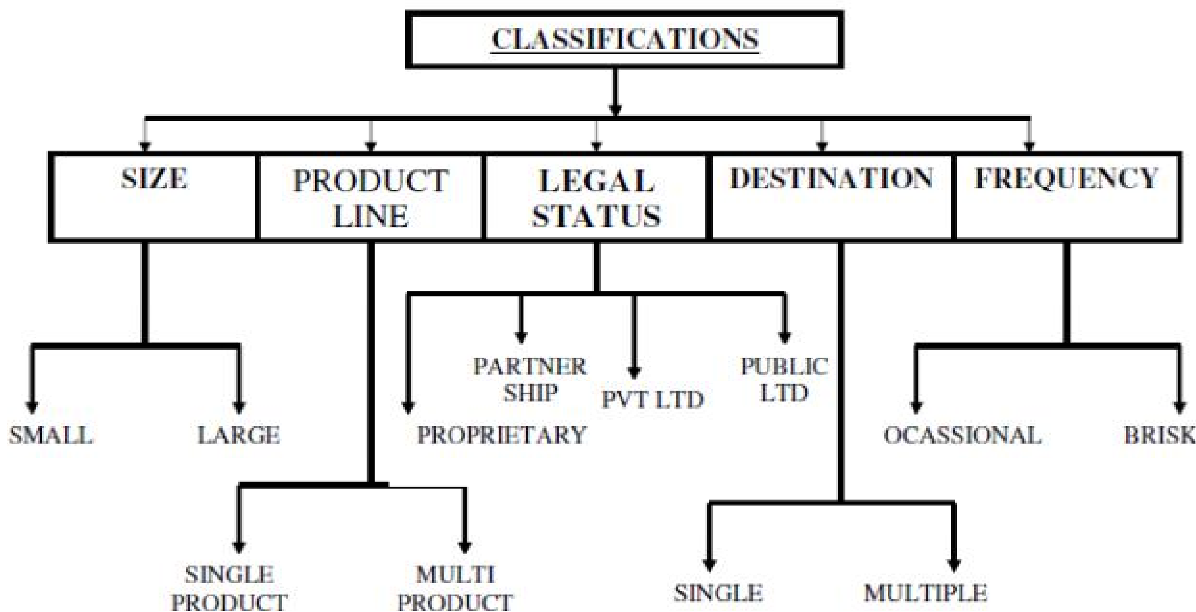
Depending upon their legal status, they are classified as proprietary, partnership, private limited and public limited companies.

Depending upon the destination of their exports, they are classified as single destinations or multi destination exporters. Nowadays, the majority of the companies adopt the philosophy of multi product, Multi location, multi strategic, and multi-dimensional operations.

Depending upon the frequency of their exports, they are classified as occasional exporters and dynamic exporters.

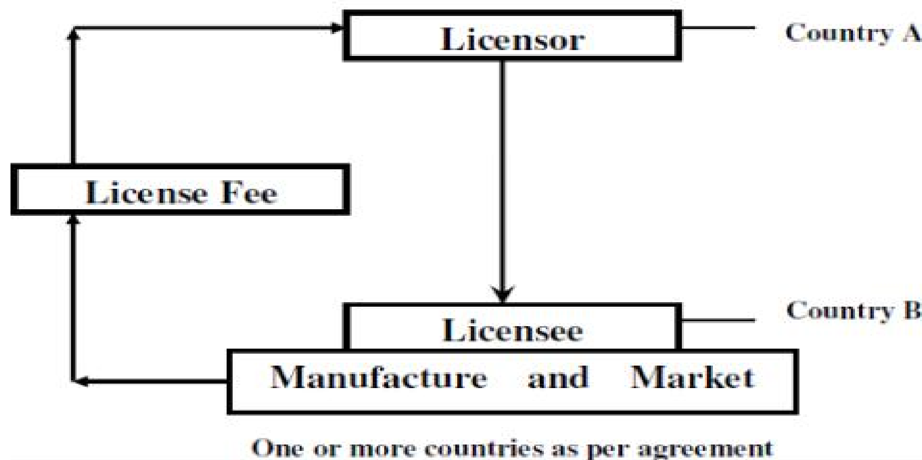
GAMENT

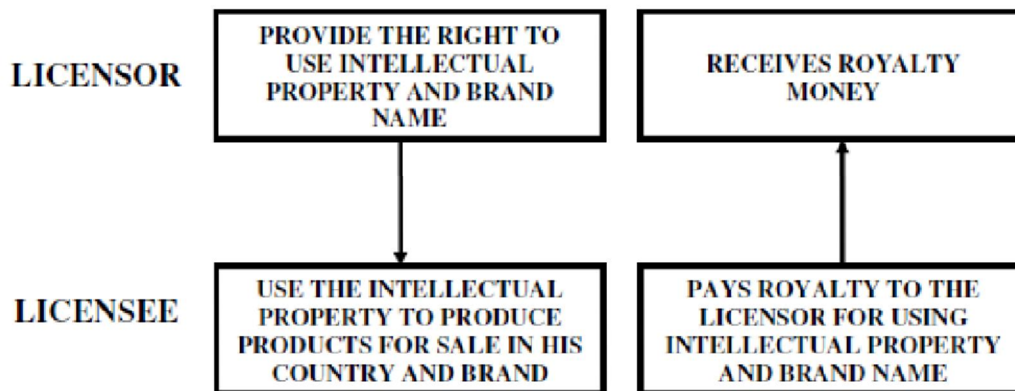




2. INTERNATIONAL LICENSING

International licensing is an agreement between the licensor and the licensee over a period of time for the use of brand name, marketing, know-how, copyright, work method and trade mark by paying a license fee. For example, British American Tobacco Company (BATS) has given licenses in many countries for the manufacture of their brand of cigarettes "555". In India, ITC is the licensed producer of "555". Pepsi cola licensed to Heineken of the Netherlands giving them the exclusive right to produce and sell Pepsi cola in Netherlands. The licensor has minimum involvement in day-to-day functions. Therefore the returns are also comparatively low. Licensing specifies the territory as well as period. The licensor gives such permission after establishing such a command-able position globally. It has a brand command.





3. FRANCHISING

Franchising is a form of licensing wherein the franchiser exercises more control over franchisee. The franchiser supplies the main part of the product, and provides the following services to the franchisee:

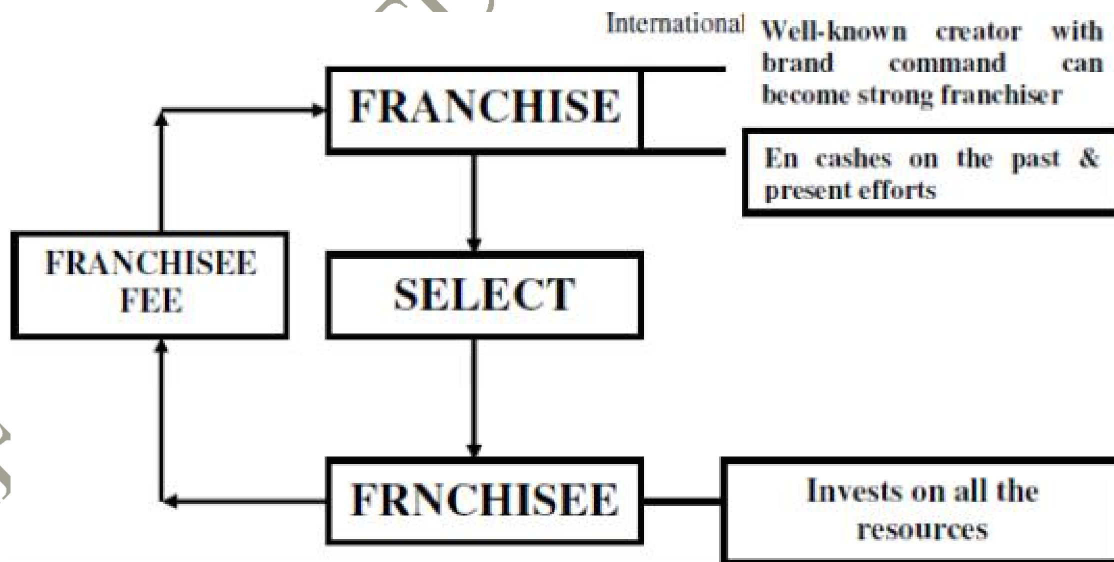
TRADEMARKS

OPERATING SYSTEMS

PRODUCT, &
BRAND NAME

Company support systems like advertising, training of employees, quality assurance are also involved in franchising. McDonald, Dairy Queen, Domino's Pizza and KFC are the known franchise brands. NIIT & Patch have appointed franchisees in Africa, south East Asia, Gulf countries and China. Hotels like The Hilton and Marriott are well known operators in hotel sector. All the investments on premises, HR, operations and promotions are totally borne by the franchisees.

In practice the franchiser is determined to maintain a standard throughout the world in terms of quality brand logo and symbol. But the product is adaptable depending on the socio-cultural background of the country. McDonalds sells BEEF BURGERS in Russia & VEG BURGERS in India.



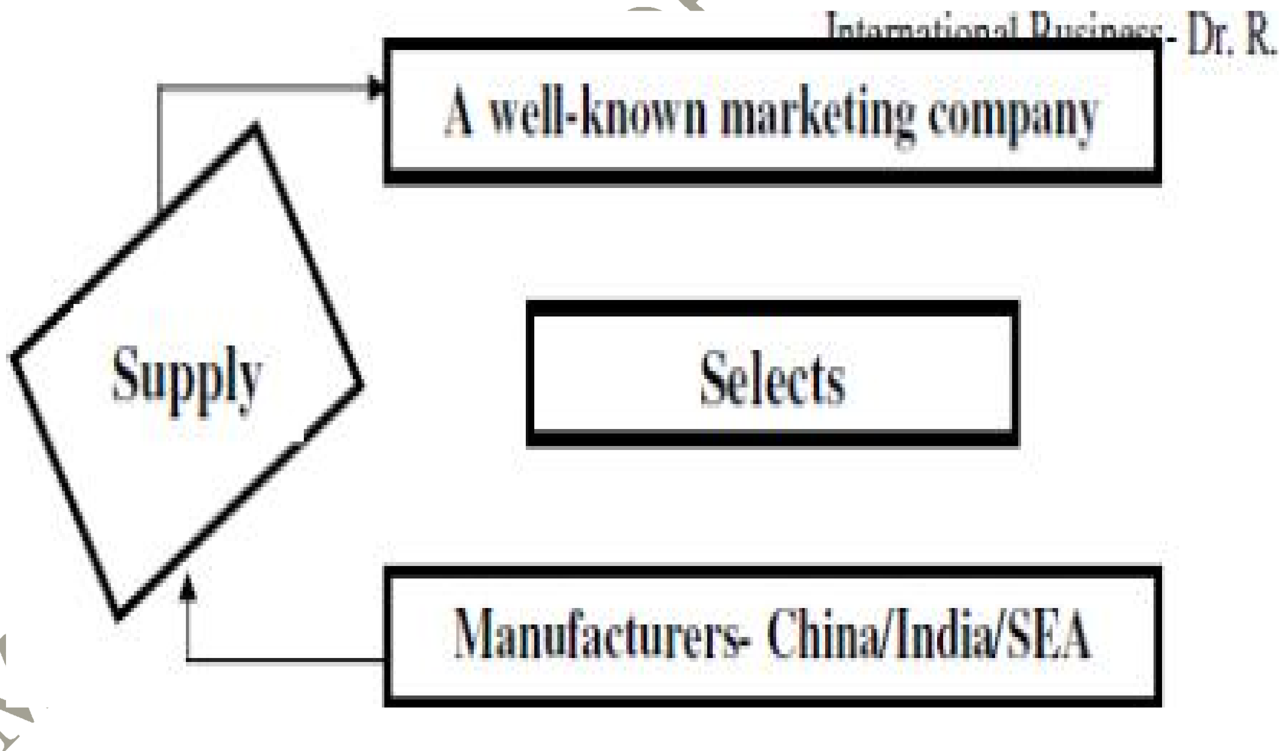
MEASI INSTITUTE OF MANAGAMENT

Sometimes the franchisers initiate the process where the economy is on boom. In many

developing nations, franchisees initiate the process and they are forced to bear all the expenses.

4. CONTRACT MANUFACTURING

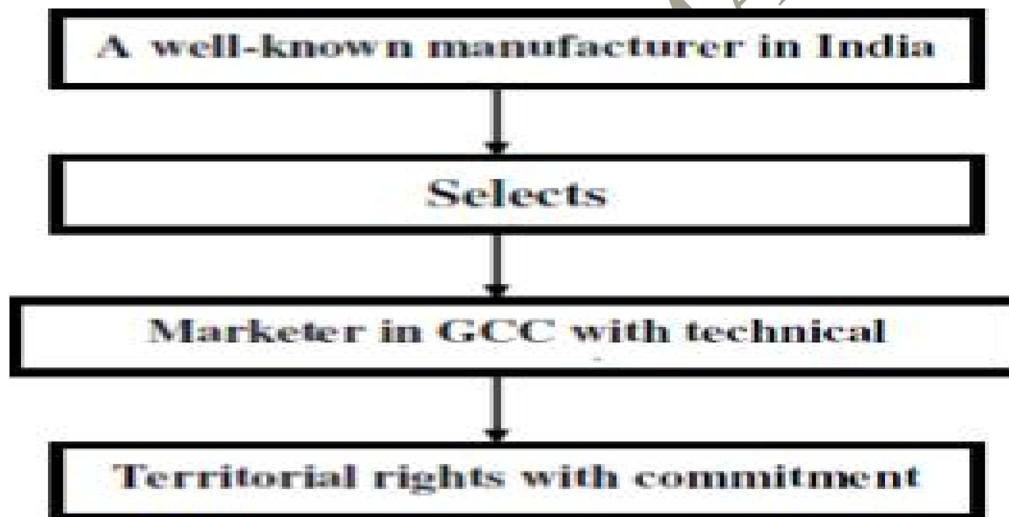
Many companies outsource their products and concentrate mainly on marketing operations. Contract manufacturing is the strategy of identifying a manufacturing unit to produce items at a competitive price in any part of the world. Nike is procuring its athletic footwear in a number of factories in South East Asia. Mega Toys is sourcing from China. Hundreds of international companies with their origin in European countries have selected manufacturing centers in India, China and South East Asia. Mark and Spencer, J.C. penny, Target and H & M have contract manufacturing arrangements in many parts of the world. Contract manufacturing with a dimension in the service sector offer ample opportunities for Indian companies in the form of BUSINESS PROCESS OUTSOURCING (BPO) and KNOWLEDGE PROCESS OUTSOURCING (KPO). All the developed nations are becoming end user of outsourced products and services of developing nations.



MEASI INSTITUTE OF MANAGAMENT

5. CONTRACT MARKETING

All the companies, which are strong in production, may not have equal marketing strengths. However, they may be comfortable dealing with marketing outlets around the world such as TESCO, 'K' Mart, Wal-Mart and Spinneys. Such manufacturing units enter in to aMarketing agreement and concentrate more on production at lower costs. Thermax, Ion Exchange and Supreme industries have selected marketing firms in other countries, which have a good background with technology support. Majority of technology-based companies essentially have to identify competent organizations with marketing infrastructure to aggressively promote their products or projects. Many Indian companies are contract marketers for Germany based medical equipment's, dental care items and hearing aids. Their contractual obligations include TARGETS & TERRITORIES.



6. MANAGEMENT CONTRACTS

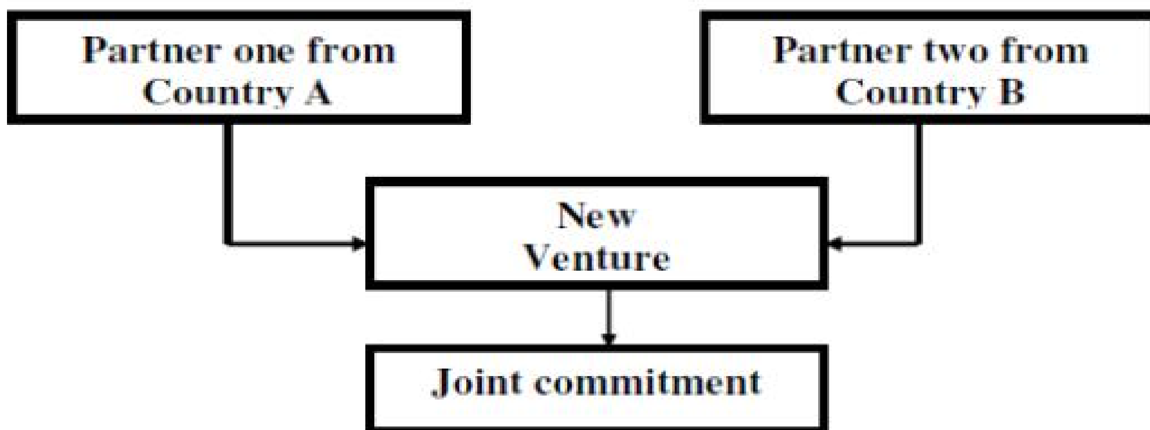
Companies with a low level of technology and managerial expertise may seek the assistance of foreign countries. A management contract is an agreement between two companies whereby one company provides managerial and technical assistance for which proper monetary compensation is given, either as a flat lump sum fee or a percentage on the sales or a share in the profits.

Delta airlines, Air France and KLM offer such services in developing countries. Exxon is a major operator in Gulf region in the field of oil exploration.

JOINT VENTURE

MEASI INSTITUTE OF MANAGAMENT

VENTURE ORIGINATES FROM ADVENTURE, which means NEW, either market or technology or environment. A joint venture is a binding contract between two venture partners to set up a project either in home country or host country or a third country. In this case both parties are committed to joint risk taking and joint profit sharing. For example, The Taj group of hotels has a joint venture in Russia for setting up Five Star Hotels. Mahindra & Mahindra has recently entered in to a joint Venture with Renault to manufacture cars.



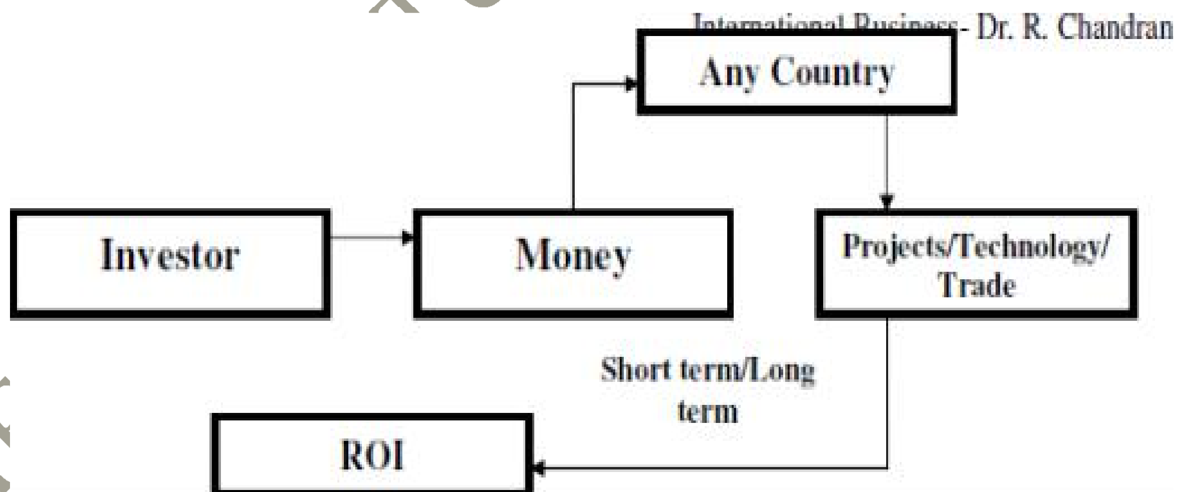
A large number of joint ventures have been miserable failures in the past. In the initial stage every venture promises excellent opportunities to both the venture partners. However, when the operation actually starts, certain functional level grievances and issues become inevitable. Therefore, it is absolutely necessary for both the venture partners to understand all the aspects of management, investment and regulations of the countries where they operate. The business units should have clear guidelines and operation manuals wherein the role of every one should be clearly defined. Hence, a joint venture is nothing but a "marriage binding" between two partners from different backgrounds with an understanding, commitment and mutually rewarding experience to work together.

MEASI INSTITUTE OF MANAGEMENT

7. COLLABORATION: While a joint venture deals with the project in totality, in financial terms and the proportionate partnership commitments, Collaboration deals with only a part of the functions. For example Bajaj Auto has technological collaboration with Kawasaki of Japan, who offers the technology for two wheelers. Others well known technological collaborations are Ind-Suzuki, Kinetic-Honda and Hero-Honda. All the developing countries encourage technology collaborations. The investors in the US, Japan, Germany and UK enjoyed the fruits by offering technical expertise to the developing nations. The world famous Kellogg Business School has collaborated with the Indian school of business (ISB) in Hyderabad, by offering teaching methodology. Likewise, there may be financial collaborations, HR collaborations, systems collaborations and strategic collaborations. The common term used for collaboration is TIE-UP.

8. FOREIGN DIRECT INVESTMENT

The flow of funds from one destination to another is called investment. Companies, which are constantly involved in international business, invest their money in manufacturing and marketing bases through ownership and control. Kellogg, Pepsi, Coca Cola and the Hyatt group of hotels are willing to invest even if the profits are expected after a long gestation period. Currently every developing country is formulating strategies by offering ample amount of incentives to attract investments.



MEASI INSTITUE OF MANAGAMENT

MEASI INSTITUTE OF MANAGAMENT

Foreign firms adopt certain methods as mentioned below:

a. They control the operations through subsidiaries to achieve strategic synergies.

b. They have control through technology, manufacturing expertise, intellectual property rights and brand name.

c. One permanent person or a team in the country of operation is appointed to monitor day to day operations.

The most attractive part of the operation is the direct investment, which contributes to optimization of resources in the host country, generating employment opportunities and enhancing the standard of living in the host country. The other major developments, which have taken place during the Past two decades, are exposure of the host countries to advance technology and quality products. It is boon to the host country since capital is great resource it is coming through investment.

The main disadvantages are lack of clarity of repatriation of profits, imposition of restrictions by host countries and elimination of small and medium industries due to the financial power of the investor. A number of South American countries like Argentina and few South East Asian nations like Indonesia fell prey to the dominant forces of overseas investors. They feel that the old colonialism may re-emerge through investments. Generally, a foreign investment takes place on full swing in developing countries only in the past two decades. China, Taiwan, India, Brazil, Argentina and other developing countries have started attracting huge foreign investments. If it takes place in specific sectors like infrastructure, mining, marine technology and agro processing, it is highly beneficial to both the host country and investor.

9. MERGERS AND ACQUISITIONS

In this case the company in the host country selects a foreign company merges itself with it. The foreign company acquires the control of ownership. This mode of entry gives an outstanding competitive edge over others. Such companies strengthen their international manufacturing facilities and marketing network. Proctor & Gamble entered Mexico and became leaders in five years by acquiring Loreto. Tata bearing acquired Metal Box in India. It is an easy and fast method since the cost of acquisition is comparatively low. At the same time the disadvantages

are:It is a complex task involving banks, lawyers, bureaucrats and obviously politicians.

a. The host countries may impose restrictions on acquisitions.

b. The labor problem is a big challenge to acquisitions especially in developing countries where unemployment is a critical issue.

The global STEEL-KING L.N.Mittal was successful right from the first acquisition of steel mill in Indonesia. Many other acquisitions followed in Trinidad, Kazakhstan, Hungary and others. The recent Aditya Birla Group Company Hindalco acquisition of Novelties has strengthened its production synergy and market access for non-ferrous category in the international market.

10. TAKE-OVERS

This is a strategy whereby a company identifies a healthy unit with strong brand name and network and brings it under the management of another unit in order to become a leader in the field and guarantee success. Since there may be many parties wanting to takeover a well-known company, Competition becomes inevitable. It is obvious that only one entity will win and the winner has to withstand hostilities. Therefore, the process is called a “hostile takeover” and the winner is called the “take over tycoon”. Well known examples are the Hindujas who took over Ashok Leyland and Uniliver who took over Brook Bond and Lipton. Take-over is also on different levels, such as company takeover, business takeover, product takeover and brand takeover. Some takeovers in the past have made many corporate success stories. For example, Uniliver’s takeover of Brook Bond and Lipton enhanced its position as a leader in the tea industry in India. Always takeovers cost more as compared to acquisition but probability of success is high. For all the decisions the company has to analyses the opportunities and risk factors, future potential and long term prospects available in the destination. Once the entry is wrong, a major pitfall occurs in one country of the entry level, it may cause a major damage to the company. Entry of ENRON in INDIA was one such incident one cannot forget.

MEASI INSTITUE OF MANAGAMENT

TURNKEY PROJECTS

A turnkey project is a contract under which a company is fully involved from concept to completion. It covers right from supply of manpower, capital, and erection of plant, installation and commissioning up to the trial operation of a project. The turnkey project contractors either get a fixed fee or the cost plus profits are collected over a period of time. Today, infrastructure projects like power plants, airports, refineries, railway lines, highways and dams are undertaken on a turnkey basis. Bechtel, Brown Bovary, Hyundai, Mitsubishi, L&T and Daewoo are turnkey contractors for international projects. They use terms like BOT (Build, Operate and Transfer) and BOOT (Build, Own, Operate and Transfer) depending upon the level of involvement and obligations.

FOREIGN ENTRY DECISION FOR MNCs

Exploit competitive advantage through entry abroad

- Produce at Home and Export
- Produce Abroad
  - Licensing or Management Contracts
  - Maintain Control over assets abroad
    - Majority or Wholly owned affiliate
      - Build from scratch
      - Acquire or Merge or Takeover
    - Joint Venture

Mode of Operation and Benefits to International Companies

HOME COUNTRY (SENDER)

HOST COUNTRY (RECEIVER)

EXPORTS

EXPORT PROCEEDS

JOINT VENTURE

PROFIT SHARE/DIVIDEND

ACQUISITION/TAKE OVER

PROFIT REPATRIATION

LICENSING/FRANCHISING

LICENSE FEE/FRANCHISE FEE

TURNKEY PROJECT

PACKAGE DEAL

FDI

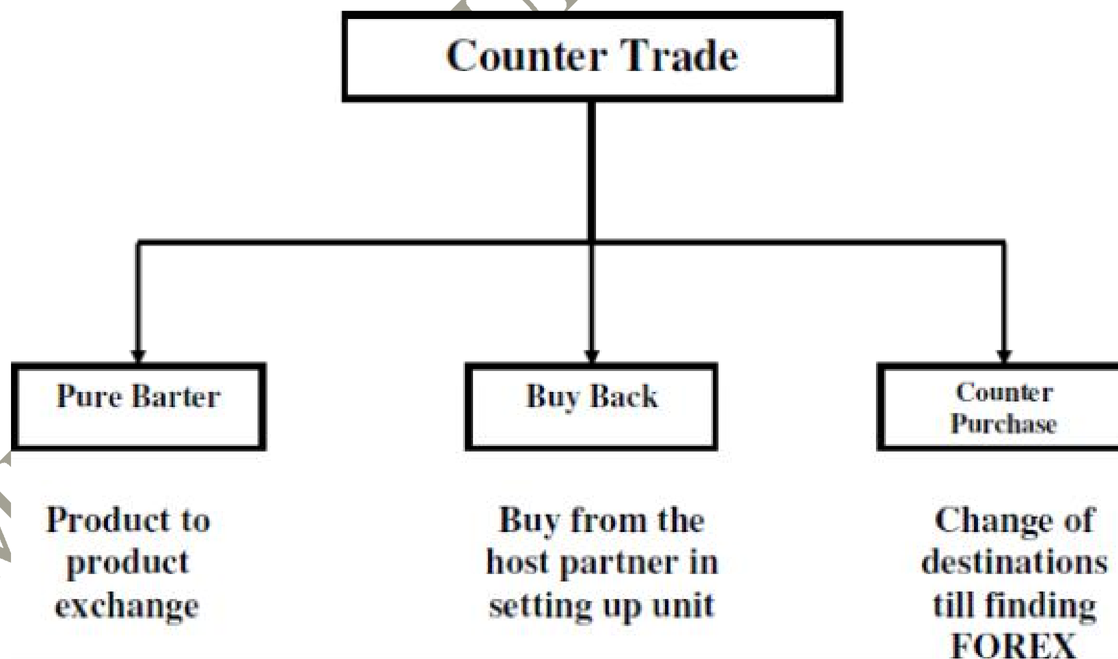
RETURN ON INVESTMENT

COUNTER TRADE

In all the above operations, foreign exchange is necessary for transactions. For exports, the supplier gets the proceeds in foreign exchange. For joint ventures, profits are shared in foreign exchange. For international licensing, the license fee is paid in foreign exchange. The current challenge too many international business organizations is to get payments in foreign currency. A vast majority of the countries in the world do not have the necessary reserves of foreign exchange to remit. However they can still be actively involved in international business, by using COUNTER TRADE mechanism. Counter trade came in to existence in the absence of foreign exchange reserves in a country. Sometimes the country is not willing to pay, though foreign exchange reserves are with it. Such unwillingness will lead to non-repatriation of payment. Ultimate solution is to enter in to counter trade practices.

Counter trade can be classified in to three categories:

1. Pure Barter
2. Buy Back
3. Counter Purchase



MEASI INSTITUE OF MANAGAMENT

Pure Barter

In this system goods and services are mutually exchanged between two countries depending upon their bargaining strength. A country with surplus products can finalize deals with another country that has a shortage of the same range of products. At the same time, the second country may have a surplus of a different range of products, which are in short supply in the first country. Hence, both countries can exchange their products by fixing a price in advance for a given period of time. This age old system that was prevalent During the era of ancient civilizations is being practiced currently. The Indus Valley supplied timber for maritime activities to Mohenjo-Daro and Harappa. The same practice has re-emerged with sophisticated pre fixation of value. Pure barter is defined as "the mutual exchange of goods and services between two countries depending upon their bargaining strength, in order that both the countries enjoy the benefits". For example Russia supplied newsprint and crude oil to India for decades, and in turn India supplied tea, garments, medicines and tobacco products to Russia at a comparatively low price, thus enabling both countries to enjoy the advantages.

Buy Back

A buy back is an arrangement by which the home country representative sets up a project in the host country, which does have sufficient foreign exchange reserves to fully pay for the project to the supplier. The project amount is partially paid in foreign exchange and the remaining amount is paid in kind. Usually, the home country representative comparatively at low price purchases the end product of the same project. This can be marketed in the home country or it could even be diverted to a third country in order to Maximize the profit margin. Buy back arrangements have become popular since many turnkey project contractors get greater benefits by marketing the end product in any part of the world at a higher margin. Bharat Heavy Electricals (BHEL) sets up projects in other countries. Partially it gets the payment in foreign exchange. For the balance amount it takes back tankers from the host country and markets them in any other country and also brings them back to India to sell at a higher price. Such deals enable the home country businesses to get international exposure very fast. The host country is an ultimate beneficiary since the project is locate in and owned by it. At the same time, it need not have to pay the full sum of money necessary to invest in the project.

MEASI INSTITUTE OF MANAGAMENT

COUNTER PURCHASE

This is a method, wherein company A from country A supplies product X to country B. Country B, which has a surplus of product Y, compensates by supplying it to company A, which finds a market for e product Y, say country C. Country C sells a product Z to a country D, which has sufficient foreign exchange to pay for it. Country D can then pay country C, and finally country a collects payment routed through company B and C. Thus purchasing takes place against supply until a country, which has sufficient foreign exchange reserves is found. His transaction. Many multinationals use this system to make large amounts of money at every stage of For example, Pepsi International supplies rice to South Africa from India. From South Africa it procures steel equivalent to the amount of rice collects and supplies it to Ghana. From Ghana, it procures coffee and cocoa equivalent to the steel imports and sells them to Canada, which has sufficient foreign exchange reserves to pay for them. By appointing one representative or employee the company can carry out routine functions deals in the Far East are Marubeni Corporation, Mitsubishi and Majuko. The age-old economic theory of inter-dependency of nations has been redefined with the counter purchase mechanism. Today, to trade with other countries, it is not necessary that the country in question has to have sufficient foreign exchange reserves. Without foreign exchange reserve one can continue trade. The model on the next page shows the benefits that both the home country and the host country enjoy on successful completion of the transactions undertaken. Today, anyone can do business with any country. Foreign exchange as a medium of transaction had a dominant role in all the countries in the past. Due to counter purchase mechanism very few countries with foreign exchange reserve can comfortably contribute to international business.

Definition: Multinational Corporation

The essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country while the enterprise carries out operations in a number of other countries as well as business that operates in many different countries at the same time.

Five Criteria of MNC

- It operates in many countries at different levels of economic development
- Its local subsidiaries are managed by nationals

MEASI INSTITUTE OF MANAGAMENT

• It maintains complete industrial organizations, including R and D and manufacturing Facilities, in several countries

• It has a multinational central management

• It has multinational stock ownership

Organizational Transformation

MNC is now increasingly assuming the role of an orchestrator of production and transactions within a cluster, or network, of cross border internal-external relationships, which may or may not involve equity investment, but which are intended to serve its global interests.

Dominance of MNCs and global economy

• The global liberalization has paved the way for fast expansion and growth of the MNCs

• The economic clout of the MNCs is indicated by the GDP of most of the countries is smaller than the value of the annual sales turnover of the multinational giants

MNCs and international trade

• The sale of foreign subsidiaries in the host countries are three to four times as large as total world exports

• Significant increase in the export intensity of the foreign affiliates of MNCs

• The abilities of multinationals to manipulate financial flows by the use of artificial transfer prices is bound to be a matter of concern government

Merits of MNCs

• MNCs help increase the investment level and thereby the income and employment in host country.

• The transnational corporations have become vehicles for the transfer of technology, especially to the developing countries.

• They also kindle a managerial revolution in the host countries through professional management and the employment of highly sophisticated management techniques.

MEASI INSTITUE OF MANAGAMENT

• The MNCs enable the host countries to increase their exports and decrease their import requirements.

• They work to equalize the cost of factors of production around the world.

• MNCs provide an efficient means of integrating national economics.

• The enormous resources of the multinational enterprises enable them to have very efficient research and development systems. Thus they make a commendable contribution to inventions and innovations.

• MNCs also stimulate domestic enterprise because to support their own operations, the MNCs may encourage and assist domestic suppliers.

• MNCs help increase competition and break domestic monopolies.

Demerits of MNCs

- The MNCs technology is designed for worldwide profit maximization, not the development needs of poor countries. The imported technologies are not adapted to a. consumption needs
- size of domestic markets
- Resource availabilities d. stage of development of many of the LDCs.
- Through their power and flexibility, MNCs can evade or undermine national economic autonomy and control and their activities may be inimical to the national interests of particular countries.
- MNCs may destroy competition and acquire monopoly powers.
- The tremendous power of the global corporations poses the risk that they may threaten the sovereignty of the nations in which they do business.
- MNCs retard growth of employment in the home country.
- The transnational corporations cause fast depletion of some of the non-renewable
- Natural resources in the host country.
- The transfer pricing enables MNCs to avoid taxes by manipulating prices on intracompany transactions.

MEASI INSTITUE OF MANAGAMENT

Growth Perspective of MNCs

- Increasing emphasis on market forces and a growing role for the private sector in nearly all developing countries.
- Rapidly changing technologies that are transforming the nature of organization and location of international production.
- The globalization of firms and industries
- The rise of services to constitute the largest single sector in the world economy
- Regional economic integration

Code of Conduct

A framework to allow developing countries as well as transnational corporations to benefit from direct investments on terms contractually agreed upon:

Legislation

Cooperation by governments

Fiscal and other incentives and policies towards foreign investment

An international procedure for discussions and consultations

Multinationals in India

In India the government policy confined the foreign investment to the priority areas like high technology and heavy investment sectors of national importance and export sectors. Firms which had been established in non-priority areas prior to the implementation of this policy have, however, been allowed to continue in those sectors. Several Indian outfits of MNCs are in the low technology consumer goods sector. There are many MNCs which are in high technology area. Since the economic liberalization unshared in 1991, many multinationals in different lines of business have entered the Indian market.

Issues in FDI

Foreign direct investment (FDI) is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold

MEASI INSTITIFUE OF MANAGAMENT

securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one's business into a foreign country.

Benefits of Foreign Direct Investment

Foreign direct investment offers advantages to both the investor and the foreign host country. These incentives encourage both parties to engage in and allow FDI.

Below are some of the benefits for businesses:

- Market diversification
- Tax incentives
- Lower labour costs
- Preferential tariffs
- Subsidies

The following are some of the benefits for the host country:

- Economic stimulation
- Development of human capital
- Increase in employment
- Access to management expertise, skills, and technology

For businesses, most of these benefits are based on cost cutting and lowering risk. For host countries, the benefits are mainly economic.

Disadvantages of Foreign Direct Investment

Despite many benefits, there are still two main disadvantages to FDI such as:

- Displacement of local businesses
- Profit repatriation

The entry of large firms such as Walmart may displace local businesses. Walmart is often criticized for driving out local businesses that cannot compete with its lower prices.

In the case of profit repatriation, the primary concern is that firms will not reinvest profits back into the host country. This leads to large capital outflows from the host country.

MEASI INSTITUTE OF MANAGAMENT

As a result, many countries have regulations limiting foreign direct investment.

Types and Examples of Foreign Direct Investment

Typically, there are two main types of FDI: horizontal and vertical FDI.

Horizontal: a business expands its domestic operations to a foreign country. In this case, the business conducts the same activities but in a foreign country. For example, McDonald's opening restaurants in Japan would be considered horizontal FDI.

Vertical: a business expands into a foreign country by moving to a different level of the supply chain. In other words, a firm conducts different activities abroad but these activities are still related to the main business. Using the same example, McDonald's could purchase a large-scale farm in Canada to produce meat for their restaurants.

However, two other forms of FDI have also been observed: conglomerate and platform FDI.

Conglomerate: a business acquires an unrelated business in a foreign country. This is uncommon as it requires overcoming two barriers to entry: entering a foreign country and entering a new industry or market. An example of this would be if Virgin Group, which is based in the United Kingdom, acquired a clothing line in France.

Platform: a business expands into a foreign country but the output from the foreign operations is exported to a third country. This is also referred to as export-platform FDI. Platform FDI commonly happens in low-cost locations inside free-trade areas. For example, if Ford purchased manufacturing plants in Ireland with the primary purpose of exporting cars to other countries in the EU.

MEASI INSTITUTE OF MANAGAMENT

What is Transfer Pricing in India?

Transfer pricing refers to value attached to transfer of goods or services between related parties.

Thus, transfer pricing can be defined as the price paid for goods transferred from one economic unit to another, assuming that the two units involved are situated in different countries, but belong to the same multinational firm.

Aims & Objective Of Transfer Pricing:

1. Transfer pricing minimizes the tax burden or arranging direction of cash flow:

Transfer price, as aforesaid, refers to the value attached to transfer of goods, services, and technology between related entities such as parent and subsidiary corporations and also between the parties which are controlled by a common entity. Its essence being that the pricing is not set by an independent transferor and transferee in an arm's length transaction. Transaction between them is not governed by open market considerations.

2. Transfer pricing results in shifting profits:

Whatever the reason for fixing a transfer price which is not arm's length, the result is the shift of profit. The effect is that the profit appropriately attributable to one jurisdiction is shifted to another jurisdiction. The main object is to avoid tax as also to withdraw profits leaving very little for the local participation to share. Other object is avoidance of foreign exchange restrictions.

3. Shifting of Profits- Tax avoiding not the only object:

Transfer between the enterprises under the same control and management, of goods, commodities, merchandise, raw material, stock, or services is made at a price which is not dictated by the market but controlled by such considerations such as:

• To reduce profits artificially so that tax effect is reduced in a specific country;

• To facilitate decentralization of production so that efforts are directed to concentrate profits in the State of production where there is no or least competition;

To remit profits more than the ceilings imposed for repatriation;

MEASI INSTITUTE OF MANAGAMENT

To use it as an effective tool to exploit the fluctuation in foreign exchange to advantage

Strategic Alliance

A strategic alliance is an arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project. A strategic alliance is less involved and less binding than a joint venture, in which two companies typically pool resources to create a separate business entity. In a strategic alliance, each company maintains its autonomy while gaining a new opportunity.

The Purpose of Strategic Alliances

Strategic alliances allow two organizations, individuals or other entities to work toward common or correlating goals. The idea is for all parties to benefit in the short term, long term or both. The agreement may be formal or informal, but each party's responsibilities must be clear. Further, the agreement may be in place over the short or long term depending on the needs and goals of the parties involved.

Often, strategic alliances allow involved organizations to pursue opportunities at a faster rate than if the organizations functioned alone. An alliance provides access to additional knowledge and resources owned by the other party, which may ease the learning curve for the new pursuit and relieve setup time and costs.

This strategy provides more flexibility than joint ventures because the involved parties do not need to merge any assets or funds to proceed. Instead, parties remain autonomous, which can help ease the functioning of the agreement when the two entities' business practices are highly varied.

The Risks of Strategic Alliances

Although the arrangement is typically clear for both parties, the differences in how the businesses operate can cause conflict. Further, if the alliance requires informing one party of the other party's proprietary information, there must be a high level of trust between the leadership of the alliance entities.

MEASI INSTITUTE OF MANAGAMENT

In the case of long-term strategic alliances, the involved parties may become mutually dependent. While the risk is lower if the dependency is experienced by both parties, the risk canincrease significantly if the dependence becomes one-sided because one party will gain an advantage.

Example of Strategic Alliances

An oil and natural gas company might form a strategic alliance with a research laboratory to develop more commercially viable recovery processes. A clothing retailer might form a strategic alliance with a single clothing manufacturer to ensure consistent quality and sizing. A major website could form a strategic alliance with an analytics company to improve its marketing efforts.

Globalization

Globalization refers to the economic integration of the world. The key characteristics of globalization include liberalization of world trade, expansion of FDI, massive cross-border financial, technical and human flows and co-ordination of cross-border manufacturing and marketing activities.

Globalization refers to the trend towards a more integrated global economic system

Globalization is defined as the increasing process of interdependence and interconnected between different political, social and economic components of the world. It is the way in which the world is seen as the global village.

- Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner.
- The process by which businesses or other organizations develop international influence or start operating on an international scale.

MEASI INSTITUE OF MANAGAMENT

Dimensions

1. Economic

Economic globalization is the intensification and stretching of economic interrelations around the globe. It encompasses such things as the emergence of a new global economic order, the internationalization of trade and finance, the changing power of transnational corporations, and the enhanced role of international economic institutions. Economic globalism involves long-distance flows of goods, services and capital and the information and perceptions that accompany market exchange. Globalization is composed of two sub- processes from economic dimension: the first one is the merging of distinct and isolated parts of global system which includes the spread of active forces and capital all over the world. Free trade agreements are the main part of this process due to the fact that they make legislation that facilitates the flow of work and capital. The second process is development of communication including telecommunication, Internet etc. which facilitate the flow of labor and capital. The agreement on free trade is the main part of this process due to the fact that they make some regulations, which facilitate the flow of labor and capital. The second process is the development of communications including telecommunication, Internet etc. that all facilitate the intra-national and international relations. Multifaceted trade agreements such as The General Tariff And Trade (GATT) negotiation have led to the formation and construction of World Trade Organization. In

MEASI INSTITUTE OF MANAGEMENT

economic dimension, one of the fundamental goals of globalization is the destruction of economic borders and removal of legal barriers and creation of free market system in a way that make the capitals flow freely. The other point in economic dimension of globalization is the removal of custom duties' barriers and globalization of competitions.

Political

Political globalization is the intensification and expansion of political interrelations around the globe. Aspects of political globalization include the modern-nation state system and its changing place in today's world, the role of global governance, and the direction of our global political systems. Another important aspect of globalization is politics. Political globalization refers to the accumulation of power in a single international government. Just as families once combined into tribes and tribes into nations, so nations are combining into regional power blocs, and thence perhaps to a single world political community.

While the idea is rather overwhelming, there is no denial that it is happening. Over the past several years, many international organizations have evolved and the United Nations is probably the most renowned one today. Although the main objective of the United Nations is to work towards achieving peace between different nations, it is also working to achieving other development goals. This coming together of different countries can be an effective solution for global peace. With member from 185 countries, the United Nations is a prime example of a diplomatic global village (Buckley, 1998, P.51). Delegations from each country come to an agreement about rules and policies, and tend to have fewer conflicts. This can benefit the developing countries greatly because they are the ones who are at risk of being invaded and taken advantages of. Other than achieving peace, political globalization can be a platform to solve issues be it education, poverty, environment, or organized crime.

2. Cultural

Cultural globalization is the intensification and expansion of cultural flows across the globe. Culture is a very broad concept and has many facets, but in the discussion on globalization, Steger means it to refer to "the symbolic construction, articulation, and dissemination of meaning." Topics under this heading include discussion about the development of a global culture, or lack thereof, the role of the media in shaping our identities and desires, and the globalization of languages. Globalization has allowed for the spread of customs, language

MEASI INSTITUTE OF MANAGAMENT

and products. Globalization has allowed for people to be able to attain goods and services not previously available. You can find Coca-Cola, McDonalds and KFC in most major cities throughout the world. Globalization has allowed people to become familiar with the culture of other countries allowing for a greater understanding. While globalization opens doors it also leads to blending of cultures and the deterioration of unique cultural differences. The negatives of globalization include gap between rich and poor, reduction in individual sovereignty of a nation, environmental pollution and susceptibility of all parts of the world suffering with recession in other countries.

3. Ecological

Ecological globalization include population growth, access to food, worldwide reduction in biodiversity, the gap between rich and poor as well as between the global North and global South, human-induced climate change, and global environmental degradation. Activists have pointed out that globalization has led to an increase in the consumption of products, which has impacted the ecological cycle. Increased consumption leads to an increase in the production of goods, which in turn puts stress on the environment. Globalization has also led to an increase in the transportation of raw materials and food from one place to another. Earlier, people used to consume locally-grown food, but with globalization, people consume products that have been developed in foreign countries. The amount of fuel that is consumed in transporting these products has led to an increase in the pollution levels in the environment. It has also led to several other environmental concerns such as noise pollution and landscape intrusion. Transportation has also put a strain on the non-renewable sources of energy, such as gasoline.

Nature of International Business

- It related to transaction involving more than one country
- It may be carried on by individuals, organization and government
- It includes transfer of knowledge, skilled people, technology, capital information and other resources
- It has become massive in scale
- The purpose is to satisfy customers

MEASI INSTITUTE OF MANAGAMENT

Stages in Globalization or internationalization stages

Most companies pass through different stages of internationalization.

1. DOMESTIC COMPANY

Market potential is limited to the home country. Production and marketing facilities are located at home only. Surplus may or may not be exported. There are no overt efforts to develop foreign markets. It may add new product lines, serve new local markets but whole planning is limited to national markets only.

Features:

i. Their focus remains with domestic market.

ii. Their productions facilities remain based in home country. Their analysis is focused on the national market.

iii. They do not think globally and avoid taking risk in going global.

iv. Their top management may have traditional kind of business management competency and less global expertise.

v. They perceive that there is risk in expanding into global market and thus they try to play safe and satisfied with whatever gains they are getting in domestic market.

2. International Company

Some ambitious efficient domestic companies after going beyond their domestic marketing

MEASI INSTITUTE OF MANAGEMENT

capacities start thinking of expanding their operations in International Markets.

The main strategies for entering international market are:

a) Off-shoring/global outsourcing (seeking cheaper source of raw material or labour)

b) Exporting

c) Licensing

d) Franchising

e) Joint Ventures/Acquisitions

f) Direct Investments/FDI

Even though they think of international markets, still they are of ethnocentric or domestic oriented. These companies adopt the strategy of locating the branches of their companies in other countries and practice the same domestic operations in foreign markets, including the same promotion, price, product etc. policies.

Features:

i. Focus on going beyond, domestic

ii. Their management remains ethnocentric with a vision to expand internationally. They extend their domestic products, domestic prices and other business practices to foreign countries.

iii. They keep their marketing mix constant and extend their operations to new countries.

iv. Their management style remains centralized for their home nation and extended top down to the overseas market country.

3. Multinational Company

After sometime, international companies realize that the domestic model and practices adopted through extension policies do not serve the purpose. The foreign customers may not prefer the products that are sold in domestic market. Hence, these companies respond to the needs of different customers in different countries and produce such goods and services that will satisfy them.

Features:

i. Companies when they spread their wings to more nations become multinational companies.

ii. Sooner or later they realize that they have to change their marketing mix according to the foreign market.

MEASI INSTITUTE OF MANAGAMENT

iii. This can also be termed as multi domestic, in which different strategies are adopted for different market.

iv. The management of such companies' remains decentralized and even production may be in the host country.

v. Performance evaluation is done at different host countries.

4. Global company

The global company adopts global strategy for marketing its products. It may produce either in the home country or in any other single country and market its products throughout the world. It may also produce the products globally and market them domestically.

Features:

i. Such companies have a global marketing strategy.

ii. They either produce in home country or in a single country and focus marketing globally.

iii. They adapt to the market conditions according to the foreign market.

iv. Their performance evaluation is done worldwide.

5. Transnational Company

Transnational Company operates at the global level by way of utilizing global resources to serve the global markets. It has geocentric orientation and has integrated network. Its key assets are dispersed and every sub-unit of the company contributes towards achievement of the company objectives. It produces best quality raw materials from the cheapest source in the world, process them in the country wherever it is economical and sells the finished products in those markets where prices are favorable.

Feature:

i. Transnational companies have a geocentric approach, which means they think globally and act locally.

ii. Transnational companies collect information worldwide and scan it for use beyond geographical boundaries.

iii. The vision of such to grow more in a global way.

MEASI INSTITUTE OF MANAGAMENT

iv. The R&D product development is shared worldwide.

v. Their human resources procurement and development remains globally.

Modes of entry into International Business

- Exporting
- Licensing
- Franchising
- Merger and acquisitions
- Joint ventures
- Turnkey project
- FDI

Special problems in International Business

- Cultural differences
- Political and legal differences
- Economic differences
- Differences in the currency unit
- Differences in the language
- Differences in the marketing infrastructure
- Trade and investment restrictions
- High costs of distance
- Differences in business practices

Globalization: Advantages or Disadvantages

Globalization pulls the countries out, from their detachment into the competitive world. A journey towards new collaborations and unity, it has changed the world into a global village. Both distance and isolation have been terrifically reduced. Globalization integrates trade, technology.

MEASI INSTITUTE OF MANAGAMENT

Advantages of International Business

- Economic growth of the world
- Optimum utilization of world resources
- High living standards
- Increased socio-economic welfare
- Wider market
- Reduced effects of business cycles
- Large scale economies
- Reduced risks
- Cultural transformation
- Division of labor and specialization

COUNTER TRADE

- Counter trade is a system of international trading that helps governments reduces imbalances in trade between them and other countries. It involves the direct or indirect exchange of goods for other goods instead of currency. Countertrade - a whole range of barter-like agreements that facilitate the trade of goods and services for other goods and services when they cannot be traded for money For example Saudi Arabia agreed to buy 10747 jets from Boeing with payment in crude oil, discounted at 10% below posted world oil prices.

MEASI INSTITUTE OF MANAGAMENT

TYPES OF COUNTERTRADE

Barter - a direct exchange of goods or services between two parties without a cash transaction

- the most restrictive countertrade arrangement
- used primarily for one-time-only deals in transactions with trading partners who are not creditworthy or trustworthy

Counter purchase - a reciprocal buying agreement

- It occurs when a firm agrees to purchase a certain amount of materials back from a country to which a sale is made

Offset - similar to counter purchase - one party agrees to purchase goods and services with a specified percentage of the proceeds from the original sale difference is that this party can fulfill the obligation with any firm in the country to which the sale is being made

A buyback occurs when a firm builds a plant in a country or supplies technology, equipment, training, or other services to the country agrees to take a certain percentage of the plant's output as a partial payment for the contract.

Switch trading - the use of a specialized third-party trading house in a countertrade arrangement when a firm enters a counter purchase or offset agreement with a country, it often ends up with counter purchase credits which can be used to purchase goods from that country switch trading occurs when a third-party trading house buys the firm's counter purchase credits and sells them to another firm that can better use them.

QUESTIONS

1. Discuss the advantages of international business.
2. Explain the internationalization process in detail.
3. Discuss the types of counter trade.
4. Elaborate the challenges in international business.
5. Explain domestic vs international trade.
6. Determine the advantages of franchising.
7. Elaborate the methods of international entry.
8. Explain the advantages of strategic alliance.
9. Discuss the features of MNCs.

UNIT-II

INTERNATIONAL BUSINESS ENVIRONMENT AND CULTURAL DIFFERENCES

International business is much more complicated than domestic business because countries differ in many ways. Countries have different political, economic and legal systems. Cultural practices

MEASI INSTITUE OF MANAGAMENT

can vary dramatically as can the education and skill level of the population and countries are at different stages of economic development. All these differences can and do have major implications for the practices of international business.

The environment of International trade is regarded as the sum total of all the external forces working upon the firm as it goes about its affairs in foreign and domestic markets. The environment can be classified in terms of domestic, foreign and international spheres of impact. The domestic environment is familiar to managers and consists of those uncontrollable external forces that affect the firm in its home market. However, it may be underlined that some of these forces (e.g. the cost of capital and export restrictions) can also have significant effect on global operations of a firm. The foreign environment can be taken as those factors, which operate in those other countries within which the MNC operates. Generally, the factors are the same, but they can have widely differing impacts from the home country situation.

The various Environmental Forces are as follows:

1. Political-Legal Environment
2. Economic
3. Cultural
4. Technological

MEASI INSTITUE OF MANAGAMENT

1. Political systems

The political system of a country shapes its economic and legal systems. By political system we mean the system of government in a nation. Political systems can be assessed according to two dimensions.

1. The degree to which they emphasize collectivism as opposed to individualism.

2. The degree to which they are democratic or totalitarian.

These dimensions are interrelated; systems that emphasize collectivism tend toward totalitarianism while systems that place a high value on individualism toward democratic.

Collectivism:

An emphasis on collective goals as opposed to individual goals

- The needs of society as a whole are generally viewed as being more important than individual freedoms.
- Greek philosopher Plato argued that individual rights should be sacrificed for the good of the majority and that property should be owned in common.

Individualism:

The opposite of collectivism, individualism refers to a philosophy that an individual should have freedom in his economic and political.

- It stresses that the interests of the individual should take precedence over the interests of the state
- It emphasis on the importance of guaranteeing individual freedom and self-expression
- The welfare of society is best served by letting people pursue their own economic self-interest.

Democracy:

A system of government in which the people directly or through their elected officials, decide what is to be done. It refers to a political system in which government is by the people,

MEASI INSTITUTE OF MANAGAMENT

exercised either directly or through elected representatives.

- Democracy and individualism go hand in hand
- It based on a belief that citizens should be directly involved in decision making
- An individual rights to freedom of expression, opinion and regular election

Totalitarianism:

A system of government in which one individual or party maintains complete control and either refuses to recognize other parties or suppresses them. A form of government in which one person or political party exercises absolute control over all sphere of human life and prohibits opposing political parties.

Political environment refers to the influence of the system of government and judiciary in a nation on international business. The system of government in a nation wields considerable impact on its business. The type and structure of government prevailing in a country decides, promotes, fosters, encourages, shelters, directs and controls the business of that country. A political environment that is stable, honest, efficient and dynamic and which ensures political participation to the people, and assures personal security to the citizen, is primary factor for economic development. The developed economies of the today owe their success to a large extent to the political system they richly enjoyed. Legal Environment refers to the legal system obtaining in a country. The legal system then refers to the rules and laws that regulate behavior of individuals and organizations. Failure to comply with the laws means that penalties will be inflicted by the courts depending on the seriousness of the offence. The legal system of a country is of immense importance to international trade. A country's laws regulate business practice, define the manner in which business transactions are to be carried out and set down the rights and obligations of those involved in business deals.

2. Economic systems

The global economic environment plays a large role in the development of new markets for organizations. Capital movements have replaced trade as the driving force of the world economy.

Three broad types of economic systems are

MEASI INSTITUTE OF MANAGAMENT

- Market economy
- Command economy
- Mixed economy

Market economy:

An economy in which goods and services are allocated on the basis of consumer demand

- Individuals and firms allocate resources
- Production resources are privately owned
- Driven by consumers
- Government should promote competition among firms and ensure consumer protection
- Production is determined by the interaction of supply and demand and signaled producers through the price system.

Command economy:

- The goods and services that a country produces, the quantity in which they are produced and the prices at which they are sold are all planned by the government
- Government owns entire industries
- Consumers can spend on what is available
- Demand typically exceeds supply
- Little confidence on product differentiation, advertising and pricing strategy.

Mixed economy:

In a mixed economy, certain sectors of the economy are left to private ownership and free market while other sectors have significant state ownership and government planning.

Economic Environment refers to those economic factors, which have impact on the international trade. It includes economic conditions, economic policies, economic system, phases of business cycle, foreign investment, international organizations (IMF, World Bank, WTO etc.), international trade agreements etc. There are various international organizations, which issue various guidelines make different rules and regulations for regulating international trade. Among these important organizations are international Monetary Fund, World Bank, World Trade Organization etc.

3. Cultural Environment

In global business activities such as leading, motivating, decision-making, problem solving and exchanging information and ideas depend on the ability of managers and employees from one

MEASI INSTITUTE OF MANAGAMENT

culture to communicate successfully with colleagues, clients and suppliers from other cultures. Mistakes in cross cultural communication often go unnoticed by the communicators, but these mistakes have potential to cause damage to international relationships and negotiations.

4. Technological Environment

Technological Environment like its counterparts political and legal has a considerable influence on international business. Technology has facilitated international business in at least six ways:

MEASI INSTITUTE OF MANAGEMENT

i. E-Commerce

The internet allows both small and big companies to expand their global presence at a lower cost than ever before. The internet makes it much easier for buyers and seller to find each other, wherever they may be located, and whatever their size.

ii. Telecommunications

Technologies such as 3G, 4G, and MMS etc. have fostered closely knit global business.

iii. Transportation

In addition to developments in computers and telecommunications, several major innovations in transportation. In economic terms, the most important are probably the development of

commercial jet aircraft and super freighters and the introduction of containerization, which simplifies trans-shipment from one mode of transport to another.

iv. Globalization of production of Production

Technological breakthroughs have facilitated globalization of production. A worldwide communications network has become essential for any MNC. Factors influencing the location of manufacturing facilities vary from country to country. They may be more favorable in foreign countries rather than in home country.

v. Globalization of Markets

Globalization of markets refers to the process of integrating and merging of the distinct world markets into a single market. This process involves the identification of some common norm, value, taste, preference and convenience and slowly enables the cultural shift towards the use of common product or service.

vi. Technology Transfer

Technology transfer and globalization are interconnected with each other. They are highly interdependent as well. The onset of globalization has brought up free passage of goods and services across the globe. The role of technology has also changed from time to time. It is currently considered as one of the important factors in the propagation of globalization. Technology transfer consists not only of various scientific researches and discoveries, but also the transformation of such researches and discoveries into practical and feasible applications or products. Technology transfer is one of the major aspects of globalization.

Analysis of Global Environment

Businesses are influenced by the environment that they're in and all the situational factors that determine circumstances from day to day. It is because of this, that businesses need to keep a check and constantly analyze the environment within which they run their trade and within which the market lays. PESTLE analysis consists of components that influence the **International Business Environment** and each letter in the acronym denotes a set of factors that directly or indirectly affect every industry. The letters denote the following things:

MEASI INSTITUTE OF MANAGAMENT

Political Factors

These factors take into account the political situation of a country and the world in relation to the country. For example, what sort of government leadership is affecting what decisions of a country? All the policies, all the taxes laws and every tariff that a government levies over a trade fall under this category of factors. These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labor law, environmental law, trade restrictions and so on.

Economic Environment

Economic factors deal with national or international economic developments and have a direct influence on supplier and consumer markets. Examples of economic factors that play a big role are: the GDP, the rate of inflation, interests, the change rate, employment or the situation of money markets. These economic factors influence demand, competition intensity, cost pressure and the will to invest. For instance, if the gross domestic product of a country is fairly low, the demand is in general lower than in countries with a higher GDP.

Social Environment

Also known as socio-cultural factors are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, and career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them. Trends in social factors affect the demand for a company's products and how that company operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

Technological Factors

Technology changes every minute and therefore companies need to stay connected along the way and integrate as and when needed. Also, these factors are analyzed to understand how the consumers react to technological trends and how they utilize them for their benefit.

MEASI INSTITUE OF MANAGAMENT

Technological factors include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Legal Factors

Legislative changes occur from time to time and many of them affect the business environment. For example, if a regulatory body would set up a regulation for the industries, then that law would impact all the industries and business that strife in that economy, therefore businesses also analyze the legal developments happening in their environment. **Legal factors** include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products. Foreign trade is regulated by rules framed by domestic country, foreign country and rules and regulations framed by international organizations like WTO, UNCTAD, ASEAN, SAARC etc. Other international organizations regulating international trade are International Court of Justice, International Centre for Settlement of Investment Disputes, and United Nations Commission on International Trade Law etc.

Intellectual property:

It refers to property that is the product of intellectual activity such as computer software, chemical formula for a new drug. Intellectual property must be registered in each country where business is conducted. Patent, trademarks, copyright establish ownership rights over intellectual property.

Patent: patent gives an inventor exclusive right to make, use and sell an invention for a specified period of time.

Trademarks: trademarks are design and names officially registered distinctive mark used to distinguish it from competing products.

Copyright: copyright establishes ownership of a written, recorded, performed or filmed creative work.

MEASI INSTITUE OF MANAGAMENT

Property rights:

Property rights refer to the bundle of legal rights over the use to which a resource is put and over the use made of any income that may be derived from those resources.

Licensing and trade secrets: contractual agreement in which a licensor allows a license to use patents, trademarks, trade secrets, technology and other intangible assets in return for royalty payments or other forms of compensation.

Environmental factors

The location of countries influence on the trades that businesses do. Adding to that, many climatic changes alter the trade of industries and the way consumers react towards a certain offering that is launched in the market. Environmental factors include weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness to climate change is affecting how companies operate and the products they offer–it is both creating new markets and diminishing or destroying existing ones.

CULTURE

Edward Tylor defined culture as "that complex whole which includes knowledge, beliefs, art, morals, law, custom and other capabilities acquired by man as a member of society.

Culture is a system of values (abstract ideas about what a group believes to be good, right, and desirable) and norms (the social rules and guidelines that prescribe appropriate behavior in particular situations) that are shared among a group of people and that when taken together constitute a design for living Values - provide the context within which a society's norms are established and justified

-Such as truth, justice, honesty, loyalty etc.

Norms - the social rules that govern the actions of people toward one another and can be further subdivided into Folkways - the routine conventions of everyday life-Dress code, good social manners, neighborly behavior

Mores- norms that are seen as central to the functioning of a society and to its social life - Against theft

SOCIETY

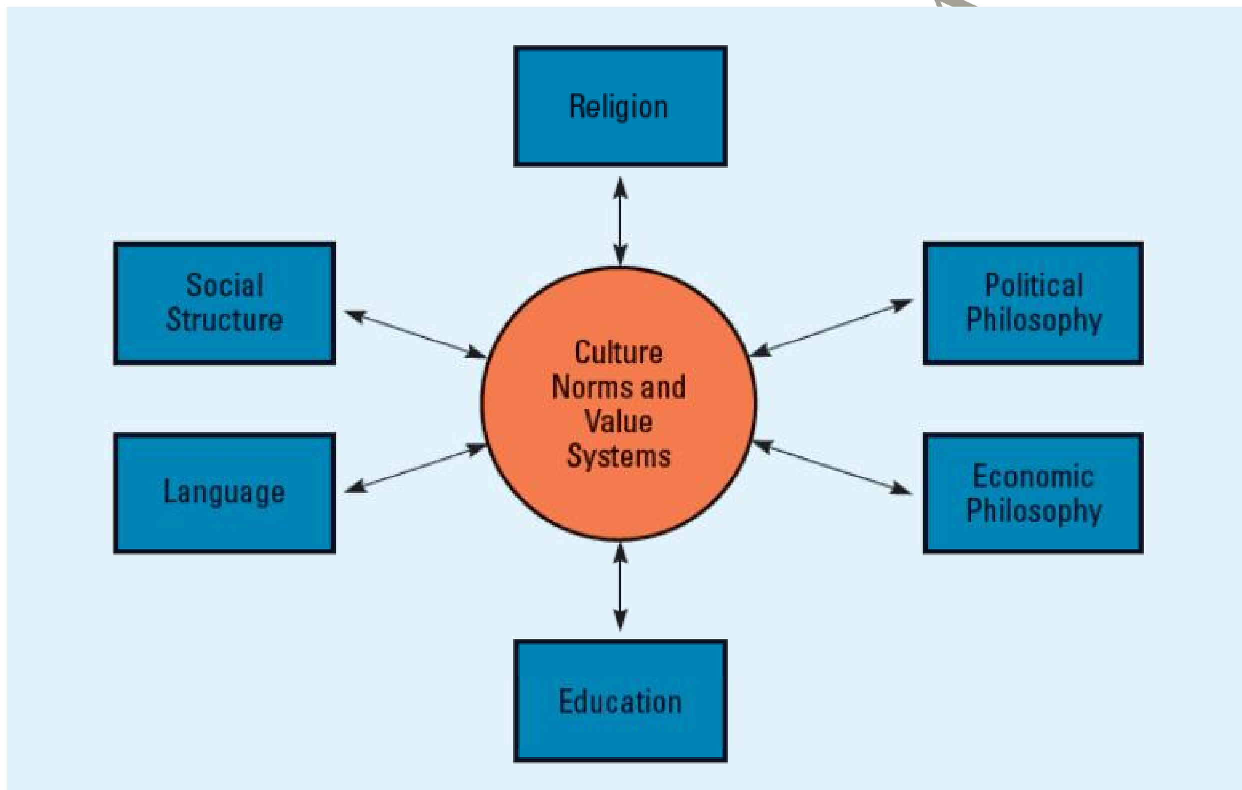
MEASI INSTITUTE OF MANAGAMENT

A group of people who share a common set of values and norms
There is not a strict one-to-one correspondence between a society and a nation-state are political creations that can contain a single culture or several cultures some cultures embrace several nations.

THE DETERMINANTS OF CULTURE

The values and norms of a culture are the evolutionary product of a number of factors at work in a society including prevailing political and economic philosophies a society's social structure

The dominant religion, language, and education



MEASI INSTITUTE OF MANAGEMENT

Cultural lag

A slowness in the rate of change of one part of a culture in relation to another part, resulting in a maladjustment within society, as from the failure of the nonmaterial culture to keep up-to-date of developments in the material culture.

CULTURE AND THE WORKPLACE

Geert Hofstede studied how culture relates to values in the workplace (1967-1973)

1. Power distance - how a society deals with the fact that people are unequal in physical and intellectual capabilities
2. Individualism versus collectivism - the relationship between the individual and his or her fellows
3. Uncertainty avoidance - the extent to which different cultures socialize their members into accepting ambiguous situations and tolerating ambiguity
4. Masculinity versus femininity - the relationship between gender and work roles

Hofstede later added a fifth dimension, Confucian dynamism - captures attitudes towards time, persistence, ordering by status, protection of face, respect for tradition, and reciprocation of gifts and favors

Country Risk Analysis-Meaning, Definition, Factors Effecting Country Risk

Meaning

All business transactions involve some degree of risk. When business transactions occur across international borders, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography, and currencies. Many of the individual events investigated by country risk analysis fall closer to uncertainties than well-defined statistical risks. Country Risk may be classified as a specific type of environmental risk i.e. its source is the general business environment of a country that one is operating. In International Business one is often operating across different countries. Socio-political and economic environment in these different countries is therefore of concern to International Business. Change in these parameters may put an International Business to various kinds of risks. Examples of situations where Country Risk could play an important role:

- Portfolio investment done in another country may suffer loss if the Share prices tumble because a

MEASI INSTITUTE OF MANAGAMENT

certain party came to power in general elections

- A military dictator after coming to power announced that all foreign nationals should be deported within 24 hours. The management of MNC had to leave in haste and did not find time to sell FDI invested in the country take out the funds.
- A country suffered Balance of Payment Crisis as a result of which the currency depreciated sharply. Profits in that currency therefore lost value when converted to another currency.

Definition

Assessing the potential risks and rewards associated with making investments and doing business in a country. Study of business environment in different countries with an objective of predicting the likelihood of various kinds of risks that businesses operating in those countries may face.

Factors affecting Country Risk may be classified as:

(I) Economic

(ii) Political

(iii) Social

Economic Factors

Certain specific economic parameters are analyzed while evaluating Country Risks. Here the basic issue is to examine the

- Ability of a country to honor its external obligations and
- The possible strain it would put on the exchange rate.

It is important to note here that both the above issues would directly depend on the external sector situation. However, external sector of any country cannot be examined in isolation. It is equally important to understand the domestic economy by means of various GDP, Fiscal Policy and Monetary policy related parameters.

Again depending upon the time horizon that one is looking at it is important to focus not only on the immediate values of these parameters but also on long term trends as also on the long term sustainability of these trends.

The internal economic situation as reflected by the GDP, Fiscal and monetary variable becomes more important if one is considering a long term involvement by way of FDI in the country.

MEASI INSTITUTE OF MANAGAMENT

These can be grouped as –

GDP related parameters

Fiscal sector parameters

Monetary policy parameters

External sector parameters

GDP related Parameters:

GDP in nominal and real terms

GDP growth rate and its trend over long term

Per Capita GDP

Sectorial distribution of GDP – Contribution of Primary, Secondary and Tertiary sectors

Saving / GDP ratio

Investment / GDP ratio

Investment / saving ratio

Investment/GDP growth ratio

Unemployment

Fiscal sector parameters:

Deficits – Fiscal, Revenue, Monetized

Deficits as % of GDP

Tax collection as % of GDP

Tax buoyancy

Internal Debt / GDP ratio

Debt maturity profile

Monetary policy parameters:

Inflation

Interest rate

All other monetary policy tools such as CRR, SLR, and Bank rate – different countries would have different monetary policy tools.

External sector parameters:

Balance of Trade

MEASI INSTITUTE OF MANAGAMENT

Balance of Payments

Composition of Exports and Imports

Trends in import and export growth

Terms of Trade

BOP Deficit /GDP ratio

External Debt – quantum and maturity profile

External Debt / GDP

Debt Servicing / export earnings

Capital flows

Exchange rate stability

Political Factors

The political risk is the risk that a foreign government will significantly alter its policies or other regulations so that it significantly affects one's investment. More broadly, it can apply to the risk that a nation will refuse to comply with an agreement to which it is a party, or that political violence will hurt an investment or business. For example, if one exports goods to a foreign nation, and that nation elects a new government that enacts protectionist tariffs, this will negatively impact the export business

A change in political situation of a country is likely to change the business environment. Some of the important political factors to be looked into would include –

System of government – democratic, authoritarian, etc.

Major political parties and their ideologies

Party in power, it vision, succession plan, etc.

Leading opposition parties and their ideologies and visions

Maturity of political institutions

MEASI INSTITUTE OF MANAGAMENT

Social Factors

Culture and history

Values

Educational levels
Major fault-lines / dividing lines in the society
Attitudes towards foreigners, change, technology, profits, etc.

The cultural environment for international business refers to the set of factors which shape the material and psychological development of a nation and represents the primary influence on individual lifestyle, attitude, pre-deposition and behavior as consumers in the market. The most important task of international business is to identify relevant similarities and differences among countries, and means and methods to match the organization's culture with that of the country of its operation. For example, when Toshiba gained 100 percent ownership of Rank-Toshiba in the Plymouth all the managers in charge learnt the British Style of working. Working it is the operation of a business or dealing with customers one cannot overlook cultural elements. The performance of a company in the international arena partly depends on how well the strategic elements fit into the culture of the host country. Culture may be described as the totality of The complex and learned behavior of members of a given society. Elements of culture include beliefs, art, morale, code of conduct and customs. Culture has the following three characteristics:
- It is learned: acquired by people over time through their membership in a group that transmits culture from generation to generation.
- It is interrelated: i.e. one aspect of the culture is connected with another part, e.g. religion and marriage, or business and social status.
- It is shared: i.e. tenets of a culture extend to other members of the group. Culture is perhaps one of the most important determinants of human behavior. Food habits, social class, the family system, community units and other cultural and sub-cultural elements influence the process of decision making in day to day dealings and the buying habits of customers. Thus, there is a need

MEASI INSTITUTE OF MANAGAMENT

for cross-cultural understanding because of the significant differences in attitude, belief, Motivation, perception and life styles between nations. For example, branded products will move fast in Europe and America, but Africans perceive branded products as being very expensive.

The Influence of Culture on International Business

1. The Utility value of a product may differ considerably from country to country because of differences in beliefs, values and lifestyles. Fast foods, such as Kentucky Fried Chicken, McDonalds, hamburgers and pizzas are more popular in modern societies than in traditional societies. Similarly, branding and packaging are very susceptible to cultural bias.

2. Products are launched in markets on the basis of either perceived or real utility value. Products from certain parts of the world such as Western Europe, Japan and United states command premium prices in developing countries because it is felt that they are of better quality than locally manufactures products. They have a higher value.

3. Culture is perhaps the most powerful influence in determining the acceptability of advertising copy, design and other elements in various countries. Advertisements released in France may not be acceptable in the United Kingdom. Many advertisements acceptable to the other parts of the world will not be accepted in the Saudi Arabia. Liquor advertisements are prohibited in many Countries.

4. Holidays in different countries vary on religious grounds. Friday is a holiday in the whole of gulf region. In China, the offices and factories are closed for a week for the New Year celebrations. For companies having firms in different countries, it is therefore impossible to impose the rule of common business practices everywhere, as productivity would be very low during festive days. Any strict implementation of company policy will have direct repercussions, which may even lead to closure of the business in different countries.

5. Local norms and practices may affect certain distribution strategies. Eating in public places during Ramadan days is prohibited in Muslim countries. Therefore, eateries are not opened during the day at this time. In Spain, mail order shopping is very popular, whereas in the US and

MEASI INSTITUE OF MANAGAMENT

Europe chain stores are preferred, and door-to-door delivery is common in many Scandinavian countries. Shopping malls are coming up in urban India faster than in any other country in the world. Still small traditional shops near hometown are perceived as trustworthy suppliers when the customers need groceries.

The social environment encompassing religious aspects, language, customs, traditions and beliefs, influences buying consumption habits. Many companies face failure in foreign countries, due to their inability to understand the socio cultural environment. For example whenever any Company establishes business in some African countries; the local population expects that many jobs will open up for them. Very few countries perceive that they may be exploited. Due to the entry of foreign firms the economic and hence the social environment of an area can completely change. An example is southern China, which has completely changed to an affluent society due to the fact that almost 2000 companies get their products manufactured in coastal south China.

1. National Taste

In Thailand, People prefer black shampoo; Nestle brews different varieties of instant coffee because people in those countries have different tastes, uncommon in other countries.

Green is the favorite color of all the Arab countries; Red is still widely used in Russia, in banners, posters, and hoardings although communism is in no way relevant to modern Russia.

2. Language

Cross culture and cross border operations call for necessary language skills, e.g. South Koreans have learnt Indian languages to operate in India. One can see this in Hyundai or LG factories in India. Companies also have to change their brand names and slogans in different countries. In Japan, General Motor's slogan "body by fisher" means "corpse by fisher", and Pepsi Cola Slogan "come alive" means come out of the grave. Prior to promoting the brand, one has to take into account the sociocultural background of a specific nation and different interpretations of a name in the local language.

3. Values and beliefs

It is also important for companies to understand the significance of different designs and colors in different countries. For example, blue is perceived as feminine in Holland and masculine in widen. Green is favorite color in the Muslim world, but is associated with illness in Malaysia

MEASI INSTITUTE OF MANAGAMENT

although it is a Muslim country. White indicated death in china and Korea but it is the color of bridal dresses in Europe. Red is associated with danger in many countries but it is a favorite in Russia. Another example is 'swastika', which is considered sacred in India, but has completely different connotations in the west.

4. Demography

A number of demographic factors such as age, sex ratio, family size and occupation influence the business of many companies. Different companies concentrate on different segments. For example, Barbie generates huge revenues through the children's segment of affluent countries.

5. Literacy rate

Countries with a high literacy rate experience a better standard of living. Here the need is for standardizes goods, supported by technical services. For a country with an educated population, the amount of training required for the staff will be far less than in the case of the country which has a low literacy rate. This is an important factor, as it influences the cost incurred. The amen Argument holds in the case of educating the consumer about the products manufactured.

6. Female Workforce

The most spectacular change that has taken place in the current era is the empowerment of women throughout the world. In China, Indonesia, Russia and Thailand, women are major contributors to the GDP. With economic independency, women no longer have to depend on men to make decisions about what to buy; they can make their own decisions about whether to purchase any consumer product or durable. Deluxe, a well-known brand of paint in Europe was promoted through campaigns directed at women, because it was felt that women have an aesthetic taste for colors in the household paint segment. The performance of the I-pod of Apple hit the roof in terms of revenue generation due to female customers. The female work force is very strong in various sectors in many countries. Examples are: Indian women in IT enabled services and handicrafts, Chinese women in the soft toys and ceramics and Indonesian women in garments and paper work, who have brought great success to their countries.

MEASI INSTITUTE OF MANAGAMENT

Double Income Families

As the household income increases, the demand for the number of products increases proportionately. This is especially true for packaged food items, electronic gadgets, household appliances, health equipment, Japanese entertainment electronics and French perfumes dominate in the whole of Europe and North America. Pizza Express, McDonald and Kentucky Fried Chicken invariably rule the households of double income families throughout the world.

7. Impulse buying

Benefit oriented buying is taking place everywhere. Preplanned shopping and scheduled purchases are gradually going away. Throughout the world, people need instant items. They see, ask and buy. It is a major challenge to international businessmen to provide benefits to lure impulse buying.

Why Is It Important to Gain Cultural Literacy in International Business?

When you do business internationally, you may assume that all businesspeople have the same basic understandings. Although you will find a common appreciation for making profits and reducing costs, you may run across business approaches that surprise you. Diverse cultures have different business values and practices. A little effort at gaining some cultural literacy can help you deal successfully with people around the globe

Cross-Cultural Core Competency

It's important that you demonstrate that you are a global citizen so international customers are willing to do business with you. It's not realistic to set a goal of gaining a deep understanding of all the cultures you may deal with in the course of growing your international marketing. Instead, aim for a core competency. According to an article in "Profit" magazine, you can look at six areas of knowledge you need: Familiarize yourself with cultural attitudes about dealing with strangers, language barriers, how groups respond to sales pitches as either favours or cut-and-dried presentations, local channels you must use for brand awareness, the technical proficiency and capacity of the country or region and how the culture views the importance of doing things on time or relaxing about meeting times and deadline dates.

Cultural Roots of Business Etiquette

One has to understand how a culture views business dealings so you know what style to use

MEASI INSTITUTE OF MANAGAMENT

when approaching businesspeople in that culture. Some cultures look at a transaction as a favour among friends, while others embrace the more American style of a straightforward discussion about making money. Still others may allow business discussions only in certain settings and frown on them at other times. Look into this aspect of the culture before you make any business proposals.

You can evaluate your business transactions with a culture different from your own in light of that culture's contextual clues. This helps you avoid gaffes and create business communications that have a positive impact. The country's history and assumptions about Americans can affect how your message is received. Be sensitive to hot-button issues and avoid any phrases or words that could suggest you look down on the culture or that you consider the person you're dealing with to be a second-class citizen in his own culture. This kind of cultural literacy is of utmost importance when you communicate so you can avoid unintentional negative cultural messages when conducting business.

Avoiding Americanisms

Using internationally accepted word choices and phrases ensures your business dealings won't be misunderstood. Some American phrases do not translate well. For example, "We shall see" means "No" in China. Other phrases such as, "Flying by the seat of our pants" or "Ballpark figure" may not have any meaning at all in other cultures. Scrutinize your written communications for figurative language that may not translate. In addition, cut your verbal communications to the basics. It's important for a company doing global business to remember that the language at its home office may not be universal.

Culture & Competitive advantage

Retention as organizations improve the way they hire people for cultural-add, the logical conclusion is that those people will remain with the company. Company loyalty is still very important in retention efforts while it may seem obvious that using your authentic culture as a recruiting tool leads to increased retention among those recruited employees, these efforts can improve retention in other ways, too. For example, when company culture is clearly defined for employees, they develop a greater sense of purpose because they know where their work fits into the bigger picture of the organization. And when employees have a purpose, they are more

MEASI INSTITUTE OF MANAGAMENT

productive and happy. When your culture becomes a pillar of your business, it can guide you to make other sound decisions that lead to improved retention. Consider benefits—experts agree that benefits have a tremendous ability to positively impact retention efforts since they clearly show employees how much they're appreciated.

QUESTIONS

1. Explain the various issues of economic and legal environment in international business.
2. Discuss the impact of cultural differences in international business.
3. Elaborate the issues involved in cross cultural literacy in the context of international trade.
4. What are the political challenges in international business.
5. Discuss the determinants of economic development.

UNIT-3

INTERNATIONAL TRADE THEORY

1. Mercantilism:

The first theory of international trade emerged in England in the mid-16th century. At that time gold and silver were the currencies of trade between countries.

- The main principles of mercantilism were that it was in a country's best interests to maintain a trade surplus, to export more than it imported.
- By doing so a country would accumulate gold and silver and consequently, increase its national wealth, prestige and power.

2. Absolute Cost Advantage Theory

Adam smith in his book "WEALTH OF NATIONS" (1776)

According to Smith, countries should specialize in the production of goods for which they have an absolute advantage and then trace these for goods produced by other countries.

Smith demonstrates that, by specializing in the production of goods in which each has an absolute advantage, both countries benefits by engaging in trade.

Consider the effects of trade between two countries, Ghana and South Korea. The production of any good (output) requires resources (input) such as land, labor and capital.

Assume that Ghana and South Korea both have same amount of resources and that these

MEASI INSTITUTE OF MANAGAMENT

resources can be used to produce either rice or cocoa.

Assume further that 200 units of resources are available in each country.

The Theory of Absolute Advantage and the Gains from Trade

	Cocoa	Rice
Resources Required to Produce 1 Ton of Cocoa and Rice		
Ghana	10	20
S. Korea	40	10
Production and Consumption without Trade		
Ghana	10.0	5.0
S. Korea	2.5	10.0
Total production	12.5	15.0
Production with Specialization		
Ghana	20	0
S. Korea	0	20
Total production	20	20
Consumption after Ghana Trades 6T of Cocoa for 6TSouth Korean Rice		
Ghana	14.0	6.0
S. Korea	6.0	14.0
Increase in Consumption as a Result of Specialization and Trade		
Ghana	4.0	1.0
S. Korea	3.5	4.0

Table 4.1

© McGraw Hill Companies, Inc., 2000

4-10

The principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources. Adam Smith first described the principle of absolute advantage in the context of international trade, using labor as the only input. Since absolute advantage is determined by a simple comparison of labor productiveness, it is possible for a party to have no absolute advantage in anything; in that case, according to the theory of absolute advantage, no trade will occur with the other party.

Assumptions of the Theory

Trade is between two countries

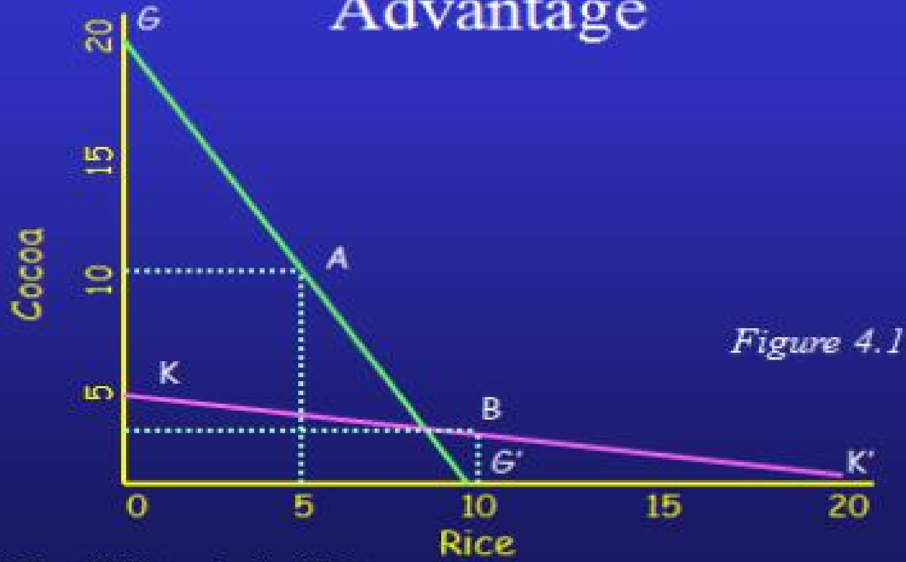
Only two commodities are traded

Free Trade exists between the countries
The only element of cost of production is labor.

Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage. Smith also stated that the wealth of nations depends upon the goods and services available to their citizens, rather than their gold reserves. While there are possible gains from trade with absolute advantage, the gains may not be mutually beneficial.

Smith reasoned that trade between countries shouldn't be regulated or restricted by government policy or intervention. He stated that trade should flow naturally according to market forces. In a hypothetical two-country world, if Country A could produce a good cheaper or faster (or both) than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. By specialization, countries would generate efficiencies, because their labor force would become more skilled by doing the same tasks. Production would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization.

MEASI INSTITUTE OF MANAGAMENT



MEASI INSTITUTE OF MANAGEMENT

Smith's theory reasoned that with increased efficiencies, people in both countries would benefit and trade should be encouraged. As a result of specialization and trade output of both cocoa and rice would be increased and consumers in both nations would be able to consume more. Trade is positive sum game. This theory stated that a nation's wealth shouldn't be judged by how much gold and silver it had but rather by the living standards of its people.

Implications (Significance) of Absolute Advantage Theory

1. More quantity of both products
2. Increased standards of living of both countries
3. Increased production efficiency
4. Increase in global efficiency and effectiveness
5. Maximization of Global productivity and other resources productivity

Criticism

No absolute advantages for many countries

Country size varies

Country by country differences in specialization

Deals with labor only and neglects other factors (Variety of resources)

Neglected Transport cost (It plays significant role)

2. Comparative Advantage

Principles of Political Economy (1817)

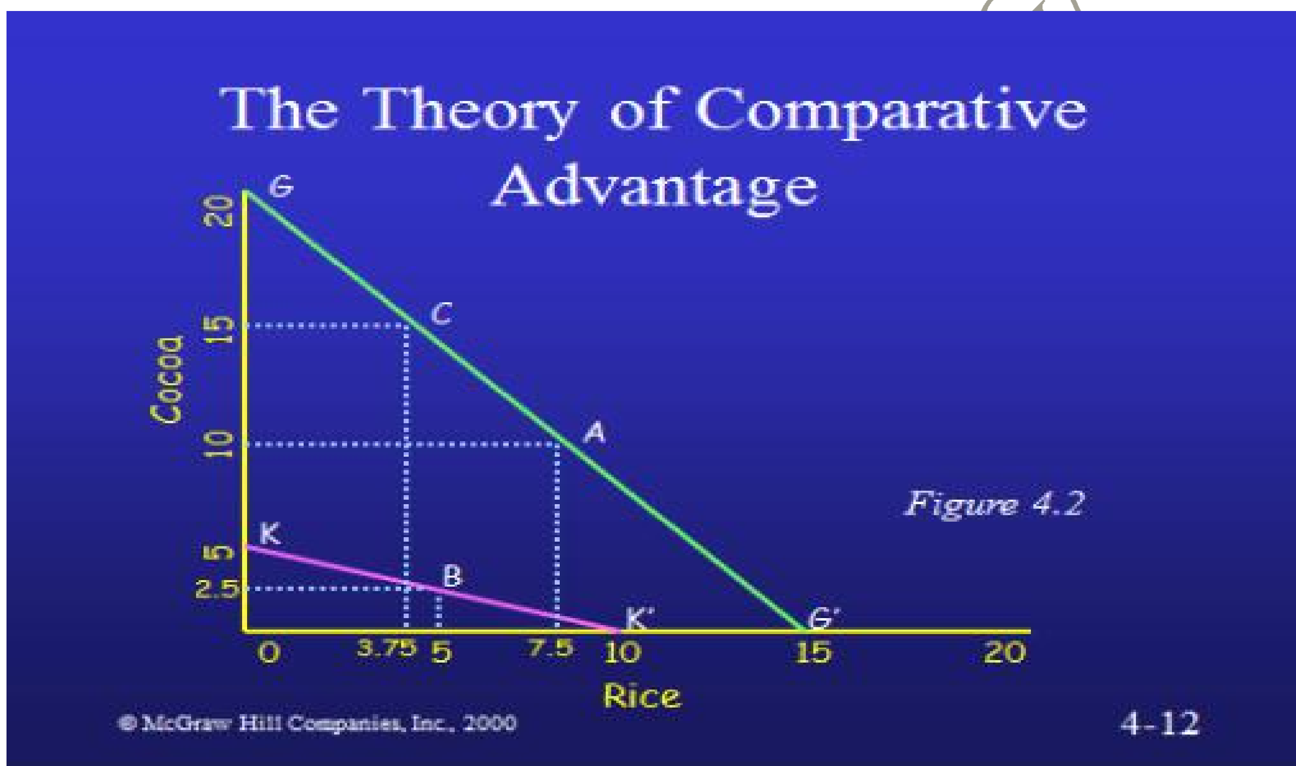
David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries.

According to Ricardo's theory of comparative advantage, it makes sense for a country to specialize in the production of those goods that it produces most efficiently and to buy the goods that it produces less efficiently from other countries, even if this means buying goods from other countries that it could produce more efficiently itself.

Comparative advantage refers to the ability of a party to produce a particular good or service at lower marginal and opportunity cost over another. Even if one country is more efficient in the

MEASI INSTITUTE OF MANAGAMENT

production of all goods (absolute advantage in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies. For example, if, using machinery, a worker in one country can produce both shoes and shirts at 6 per hour, and a worker in a country with less machinery can produce either 2 shoes or 4 shirts in an hour, each country can gain from trade because their internal trade-offs between shoes and shirts are different. The less-efficient country has a comparative advantage in shirts, so it finds it more efficient to produce shirts and trade them to the more-efficient country for shoes. The net benefits to each country are called the gains from trade.



Assumptions of Comparative Advantage

1. There are only two nations and two commodities.
2. Free Trade: there are no barriers to trade. There are no regulations on trade between the two countries.
3. Labor theory of value: Labor is the only factor of production. In other words, the cost of production of the commodities is measured by the labor time involved in producing them.
4. Absence of transportation costs.

MEASI MANAGEMENT

5. Labor is perfectly mobile within a country but it is perfectly immobile between countries. The implication of this assumption is that the wage rate within a country is same through because of perfect mobility of labor but as between nations wages may differ because of one country cannot migrate to another country.

6. Constant costs of production: There are constant returns to scale in production i.e. the cost conditions remain same irrespective of the level of production.

7. There is full employment of labor i.e. to produce more of one commodity labor will have to be diverted from the other commodity. Also, the total labor is constant.

Comparative Advantage and the Gains from Trade

Resources Required to Produce 1 Ton of Cocoa and Rice	Cocoa	Rice
Ghana	10	13.33
S. Korea	40	20
Production and Consumption without Trade		
Ghana	10.0	7.5
S. Korea	2.5	5.0
Total production	12.5	12.5
Production with Specialization		
Ghana	15	3.75
S. Korea	0.0	10.0
Total production	15	13.75
Consumption after Ghana Trades 4T of Cocoa for 4TSouth Korean Rice		
Ghana	11	7.75
S. Korea	4	6
Increase in Consumption as a Result of Specialization and Trade		
Ghana	1.0	0.25
S. Korea	1.5	1.0

Table 4.2

© McGraw Hill Companies, Inc., 2000

4-13

Dynamic gains in both the stock of a country's resource and the efficiency with which resources are utilized will cause a country's production possibility frontier to shift outward dynamic gains that arise from free trade.

Criticism of Ricardo's Law of Comparative Advantage

Labor Theory of value: The most severe criticism of Ricardo's theory was his assumption of

labor theory of value. Under this assumption the price of a commodity depends exclusively on the amount of labor used in its production. The implication of this assumption is that:

1. Labour is the only factor of production or
2. Labour is used in the same fixed proportion in the production of all commodities.
3. Labour is homogeneous.

None of the above implication is true.

First, Labour is not the only factor of production. The commodities require a number of factors of production such as land, labour, capital etc.

Second, Labour is not used in the same fixed proportion in the production of all the commodities. The production of textiles requires much more labour than the production of cars. Cars requires more capital per unit than required in production of textiles.

Third, Labour is not homogeneous. It varies in productivity, skill training and consequently in wages. There is not one class of labour with a single wage but a number of non-competing groups between which the wages are not equalized.

4. **Heckscher-Ohlin Theory (or) Relative Factor Endowments**

The Heckscher – Ohlin theory is based on most of the assumptions of the classical theories of international trade and leads to the development of two important theorems –

(a) Heckscher – Ohlin theorem and

(b) Factor price equalization theorem

Factor endowments extent to which a country is endowed with such resources as land, labor and capital.

Export goods that intensively use factor endowments which are locally abundant.

Corollary: import goods made from locally scarce factors. Argues that the Pattern of international trade is determined by differences in factor endowments, rather than differences in productivity. Remember; focus on relative advantage, not absolute advantage.

MEASI INSTITUTE OF MANAGAMENT

5. Porter's Diamond

Factor endowments: Nation's position in factors of production such as skilled labor or infrastructure necessary to compete in a given industry.

Firm strategy, structure and rivalry: The conditions in the nation governing how companies are created, organized, and managed and the nature of domestic rivalry.

Demand conditions: The nature of home demand for the industry's product or service.

Related and supporting industries: The presence or absence in a nation of supplier industries or related industries those are nationally competitive

MEASI INSTITUTE

WORLD TRADE ORGANISATION

The roots of the World Trade Organization (WTO) lie in the General Agreement on Tariffs and Trade (GATT) which was established in 1948 by 23 original founders, India being one of them.

Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and Trade Related Investment Management System (TRIMS) were negotiated. All the three major agreements along with their associate agreements now rest under the umbrella organization, namely the WTO.

The WTO, which has its headquarters in Geneva, Switzerland, has a membership of 150 countries. More than 98% of the global trade is transacted among the members.

THE OBJECTIVES OF WTO:

- To improve the standard of living of people in the member countries
- To ensure full employment and broad increase in effective demand
- To enlarge production and trade of goods
- To increase the trade of services
- To ensure optimum utilization of world resources
- To protect the environment
- To accept the concept of sustainable development

As the only regulatory body of world trade, the WTO's objective is to ensure a freer, more transparent and more predictable trading regime in the world. The WTO is based on a sound legal system and its agreements are ratified by the parliaments of member countries. No one country controls the WTO; wherein the top decision makers are the designated ministers of member countries.

The WTO agreements cover:

- Goods, e.g., all industrial products, FMCGs etc.
- Services, e.g., banking, insurance, consultancy etc.
- Intellectual property, e.g., patents, copyrights, designs and trademarks etc.
- Two important principles that underline most agreements are:

a) *Most Favored Nation Clause*: No discrimination among member countries.
b) *National Treatment Clause*: Equal treatment to imported and domestic products.
These agreements broadly address three concerns:

MEASI INSTITUE OF MANAGAMENT

Same rule for all: It restricts governments or organizations from 'distorting' normal trade by way of subsidizing, dumping or discriminatory licensing policies. Government policies are framed to eliminate distorting effects. The WTO allows exports to be relieved of all indirect taxes such as excise; sales tax etc. since they have a cascading effect on the cost of the product.

Administration of agreements: It has detailed guidelines as to how the agreements should be administered at a national level. These apply to anti-dumping proceedings, standardization, sanitary and phytosanitary measures, or settlement of disputes.

Fair deal to businesses: It ensures rights for the business community e.g., the right to information, the right to present evidence etc. For example, the Agreement on Customs Valuation allows the importer to justify the value of imported goods or requires the customs to give written reasons for rejecting the value disclosed.

History

ITO and GATT 1947

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation - notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization was successfully negotiated. The ITO was to be a United

Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the United States and a few other signatories and never went into effect.

In the absence of an international organization for trade, the GATT would over the years "transform itself" into a de facto international organization.

GATT rounds of negotiations

The GATT was the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995. Despite attempts in the mid 1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for

MEASI INSTITUTE OF MANAGAMENT

almost half a century as a semi-institutionalized multilateral treaty regime on a provisional basis.

From Geneva to Tokyo

Seven rounds of negotiations occurred under the GATT. The first GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT anti-dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground. Because these agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay Round, and turned into multilateral commitments accepted by all WTO members.

Uruguay Round

Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy. In response to the problems identified in the 1982 Ministerial Declaration (structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage etc.), the eighth GATT round — known as the

Uruguay Round — was launched in September 1986, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review. The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed during the April 1994 ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement.

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994).GATT 1994 is not however the only legally binding agreement included via the Final Act at Marrakesh; a long list of about 60 agreements, annexes, decisions and understandings was adopted. The agreements fall into a structure with six main parts:

MEASI INSTITUTE OF MANAGAMENT

The Agreement Establishing the WTO

Goods and investment — the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures

Services — the General Agreement on Trade in Services

Intellectual property — the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Doha Round

The WTO launched the current round of negotiations, the Doha Development Agenda (DDA) or Doha Round, at the Fourth Ministerial Conference in Doha, Qatar in November 2001. The Doha round was to be an ambitious effort to make globalization more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming. The initial agenda comprised both further trade liberalization and new rule-making, underpinned by commitments to strengthen substantial assistance to developing countries.

The negotiations have been highly contentious and agreement has not been reached, despite the intense negotiations at several Ministerial Conferences and at other sessions. Disagreements still continue over several key areas including agriculture subsidies.

Mission, functions and principles

The WTO's stated goal is to improve the welfare of the people of its member countries, specifically by lowering trade barriers and providing a platform for negotiation of trade. Its main mission is "to ensure that trade flows as smoothly, predictably and freely as possible". This main mission is further specified in certain core functions serving and safeguarding five fundamental principles, which are the foundation of the multilateral trading system. The WTO/GATT system is founded on non-discrimination, with its twin faces of most favored nation and national treatment principles.

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

MEASI INSTITUTE OF MANAGAMENT

- It oversees the implementation, administration and operation of the covered agreements.
- Forum for trade negotiations
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Co-operation with other international organizations such as IMF and IBRD
- It provides a forum for negotiations and for settling disputes.
- The WTO shall administer trace policy review mechanism

Additionally, it is the WTO's duty to review the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training. The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-Discrimination**. It has two major components: the most favored nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favor and you have to do the same for all other WTO members." National treatment means that imported and locally-produced goods should be treated equally (at least after the foreign goods have entered the market) and was

MEASI INSTITUTE OF MANAGAMENT

introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

2. **Reciprocity**. It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.
3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.
4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade,to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.
5. **Safety valves**. In specific circumstances, governments are able to restrict trade. There are three types of provisions in this direction: articles allowing for the use of trade measures to attain noneconomic objectives; articles aimed at ensuring "fair competition"; and provisions permitting intervention in trade for economic reasons.

MEASI INSTITUTE OF MANAGAMENT

DIFFERENCE BETWEEN GATT AND THE WTO

- GATT signifies two aspects – GATT as a body and GATT as a formulator of agreements.
- GATT – the body no longer exists; it was merged with the WTO on 1st Jan, 1995.
- GATT – the agreement rests in the WTO along with other agreements.

- The WTO now includes GATT, GATS, TRIPS and the Dispute Settlement body. GATT covered trade in goods only, whereas the WTO covers trade in goods, services, and intellectual property rights as well.
- Throughout its duration, from 1948 to 1994, GATT was ad hoc and provisional; WTO and its agreements are permanent.
- GATT has contracting parties, whereas the WTO has member nations.
- The WTO is an inherently superior system as compared to GATT, as it has a sound legal basis; even its agreements are ratified in the member's parliament.
- WTO has two significant functions, which GATT did not have. These are:

  (i) Trade Policy Review Mechanism – a periodic process to examine a country's trade policies and to note changes and (ii) an in-built mechanism to settle disputes, which cannot be overlooked by anyone.
- The WTO is more democratic in character. If decisions cannot be reached by consensus, the matter is decided by putting it to vote; each WTO member having one vote. In the case of GATT, it was controlled by a power lobby.

WTO: THE ORGANISATION

The World Trade Organization (WTO) monitors global trade. Its decisions are absolute and every member must abide by its rulings. Extra powers given to the WTO are supposed to ensure that disputes are settled in harmony with international trade principles. It is located in Geneva, Switzerland. At its head is the Director General, who serves a term of four years. Its staff is made up of 500 persons of varying nationalities.

The Decision Making Process

The Ministerial Conference, comprising designated ministers of the member nations is the supreme decision making forum. The ministers meet at least once in two years. The Ministerial Conference can take decisions on 'all matters' under any of the multilateral agreements.

Second level

MEASI INSTITUTE OF MANAGAMENT

The day-to-day work is handled by the General Council, which also acts as The Dispute Settlement Body and The Trade Policy Review Body. The General Council acts on behalf of the Ministerial Conference and meets under these three different terms of reference.

Third level

Three more councils, each handling a different broad area of trade, report to the General Council: the Council for Trade in Goods, the Council of Services and the Council for TRIPS.

Fourth level

Each of the higher-level councils has subsidiary bodies. The Council for Trade in Goods, for example, has 11 committees dealing with specific subjects such as agriculture, subsidies etc.

Four Principles

The WTO has 145 members and makes decisions on a basis of unanimity. No country has a power of veto.

The four principles which members abide by are:

1. Extending trade concessions equally to all WTO members.
2. Aiming for a freer global trade with lower tariffs everywhere.
3. Making trade more predictable through the use of rules.
4. Bringing about more competition by cutting subsidies.

The definition of 'trade' has steadily expanded and now includes intellectual protection, investment, trade in services and agriculture as well as trade in manufactured goods.

In its short life the WTO has already become the focus of intense controversy. Heralded by the richer nations as the ticket to world prosperity, to many others it's looking more and more like another Trojan horse in the citadel of international development.

'Freeing up' trade- GATT's Uruguay Round concluded at the end of 1993, basically 'freed up' world trade. This meant doing away with barriers which had prevented developing countries from exporting their goods to the richer countries of the North. It also opened up all countries to foreign penetration in completely new areas, such as service industries and intellectual property rights. This offered richer nations and multinational corporations a golden opportunity to take over new sectors in countries that were previously able to protect their own smaller industries.

MEASI INSTITUTE OF MANAGAMENT

The WTO has the task of policing this new world order, and is beginning to make its presence felt. Fairer trading provisions, which guarantee protection to producers in the developing world, have already come under fire. While the WTO claims that its rules-based system is a means of protecting smaller nations from the larger trading powers, many of those smaller nations have complained of being bullied by the very countries, which set the rules in the first place.

International resistance - While some developing countries, particularly Latin America and East Asia, may be able to compete in the world trade, the world's least developed countries are predicted to lose out. Even in richer countries, the expansion of MNCs has a negative impact on smaller businesses, labour standards and basic freedom. A growing international movement is forming in protest against the WTO and its expanding 'free trade' agenda. Multilateral negotiations, known as 'rounds', held in Seattle and Doha. Qatar made the representation of developing countries stronger than before especially regarding issues related to agricultural subsidies and labour legislation. In many ways the advanced countries appear to have double standards. This approach has been challenged and the influence of the advanced countries in the WTO is gradually diminishing.

Developments

- The agenda of the WTO, the implementation of its agreements, and the much-praised dispute settlement system all serve to advance interests of developed countries, sidelining those of the developing countries.

- The Least Developed Countries (LCDs) are marginalized in the world trade system, and their products continue to face tariff escalations.
- Rules uniformly applied to WTO members have brought about inequalities because each member has different economic circumstances.

Compared to GATT, the WTO is much more powerful because of its institutional foundation and its dispute settlement system. Countries that do not abide by its trade rules are taken to court.

Historically, GATT enforced phased-in tariff reductions worldwide. Until the Uruguay Round, which ended in 1994, the trade negotiations focused on nonagricultural goods, mainly

MEASI INSTITITUE OF MANAGAMENT

because the U.S. wanted to protect its farm sector. Over the years, as the corporate interests of the developed countries expanded, they also lobbied for more issues to be incorporated into the WTO.

Changes in rules come about mainly through multilateral negotiations or "rounds". Each round offers a package approach to trade negotiations, in which many issues are negotiated together and trade-offs between different issues are made. Between the rounds, negotiations on single issues take place.

One of the commonly used yardsticks to measure the success of the WTO is the volume of world trade. The results seem excellent in this respect, with world trade up by 25% in the last four years. But the benefits of increased trade are not widely shared. For example, the LDCs represent 20% of the world's population, but they generate a mere 0.03% of the trade flows. Developing countries have little power within the WTO framework for the following reasons:

Although developing countries make up three-fourths of the WTO membership and can in theory influence the agenda and outcome of trade negotiations, they have never used this to their advantage. Most developing country economies are in one way or another dependent on the U.S., the EU, or Japan in terms of imports, exports, aid, security, etc. Any obstruction of a consensus at the WTO might threaten the overall well-being and security of dissenting developing nations.

Mutual give and take policies with tariff reduction exist between countries. This type of bartering benefits the large and diversified economies, because they can get more by giving more. For the most part, negotiations and trade-offs take place among the developed countries and some of the richer or larger developing countries.

MEASI INSTITUTE OF MANAGAMENT

Developing countries have discovered that seeking recourse in the dispute settlement system is costly and requires a level of legal expertise that they may not have.

Nelson Mandela, commenting on the negotiations said: “The developing countries were not able to ensure that the rules accommodated their realities. It was mainly the preoccupations and problems of the advance industrial economies that shaped the agreement.” He added that rules applied uniformly are not necessarily fair because of the different circumstances of members.

“Trade and labour standards” is a highly sensitive issue. To date, a clause of labour standards has not been included in the policies framed by the WTO. The issue has been raised by some industrial nations, who feel that the subject should be studied by the WTO as a first step towards bringing the matter of “core labour standards” into the organizations. There is a great divide between most of the industrialized nations and the developing countries on the subject. Developing countries like India are most very vocal on labour issues. They feel that developed nations try to annihilate the comparative advantage they have of cheaper labour, and argue that the International Labour Organisation (ILO) is the right platform to discuss the issue and not the WTO.

Environmental Issues

The WTO has no specific agreement on environment; it has a “Trade & Environment Committee’, which plays a limited role. There is increasing pressure by environmentalists on the WTO to take proactive measures to protect the environment. The US banned import of tuna fish from Mexico in accordance with its Marine Mammals Law, which has the mandate like dolphins. At that time Mexico appealed to GATT whose verdict went against the USA.

Trade experts fear that free trade will be undermined in the guise of protecting the environment, if such issues find a place and are emphasized in the WTO. There are more than 200 Multilateral Environmental Agreements (MEAs) on various aspects of the environment. Twenty of these include provisions that can affect trade e.g., the Montreal Protocol for Protection of the Ozone Layer, the Basel Convention on Trade or Transportation of Hazardous Goods. The WTO is off the view that the most effective way of dealing with environmental issues is through international agreements.

MEASI INSTITUE OF MANAGAMENT

Dilemma of Developing Countries-

Exports from developing countries continue to face significant market access impediments. Recent UN studies confirm that tariff peaks and tariff escalation still hamper developing country exports and their attempts to export new products such as beef, cigarettes, clothing, footwear and wooden articles.

To gain access to new markets in developing countries, the developed counties are acting in the interests of transnational corporations. They have rapidly imposed new agreements in telecommunications, information technology, and financial services. The Millennium Round talks paved the way for further economic liberalization in both the traditional and new sectors, which is contrary to the interests of developing countries.

For example, Washington has interpreted WTO agreements to protect key industries. For example the U.S. has selectively opened its markets in the field of textiles and clothing, but this liberalization has proved of little benefit to the developing nations. Similarly, the U.S. has misused the measures designed to safeguard domestic industries from a sudden increase in imports. It has also introduced its own Rules of Origins, rules used to identify where textiles or clothing products come from, changing the conditions of competition and adding to the restrictions against the low-cost textile exports from other countries.

New rules regarding information on plants will have both agricultural and medical implications. The Trade Related Intellectual Property Rights Agreement (TRIPS) fiercely protects the rights of corporations but easily allows the shared knowledge of indigenous communities to be patented by others. When fully implemented, developing countries will lose billions of dollars to the richer countries, as MNCs will continue to control virtually all the patents of developing countries.

The agreement between the U.S. and China, stipulated the terms on which China would join the WTO. This is the most significant deal between the two countries since diplomatic relations were established more than two decades ago. The Clinton administration hoped that this would pave the way for Congress to now vote

MEASI INSTITUTE OF MANAGAMENT

permanent Normal Trade Relations (NTR) (also known as Most Favored nation), thereby giving China the same trading privileges now enjoyed without an annual review, by almost every other U.S. trading partner. The only other nations denied NTR status by the U.S. is: Afghanistan, Cambodia, Cuba, Laos, North Korea, an Yugoslavia, China has enjoyed NTR since 1980, but only by an annual vote of Congress. Only if the U.S. Congress approves permanent NTR for China can the November agreement be implement. WTO membership for China and permanent NTR status will clear the way for Taiwan to join the WTO.

CONTRIBUTIONS OF THE WTO

It is a tribute to human civilization that sovereign nations have agreed to subordinate their freedom (to act) and have agreed to work within the framework of rules to promote global trade. The Uruguay Round of negotiations resulted in formation of a rule based system, which is expected to lead to smooth and orderly international trade.

- The WTO and its agreements have an impact on every economic activity, be it agriculture, trading, service or manufacturing.
- World markets are opening up due to lowering of tariffs and dismantling of other restrictions in developed and developing countries to benefit from their comparative advantages.
- Domestic markets will be increasingly threatened because of lowering of tariffs leading to freer entry of foreign goods and because of foreign companies' establishing local manufacturing bases.
- Whereas the developing countries will have greater opportunities in sectors in which they have cost bases comparative advantages e.g., textiles, agriculture etc., the developed countries benefit due to the opening of the service sector and tightening of Intellectual Property Regime.
- Export markets will become more difficult because of competition among developing countries with similar comparative advantages.
- Products from developing countries will face higher quality standards in developed markets particularly in the areas where they have comparative cost advantage.

MEASI INSTITUE OF MANAGAMENT

- Every company, whether serving the domestic or international market, will have to undertakean internal exercise to identify factors affecting its international competitiveness in terms of cost as well as quality. It will need to study whether it can remain competitive once the product can be imported freely or tariffs are further lowered or both.
- The WTO regime will be of greater benefit to those countries that show ability and skill in the ongoing dialogue. The governments that are in constant touch with their industries and affected groups will be able to clearly determine how and what should be negotiated at multilateral negotiations to the best of their advantage.
- International trade is becoming increasingly trade; deregulation and privatization of internal economy have now been strengthened and legalized under the WTO. Countries have no option but to follow this direction. Countries that have understood this have moved swiftly in fine-tuning their domestic and international trade policies, to create a winning environment for industry and business. Those who are still debating the issue or do not understand it clearly will be left behind.

Rise of New economics like Brazil, Russia, India and China (BRIC) and ASIAN countries

Introduction to BRICS

BRIC is the acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a similar stage of newly advanced economic development. The acronym was

MEASI INSTITUTE OF MANAGAMENT

coined in 2001 by Jim O'Neill from investment bank Goldman Sachs in a paper entitled "Building Better Global Economic BRICs.

The grouping was originally known as "BRIC" before the inclusion of South Africa in 2010. The BRICS members are all developing or newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs; all five are G-20 members. Since 2010, the BRICS nations have met annually at formal summits. Russia currently holds the chair of the BRICS group, and hosted the group's seventh summit in July 2015.

EVOLUTION AND PRESENT STRUCTURE

The BRICS forum has evolved and expanded after formalization of the group. In addition to the four founder countries, it now includes South Africa, as discussed. During 2001–10, the BRIC countries achieved significant gains in both an economic and a political sense. As far as demographic and economic progress of the group is concerned, in 2010 BRICS countries collectively accounted for more than 40% of the global population and nearly 30% of the land mass. The group constituted a share of about 25% of the world GDP in PPP terms compared with 16% in 2000. This is expected to rise significantly in the near future. Along with improvements in economic indicators, the group has also realized improvement in social indicators, such as increased literacy levels.

Significant positive changes have taken place in all the BRICS countries over the last two decades (1990–2010). The economic size in nominal terms (US dollars) has increased manifold – with Brazil by over four times, India nearly five times, China over fourteen times, and South Africa by over three times. The situation further improves if comparison is made based on PPP. China has emerged as the second-largest economy, followed by India in fourth position, Russia in sixth and Brazil in eighth. The increasing trend in GDP is reflected further by a significant increase in per capita income over the last two decades.

These have brought in perceptive changes about the potential and importance of BRICS in reshaping the global economic order. The BRICS, now increasingly recognized as some of the fastest-growing countries and the engines of the global recovery process, plays a formidable role in shaping macroeconomic policy, as was observed after the financial crisis (2008–10).

MEASI INSTITUTE OF MANAGAMENT

FIVE factors limiting the impact of the BRICS nations:

The dominance of the Chinese economy and its role in trade relations makes the BRICS much more a China-with-partners group than a union of equal members.

1. BRICS countries lack mutual economic interests. Trade between them is now less than 320 bln dollars a year and declining. Their trade with the US and EU is 6.5 times higher. China's trade with the rest of the world is 12.5 times higher. Bilateral trade between China and South Korea is almost as large as that between BRICS nations.
2. Members are too similar in some key areas. All members (apart from Russia) hold huge foreign reserves (15-35% of GDP) and have low external debt (15% to 37% of GDP.) Apart from Russia, they are heavily integrated into consumer goods production with the 'West'.
3. BRICS nations compete in third markets. In many areas, from clothing (China, India and Brazil), through economic influence in Africa (China, South Africa and India) to international aircraft and military equipment markets (China, Russia and Brazil) BRICS countries compete with one another. All are able to re-engineer and copy technologies, which means sharing R&D results and innovations and the development of cross-country scientific cooperation has limited potential.
4. Diversity of cultures. Phases of economic development, ideologies, definitions of poverty and other cultural differences mean BRICS members lack common understandings about priorities that are necessary for productive sharing of experiences.

MEASI INSTITUTE OF MANAGAMENT

Balance of Trade

Meaning

Trade, in general connotation, means the purchase and sales of commodities. In International Trade, purchase and sale are replaced by imports and exports. Balance of Trade is simply the difference between the value of exports and value of imports. Thus, the Balance of Trade denotes the differences of imports and exports of a merchandise of a country during the course of year. It indicates the value of exports and imports of the country in question. If the value of its exports over a period exceeds its value of imports, it is called favorable balance of trade and, conversely, if the value of total imports exceeds the total value of exports over a period, it is unfavorable balance of trade. The favorable balance of trade indicates good economic condition of the country.

Definition

According to Benham

"Balance of trade of a country I the relation over a period between the values of her exports and imports of physical goods."

A proper record of all material goods exported and imported is kept. With the help of this record of visible exports and imports, balance of trade, as a matter of fact, is a part of balance of payments. Balance of trade may be of three kinds:

Surplus or Favorable balance of trade

A country may have unfavorable or surplus balance of trade when the total value of the goods exported by it is more than the total value of the goods imported by it.(Exports>Imports)

Deficit or Unfavorable Balance of trade

A country may have unfavorable or deficit balance of trade when the total value of the goods imported by it is more than the total value of the goods exported by it.(Imports>Exports)

Equilibrium in Balance of Trade

A country may have equilibrium in balance of trade when the total value of the goods exported by it is equal to the total value of the goods imported by it.(Exports=Imports)

A continuing surplus may, in fact, represent underutilized resources that could otherwise be contributing toward a country's wealth, were they to be directed toward the purchase or

MEASI INSTITUTE OF MANAGAMENT

production of goods or services. Furthermore, a surplus accumulated by a country (or group of countries) may have the potential of producing sudden and uneven changes in the economies of those countries in which the surplus is eventually spent.

Generally, the developing countries (unless they have a monopoly on a vital commodity) have particular difficulty maintaining surpluses since the terms of trade during periods of recession work against them; that is, they have to pay relatively higher prices for the finished goods they import but receive relatively lower prices for their exports of raw materials or unfinished goods.

Factors that can affect the balance of trade include:

- The cost of production (land, labour, capital, taxes, incentives, etc.) in the exporting economy in relation to the importing economy;
- The cost and availability of raw materials, intermediate goods and other inputs;
- Exchange rate movements;
- Multilateral, bilateral and unilateral taxes or restrictions on trade;
- Non-tariff barriers such as environmental, health or safety standards;
- The availability of adequate foreign exchange with which to pay for imports; and
- Prices of goods manufactured at home (influenced by the responsiveness of supply)

Balance of Payment (BOP)

Balance of payments refers to the recording of all economic transactions of a given country with rest of the world. Each country has got to enter into economic transactions with other countries of the world. As a result of such transactions, it receives payments to other countries. Balance of Payments is a statement of accounts of these receipts and payments.

Ordinarily a country has to deal with other country in respect of three items:

1. Visible Items

   It includes all kind of physical goods imported and exported.
2. Invisible Items

   It includes all kind of import export services.

MEASI INSTITUTE OF MANAGAMENT

3. Capital Transfers

These are concerned with capital receipts and capital payments like investment by foreigners in India.

Like an ordinary trader, each country has to work out a balance in respect of its dealing, in all the above three items, with other countries of the world in a given period. Thus it comes to know how much it has to pay to other countries and how much it has to receive from other countries and what is the position of overall balance.

Definition

According to Kindle Berger

"The balance of payments of a country is a systematic record of all economic transactions between its residents and residents of foreign countries."

In words of Benham

"Balance of payments of a country is record of the monetary transactions over a period of time with the rest of the world".

Features of Balance of Payments

1. Systematic Record

It is a systematic record of receipts and payments of a country with other countries.

2. Fixed Period of Time

It is a statement of account pertaining to a given period of time, usually one year.

3. Comprehensiveness

It includes all the three items i.e. visible, invisible and capital transfers

4. Double entry System

Receipts and payments are recorded on the basis of double entry system.

5. Adjustment of Differences

Whenever there is difference in actual total receipts and payments need for necessary adjustment is felt. In case of unfavorable balance of payments, government will have to take foreign loans or to promote foreign investment, so as to meet the difference in balance of payments.

6. All Items-Government and Non-Government.

Structure/forms of balance of payments

Balance of payments has three forms:

MEASI INSTITUTE OF MANAGAMENT

Current account

Capital account

Overall balance of payments

Current Account

Balance of payments on current account includes the value of imports and exports of both visible (goods) and invisible items (services). Current account transactions are called account of actual transactions, because all items included in it are actually transacted. These items have a direct effect on the income, output and employment of a country's economy.

Balance of payment on current Account = (Visible + Invisible exports) - (Visible + Invisible Imports)

Balance of payments on current account may be both balanced and unbalanced. In case of balanced position of BOP, receipts and payment on account of exports and imports are equal. In case of unbalanced balance of payments, it can be in deficit or in surplus. Disequilibrium of the balance of payments on current account is usually balanced with the help of transactions in capital accounts.

Capital Account

Capital account refers to financial transactions. It mainly includes foreign investment and external loans. All kinds of short term and long term international capital transfers, movement of gold, foreign debts, foreign investments, payments and receipts on account of interest and grants, etc. are also included in capital account. All transactions under capital account are concerned merely with financial transfers, between our country and other foreign countries.

Overall Balance of Payments

Total of a country's balance of payments on current account and capital account is known as overall balance of payments.

MEASI INSTITUTE OF MANAGEMENT

Disequilibrium in Balance of Payments

Because of several reasons, especially due to differences in the value of exports and imports, disequilibrium in balance of payments may be caused. Disequilibrium may sometimes be on minus/deficit/unfavorable side and sometimes on plus/surplus/favorable side. Unfavorable or favorable balance of payments can be explained as under:

Unfavorable or favorable balance of payments

Balance of payments is said to be unfavorable when the payments (debit) of the country are more than its receipts (credit). On the other hand, when the payments (debit) of the country are less than its receipts (credit), the balance of payments is said to be favorable. Disequilibrium in balance of payments may be of two kinds:

Favorable balance of Payments

When receipts are more than payments then balance of payments turns favorable. This situation increases foreign exchange reserves. In this case exports of goods, services and capital receipts are more than import of goods, services and capital payments. It is also known as surplus balance of payments.

$$B_f = R - P > 0$$

(Here B**f** =Balanced balance of Payment; R-P>0=Receipts are greater than payments or their difference is positive.)

Unfavorable Balance of Payments

Balance of payments is unfavorable when its payments are more than its receipts. This situation reduces foreign exchange reserves. In this case exports of goods, services and capital receipts are less than import of goods, services and capital receipts are less than import of goods, services and capital payments. It is also known as deficient balance of payments.

MEASI INSTITUTE OF MANAGAMENT

$$B_U = R - P < 0$$

(Here, BF= Favorable balance of payments; R-P <0=Receipts, are less than payments or their difference is negative.)

- Equilibrium in Balance of Payments

When capital receipts of a country and exports (visible and invisible) are to its capital payments and imports (visible and invisible) then its balance of payments is in equilibrium.

$$B = R - P = 0$$

(Here, B = balanced balance of payments; R =Receipts=Payments)

In short, balance of payments is unfavorable, if to meet the deficit between receipts and payments a country either makes payments in terms of gold or borrows from abroad for a short period. On the contrary, if to meet the surplus between receipts and payments a country either receives payment in terms of gold or lends to foreign countries for a short period, the balance of payments is said to be favorable.

Causes of Unfavorable Balance of Payments/Unfavorable Balance of Trade

Main Causes of unfavorable balance of payment of India are as follows:

Import of Machinery:

Since independence, import of machines has increased on two scores:

During World War II, machines in Indian industries overworked. Consequently, these were large-scale depreciation and wear and tear of machines. In order to replace he same, large quantity of new machines was imported.

Industrialization of the country in the wake of Five year Plans also necessitated import of machines worth crores of rupees. This turned India's Balance of payments unfavorable.

Import of War equipment's:

In order to defend itself against China and Pakistan, large amount of war equipment were

MEASI INSTITUTE OF MANAGAMENT

imported by India. These imports also caused disequilibrium in the balance of payments.

More demand of Consumption Goods

In the post war period, demand not only of foreign goods but also of Indian goods went up. Previously, large amount of oilseeds, tea, iron ores etc. used to be exported out of India. Now because of increase in population their demand within the country has gone up. So export of these goods has gone down very much.

Price disequilibrium

There has been wide difference in the domestic prices of the goods and the prices of goods in foreign countries. Due to inflation, domestic prices have increased more than the increase in prices of foreign goods. This has led to increase in imports and decrease in exports.

Expenditure on Embassies

Independent India had to establish its political relations with other countries. To that end, it had to set up its embassies in foreign countries. It was an expensive affair. It also turned balance of payments unfavourable.This item does not affect balance of trade, as it is an invisible item, but it does affect balance of payments.

Foreign Competition

India mainly exports jute, tea and textiles, but now foreign competition in these goods is growing. Bangladesh is India's rival in jute export and Sri Lanka and Indonesia in the export of tea and Korea and china in the export of cloth. This has also adversely affected our exports.

Increase in price of Crude Oil

Value of imports has gone up on account of constant hike in the price of crude oil. Of the exports 30% is spent on petroleum products.

Payments of interest on foreign Debts

The huge interest burden also caused disequilibrium in th balance of payments. This item does not affect balance of trade, as it is an invisible item.

Less growth in Exports

Despite various export promotion schemes, our exports are still less than our imports. Moreover growth rate of exports is less than the growth rate of imports.

Gulf War

MEASI INSTITUTE OF MANAGAMENT

In 1991, Gulf War (War between Iraq and several western countries) had also its adverse effect on India's balance of payments. On the one hand, price of petrol shoot up and on the other, foreign remittances by Indians working in gulf area, viz., Kuwait, Iraq, etc. to India altogether stopped. It rendered the imports expenses and reduced the foreign remittances.

Disintegration of USSR

India had large amount of foreign trade with USSR. The disintegration of USSR had an adverse effect on India's foreign trade.

Besides, there are some other minor factors also accounting for adverse balance of payments, viz., poor quality, malpractices of Indian traders causing impediments in exports, bad effects of high cost of production on exports, etc.

Measures/Suggestions to correct disequilibrium in the Balance of Payments

The main factor accounting for disequilibrium of payments is the excess of imports over exports. Two measures are, therefore called for to correct this disequilibrium. Exports should be promoted and imports discouraged. Import substitution should be resorted to. Following specific measures are suggested to correct disequilibrium in the balance of payments:

Promotion of Exports

Promotion of exports is the best measure to correct an adverse balance of payments. To achieve this end, all taxes on export goods be withdrawn, export industries should be provided raw materials and transport facilities at reduced prices, so that prices of these goods remain low. These industries should be provided credit facilities at liberal rates. To promote exports, intensive publicity of Indian goods is undertaken in foreign markets and goods be designed to the tastes of the foreign consumers.

Increase in Production

To cut down imports and encourage exports, it is essential that agricultural, industrial and mineral production be increased. Jute manufactured products; tea and coffee are of great importance among exports from India. Efforts have been made to increase the production of these products in Five Year Plans. Their production needs to be further increased. Recently, several new items have entered the export list viz. machines, electric fans, cycles, readymade garments, gems and jewelry etc. Raw materials should be made available to export industries at

MEASI INSTITUE OF MANAGAMENT

international prices. Production capacity of cement, fertilizers, iron and steel etc. should be utilized fully.

Trade Agreements

Government of India enters into trade agreements with the governments of other countries in order to expand trade. Many foreign trade delegates visit India to strengthen trade ties. India has negotiated trade agreements with many countries viz. Bangladesh, Bulgaria, Germany, Egypt, France, Korea, Iran, Iraq etc. On 15April, 1994, India enters into trade agreements with all other countries signing GATT, automatically. India has entered into trade agreement with WTO nations, SAARC nations. As a member of World Trade Organization, India is having trade relations with other 149 member nations of WTO. More trade agreements should be done with foreign countries to promote our foreign trade and exports.

Encouragement to Foreign Investment

Foreign industries and multinational corporations (MNCs) are encouraged to invest their capital in India. Special facilities are provided to attract foreign capital. It leads to inflow of foreign exchange in the country. It also increases production of export goods and thus exports are encouraged. However, care should be taken that foreign capitalists do not dominate our economy.

Attraction to Foreign Tourists

Attractive picnic spots are developed in different parts of the country to attract foreign tourists. Government spends lot of money to develop such spots. Besides, foreign tourists be provided with transport and other facilities. Large amount of foreign exchange can be earned from foreign tourists.

Devaluation of Indian Currency

Lowering of the value of domestic currency in terms of foreign currencies is called devaluation. A country resorts to devaluation when its exports fall short of imports. As a result of devaluation imports become dearer and exports cheaper. India devalued its rupee in the year 1949,1966, and twice in the year 1991.But now this measure is not used, as now exchange rate of rupee with

MEASI INSTITUTE OF MANAGAMENT

other currencies of the world is determined by market forces of demand and supply and not by government.

Deflation

It means that prices of the goods produced in the country should be brought down. As a result of it, foreigners will get export goods at cheaper price. Thus exports will be encouraged. Moreover, because of availability of Indian goods at lower rates the demand of imports will also come down.

Restriction on Imports

Another important method of correcting balance of payments is restriction on imports. Following measures can be adopted to cut down imports.

Restrictions on the import of luxury goods.

Issue of licenses for the import of essential goods only.

Fixation of quotas for the import of different goods.

Levying of new import duties and enhancing of the rates old duties.

Motivating the Indians to use indigenous goods.

Less credit facilities for imported goods etc.

Import Substitution

Import substitution plays an important role to correct an adverse balance of payments. Import substitution means total or partial replacement of an imported product of the same functional requirement mainly from indigenous material and knowhow. Its main objective is to reduce imports. Now, the same are being produced in the country. Similarly, in place of copper wire imported for power industry, aluminum wire produced in the country is being increasingly used.

MEASI INSTITUTE OF MANAGAMENT

In short, disequilibrium in the balance of payments can be corrected by increasing exports and reducing imports. Government of India has taken several measures to promote exports and popularize import substitutions.

QUESTIONS

1. Explain the important theories of international trade.
2. Discuss the Porter's Diamond model in detail.
3. Elaborate Balance of payment in international business.
4. Explain the functions of WTO.
5. Discuss in detail Heckscher-Ohlin theory.
6. Explain Free trade agreements.

UNIT- IV: GLOBAL TRADING AND INVESTMENT ENVIRONMENT

World Trade Organization

The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948.As an organization it has vast powers and functions than what its predecessor GATT (General Agreement on Tariffs and Trade) had, the objectives and goals of both being broadly the same. The World Trade Organization is a Multi-lateral organization which facilitates the free flow of goods and services across the world and encourages fair trade among nations. The result is that the global income increases due to increased trade and there is supposed to be overall enhancement in the prosperity levels of the member nations.

Features of WTO

It is an international organization to promote multilateral trade.
It has replaced GATT.
It promotes free trade by removing tariff and non-tariff barriers in international trade.

MEASI INSTITUTE OF MANAGAMENT

It has fixed set of rules and regulations and it has a legal status. Its rules and regulations are mutually designed and agreed upon by member nations.

Agreements agreed by member-countries are binding on all members of WTO and if any member does not follow such agreements, then its complaint can be lodged with the Dispute Settlement Body of WTO.

It includes trade in goods, trade in services, protection of intellectual property right rights, foreign investment etc.

Unlike International Monetary Fund (IMF) and the World Bank. WTO is not an agent of United Nations. Unlike IMF and World Bank, there is no weighted voting (on the basis capital). Rather all the WTO members have equal voting rights (One Country, One Vote).

WTO has large Secretariat and huge organizational set up.

Objectives of WTO

The primary aim of WTO is to implement the new world trade agreements.

To promote multilateral trade i.e. trade among many nations.

To promote free trade by abolishing tariff and non-tariff barriers.

To promote world trade in a manner that benefits every member country.

To ensure that developing countries get a better share in the advantages resulting from the expansion of international trade corresponding to their development needs.

To remove all hurdles to an open world trading system and use world trade as an effective instrument to boost economic growth.

To enhance competitiveness among all trading partners so as to benefit consumers.

To expand and utilize world resources in the most optimum manner.

To improve the level of living for the global population and speed up economic development of the member nations.

To take special steps for the development of poorest nations.

Functions of WTO

Laying down code of conduct aiming at reducing tariff and non-tariff barriers in international trade.

MEASI INSTITUTE OF MANAGAMENT

Implementing WTO agreements and administering the international trade.

Cooperating with IMF and World Bank and its associates for establishing coordination in Global Trade Policy-Making

Settling trade related disputes among member nations with help of its Dispute Settlement Body (DSB).

Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body (TPRB).

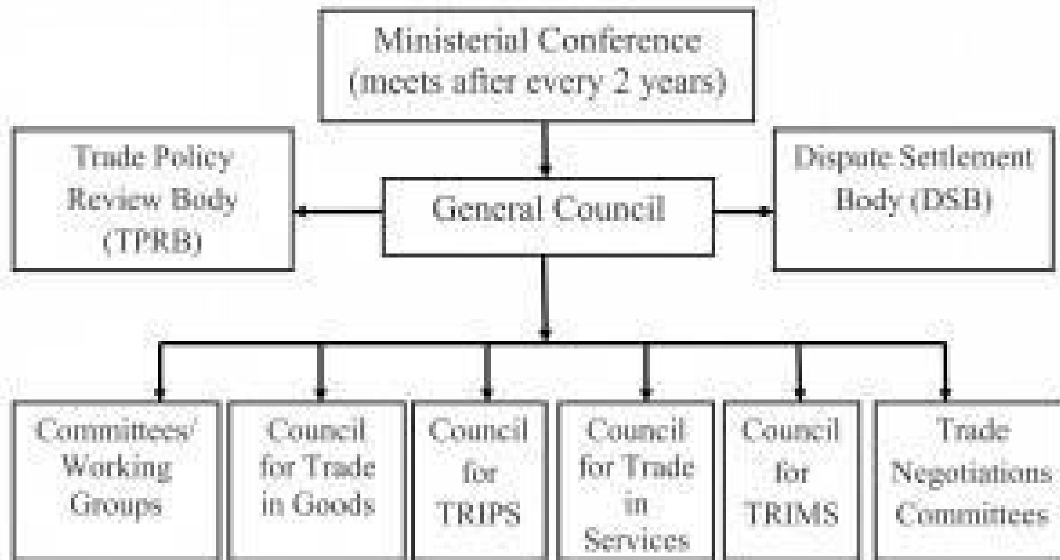
Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.

Acting as form for trade liberalization.

Organizational Structure of WTO

World Trade Organization is a permanent trade organization having its own secretariat and huge organizational set up. The headquarters of WTO are at Geneva in Switzerland. Organizational structure of WTO is headed by Ministerial Conference which meets after every two years .General council a permanent organ of WTO works under the policy framework of Ministerial Conference. General Council is assisted by Dispute Settlement Body (DSB) and Trade Policy Review Body (TPRB). Under General Council, various Councils/Working Groups work. These are Council for Trade in Goods, Council for TRIPs, and council for trade in services, council for Trims, Trade Negotiations Committees and Working Groups. The organizational structure of WTO is clear from the following chart.

MEASI INSTITUTE OF MANAGAMENT



IMPACT OF WTO AGREEMENTS ON INDIAN ECONOMY

The signing of WTO agreements will have far reaching effects not only on India's foreign trade but also on its internal economy. Although the ultimate goal of WTO is to free world trade in the interest of all nations of the world, yet in reality the WTO agreements has benefitted the developed nations more as compared to developing ones. The impact of WTO on India's economy is staged as follows: –

I. Positive Impact I Benefits I Advantages I Gains from WTO: –

The Positive impact of WTO on India's economy can be viewed from the following points: –

1) Increase in Export Earnings

Estimates made by World Bank, Organization for Economic Co-operation and Development (OECD) and the GATT Secretariat, shows that the income effects of the implementation of Uruguay Round package will be an increase in traded merchandise goods. It is expected that India's share in world exports would improve.

2) Agricultural Exports

Reduction of trade barriers and domestic subsidies in agriculture is likely to raise international prices of agricultural products. India hopes to benefit from this in form of higher export earnings from agriculture. This seems to be possible because all major agriculture development programs in India will be exempted from the provisions of WTO Agreement.

Export of Textiles and Clothing

With the phasing out of MFA (Multi – Fiber Arrangement), exports of textiles and clothing will increase and this will be beneficial for India. The developed countries demanded a 15 year period of phasing out of MFA, the developing countries, including India, insisted that it be done in 10 years. The Uruguay Round accepted the demand of the latter. But the phasing out Schedule favors the developed countries because a major portion of quota regime is going to be removed only in the tenth year, i.e. 2005. The removal of quotas will benefit not only India but also every other country'.

3) Multilateral Rules and Disciplines

The Uruguay Round Agreement has strengthened multilateral rules and disciplines. The most important of these relate to anti – dumping, subsidies and countervailing measures, safeguards and disputes settlement. This is likely to ensure greater security and predictability of the international trading system and thus create a more favorable environment for India in the New World Economic Order.

4) Growth to Services Exports

Under GATS agreement, member nations have liberalized service sector. India would benefit from this agreement. For e.g. - India's services exports have increased from about 5 billion US $ in 1995 to 96 billion US $ in 2009-10. Software services accounted for about 45% of service exports.

5) Foreign Investment

India has withdrawn a number of measures against foreign investment, as per the commitments made to WTO. As a result of this, foreign investment and FDI has increased over the years. A number of initiatives have been taken to attract FDI in India between 2000 and 2002. In 2009-10, the net FDI in India was US $ 18.8 billion.

II. Negative Impact / Problems I Disadvantages Of WTO Agreements on Indian Economy

1) TRIPs

The Agreement on TRIPs at Uruguay Round weighs heavily in favor of Multinational Corporations and developed countries as they hold a very large number of patents. Agreement on TRIPs will work against India in several ways and will lead to monopoly of patent holding MNCs. As a member of WTO, India has to comply with standards of TRIPs.

MEASI INSTITUTE OF MANAGAMENT

The negative impact of agreement on TRIPs on Indian economy can be stated as follows:

a) Pharmaceutical Sector

Under the Patents Act, 1970, only process patents were granted to chemicals, drugs and medicines. This means an Indian pharmaceutical company only needed to develop and patent a process to produce and sell that drug. This proved beneficial to Indian pharmaceutical companies as they were in a position to sell quality medicines at low prices both in domestic as well as in international markets. However, under the agreement on TRIPs, product patents needs to be granted. This will benefit the MNCs and it is feared that they will increase the prices of medicines heavily, keeping them out of reach of poor. Again many Indian pharmaceutical companies may be closed down or taken over by large MNCs.

b) Agriculture

The Agreement on TRIPs extends to agriculture through the patenting of plant varieties. This may have serious implications for Indian agriculture. Patenting of plant varieties may transfer all gains in the hands of MNCs who will be in a position to develop almost all new varieties with the help of their huge financial resources and expertise.

c) Microorganisms

The Agreement on TRIPs also extends to Microorganisms as well. Research in micro – organisms is closely linked with the development of agriculture, pharmaceuticals and industrial biotechnology. Patenting of micro – organisms will again benefit large MNCs as they already have patents in several areas and will acquire more at a much faster rate.

2) TRIMs

Agreement on TRIMs provide for treatment of foreign investment on par with domestic investment. This Agreement too weights in favor of developed countries. There are no provisions in Agreement to formulate international rules for controlling restrictive business practices of foreign investors. In case of developing countries like India, complying with Agreement on TRIMs would mean giving up any plan or strategy of self – reliant growth based on locally available technology and resources.

3) GATS

One of the main features of Uruguay Round was the inclusion of trade in services in negotiations. This too will go in favor of developed countries. Under GATS agreements, the

MEASI INSTITUTE OF MANAGAMENT

member nations have to open up services sector for foreign companies. The developing countries including India have opened up services sector in respect of banking, insurance, communication, telecom, transport etc. to foreign firms. The domestic firms of developing countries may find it difficult to compete with giant foreign firms due to lack of resources & professional skills.

4) Non – Tariff Barriers

Several countries have put up trade barriers and non – tariff barriers following the formation of WTO. This has affected the exports from developing countries. The Union Commerce Ministry has identified 13 different non – tariff barriers put up by 16 countries against India. For egg. MFA (Multi – fiber arrangements) put by USA and European Union is a major barrier for Indian textile exports.

5) Agreement on Agriculture (AOA)

The AOA is biased in favor of developed countries. The issue of food security to developing countries is not addressed adequately in AOA. The existence of global surpluses of food grains does not imply that the poor countries can afford to buy. The dependence on necessary item like food grains would adversely affect the Balance of Payment position.

6) Inequality within the Structure of WTO

There is inequality within the structure of WTO because the agreements and amendments are in favor of developed countries. The member countries have to accept all WTO agreements irrespective of their level of economic development.

7) LDC Exports

The 6th Ministerial Conference took place at Hong Kong in December 2005. In this Conference, it was agreed that all developed country members and all developing countries declaring themselves in a position to do so, will provide duty – free and quota – free market access on a lasting basis to all products originating from all Least Developed Countries (LDC). India has agreed to this. Now India's export will have to compete with cheap LDC exports internationally. Not only this, the cheap LDC exports will come to Indian market and compete with domestically produced goods.

India will face several problems in the process of complying with WTO agreements, but it can also reap benefits by taking advantage of changing international business environment. For this it

MEASI INSTITUTE OF MANAGAMENT

needs to develop and concentrate on its areas of core competencies

Barriers to Trade

The barriers generally include tariff and non-tariff strategies.

1. Tariffs

A tariff is a tax imposed on goods involved in international trade. Tariffs are imposed on goods imported, in which case they are called import duties. Taxes are also imposed on goods when they leave the country (export tariff) or as they pass through one country bound for another (transit tariff).

Tariffs may be either ad valorem or specific. Ad valorem tariffs are imposed as percentages on values of goods imported. Specific tariffs relate to some specific attributes of the goods-weight, quantity, and value. A compound tariff is also levied and is calculated partly as a percentage on value and partly as a rate per unit or weight.

2. Non-Tariffs

A second category of government interventions on international trade related to non-tariff barriers. Any government regulation, policy or procedure other than a tariff that has the effect of restricting international trade, or affecting overseas investment, become a non- tariff barrier. Following can be considered in this context:

a) Quotas

Quotas refer to numerical limits on the quantity of goods that may be imported into a country during a specific period. The quantity of goods that may be imported is stated in license issued to a group of individuals or firms. The importer has to pay a penalty if the quantity imported

MEASI INSTITUTE OF MANAGAMENT

exceeds the one specified in the license. Most countries use quotas to protect politically powerful or vulnerable industries, such as agriculture, textiles and motor vehicles, from the threat of foreign competition. With regard to textiles, countries placed quotas on imports under what is called multi-fiber arrangement, which is part of the GATT agreement.

b) Subsidies

A subsidy is a government payment to a domestic producer. Subsidies take several forms including cash grants, low-interest loans, tax breaks, and government equity participation in local firms. By lowering costs, subsidies help domestic producers in two ways: they help them compete against low-cost foreign imports and gain access to export markets.

c) Other Barriers

Countries also use a variety of non-tariff barriers to protect firms from foreign competition. Such barriers include embargoes, local content requirements, administrative delays, currency controls, and product and testing standards.

Salient Features of WTO Agreements reached on the basis Of Uruguay Rounds.

OR

Explain the main WTO Agreements.

SALIENT FEATURES OF URUGUAY ROUND I WTO AGREEMENTS

The main agreements of WTO are:

1) Agreement on Agriculture (AOA)

The main objective is to increase market orientation in agriculture trade. It provides for commitments in the area of market access, domestic support and export competition. The members have to transform their non-tariff barriers like quotas into equivalent tariff measures. The tariffs are to be reduced by 36% within 6 years in case of developed countries and by 24% within 10 years in case of developed countries. The least developed countries need not make any commitment for reduction.

2) Agreement on Trade in Textiles and Clothing (Multi – Fiber Arrangement)

This provides for phasing out the import quotas on textiles and clothing in force under the Multi

MEASI INSTITUTE OF MANAGAMENT

– Fiber Arrangement since 1974, over a| span of 10 years i.e. by 1st January, 2005. With this agreement quota on textile and clothing has now been abolished.

3) Agreement on Manufactured Goods

The developed countries agreed to reduce tariffs on manufactured goods other than textiles by 40%. The tariffs would now be brought down to an average of 3.8% from earlier 6.3%.

4) Agreement on TRIMs

An Agreement on Trade Related Investment Measures (TRIMs) calls for introducing national treatment of foreign investments and removal of quantitative restrictions. It identifies 5 investment measures that are inconsistent with the GATT provisions on national treatment and on general elimination of qualitative restrictions.

5) Agreement on TRIPs

Trade Related Intellectual Property Rights (TRIPs) pertain to Patents and Copyrights. Whereas earlier on process patents were granted to food, medicines, drugs and chemical products, the TRIPs Agreement now provides for granting product patents also in all these areas. Protection will be available for 20 years for patents and 50 years for copyrights.

6) General Agreement on Trade and Services (GATS)

For the first time, trade in services like banking, insurance, travel, maritime transportation, mobility of labor etc. has been brought within the ambit of negotiations. The General Agreement on Trade in Services (GATS) provides a multilateral framework of principles and services that should govern trade in services under conditions of transparency and progressive liberalization.

7) Disputes Settlement Body

Settlement of disputes under GATT was a never ending process. The Disputes Settlement Body (DSB) set up under WTO seeks to plug the loopholes and provide security and predictability to the multilateral trading system. It has now been made mandatory to settle a dispute within 18 months. The findings of disputes settlement panels will be final and binding on all parties concerned.

In addition to the above, the Uruguay Round also reached agreements on the understanding and implications of certain articles of GATT 1947, visa, pre-shipment inspection, rules of origin,

MEASI INSTITUTE OF MANAGAMENT

import licensing, anti – dumping measures and countervailing duties, safeguards, subsidies etc.

GATS

The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay

Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way The General Agreements on Tariffs and Trade (GATT) provides such a system for merchandise trade.

All members of the WTO are signatories to the GATS. The basic WTO principle of Most Favored Nation (MFN) applies to GATS as well. However, upon accession, Members may introduce temporary exemptions to this rule.

The overall aim of GATS is to liberalize trade in services.

General Principles

These are basic rules that apply to all members and to all services.

MFN Treatment

Under Article II of the GATS, "Each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favorable than it accords to like services and service suppliers of any other country". However, a member is permitted to maintain a measure inconsistent with the general MFN requirement if it has established an exception. However, all exemptions are subject to review and they should in principle, not last longer than 10 years.

Transparency

The GATS requires each member to publish promptly "all relevant measures of general application" that affect operation of the agreement. Members must also notify the Council for Trade in Services of new or changed laws, regulations or administrative guidelines that affect trade in services covered by their specific commitments under the agreement. Each member is required to establish an enquiry point, to respond to requests from other members for information.

MEASI INSTITUTE OF MANAGAMENT

1. Specific Obligations

Obligations, which apply on the basis of commitments, laid down in individual country schedules concerning market access and national treatment in specifically designated sectors. These requirements apply only to scheduled sectors.

Market Access

Market access is a negotiated commitment in specified sectors. The GATS also sets out different forms of measure affecting free market access that should not be applied to the Foreign Service or its supplier unless their use is clearly provided for in the schedule. They are:

- Limitations on the number of service suppliers.
- Limitations on the total value of services transactions or assets
- Limitations on the total number of service operations or the total quantity of service output.
- Limitations on the number of persons that may be employed in a particular sector or by a particular supplier
- Measures that restrict or require supply of the service through specific types of legal entity or joint venture
- Percentage limitations on the participation of foreign capital, or limitations on the total value of foreign investment.

National Treatment

A commitment to national treatment means that in the sectors covered by its schedule, subjected to any conditions and qualifications set out in the schedule, each member shall give treatment to foreign services and service suppliers treatment, in measures affecting supply of services, no less favorable than it gives to its own services and suppliers. Again, the extension of national treatment in any particular sector may be made subject to conditions and qualifications. Members are free to tailor the sector coverage and substantive content of such commitments as they see fit. The commitments thus tend to reflect national policy objectives and constraints, overall and in individual sectors. While some Members have scheduled less than a handful of services, others have assumed market access and national treatment disciplines in over 120 out of a total of 160-odd services.

Exemptions

Members in specified circumstances are allowed to introduce or maintain measures in

MEASI INSTITUTE OF MANAGAMENT

contravention of their obligations under the Agreement, including the MFN requirement or specific commitments. These circumstance cover measures necessary to protect public morals or maintain public order, protect human, animal or plant life or health or secure compliance with laws or regulations not inconsistent with the – Agreement including, among others, measures necessary to prevent deceptive or fraudulent practices. Also, in the event of serious balance-of-payments difficulties, members are allowed to temporarily restrict trade, on a non-discriminatory basis, despite the existence of specific commitments.

TRIPS Agreement

The Agreement on Trade related Aspects of Intellectual Property Rights of the WTO is commonly known as the TRIPS Agreement or simply TRIPS. TRIPS is one of the main agreements comprising the World Trade Organization (WTO) Agreement. This Agreement was negotiated as part of the eighth round of multilateral trade negotiations in the period 1986-94 under General Agreement on Tariffs and Trade (GATT) commonly referred to as the Uruguay Round extending from 1986 to 1994. It appears as Annex 1 C of the Marrakesh Agreement which is the name for the main WTO Agreement. The Uruguay Round introduced intellectual property rights into the multilateral trading system for the first time through a set of comprehensive disciplines. The TRIPS Agreement is part of the "single undertaking" resulting from the Uruguay Round negotiations. This implies that the TRIPS Agreement applies to all WTO members, mandatorily. It also means that the provisions of the agreement are subject to WTO dispute settlement mechanism which is contained in the Dispute Settlement Understanding (the "Understanding on Rules and Procedures Governing the Settlement of Disputes"). The TRIPS Agreement is one of the most important agreements of the WTO.

Features

The three important features of the Agreement are:

Standards

In respect of each of the areas of IP covered by the Agreement, each of the member nations is obliged to provide a minimum set of standards for protecting the respective IPR. Under each of the areas of IP covered by the Agreement, the main elements of protection are defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.

MEASI INSTITUTE OF MANAGAMENT

Enforcement

Each member nation is obliged to provide domestic procedures and remedies with respect to protection of IPR. The Agreement lays down certain general principles applicable to all IPR enforcement procedures. The Agreement also lays down certain other provisions on civil and administrative procedures and remedies, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.

Dispute Settlement

Under the Agreement disputes between WTO member nations regarding the respect of the TRIPS obligations are subject to the WTO's dispute settlement procedures.

STRUCTURE OF THE TRIPS AGREEMENT

The three important features of the Agreement, i.e. standards, enforcement and dispute settlement are covered in seven parts i.e. the Agreement consists of seven parts. Part I deals with the general provisions and basic principles. Part II describes the standards concerning the availability, scope and use of IPR with respect to different types of IP. Part III describes the IPR enforcement obligations of member nations, and Part IV addresses the provisions for acquiring and maintaining IPR. Part V is directed specifically to dispute settlement under the Agreement. Part VI concerns transitional arrangements, and the Part VII concerns various institutional arrangements.

TRIPS AGREEMENT AND INDIA

India became a party to the TRIPS Agreement in April 1995. The Patent Act of 1970 was in contravention with the Article 27 of the Agreement. Hence India needed to take some measures to make its IPR laws compliant with the Agreement. The Agreement provided a three stage framework for developing countries like India which did not allow product patents in the areas of pharmaceuticals and agricultural chemicals before the Agreement came into force. These three stages included:

Full implementation of product patents in all technological domains including pharmaceuticals

MEASI INSTITUTE OF MANAGAMENT

and agricultural chemicals with effect from 1st January, 2005. Also, all Mail-Box applications were to be taken for examination from 1st January, 2005. Thus the Agreement came into force in India from 1st January, 2005.

The Agreement changed the face of the IP regime in the world. Many developing countries, including India, which had weaker IPR systems (for example, patents) had to extensively revise their patent laws, or where there were no IPR regimes (the most important examples being plant variety protection, layout designs and geographical indications) had to put in place new IPR systems. The implications of the Agreement have their own pros and cons. On the positive side, with the revision of patent laws, a stronger patent protection system came into existence which is of international standards, because of which the foreign investors were encouraged to invest in India. It may be expected that while domestic investment may not respond to a stronger patent regime in a big way in either the short or long term, Foreign Direct Investment (FDI) might. Further, the research and development expenditures of the domestic players tremendously increased in post Agreement period as compared to the pre Agreement period. The other positive implication of a technological nature is the availability of better products which might not have been available with weaker IPR protection. However, the prices of these better and patented products may not be affordable for majority of population. Domestic private sector investment and foreign investment in the seeds sector has risen.

MEASI INSTITUTE OF MANAGEMENT

IPRs covered under TRIPS

The IPRs covered by the TRIPS Agreement are:

- Copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations)
- Trademarks, including service marks
- Geographical indications including appellations of origin
- Industrial designs
- Patents including the protection of new varieties of plants
- Layout-designs (topographies) of integrated circuits
- Undisclosed information, including trade secrets and test data.

TRIMS-Trade Related Investment Measures

The Agreement on Trade-Related Investment Measures (TRIMs) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization. The agreement was concluded in 1994 and came into force in 1995. The WTO was not established at that time, it was its predecessor, the GATT (General Agreement on Trade and Tariffs. The WTO came about in 1994-1995.)

Policies such as local content requirements and trade balancing rules that have traditionally been used to both promote the interests of domestic industries and combat restrictive business practices are now banned. Trade-Related Investment Measures is the name of one of the four principal legal agreements of the WTO trade treaty. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.

MEASI INSTITUTE OF MANAGAMENT

Features of TRIMs

1. Abolition of restriction imposed on foreign capital
2. Offering equal rights to the foreign investor on par with the domestic investor

3. No restrictions on any area of investment
4. No limitation or ceiling on the quantum of foreign investment
5. Granting of permission of without restrictions to import raw material and other components
6. No force on the foreign investors to use the total products and or material.
7. Export of the part of the final product will not be mandatory.

Economic Implications

Some governments view TRIMs as a way to protect and foster domestic industry. TRIMs are also mistakenly seen as an effective remedy for a deteriorating balance of payments. These perceived benefits account for their frequent use in developing countries. In the long run, however, TRIMs may well retard economic development and weaken the economies of the countries that impose them by stifling the free flow of investment. Local content requirements, for example, illustrate this distinction between short-term advantage and long-term disadvantage. Local content requirements may force a foreign affiliated producer to use locally produced parts. Although this requirement results in immediate sales for the domestic parts industry, it also means that this industry is shielded from the salutary effects of competition. In the end, this industry will fail to improve its international competitiveness. Moreover, the industry using these parts is unable to procure high-quality, low-priced parts and components from other countries, and will be less able to produce internationally competitive finished products. The best the domestic industry can hope to achieve import substitution, but the likelihood of further development is poor. The consumer in the host country also suffers as a result of TRIMs. The consumer has no choice but to spend much more on a finished product than would be necessary under a system of liberalized imports. Since consumers placed in such a position must pay a higher price, growth of domestic demand will stagnate. This lack of demand also hinders the long-term economic development of domestic industries.

IPR-Intellectual Property Rights

Introduction

Intellectual property (IP) is a legal field that refers to creations of the mind such as musical,

MEASI INSTITUTE OF MANAGAMENT

literary, and artistic works; inventions; and symbols, names, images, and designs used in commerce, including copyrights, trademarks, patents, and related rights. Under intellectual property law, the holder of one of these abstract "properties" has certain exclusive rights to the creative work, commercial symbol, or invention by which it is covered.

Intellectual property rights are a bundle of exclusive rights over creations of the mind, both artistic and commercial. The former is covered by copyright laws, which protect creative works such as books, movies, music, paintings, photographs, and software and gives the copyright holder exclusive right to control reproduction or adaptation of such works for a certain period of time.

The second category is collectively known as "industrial properties", as they are typically created and used for industrial or commercial purposes. A patent may be granted for a new, useful, and non-obvious invention, and gives the patent holder a right to prevent others from practicing the invention without a license from the inventor for a certain period of time. A trademark is a distinctive sign which is used to prevent confusion among products in the marketplace.

An industrial design right protects the form of appearance, style or design of an industrial object from infringement. A trade secret is an item of non-public information concerning the commercial practices or proprietary knowledge of a business. Public disclosure of trade secrets may sometimes be illegal. The term "intellectual property" denotes the specific legal rights described above, and not the intellectual work itself.

The importance of intellectual property in India is well established at all levels- statutory, administrative and judicial. India ratified the agreement establishing the World Trade Organization (WTO). This Agreement, inter-alia, contains an Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) which came into force from 1st January 1995. It lays down minimum standards for protection and enforcement of intellectual property rights in member countries which are required to promote effective and adequate protection of intellectual property rights with a view to reducing distortions and impediments to international trade. The obligations under the TRIPS Agreement relate to provision of minimum standard of protection within the member countries legal systems and practices.

The Agreement provides for norms and standards in respect of following areas of

MEASI INSTITUTE OF MANAGAMENT

intellectual property:

- Copyrights and related rights
- Trade Marks
- Geographical Indications
- Industrial Designs
- Lay out Designs of Integrated Circuits
- Protection of Undisclosed Information (Trade Secrets)
- Patents
- Plant varieties

Essential Elements of Intellectual Property Rights

IPR is a broad term for covering –

1) Patents for inventions
2) Copyrights for material
3) Trademarks for broad identity and
4) Trade secrets

In general these properties are termed as "Intellectual Property". Intellectual Property is an asset that can be bought or sold, licensed and exchanged. But of course unlike other properties, intellectual property is intangible; rather it cannot be identified by its specific parameters. These properties are protected on a national basis.

1) PATENTS

- A patent is a set of exclusive rights granted by a sovereign state to an inventor or assignee for a limited period of time in exchange for detailed public disclosure of an invention. An invention is a solution to a specific technological problem and is a product or a process.
- A government authority or license conferring a right or title for a set period, especially the sole right to exclude others from making, using, or selling an invention.

This refers to innovations – new or improved product and processes which are meant for industrial applications. This is a territorial right which requires registration for a limited

MEASI INSTITUTE OF MANAGAMENT

time. Patent is a contract between an inventor as an individual and the society as a whole. The inventor has exclusive right to prevent anybody making use of and/or selling a patented invention. Of course, this is only for a specific duration till the inventor discloses the details of invention to the public.

The legal authority in this patent right is the World Trade Organization (WTO) agreement with respect to Trade Related Aspects of Intellectual Property Right (TRIPS). This offers the international standard for the required duration of 20 years from the date of filing the patent. Once this period is over, people are free to make use of this invention as they like. However, though the member has a right to prevent others making use of his patented invention, the owner has no right to make use or sell the invention itself. Patents are granted under national laws and these rights are enforceable by civil laws rather than criminal proceedings.

Conditions to be satisfied by an invention to be Patentable:

1. Novelty
2. Inventiveness(Non-obviousness)
3. Usefulness

1. Novelty

A novel invention is one, which has not been disclosed, in prior art where prior art means everything that has been published, presented or otherwise disclosed to the public on the date of patent.

Inventiveness (Non-Obviousness)

A patent application involves an inventive step if the proposed invention is not obvious to a person skilled in the art i.e. skilled in the subject matter of the patent application.

2. Usefulness

An invention must possess utility for the grant of patent. No valid patent can be granted for an invention devoid of utility.

Patentable Inventions under the Patents Act, 1970

a) Art, process, method or manner of manufacture.

MEASI INSTITUTE OF MANAGAMENT

b) Machine, apparatus or other article, Substances produced by manufacture, which include any new and useful improvements of any of them and an alleged invention.

c) Inventions claiming substance intended for use, or capable of being used, as food or as medicine or drug or relating to substances prepared or produced by chemical processes(including alloys, optical glass, semiconductors and inter-metallic compounds) are not patentable.

Types of Inventions which are not Patentable in India

An invention may satisfy the conditions of novelty, inventiveness and usefulness but it may not qualify for a patent under the following situations:

a) An invention which is frivolous or which claims anything obviously contrary to well established natural laws e.g. different of perpetual motion machines.

b) An invention the primary or intended use of which would be contrary to law or morality or injurious to public health e.g. a process for the preparation of a beverage which involves use of a carcinogenic substance, although the beverage may have higher nourishment value.

c) The mere discovery of a scientific principle or formation of an abstract theory e.g Raman Effect.

d) The mere discovery of any new property or ne use of known substance or the mere use of known process, machine or apparatus unless such a known process results in a new product or employs at least one new reactant.

e) A substance obtained by a mere admixture resulting only in the aggregation of the properties of the components thereof or a process for producing such substance.

f) The mere arrangement of rearrangement or duplication of features of known devices each functioning independently of one another in a known way.

g) A method or process of testing applicable during the process of manufacture for rendering the machine, apparatus or other equipment more efficient.

h) A method of agriculture or horticulture.

MEASI INSTITUTE OF MANAGAMENT

Types of patents

i) Utility patents

ii) Design patents

iii) Plant patents

i) Utility patents

A utility patent may be available for inventions which are novel, useful, and non-obvious. Utility patents can be obtained for the utilitarian or functional aspects of an invention. Utility patents have a term of twenty years from the date of filling the patent application with the patent and trademark office, although term extensions are available in certain specific situations. During the term of a utility patent, maintenance fees must be paid in order to sustain the patent.

ii) Design patents

It can be granted to anyone who invents a new, original ornamental design for an article of manufacture. A design patent protects the ornamental design (i.e. appearance) of the article. A design patent has duration of 14 years from the date of filing. Design patents are not subject to maintenance fee payments.

iii) Plant patents

Plant patent can be granted to anyone who invents or discovers and reproduces a new variety of plant. A plant patent may be issued for the invention or discovery of a distinct and new variety of plants, which may be asexually reproduced. To qualify for this type of patent, the discovery or invention must be novel, distinct, and non-obvious. A plant patent has a term of 20 years from the date of filing.

Term of a Patent in the Indian System

a) Five years from the date of selling of the patent or seven years from the date of the patent (i.e the date of filing the complete specification) whichever period is shorter, for an invention claiming the method or process of manufacture of a substance, where the substance is intended or capable of being used as a drug, medicine or food.

b) Twenty years from the date of patent in respect of any other patentable invention.

Essential Patent documents to be submitted

There are two types of patent documents usually known as patent specification, namely

Provisional specification

MEASI INSTITUTE OF MANAGAMENT

Complete Specification

Provisional Specification

A provisional specification is usually filled to establish priority of the invention in case the disclosed invention is at a conceptual stage and a delay is expected in submitting full and specific description of the invention. Although, a patent application accompanied with provisional specification does not confer any legal patent rights to the applicants, it is however a very important document to establish the earliest ownership of an invention. Complete specification must be submitted within 12 months of filing the provisional specification. This period can be extended by 3 months.

1. Complete Specification

Submission of complete specification is necessary to obtain a patent. The contents of a complete specification would include the following:

Title of the invention

- Field to which invention belongs.
- Background of the invention including prior art giving drawbacks of the known inventions practices.
- Complete description of the invention along with experimental results.
- Drawings etc. essential for understanding the invention.
- Claims, which are statements, related to the invention on which legal proprietorship is being sought. Therefore the claims have to be drafted very carefully.

Criteria for naming inventors in an Application for Patent

The name of inventors is normally decided on the basis of the following criteria:

All persons who contribute towards development of patentable features of an invention should be named as inventors.

All persons, who have made intellectual contribution in achieving the final results of the research work leading to a patent, should be named as inventor(s)

A person who has not contributed intellectually in the development of an invention is not entitled to be included as an inventor.

A person who provided ideas needed to produce the 'germs of the invention' need not

MEASI INSTITUE OF MANAGAMENT

himself/herself carry out the experiments, construct the apparatus with his/her own hands or make the drawings himself/herself. The person may take the help of others. Such persons who have helped in conducting the experiments, constructing apparatus or making the drawing or models without providing any intellectual inputs are not entitled to be named as inventors.

Where to apply?

Application for the patent has to be filled in the respective patent office as mentioned below. The territorial jurisdiction is decided based on whether any of the following occurrences falls within the territory.

Place of residence, domicile or business of the applicant(first mentioned applicant in the case of joint applicants)

Place from where the invention actually originated.

Address for services in India given by the applicant when he has no place of business or domicile in India.

A foreign applicant should give an address for service in India and the jurisdiction will be decided upon that. An applicant (Indian or foreigner) also can his Patent Agent's address as address for serving documents, if he/she so wishes.

How to apply?

Steps involved in obtaining a Patent

To file an application for patent accompanied with either a provisional specification or a complete specification

To file complete specification, if provisional application was submitted earlier.

Examination of the application by patent office.

Acceptance of applications and publication in the gazette of accepted applications.

Responding and satisfactory overcoming the opposition/objections, if any to the grant of patent.

Sealing of patent

MEASI INSTITUTE OF MANAGAMENT

COPY RIGHTS

A copyright is a very particular and exclusive right even for reproduction of an original work.

This is for material, aesthetic material, literacy, music, film, sound recording, broad casting, software and multimedia. This offers automatic right for safeguarding any original creation, which is not in need of registration but with limited time. It does not require the lawyer's help for settlement.

Protection to copy right does not give any procedure, principle, concept or method or operation, irrespective of the format in which it is explained. In other words protection of copyright is limited to an inventor's particular expression of an idea, concepts or process in a tangible medium. Copyright is sanctioned to prevent others from:

a) Copying the work

b) Publishing and selling copies commercially

c) Renting or lending the work in a free market

d) Doing or demonstrating the work in public

Works protected by Copyright

The types of copyright works are broadly categorized into:

a) Original literary, dramatic, artistic or musical works.

b) Sound recordings, films or broadcasts and

c) The typographical arrangement of published editions.

Literary work also includes:

MEASI INSTITUTE OF MANAGAMENT

- A table or compilation other than a database
- A computer program
- Preparatory design material for a computer program
- A database

Rights granted by Copyright

Copyright grants certain rights that are exclusive to its owner. Based on these rights, the copyright owner.

- Can copy the work
- Issue copies of the work to the public
- Rent or lend the work to the public
- Perform, show or play the work in public
- Communicate the work to the public-include broadcasting of a work and also electronic transmission and makes an adaptation of the work.
- The TRIPS agreement offers a minimum duration of copyright protection to the tune of the life of the inventor or author plus fifty years. Anyhow rights granted exclusively to the copy right owner may allow others in making fair use of the owner's work, like for the purpose of review, comment, reporting, teaching, researches, etc. Of course, the impact of copying an inventor's work's commercial value is considered to find out whether the copying is for "fair use". In order to secure protection for copy right, the particular work must be an original work made or written in a tangible medium of expression. The test for such originality consists of two conditions –

(1) Work must originate from the inventor and not a copy from others' works.

(2) The invention or work must have adequate amount of creativity.

c) TRADE MARKS

Trademark is for broad identity of specific goods and services allowing differences to be made among different trades. This is a territorial right, which requires registration, but without any time limit. Lawyers are needed for guidelines.

A trademark is an identification symbol which is used in the course of trade to enable the purchasing people (buyers) to distinguish one trader's goods from the similar goods of other

MEASI INSTITUTE OF MANAGAMENT

traders. These marks also symbolize distinctly the quality of the products. These marks are in the form of certain 'wordings' or can be in the format of logos, designs, sounds, etc. Examples: NIIT, Kodak.

The TRIPS agreement offers the same type of protection for trademarks. Registration of trademark is issued for definite period of time. However, in order to avoid confusion, encourage competitions and protect the inventor's good will, the registration may be renewed. With reference to intellectual property area, trademarks are national in origin and should comply with provision of TRIPS agreement.

TYPES OF TRADEMARKS

Generic Trademarks

Words, symbols or devices that are not so distinctly distinguishing the goods from others are at the weakest ends, as they are common terms used to identify the goods themselves. These are termed as generic terms and are not protectable as trademarks.

Descriptive Trademarks

Descriptive trademarks clearly denote or inform the specific purpose, functions, physical characteristic and end use of the product.

Suggestive Trademarks

Suggestive trademarks do not at a glance describe the goods for which the mark is used; yet they rather require some imagination or perception to arrive at a conclusion about the nature of the goods.

d) TRADE SECRETS

A trade secret means information, which is kept confidential as a secret. This is generally not known in the relevant industry, offering an advantage to its owner over other competitors. Unlike other types of Intellectual property, this trade secret is fundamentally a "do-it-yourself" type of protection. For engineers, inventors, and designers, the trade secrets are to be maintained secretly. Such trade secrets include some formulae, programmers, methods, progresses or data collections etc. If there is any improper disclosure or use of the trade secret

MEASI INSTITUTE OF MANAGAMENT

by another person, the inventor may claim and recover damages resulting from illegal use.

TRIPS agreements offer the protection for trade secrets under the heading 'protection of undisclosed information'. The engineer in competitive field should feel their responsibility and status when they make use of such trade secrets till its disclosure. If the information of a trade secret is available through any legitimate means and if any inventor is responsible illegally for such leaking, then the trade secret may become ineligible for protection.

Enforcement of Intellectual Property Rights is definitely private rights. If anybody uses the material without the inventors' permission, the Intellectual Property right owners can use any remedies available under the civil law.

NEED FOR PROTECTION TO IPR

The protection of intellectual property rights is an essential element of economic policy for any country. Only such protection can stimulate research, creativity and technological innovations by giving freedom to individual inventors and companies to gain the benefits of their creative efforts.

It is a very important issue to plan to protect the intellectual property rights. The major needs are to:

- Prevent plagiarism.
- Prevent others using it.
- Prevent using it for financial gains.
- Fulfill obligation to funding agency.
- Support income generation strategy.

IMPORTANCE OF IPR

a) Give the inventors exclusive rights of dealing.

b) Permit avoiding of competitors and increase entry barriers.

c) Allow entry to a technical market

d) Generate steady income by issuing license.

e) A registered intellectual property right is property, just like your capital assets. However, it is

MEASI INSTITUTE OF MANAGAMENT

an asset that can be leveraged through licensing and can therefore be highly valuable. It can also greatly enhance the value of a business when it is sold.

f) Benefits the economy

Sectors that rely on IPR represent a significant part of developed and developing economies, in terms of GDP, employment, tax revenues and strategic importance. IPR also promotes foreign direct investment (FDI) and technology transfers in developed and developing countries.

g) promotes innovation

Effective IPR increases funding for research and development and other innovation, including by helping firms realize more value from innovations that are protected by IPR than those that are not. IPR underpins development of cultural expression and diversity, and promotes broader dissemination of innovations through publication and licensing.

h) “Open source” relies on IPR

Open source mechanisms are becoming popular in certain sectors such as software (cf. GPL licenses, etc.). While the common perception is that such mechanisms are characterized by the absence of any IP protection, it is worth noting that a typical GPL (General Public) license actually relies on IP rights as it is typically a copyright license which remains valid as long as certain conditions are complied with (e.g. freedoms received by the licensee must be passed on to subsequent users, even where the software is modified).

i) Providing guarantees regarding the quality and safety of products

Many counterfeit products place our children’s and citizens’ safety or health at risk, for instance where vehicle spare parts or drugs are concerned. Enforcing IP rights in respect of such products guarantees at least that the products’ origin is known and that the products are genuine, whereas counterfeit products often do not comply with the applicable safety standards. This is especially true for trademarks, but patent licensing contracts, for instance, may also include quality insurance clauses.

SAARC-South Asian Association for Regional Cooperation

SAARC or “South Asian Association for Regional Co-operation” was formed in December, 1985 at Dhaka. India, Pakistan Nepal, Bhutan, Bangladesh, Sri Lanka and Maldives are its

MEASI INSTITUTE OF MANAGAMENT

founding members. Afghanistan became its 8th member in 2007.

SAARC is the first systematic organizational output of efforts at regional level among member states of South Asia. The original idea was put forth by President Zia-or-Rahman of Bangladesh.

Objectives of SAARC:

The objectives of the ASSOCIATION shall be:

a) to promote the welfare of the peoples of SOUTH ASIA and to improve their quality of life.

b) To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials.

c) To promote and strengthen collective self-reliance among the countries of SOUTH ASIA.

d) To contribute to mutual trust, understanding and appreciation of one another's problems.

e) To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.

f) To strengthen cooperation with other developing countries.

g) To strengthen cooperation among themselves in international forums on matters of common interests, and

h) To cooperate with international and regional organizations with similar aims and purposes.

PRINCIPLES

1. Cooperation within the framework of the ASSOCIATION shall be based on respect for the principles of sovereign equality, territorial integrity, political independence, non -interference in the internal affairs of other States and mutual benefit.
2. Such cooperation shall not be a substitute for bilateral and multilateral cooperation but shall complement them.
3. Such cooperation shall not be inconsistent with bilateral and multilateral obligations.

Constraining Factors /Hurdles in the Development of SAARC

There are some serious constraints which are, no doubt, not allowing South Asian cooperation to develop. Some of these hurdles can be described as:

1. Inter-state Disputes in South Asia

One of the major hurdles in the way of cooperation among the SAARC members is the mistrust, mutual security perceptions and hostility. All the members of this organization feel in one way or

MEASI INSTITUTE OF MANAGAMENT

another threat to their political, economic and territorial stability from the neighboring countries. They are still entrapped in the historical conflicts of colonial rule and the disputed environment after the departure of Colonial Masters i.e. loss of property, lives, identities and communal violence. There are always high risks that any time the efforts for cooperation can suffer due to communal and terrorist threats.

2. Fear of Indian Domination

Another most important cause of SAARC failure is that there is a fear of India's hegemonic role in the region. Indian desire to participate in the decision making process of the region as a leader has caused concerns among the neighboring countries particularly Pakistan, Sri Lanka and Bangladesh's The political, diplomatic and security concerns felt by the member countries of SAARC in South Asia has obstructed any positive development among the member countries.

3. Civilizations Clash

Professor Samuel Huntington has mentioned in his book "The Clash of Civilizations" that SAARC has been a failure because according to him the countries belonging to organizations like EU etc. they belong to same culture but SAARC countries are those whose cultures are different. India and Pakistan are enemies of each other, they fight on minor things, and then how can these two countries support each other in one organization. No country in the region is having any feeling of belongingness with the other state.

4. Unstable Financial Positions

The weak financial position of the member countries has also created an uncertain future for this organization. This weak financial position is reflected in the trade imbalances among the member countries. The SAARC members are financially and economically not very much developed. This thing is not conducive for the economic integration of South Asia. Most of the member countries export similar products and in that too, India plays a major role. This situation encourages the least developed countries to go for aid demands/arrangements and extra-regional trade which is not favorable for the regional economic interaction. The member countries of SAARC are not complementing each other but they are competing in fact. Mutual trade is very low. The lower level of intra-region trade in South Asia has made the objective of this organization a failure.

MEASI INSTITUTE OF MANAGAMENT

Today, the marketing organizations are not restricted to their national borders. The entire world is open for them. New markets are springing forth in emerging economies like – China, Indonesia, India, Korea, Mexico, Chile, Brazil, Argentina, and many other economies all over the world. In today's global market opportunities are on a par with the expansion of economies, with the increasing purchasing power, and with the changing consumer taste and preferences.

The economic, social, and political changes affect the practice of business worldwide, the business organizations have to remain flexible enough to react rapidly to changing global trends to be competitive.

When a company contemplates marketing abroad or expanding existing international marketing activity, management faces five major decisions:

1. International marketing decision i.e. initial and fundamental decision on whether or not to market or expand abroad.
2. The market selection decision i.e. determination of which market to enter.
3. The market entry decision i.e. determination of the most appropriate methods of entry into those markets, e.g. exporting, licensing, manufacturing abroad.
4. The Marketing Mix decision i.e. planning and implementing a marketing mix appropriate to the market environment.
5. The Organization decision i.e. determining the appropriate organization structures.

Definitions of International Marketing

According to Kotler, "Global marketing is concerned with integrating and standardizing marketing actions across a number of geographic markets."

According to Cater, "International marketing is the performance of business activities that direct the flow of goods and services to consumers and users in more than one nation."

According to Cater and Graham, "International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit."

According to Torstar and Strathy, "international marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international and of

MEASI INSTITUE OF MANAGAMENT

coordinating marketing activities within the constraints of the global environment."

Nature of International Marketing

1. Broader market is available– Unlike domestic marketing the market is not restricted to national population. Population of other countries can also be targeted in international marketing.
2. Involves at least two set of uncontrollable variables – In domestic marketing the marketers have to interact with only one set of uncontrollable variables. In international marketing at least two set of uncontrollable variables are involved or more if the marketing organization deals in more countries.
3. Requires broader competence– Special management skills and broader competence is required in international marketing/business.
4. Competition is intense – An international marketing organization has to compete with both the domestic competitors and the international competitors. Hence, the competition is intense in international marketing.
5. Involve high risk and challenges – International marketing is prove to various kinds of risk and challenge like – political risk, cultural differences, changes in fashion and style of foreign customers, sudden war, changes in government rules and regulations, communication challenges due to language and cultural barriers, etc.

Scope of International Marketing

International Marketing constitutes the following areas of business:

1. Exports and Imports

International trade can be a good beginning to venture into international marketing. By developing international markets for domestically produced goods and services a company can reduce the risk of operating internationally, gain adequate experience and then go on to set up manufacturing and marketing facilities abroad.

2. Contractual Agreements

Patent licensing, turnkey operations, co – production, technical and managerial know – how and licensing agreements are all a part of international marketing. Licensing includes a number of contractual agreements whereby intangible assets such as patents, trade secrets, know – how,

MEASI INSTITUTE OF MANAGAMENT

trademarks and brand names are made available to foreign firms in return for a fee.

Joint Ventures

A form of collaborative association for a considerable period is known as joint venture. A joint venture comes into existence when a foreign investor acquires interest in a local company and vice versa or when overseas and local firms jointly form a new firm. In countries where fully owned firms are not allowed to operate, joint venture is the alternative.

3. Wholly owned manufacturing

A company with long term interest in a foreign market may establish fully owned manufacturing facilities. Factors like trade barriers, cost differences, government policies etc. encourage the setting up of production facilities in foreign markets. Manufacturing abroad provides the firm with total control over quality and production.

4. Contract manufacturing

When a firm enters into a contract with other firm in foreign country to manufacture assembles the products and retains product marketing with itself, it is known as contract manufacturing. Contract manufacturing has important advantages such as low risk, low cost and easy exit.

5. Management contracting

Under a management contract the supplier brings a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

6. Third country location

When there is no commercial transactions between two countries due to various reasons, firm which wants to enter into the market of another nation, will have to operate from a third country base. For instance,

Taiwan's entry into china through bases in Hong Kong.

Mergers and Acquisitions

Mergers and Acquisitions provide access to markets, distribution network, new technology and patent rights. It also reduces the level of competition for firms which either merge or acquires.

Strategic alliances

A firm is able to improve the long term competitive advantage by forming a strategic alliance

MEASI INSTITUTE OF MANAGAMENT

with its competitors. The objective of a strategic alliance is to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technological changes. Strategic alliance differs according to purpose and structure. On the basis of purpose, strategic alliance can be classified as follows:

Technology developed alliances like research consortia, simultaneous engineering agreements, and licensing or joint development agreements.
Marketing, sales and services alliances in which a company makes use of the marketing infrastructure of another company in the foreign market for its products.
Multiple activity alliance involves the combining of two or more types of alliances. For instance technology development and operations alliances are generally multi- country alliances.
On the basis of structure, strategic alliance can be equity based or non-equity based. Technology transfer agreements, licensing agreements, marketing agreements are non-equity based strategic alliances.

Counter trade

Counter trade is a form of international trade in which export and import transactions are directly interlinked i.e. import of goods are paid by export of goods. It is therefore a form of barter between countries. Counter trade strategy is generally used by UDCs to increase their exports. However, it is also used by MNCs to enter foreign markets. For instance, PepsiCo's entry in the former USSR. There are different forms of counter trade such as barter, buy back, compensation deal and counter purchase. In case of barter, goods of equal value are directly exchanged without the involvement of monetary exchange. Under a buy back agreement, the supplier of a plant, equipment or technology. Payments may be partly made in kind and partly in cash. In a compensation deal the seller receives a part of the payment in cash and the rest in kind. In case of a counter purchase agreement the seller receives the full payment in cash but agrees to spend an equal amount of money in that country in a given period.

Objectives of International Marketing

To bring countries closer for trading purpose and to encourage large scale free trade among the countries of the world.
To bring integration of economies of different countries and thereby to facilitate the process of

MEASI INSTITUTE OF MANAGAMENT

To provide better life and welfare to people from different countries of the world. In addition, to provide assistance to countries facing natural calamities and other emergencies situations.

- To provide assistance to developing countries in their economic and industrial growth and thereby to remove gap between the developed and developing countries.
- To ensure optimum utilization of resources (including surplus production) at global level.
- To encourage world export trade and to provide benefits of the same to all participating countries.
- To offer the benefits of comparative cost advantage to all countries participating in international marketing.
- To keep international trade free and fair to all countries by avoiding trade barriers.

Components of International Marketing Environment & importance:

The various components of the international marketing environment are the major determinants of marketing opportunities. As such, it is the responsibility of an international firm to have clear grasp of international marketing environment to formulate effective marketing decisions regarding Marketing Mix variables.

The International Marketing Environment consists of following elements:

1. Economic Environment
2. Financial Environment
3. Cultural Environment
4. Social Environment
5. Political Environment
6. Legal Environment
7. Competition Environment
8. Technological Environment

MEASI INSTITUTE OF MANAGAMENT

Economic Environment

The economic environment is comprised of the following economic variables at least:

National Income.

Gross Domestic Product (GDP).

Industrial Structure.

Currency floating (Open/fixed) issue.

Demand patterns.

Balance of Payment (BOP) status

Economy base (Import/Export).

Rate of Economic Growth.

Occupational Pattern.

State of Inflation.

Consumer Mobility.

The international marketer tries to understand economic environmental variables of the global markets for identifying the right marketing opportunities for the enterprise.

Financial Environment

Financial environment refers to the financial system study of a country in which the international marketer intends to operate. A financial system of a country refers to the following two variables such as: a) Money Market. b) Capital Market.

Cultural Environment

Culture is everything that people have, think and do as members of the society. It is the sum total of knowledge, beliefs, arts, morals, laws, and customs and any other capabilities and habits acquired by humans as members of the society. The environment which is comprised of norms, taboos, religious sentiments, habits that determines the lifestyle, attitude towards different goods and buying decisions is regarded as cultural environment. Since consumer behavior is highly influenced by cultural environment, a firm pursuing international marketing must know the cultural differences in which international efforts are made.

Social Environment

Human beings live in a society. A contemporary society is comprised of various social classes

MEASI INSTITUTE OF MANAGAMENT

depicting a wide range of values, attitudes and behaviour.Each class is shown in terms of social status, relative wealth and prestige. Individuals belonging to a particular class are found to lead their lives as per the norms and values of the concerned class. Thus social environment refers to social stratifications of a society and its behavioral implications. The international marketer intends to provide an insight into the social environment to know the constituents of a foreign society and to understand how social classes differ in their buying habits, brand choice and living patterns.

Research on social environment has come out with the following social classification and their buying/consumption pattern which are helping international marketer to decide about their strategy:

Upper Class: Consumers belonging to Upper Class serve as a reference group for others to the extent that their consumption decisions trickle down and are imitated by other social classes. They constitute a good market for jewelry, antiques, homes and vacations.

Lower Upper Class: This class tends to show patterns of conspicuous consumption to impress those belonging to less than their social position. They seek to buy the symbols of status for themselves and their children, such as, expensive homes, schools, automobiles etc.

Upper Middle Class: This class is a quality market for good homes, clothes, furnitures and appliance. They seek to run gracious home, entertaining friends and clients.

Middle Class: This class constitutes a major market for do it yourself products. This group is involved in religious activities and tries to avoid highly styled clothing’s.

Working Class: This class basically aims at meeting salient human needs. They also strive for security and interested in items that enhanced their leisure.

Upper lower Class: The upper lowers are found to be sports fan, heavy smokers. In view of their financial conditions, they tend to show interest in the low priced consumer goods.

Lower-lower Class: Individuals belonging to this class usually have broken down homes, dirty clothes and raggedy possessions.

MEASI INSTITUTE OF MANAGAMENT

- **Political Environment**

Political environment refers to the variables like below:

Stability of Government Policies.

Philosophies of the political parties.

State of Nationalism.

Kinds of Political risks

State of bureaucracy.

Economic Risks.

Attitude toward foreign investment.

Legal Environment

An International Marketer intends to provide an insight into international legal environment to conduct marketing operations in compliance with international laws, originate from the various sources. Proper understanding of legal environment may assist an international firm to handle legal disputes effectively.

Following are some variables which constitute the legal environment:

a) Rules for exporting and importing goods.

b) Rules for People

c) Rules for Services

d) Rules for money across national boundaries.

e) Health regulations

f) Safety Standards

g) Product Packaging and labelling

h) Product Advertising and promotion etc.

International Marketer also needs to understand the legal dispute settlement process to protect his justifiable interest. We know that legal disputes can arise in three situations such as:

a) Between Governments

b) Between Company and a Government

c) Between Two Companies.

Dispute between Governments can be settled by the International Courts but disputes of other two categories must be settled through Arbitration or in the courts of the country of one of the parties involved in the dispute.

Most International Marketing disputes can be settled by any of the following three

MEASI INSTITUE OF MANAGAMENT

methods:

a) Conciliation

b) Arbitration

c) Litigation

1. Competition Environment

To plan effectively international marketing strategies, the international marketer should be well-informed about the competitive situation in the international markets. By Competitive environment we mean the following variables:

a) Nature of competition

b) Players in the competition

c) Strategical weapons used by the participants

d)Competition regulations

Following are the ways an international marketer can handle competition:

a) Proper knowledge about the competitors

b) Knowledge of Competitor's objectives

c) Competitor's strategies

d) Competitor's reaction patterns

e) Knowledge of Competitors strengths and weakness.

2. Technological Environment

The most dramatic force that shaping the destiny of an international firm is technological environment. Technological know-how impacts all spheres of an international marketer's operations including production, information system, marketing etc. The international marketers must understand technological development and its impact on its total operations. The marketing intelligence system may help the international firm to know technological orientations of other enterprises and to update its own technologies to remain competitive. Research and Development (R&D) has a vital role to play in increasing technological ability of a firm.

HORIZONTAL AND VERTICAL FDI

Foreign Direct Investment, popularly known by its acronym FDI, is a key component in global economic integration. FDI is a form of cross-border investment with the objective of establishing a lasting interest that a resident enterprise based in one country might have in an enterprise

MEASI INSTITUE OF MANAGAMENT

operating in another country. Lasting interest implies a significant degree of influence on the management of the enterprise along with building up a long-term rapport between the direct investor and the direct investment enterprise. According to the Organization for Economic Co-operation and Development (OECD), ownership of 10% of the voting power by the foreign investor is an evidence of such a relationship. FDIs can be achieved by one of two strategies. The first strategy is for the company to set up new factories and plants from the ground up. This method is called a 'greenfield investment'. Companies like McDonald's and Starbucks tend to use the Greenfield approach when expanding overseas. The second FDI strategy is through cross-border mergers and acquisitions that involve acquiring an existing foreign enterprise in the country of interest. This method is called a 'brownfield investment'. An example of a brownfield investment occurred in 2008, when the Indian truck company Tata Motors acquired Land Rover and Jaguar from Ford. Tata Motors didn't have to build those factories from scratch. FDIs can also be classified into horizontal and vertical forms. A company investing in the same business abroad that it operates domestically is a case of a horizontal FDI. On the other hand, vertical FDI occurs if a company invests in a business that plays the role of a supplier or a distributor. FDIs are seen as a healthy way for less-developed and developing nations to overcome their saving-investment gap, which limits the level of domestic investment. FDIs fill such gaps by bringing foreign investment into the country, as well as bridging gaps in management, technology, entrepreneurship and skills.

ADVANTAGES & DISADVANTAGES TO HOME AND HOST COUNTRY

The unprecedented growth of multinationals is due to the concept of globalisation which has no boundaries or limits. Usually within country's economy there are flows of goods, capital and technology. This leads to high competition in the industry and naturally companies tend to expand their business in order to survive in the global arena. The countries use Foreign Direct Investment as a key to internationalise their business. In order to understand the full meaning of FDI, let us see the definition. FDI is defined as "the acquisition abroad of physical assets, such as plant and equipment, with operational control ultimately residing with the parent company in the home country" (Buckley, p.35, 1996).In the past 25 years, FDI is growing at a much faster rate than trade and both of these have grown faster than world output (Kozul-Wright and Rowthorn,

MEASI INSTITUTE OF MANAGAMENT

1998). There are many factors contributing to the development of FDI. Some of them are Internet, technological advancement, flexible rules and regulations of the country and lesser communication costs. FDI stimulates competition, capital, technological and managerial skills which has a positive effect on both host and home country's economic growth. The importance given to FDI by other country is astounding. One such example is US which has a separate department called 'Bureau of Economic Analysis'. The department monitors FDI inflows and outflows and introduce FDI attraction schemes for successful results. This essay analyses various costs and benefits to home country and host country with suitable evidences.

Costs and Benefits

Let us discuss the costs and benefits of FDI to both home countries and host countries.

Benefits of FDI to the host country

Hill (2005) suggested that there are three main benefits to the host country derived out of FDI. They are resource transfer effects, employment effects and balance of payment effects. Whenever a company invests in a foreign firm, the resources are capital, technology and managerial skills. In terms of capital, the host country will have a higher financial status than the home country. The change in technology and managerial skills will have a drastic effect on the operations carried out by the company. In the host country due to FDI, it creates many employment opportunities through which the citizens of that particular country would be benefited. The balance of payments keeps tracks of FDI inflow and outflows through two types of accounts, current account and capital account. "The current account is a record of a country's export and import of goods" (Hill, 2005) and the capital account maintain purchase or sale details of assets by the country. By using FDI, the country can achieve a current account surplus (where exports are greater than imports) and reduce current account deficit (where imports are greater than exports). (Hill, 2005)

Costs of FDI to the host country

The negative effects are termed as 'costs'. There are also significant effects which affects the host country. When a foreign firm establishes with the superior technological skills which can produce quality items at cheaper rates, it adversely affects the domestic producers. Balance of payments are also affected by inward FDI by two sources. When there is an initial capital inflow

MEASI INSTITUTE OF MANAGAMENT

there must be subsequent capital outflow and this will be recorded as debits on capital account. The second source is due to import of goods from other countries which will be recorded as debits in current account. The foreign firm can alter the economic stability of a country as they will be focussing only on the profit. Eventually all the inhabitants of the country will have an emotional outbreak to apparent loss of national sovereignty. (Hill, 2005)

Benefits of FDI to the home country

The benefit to the home country also includes the factors similar to that of host country. In terms of balance of payments, what is debit to host country is credit to home country. The outward FDI also leads to creation of new job market with great expertise and necessary skills. Reverse resource transfer effect takes place whenever resources like managerial skills are transferred back to the home country. The profit of the foreign firm goes back to the home country unlike domestic producers which contributes to their country. The home country is exposed to create new market share and it is liable to create many in the future. (Hill, 2005)

Costs of FDI to the home country

Due to FDI, the home country is mainly affected by capital and employment. Suppose a country 'A' decides to invest in country 'B', using its capital and technology there will be an addition of financial position to the host country than home country. Even in future, if the country 'A' wants to make any advancement, much focus will be given to the company in country 'B' and implement changes. As a result the production in home country decreases and it sometimes result in shutting down all its operations and completely concentrate on the host country. This badly affects the home country's economy and employment. (Hill, 2005)

Summary of costs and benefits

To conclude the discussion of the benefits and costs of FDI, points are tabulated in Table 1

Table 1 Benefits and costs of FDI

Benefits & Costs

Host country

Financial resources of MNEs Access to new technology

Training of local managers

Job creation

MEASI INSTITUTE OF MANAGAMENT

Capital inflows

BOP credits from exports

BOP credits from local production of parts

Competition of local producers

BOP debits on repatriated earnings

BOP debits on MNE imports on components

Perception of loss of national identity

Home country

BOP credits from earnings

Creation of jobs in higher skill categories

Exposure to new markets, managerial expertise and technology

Protects market share in competition with other MNEs

Initial investment a capital outflow

BOP debits from input of low-cost goods

Loss of exports for which FDI is a substitute

Job losses in low skill areas

Source: Hill (2005)

The benefit of home country is the cost of host country and vice-versa. After researching for many years, economists have come to a conclusion that host country has more benefits than home country. This is because of three main reasons. The first one is that they own assets like technology and brand name. Second it is very easier to produce in a country where it is going to be marketed than producing in the home country and exporting as it save costs on transportation. It also rules out the problem of licensing and handling unnecessary pressures on production from the government. (World Trade Organization, 1996)

The following sections are illustration of FDI costs and benefits.

Renault-Nissan Alliance

MEASI INSTITUTE OF MANAGAMENT

The Renault-Nissan alliance in 1999 is the first business-related and industrial partnership between France and Japan (www.renault.com). The alliance received a great attention as they created a very big impact on the Japanese car industry. Before the association, Nissan was about to bankrupt and incurred a dramatic loss of ¥700 billion. When it was taken over by Renault with a new management team headed by Carlos Ghosn, a complete restructuring was done. The global work force was reduced by 10 percent, five factories were closed and Nissan's shareholdings were sold. These were very high according to Japanese standards. The outcomes were astonishing as they recorded consecutive profit in the following years with high operating margins and it was due to "combined expertise and technology sharing". The stealing of market share from its rivals Honda, Mazda and Mitsubishi was a clear indication of its accelerated development. From this, it is very clear that transfer of managerial skills will have a huge impact in the success of the industry.

Many US companies including GE, RCA, IBM, Coca-Cola and Ford were the first to initiate production in Mexico. Japanese and Korean firms also became major investors in 1982. As a result, it had a positive reflection on employment. It rose from 100,000 in 1982 to 500,000 in 1992. The NAFTA implementation further boosted up to 1.3 million and the region reported for 40 percent of total Mexican exports. The amount of goods exported to US increased from $42 billion in 1993 to $166 billion in 2000. Ford's plant in Mexico became the third largest foreign owned manufacturing operation in Latin America. (Jones, 2005)

US -Malaysia FDI relationship

The economy of Malaysia was badly affected by several recessions like worldwide oil crisis and Asian economic crisis. Its economy again rebounded in 1999. FDI became a key factor in country's development. Anderson (1993) suggested few factors that attract FDI in Malaysia were undervalued currency, low cost of labour and fairly low inflation rate. Though there are many foreign investors, U.S. Company's ranks first in FDI in Malaysia. The companies like Boeing, General Electric, R.J. Reynolds and Bechtel were major American investors. The government provided perfect climatic conditions for American firms to operate in Malaysia. The following factors attracted U.S. firms to invest in Malaysia. The government set up an Anti-corruption Agency to prevent corruption in any form. It has the same legal structure so the investors had great convenience in handling their business following the rules and regulations enacted by the

MEASI INSTITUTE OF MANAGAMENT

government. Moreover there was not any language issue as Malaysia is an English speaking country. The investors got attracted towards the incentives provided through tax treatment and "generous equity ownership". There were also some issues faced by foreign investors. Any foreign investor who wants to start industry must get proper approval from Malaysian Investment Development Authority (MIDA). The approval depends on various conditions which will be frustrating for investors. The other problem faced by investors was that they have to get work permit for foreign workers, which was a time consuming process. The government has several restrictions on total number of foreign workers on their land as it will have a direct effect on country's employment opportunities. FDI has also negative impacts on home country. In case of Malaysia, the American investors violated both Human rights and Workers right. Malaysia faced a severe violation of human rights as pay was very much less than the minimum wage. The working conditions were also not employee friendly because of which workers faced several types of health problems. The company was against in forming labour union and when protested by the government, they complained that forming unions was a violation according to U.S. Generalized System of Preferences (GSP) requirement.

McDonalds-a world's largest chain of quick service restaurants

McDonalds was started in a suburb of Chicago in 1955. It became the largest fast food restaurant and held one third of US market in 1990. McDonalds opened its branch in Canada in 1967 and later began to open in Europe by making joint ventures. McDonalds influenced the needs of locals and all other local fast food outlets in Germany and Netherlands faced a very tough competition. The local restaurants had to change their style to McDonalds in order to meet customer demands. After that, every step ahead was a success to the company. They had joint ventured with Japanese and very soon became country's largest restaurant chain. (Jones, 2005) McDonald's operation in Russia, China and India was a clear indication of International expansion. They had 30,000 outlets in 120 countries and employed 250,000 people outside the United States. They established in all major cities and helped students to manage their living by providing part time jobs. Their international operations reported one half of McDonalds's revenues. As time changes, customer needs also changes. Now customers prefer to have a nutritious meal, so McDonalds used their marketing nuances to satisfy their customers. For example, in France items like salads, fresh fruits and Evian mineral water are included in the menu.

Conclusion

In this essay, we have seen several factors that affect both home country and host country. Every company in the market seems to maximise the benefits and minimise the costs. The goal of achieving maximum profit influences every other decision while investing in a country. So far, we have seen the costs and benefits of home countries and host countries and real time examples

MEASI INSTITUTE OF MANAGAMENT

are also cited. The primary factors that affect both home country and host country are employment, competition, economic development, technology and management. A success of an industry can be determined by how well these factors are managed by the country practising all rules and regulations adopted by the country in which operations are carried out. The governments also play an active role in framing rules and regulations to derive maximum benefit out of both FDI inflow and outflow. The negotiations are done on every agreement. Only if it is beneficial the operations are performed otherwise they are rejected at the initial phase itself.

FDI is also used for improving the infrastructure of economically backward countries. The funding is done by world level organisations like World Health Organisation, World Bank and International Monetary Fund. The infrastructure is provided even in terms of upgrading medical facilities. For example, in Africa money and medicines are provided to eradicate diseases and in

India several awareness programmes are being conducted about HIV prevention. The money invested in the country can also be used for constructing roads to remote areas which will help in transportation of medicines and in situations like floods and other natural disasters. It can also be effectively used for training unskilled labour by conducting educational programmes

QUESTIONS

1. State the challenges in FDI.

2. Explain the functions of SAARC

3. Discuss the role of TRIMs in international trade.

4. Explain the advantages of FDI to host country.

5. Discuss the barriers to international trade.

UNIT - V CONTEMPORARY ISSUES

Regional economic groups / blocs

MEASI INSTITUE OF MANAGAMENT

The purpose of creating trading blocs is to reduce or eliminate unnecessary trade barriers between member states, and to allow the free movement of goods, services, labour and capital. However, non-members of trading blocs are facing with financial and non-financial restrictions on their exports to these blocs, such as tariffs, quotas and even embargoes. As a result it is difficult for any country to survive outside one of these blocs and the world is splitting into expanding groups of trading nations promoting free trade between themselves, at the same time as they are restricting it to those countries outside of their blocs.

Pros and Cons of Regional Integration

There are many theoretical advantages and disadvantages that come with regional integration,
The **advantages** include:

- Less chance of conflict and war.
- Larger markets and customer base allows businesses within member countries to exploits economies of scale.
- Freedom of movement of goods and peoples.
- Increased global significance.
- Improving environmental and social conditions.
- The promotion of democracy and liberalisation.
- Trade creation-the elimination of protectionism increases trade, leading to a more

MEASI INSTITUTE OF MANAGEMENT

efficient allocation of member state resources.

The **disadvantages** include:

- Loss of sovereignty, independence, and national identity.
- Loss of national power in favour of even bigger government.
- Increased competition leading to job losses in some domestic industries.
- Loss of border control and the increased risk of smuggled goods and people.
- Uniform laws don't account for cultural differences.
- Trade diversion - the elimination of trade barriers among the member states may divert trade away from more efficient non-member states that are disadvantaged by the protectionism they still face.

Protectionism

Protectionism arises because countries may not always feel that they benefit from completely free trade. While they may understand that free trade will benefit everyone, they may be suffering some of the costs associated with trade and feel that they want to restrict aspects of trading activity. These restrictions are known as protectionism. Trading blocs practice varieties of protectionist behaviour.

Examples of protectionist policies include:

- **Tariffs** - a tariff is a tax on imports. Tariffs reduce supply and raise the price of imports. This gives domestic equivalents a competitive advantage. Tariffs will often be charged by regional trading blocs on imports from countries outside the area. The EU charges a common external tariff (CET) to many goods imported into the EU.
- **Quotas** - quotas have the effect of restricting the maximum amount of imports allowed into an economy. Once again they reduce the amount of imports entering an economy and increase the equilibrium price within the market. The government receives no revenue from a quota, as it does with a tariff, unless it can set up a system of licences.
- **Export subsidies** - export subsidies allow exporters to supply the market with more

MEASI INSTITUTE OF MANAGAMENT

product than the natural market equilibrium would have allowed. Foreign consumers will enjoy increased economic welfare as the price of their purchases fall. Domestic employees might enjoy more wages and job security, but domestic taxpayers are footing the bill for this.

- **Embargo** - imports from certain countries are completely prohibited.
- **Administrative barriers** - countries or regional blocs can also use a range of administrative or legal devices to slowdown imports and to add costs. These can include the importing firm being required to obtain various licences and permits.

ECONOMIC INTEGRATION

Economic integration is a term used to describe how different aspects between economies are integrated. The basics of this theory were written by the Hungarian Economist Balassa in the 1960s. As economic integration increases, the barriers of trade between markets diminishes. The most integrated economy today, between independent nations, is the European Union and its euro zone.

Economist Fritz traces the origin of the term 'economic integration' to a group of five economists writing in the 1940s, including Wilhelm Ludwig von Mises and Friedrich von Hayek. Economic integration was a foundational plank of US foreign policy after World War II.

The degree of economic integration can be categorized into six stages:

MEASI INSTITUTE OF MANAGAMENT

Preferential trading area- A Preferential Trade Area is a trading bloc which gives preferential access to certain products from the participating countries. This is done by reducing tariffs, but not by abolishing them completely. It is the first stage of economic integration.

Free trade area-Free trade area is a designated group of countries that have agreed to eliminate tariffs, quotas and preferences on most (if not all) goods and services between them. It can be considered the second stage of economic integration.[citation needed]
Countries choose this kind of economic integration form if their economic structures are complementary. If they are competitive, they will choose customs union.
Unlike a customs union, members of a free trade area do not have the same policies with respect to non-members, meaning different quotas and customs. To avoid evasion (through re-exportation) the countries use the system of certification of origin most commonly called rules of origin, where there is a requirement for the minimum extent of local material inputs and local transformations adding value to the goods.

Customs union- A customs union is a free trade area with a common external tariff. The participant countries set up common external trade policy, but in some cases they use different import quotas. Common competition policy is also helpful to avoid competition deficiency.
Purposes for establishing a customs union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.
It is the third stage of economic integration.
Customs union is established through trade pact.

Common market- common market is a customs union with common policies on product regulation, and freedom of movement of the factors of production (capital and labor) and of enterprise. The goal is that movement of capital, labor, goods, and services between the members is as easy as within them. This is the fourth stage of economic integration.
Sometimes a single market is differentiated as a more advanced form of common market. In comparison to common a single market envisions more efforts geared towards removing the

MEASI INSTITUTE OF MANAGAMENT

physical (borders), technical (standards) and fiscal (taxes) barriers among the member states. These barriers obstruct the freedom of movement of the four factors of production. To remove these barriers the member states need political will and they have to formulate common economic policies.

Economic and monetary union- An economic and monetary union is a single market with a common currency. It is to be distinguished from a mere currency union (e.g. the Latin Monetary Union in the 1800s), which does not involve a single market.

This is the fifth stage of economic integration.

EMU is established through a currency-related trade pact.

Complete economic integration- Complete economic integration is the final stage of economic integration. After complete economic integration, the integrated units have no or negligible control of economic policy, including full monetary union and complete or near-complete fiscal policy harmonization.

Complete economic integration is most common within countries, rather than within supranational institutions.

Economic integration also tends to precede political integration. In fact, Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically--and, thus, that economic communities naturally evolve into political unions over time.

Trade liberalization and climate change share common themes. They are both global challenges calling for a global solution, which will require multilateral cooperation. Climate change, associated with the international externality of GHG emissions, is the first case of a truly global environmental problem and therefore can be thought of as a prototype trans-border global threat. From the establishment of the GATT in 1947, global free trade has been promoted multilaterally through international trade negotiation rounds. The multilateral trading system was legally institutionalized in 1994 at the conclusion the Uruguay Round when the Marrakech Agreement established the World Trade Organization (WTO), the new pillar of global governance in charge of pursuing global free trade.

Symmetrically, an ideal solution to global environmental issues would be a Multilateral

MEASI INSTITUTE OF MANAGAMENT

Environment Organization. However, as this is unlikely to become a reality in the near future we must accept multilateral environmental agreements (MEAs) as the best forum for addressing environmental issues. At the same time, regional trade agreements have become a preferred forum in which to accelerate and deepen trade liberalization. As a consequence, it may be of interest to analyze how the trade-environment link is addressed within the regional trade dimension.

Regionalism - Introduction

In international relations, Regionalism is the expression of a common sense of identity and purpose combined with the creation and implementation of institutions that express a particular identity and shape collective action within a geographical region.

Regionalism is one of the three constituents of the international commercial system - along with multilateralism and unilateralism.

The first coherent regional initiatives began in the 1950s and 1960, but they accomplished little, except in Western Europe with the establishment of the European Community.

In the late 1980s, a new wave of political initiatives prompting regional integration took place worldwide.

The European Union can be classified as a result of regionalism. The idea that lies behind this increased regional identity is that as a region becomes more economically integrated, it will necessarily become politically integrated as well.

The European example is especially valid in this light, as the European Union as a political body grew out of more than 40 years of economic integration within Europe.

By definition, parties to a regional trade agreement (RTA) offer each other more favorable treatment in trade matters than to the rest of the world (including WTO Members). As you know, this is contrary to the most favored nation principle. The number of RTAs involving WTO Members has increased notably in the recent years. Free trade areas are more prevalent than customs unions. The purpose of a customs union or a free trade area should be to facilitate trade among the parties to the RTA and not to raise barriers to the trade with other WTO Members.

MEASI INSTITUTE OF MANAGAMENT

Regionalism - Definition

Joseph Nye defined an International Region As a limited number of states linked by a geographical relationship and by a degree of mutual interdependence.

Also International Regionalism The formation of interstate associations or groupings on the basis of regions.

In simple word it means the theory or practice of regional rather than central systems of administration or economic, cultural, or political affiliation.

Other authors, such as Ernst B. Haas, stressed the need to distinguish the notions of regional cooperation, regional system, regional organization and regional integration and regionalism.

Regionalism refers to any policy designed to reduce trade barriers between a subset of countries regardless of whether those countries are actually contiguous or even close to each other

Regionalism - History

The first coherent regionalism initiatives, however, took place during the 1950s and 1960s. During the late 1990s, however, a renewed interest in regionalism emerged and lead to the rapid emergence of a global system of regions with political and economic parameters.

Origins

It is quite difficult to define when the history of regionalism begins, since there is no single explanation that encompasses the origins and development of the regional idea. Criteria such as the desire by states to "make the best of their regional environment" are regarded by certain analysts as elusive; they prefer to consider the history of regionalism in terms of the rise of modern institutions. If formal organization at the regional as opposed to the international level is to be the yardstick for the onset of regionalism, it is difficult to place its origins much before 1945.

Advocacy of international regionalism was rare in the period between World War I and World War II when the doctrine of collective security was dominant. With the notable exception of the

MEASI INSTITUTE OF MANAGAMENT

Inter-American System very few regional groupings existed before World War II. What did emerge before World War II were a growing number of international public and private associations, such as the General Postal Union and the International Law Association, which were holding regular meetings and had their own secretariats.

By the end of the Second World War, then, regionalism had not still entered the vocabulary of international relations. By the 1940s however, an increasing number of influential people had already advocated "escape from a theoretical and ineffective universalism into practical and workable regionalism". Because of the subsequent demands by states that had already made heavy political investments in regional arrangements such as the Inter-American System, the Commonwealth and the Arab League, regionalism made its appearance even in the finalized UN Charter.

European Initiatives

European regionalism took a concrete form during the late 1940s. The treaty establishing the Benelux Customs Union was signed in 1944 by the governments in exile of Belgium, Netherlands and Luxembourg in London, and entered into force in 1947. In 1952, Denmark, Sweden, Iceland and Norway (Finland joined in 1955) established the Nordic Council, an inter parliamentary organization with the goal to forge the regional Nordic co-operation. The Nordic Council's statutes set out in the 1962 Helsinki Agreement, according to which the parties undertake "to seek to preserve and further develop co-operation between our nations in the legal, cultural and financial areas as well as in matters relating to transport and protection of the environment".

In the 1951 Treaty of Paris, France, West Germany, Italy, Belgium, Luxembourg and the Netherlands established the European Coal and Steel Community (ECSC) to pool the steel and coal resources of its member-states. The same states established on March 25, 1957 by the signing of the Treaty of Rome the European Atomic Energy Community and the European Economic Community, most important of two European Communities.

MEASI INSTITUTE OF MANAGAMENT

New Challenges

The growing success of European regionalism in particular led scholars in the late 1950s to what Ernst called "the new challenge of regionalism, the potentialities of the field for insights into the process of community formation at the international level". By the late 1950s, "the organization of the world's ninety-odd states into various systems of competing and overlapping regional associations had been a fact of international relations for over ten years".

Regionalism had already given rise to a floodtide of literature critical of its development or determined to justify it as a necessity for world security. Some critics were arguing that economic unions and common markets distorted the logic of a universal division of labor, and that regional military planning was made both impossible and obsolete Since the late 1980s globalization has changed the international economic environment for regionalism. The renewed academic interest in regionalism, the emergence of new regional formations and international trade agreements like the North American Free Trade Agreement (NAFTA), and the development of a European Single Market demonstrate the upgraded importance of a region-by-region basis political co-operation and economic competitiveness.

The African Union was launched on July 9, 2002 and a proposal for a North American region was made in 2005 by the Council on Foreign Relations' Independent Task Force on the Future of North America.

In Latin America, however the proposal to extend NAFTA into a Free Trade Area of the Americas that would stretch from Alaska to Argentina was ultimately rejected in particular by nations such as Venezuela, Ecuador and Bolivia. It has been superseded by the Union of South American Nations (UNASUR) which was constituted in 2008.

Advantages of Regionalism

More Practical and Feasible: everybody would agree that multilateral agreements are the preferred instruments for liberalizing international trade. Such agreements ensure a non-discriminatory approach, which provides political and economic benefits for all. RTAs bring faster results than multilateral process. Countries are taking RTA route because such agreements are often a more practical and feasible way to liberalize trade.

MEASI INSTITUTE OF MANAGAMENT

1. Contribute to Multilateralism: They seem to be contradictory, but often regional trade agreements ca actually support the WTO's multilateral trading system. Regional agreements have allowed groups of countries to negotiate rules and commitments that go beyond what was possible at the time multilaterally. In turn, one of these rules have paved the way for agreement in WTO.
2. Demonstration Effect: Regional initiatives can accustom officials, governments and nation to liberalization process. Learning by Doing applies to trade liberalization as well as to economic development itself
3. Positive Political Effect: Trade and Boarder economic integration has brought about peace between neighboring countries and thus has positive rather than negative political effects. Trade and Boarder economic integration has created European Union in which another war between Germany and France is literally impossible.
4. Compatibility: The supporters of regionalism note that Article 24 of the GATT, and now the WTO, explicitly permits regional agreements and thus acknowledges their compatibility with the multilateral trading system. The major regional agreements have been largely justified in claiming their 'full compatibility with the multilateral system.'

Disadvantages of Regionalism

Trade Diversion: The regional agreements divert trade by creating preferential treatment for member countries vis-a-vis non-members. In addition to differential tariffs, members may benefit from preferential rules of origin and regional content requirements.

1. Undermine the Multilateral System: Countries may lose interest in the multilateral system when they engage actively in regional initiatives. The slow pace of multilateral negotiates has given a greater importance to bilateral and regional trade negotiations.
2. Geopolitical Impact: Extensive and intensive regional ties may lead to conflicts that range beyond economics to broader shares of international relations.
3. Prevents developing countries from active participation: The volume of RTA activity stretches negotiation capacities to their limit, and in case of developing countries, prevents them from actively participating in all proceedings. Furthermore, there is a fear that in agreements

MEASI INSTITUTE OF MANAGAMENT

formed outside the WTO, developing countries do not have the power of collective bargaining to negotiate RTAs that are in their best interest.

4. Hurt the interest of others: Under some circumstances regional trading system could hurt the trade interest of other countries. Normally, setting up a customs union or free trade area would violate the WTO's principle of equal treatment for all trading partners that is "most-favored nation agreement".

Multilateralism – Introduction

In international relations, Multilateralism is multiple countries working in concert on a given issue. Multilateralism is one of the three constituents of the international commercial system - along with regionalism and unilateralism.

Multilateralism, whether in the form of membership in an alliance or in international institutions, are necessary to bind the great power, discourage unilateralism, and give the small powers a voice and voting opportunities that they would not otherwise have. Especially, if control is sought by a small power over a great power, then the Lilliputian strategy of small countries achieving control by collectively binding the great power is likely to be most effective.

Similarly, if control is sought by a great power over another great power, then multilateral controls may be most useful. The great power could seek control through bilateral ties, but this would be costly; it also would require bargaining and compromise with the other great power. Embedding the target state in a multilateral alliance reduces the costs borne by the power seeking control, but it also offers the same binding benefits of the Lilliputian strategy. Furthermore, if a small power seeks control over another small power, multilateralism may be the only choice, because small powers rarely have the resources to exert control on their own.

International organizations, such as the United Nations (UN) and the World Trade Organization are multilateral in nature.

MEASI INSTITUTE OF MANAGAMENT

Multilateralism may involve several nations acting together as in the UN or may involve regional or military alliances, pacts, or groupings such as NATO. As these multilateral institutions were not imposed on states but were created and accepted by them in order to increase their ability to seek their own interests through the coordination of their policies, much of these international institutions lack tools of enforcement while instead work as frameworks that constrain opportunistic behavior and points for coordination by facilitating exchange of information about the actual behavior of states with reference to the standards to which they have consented.

Multilateralism is represented by the efforts on worldwide liberalization of international relations, which started in the field of trade in goods when General Agreement on Tariffs and Trade (GATT) was signed, and developed into broader fields of trade in services, investment, agricultural products, public procurement, and intellectual property rights with its more sophisticated successor – World Trade Organization (WTO).

The three types of changes (qualitative, quantitative and formal) are traditionally designated to regionalism when New Regionalism is defined. Respecting the fact that also multilateralism has gone through a profound change since late 1980's it is more easily understandable that its interaction with regionalism must be treated in another manner than before.

Multilateralism – Definition

Multilateralism was defined by Miles Mahler as international governance of the 'many'
Its central principle was "opposition of bilateral discriminatory arrangements that were believed to enhance the leverage of the powerful over the weak and to increase international conflict."

In 1990, Robert Keoghan defined multilateralism as the practice of coordinating national policies in groups of three or more states.
Recently the term "Regional Multilateralism" has been proposed suggesting that "contemporary problems can be better solved at the regional rather than the bilateral or global levels" and that bringing together the concept of regional integration with that of multilateralism is necessary in

MEASI INSTITUTE OF MANAGAMENT

today's world.

The converse of multilateralism is unilateralism in terms of political philosophy.

Multilateralism is a characteristic of the world economy or world economic system. It ultimately depends on the behavior of individual countries, that is, the extent to which they behave in a multilateral fashion. For any one country, the multilateralism is a positive function of:

The degree to which discrimination is absent, that is proportion of trade partners that receive identical treatment, and

The extent to which the trading regime approximates free trade.

Global multilateralism is presently being challenged, particularly with respect to trade, by emerging regional arrangements such as the European Union, NAFTA, etc.

Multilateralism - History

One modern instance of multilateralism occurred in the nineteenth century in Europe after the end of the Napoleonic Wars, where the great powers met to redraw the map of Europe at the Congress of Vienna. The Concert of Europe, as it became known, was a group of great and lesser powers that would meet to resolve issues peacefully. Conferences such as the Conference of Berlin in 1884 helped reduce power conflicts during this period, and the 19th century was one of Europe's most peaceful.

Industrial and colonial competition, combined with shifts in the balance of power after the creation - by diplomacy and conquest - of Germany by Prussia meant cracks were appearing in this system by the turn of the 20th century. The concert system was utterly destroyed by the First World War. After that conflict, world leaders created the League of Nations in an attempt to prevent a similar conflict. A number of international arms limitation treaties were also signed such as the Kellogg-Briand Pact. But the League proved insufficient to prevent Japan's conquests in Eastern Asia in the 1930s, escalating German aggression and, ultimately, the outbreak of the Second World War in 1939.

MEASI INSTITUTE OF MANAGAMENT

Along with the political institutions of the UN the post-war years also saw the development of other multilateral organizations such as the General Agreement on Tariffs and Trade (GATT) (now the World Trade Organization), the World Bank (so-called 'Bretton Woods' institutions) and the World Health Organization. The collective multilateral framework played an important role in maintaining world peace in the Cold War. Moreover, United Nations peacekeepers stationed around the world became one of the most visible symbols of multilateralism in recent decades.

Today there are several multilateral institutions of varying scope and subject matter, ranging from the International Telecommunications Union (ITU) to the World Intellectual Property Organization (WIPO) and Organization for the Prohibition of Chemical Weapons (OPCW). Many of these institutions were founded or are supported by the UN (United Nations).

Advantages of Multilateralism

1. Cannot be dominated by the major players: in the multilateral process, when the priorities are set, they cannot be dominated by the major players.
2. Best for liberalizing an economy: A free and fair multilateral trading system serves best the interests of any liberalizing economy. Although there has been a huge proliferation of bilateral/regional free trade agreements in recent years, no one questions primacy of the multilateral trading system. Jagdish Bhagwati acknowledged multilateral freeing of trade as Stumbling blocks instead of building blocks. The growing influence of developing countries in the WTO, on the other hand, has been continuously trying to replace the mercantilist agenda of industrialized countries with a developmental agenda.
3. Contributed to India’s Growth: India’s agreement with the multilateral trading arrangements helped it to sustain the trade liberalization process which was started in 1991. The inclusion of agriculture in the WTO agreement helped India bring about some policy changes even in agricultural sector, which had remained highly protected after the initial round of

MEASI INSTITUTE OF MANAGAMENT

reforms. India's impressive economic growth record has been facilitated by the sharp rise in importance of the external sector in the Indian economy.

Better Economic Performance: the protagonists of the trade liberalization claim that open trade policies lead to better economic performances. Virtually all growth miracles are associated with rapid expansion of trade rather than wholesale substitution of imports by domestic production. Trade allows consumers to benefit from more efficient production methods through an expansion in consumption and to avail a wider choice.

Other Advantages: Beyond the welfare gains achieved through the reduction of tariffs ion manufacturing and agriculture, additional gains tend to accrue with the introduction of scenarios that incorporate trade liberalization in the service sector, trade facilitation, etc.

Disadvantages of Multilateralism

1. Slow down the process: The biggest disadvantage to multilateralism is that in the process every country has the right to have their opinions taken into account, and they usually take advantage of it. It can slow down things a lot.
2. Increased use of NTBs: Another increasing problem with the WTO is the increasing Non-Tariff Barriers to restrict trade from developing countries. The term NTBs is not defined under WTO but its usage and understanding broadly refers to any 'border measure' other

Than a tariff, which acts as a barrier to trade. Some NTBs are expressly permitted in very limited circumstances, when they are deemed necessary to protect health, safety, or sanitation or to protect delectable natural resources.

Challenges

Compared to unilateralism and bilateralism where only the country itself decides on what to do or make decisions between two nations, Multilateralism is much more complex and challenging. It involves a number of nations which makes reaching an agreement difficult. In multilateralism, there may be no consensus; each nations have to dedicate to some degree, to make the best outcome for all. The multilateral system has encountered mounting challenges since the end of the Cold War.

MEASI INSTITUTE OF MANAGAMENT

The United States has become increasingly dominant on the world stage in terms of military and economic power, which has led certain countries (such as Iran, China, and India) to question the United Nations' multilateral relevance. Concurrently, a perception developed among some internationalists, such as former UN Secretary General Kofi Annan, that the United States is more inclined to act unilaterally in situations with international implications.

This trend began when the U.S. Senate, in October 1999, refused to ratify the Comprehensive Test Ban Treaty, which President Bill Clinton had signed in September 1996. Under President George W. Bush the United States rejected such multilateral agreements as the Kyoto Protocol, the International Criminal Court, the Ottawa Treaty banning anti-personnel land mines and a draft protocol to ensure compliance by States with the Biological Weapons Convention. Also under the Bush administration, the United States withdrew from the Anti-Ballistic Missile Treaty, which the Nixon administration and the Soviet Union had negotiated and jointly signed in 1972.

In a direct challenge to the actions of the Bush administration, French president Jacques Chirac directly challenged the way of unilateralism: "In an open world, no one can live in isolation, no one can act alone in the name of all, and no one can accept the anarchy of a society without rules." He then proceeded to tout the advantages of multilateralism. Furthermore, these challenges presented by U.S could be explained more with the strong belief on bilateral alliances as instruments of control.

Global multilateralism is presently being challenged, particularly with respect to trade, by emerging regional arrangements such as the European Union or NAFTA, not in themselves incompatible with larger multilateral accords. More seriously, the original sponsor of post-war multilateralism in economic regimes, the United States, has turned to unilateral action and bilateral confrontation in trade and other negotiations as a result of frustration with the intricacies of consensus-building in a multilateral forum.

As the most powerful member of the international community, the United States has the least to lose from abandoning multilateralism; the weakest nations have the most to lose, but the cost for all would be high.

MEASI INSTITUTE OF MANAGAMENT

- Multilateralism is the key, for it ensures the participation of all in the management of world affairs. It is a guarantee of legitimacy and democracy, especially in matters regarding the use of force or laying down universal norms.

- Multilateralism works: in Monterrey and Johannesburg it has allowed us to overcome the clash of North and South and to set the scene for partnerships—with Africa notably—bearing promise for the future.

Multilateralism is a concept for our time: for it alone allows us to apprehend contemporary problems globally and in all their complexity.

TRADE BLOCK

A trade block is a large free trade area formed by one or more tax, tariff and trade agreements. Typically trade pacts that define such a bloc specify formal adjudication bodies, e.g., North American Free Trade Agreement (NAFTA) trade panels. This may include even a more democratic and participative system, as the European Union (EU) and its parliament.

Particularly since the demise of most of the world's empires, a number of international—generally regionally based—economic blocs have been developed to promote trade between member states.

Several blocs also have stated or implicit political goals—notably the EU. Varieties of economic blocs include free trade areas, customs unions, single markets, and economic and monetary unions.

One of the first economic blocs was the German Customs Union (Zollverein) initiated in 1834, formed on the basis of the German Confederation and subsequently German Empire from 1871.

A trade bloc is established through a trade pact (or pacts) covering different issues of the

MEASI INSTITUE OF MANAGAMENT

economic integration

ASSOCIATION OF SOUTHEAST ASIAN NATIONS

The Association of Southeast Asian Nations, commonly referred to as ASEAN, is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Its aims include the acceleration of economic growth, social progress, cultural development among its members, the protection of the peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully.

In 2005, the bloc spanned over 1.1 billion acres with a combined GDP (Nominal/PPP) of about USD$896.5 billion/$2.728 billion growing at an average rate of around 5.6% per annum. Nominal GDP had grown to $1,073.9 billion in 2006.
ASEAN has emphasized regional cooperation in the "three pillars" of security, sociocultural and economic integration. The regional grouping has made the most progress in economic integration; aiming to create an ASEAN Economic Community (AEC) by 2015.The AEC would have a combined population of over 560 million and total trade exceeding US$ 1,400 billon

Free Trade Area

The foundation of the AEC is the ASEAN Free Trade Area (AFTA), a common external preferential tariff scheme to promote the free flow of goods within ASEAN. The ASEAN Free Trade Area (AFTA) is an agreement by the member nations of ASEAN concerning local manufacturing in all ASEAN countries. The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN had six members, namely, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. The latecomers have not fully met the AFTA's obligations, but they are officially considered part of the AFTA as they were required to sign the agreement upon entry into ASEAN, and were given longer time frames in which to meet

MEASI INSTITUTE OF MANAGAMENT

AFTA's tariff reduction obligations.

Comprehensive Investment Area

The ASEAN Comprehensive Investment Area (ACIA) will encourage the free flow of investment within ASEAN. The main principles of the ACIA are as follows

- All industries are to be opened up for investment, with exclusions to be phased out according to schedules
- National treatment is granted immediately to ASEAN investors with few exclusions
- Elimination of investment impediments
- Streamlining of investment process and procedures
- Enhancing transparency
- Undertaking investment facilitation measures

Full realization of the ACIA with the removal of temporary exclusion lists in manufacturing agriculture, fisheries, forestry and mining is scheduled by 2010 for most ASEAN members and by 2015 for the CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) countries.

Trade in Services

An ASEAN Framework Agreement on Trade in Services was adopted at the ASEAN Summit in Bangkok in December 1995.Under the agreement, ASEAN members are negotiating intra-regional services liberalization in several sectors, including air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. Although some sectors have liberalized faster, such as air transport, other sectors remain subject to continued negotiation. Efforts to expand the scope of the Framework Agreement also remain subject to continued negotiations.

Single Aviation Market

The ASEAN Single Aviation Market (SAM), proposed by the ASEAN Air Transport Working Group, supported by the ASEAN Senior Transport Officials Meeting, and endorsed by the ASEAN Transport Ministers, will introduce an open-sky arrangement to the region by 2015. The ASEAN SAM will be expected to fully liberalize air travel between its member states, allowing

MEASI INSTITUE OF MANAGAMENT

ASEAN to directly benefit from the growth in air travel around the world, and also freeing up tourism, trade, investment and services flows between member states. Beginning 1 December 2008, restrictions on the third and fourth freedoms of the air between capital cities of member states for air passengers services will be removed, while from 1 January 2009, there will be full liberalization of air freight services in the region, while[By 1 January 2011, there will be liberalization of fifth freedom traffic rights between all capital cities

Free Trade Agreements with Other Countries

ASEAN has concluded free trade agreements with China, Korea, and Japan. ASEAN is also negotiating free trade agreements with India, Australia/New Zealand, and the European Union. Taiwan has also expressed interest in an agreement with ASEAN but needs to overcome diplomatic objections from China.

Cultural activities

The organization hosts cultural activities in an attempt to further integrate the region. These include sports and educational activities as well as writing awards. Examples of these include the ASEAN University Network, the ASEAN Centre for Biodiversity, the ASEAN Outstanding Scientist and Technologist Award, and the Singapore-sponsored ASEAN Scholarship.

2008, restrictions on the third and fourth freedoms of the air between capital cities of member states for air passengers services will be removed, while from 1 January 2009, there will be full liberalization of air freight services in the region, while[By 1 January 2011, there will be liberalization of fifth freedom traffic rights between all capital cities

MEASI INSTITUTE OF MANAGAMENT

Free Trade Agreements with Other Countries

ASEAN has concluded free trade agreements with China, Korea, and Japan. ASEAN is also negotiating free trade agreements with India, Australia/New Zealand, and the European Union. Taiwan has also expressed interest in an agreement with ASEAN but needs to overcome diplomatic objections from China.

Cultural activities

The organization hosts cultural activities in an attempt to further integrate the region. These include sports and educational activities as well as writing awards. Examples of these include the ASEAN University Network, the ASEAN Centre for Biodiversity, the ASEAN Outstanding Scientist and Technologist Award, and the Singapore-sponsored ASEAN Scholarship.

ASEAN Free Trade Area

ASEAN Free Trade Area (**AFTA**) is a trade bloc agreement by the Association of Southeast Asian Nations supporting local manufacturing in all ASEAN countries.

The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN had six members, namely, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. AFTA now comprises the ten countries of ASEAN. All the four latecomers were required to sign the AFTA agreement in order to join ASEAN, but were given longer time frames in which to meet AFTA's tariff reduction obligations.

The primary goals of AFTA seek to:

- Increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and
- Attract more foreign direct investment to ASEAN.

MEASI INSTITUTE OF MANAGAMENT

The primary mechanism for achieving the goals given above is the Common Effective Preferential Tariff (CEPT) scheme, which established a schedule for phased initiated in 1992 with the self-described goal to increase the "*region's competitive advantage as a production base geared for the world market*

EUROPEAN ECONOMIC AREA

The European Economic Area (EEA) came into being on 1 January 1994 following an agreement between member states of European Free Trade Association (EFTA), the European Community (EC), and all member states of the European Union (EU). It allows these EFTA countries to participate in the European single market without joining the EU.

European Free Trade Association (EFTA)

The **European Free Trade Association (EFTA)** is a European trade bloc which was established on 3 May 1960 as an alternative for European states who were either unable to, or chose not to, join the then-European Economic Community (now the European Union).

The EFTA Convention was signed on 4 January 1960 in Stockholm by seven states. Today only Iceland, Norway, Switzerland, and Liechtenstein remain members of EFTA (of which only Norway and Switzerland are founding members). The Stockholm Convention was subsequently replaced by the Vaduz Convention.

This Convention provides for the liberalization of trade among the member states. Three of the EFTA countries are part of the European Union Internal Market through the Agreement on a European Economic Area (EEA), which took effect in 1994; the fourth, Switzerland, opted to conclude bilateral agreements with the EU. In addition, the EFTA states have jointly concluded free trade agreements with a number of other countries.

An important development was the conclusion by Switzerland in 1999 of a set of bilateral agreements with the European Union covering a wide range of areas, including movement of persons, transport and technical barriers to trade. This development prompted the EFTA States to modernize their Convention to ensure that it will continue to provide a successful framework for the expansion and liberalization of trade among them and with the rest of the world.

MEASI INSTITUTE OF MANAGAMENT

The EFTA UPDATE on 1 June 2002. The main areas in which the Convention has been modernized include: Mutual recognition of conformity assessments; Intellectual property rights; Movement of persons, social security and mutual recognition of diplomas; Investment and services; Land and air transport; Public procurement; Agriculture;

European Union (EU)

The **European Union** (**EU**) is a political and economic union of 27 member states, located primarily in Europe. It was established by the Treaty of Maastricht in 1993 upon the foundations of the pre-existing European Economic Community. With almost 500 million citizens, the EU combined generates an estimated 30% share of the world's nominal gross domestic product (US$16.8 trillion in 2007).

The EU has developed a single market through a standardized system of laws which apply in all member states, guaranteeing the freedom of movement of people, goods, services and capital. It maintains a common trade policy, agricultural and fisheries policies, and a regional development policy. Fifteen member states have adopted a common currency, the euro. It has developed a role in foreign policy, representing its members in the World Trade Organization, at G8 summits and at the United Nations. Twenty-one EU countries are members of NATO. It has developed a role in justice and home affairs, including the abolition of passport control between many member states under the Schengen Agreement.

In certain areas it depends upon agreement between the member states. However, it also has supranational bodies, able to make decisions without the agreement of all national governments. Important institutions and bodies of the EU include the European Commission, the European Parliament, the Council of the European Union, the European Council, the European Court of Justice and the European Central Bank. EU citizens elect the Parliament every five years.

The EU traces its origins to the European Coal and Steel Community formed among six countries in 1951 and the Treaty of Rome in 1957. Since then the EU has grown in size through the accession of new member states and has increased its powers by the addition of new policy areas to its remit.

SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION

MEASI INSTITUTE OF MANAGAMENT

The South Asian Association for Regional Cooperation (SAARC) is an economic and political organization of eight countries in Southern Asia. In terms of population, its sphere of influence is the largest of any regional organization: almost 1.5 billion people, the combined population of its member states. It was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member.

SOUTH ASIA FREE TRADE AGREEMENT

The Agreement on the **South Asian Free Trade Area** is an agreement reached at the 12th South Asian Association for Regional Cooperation (SAARC) summit at Islamabad, capital of Pakistan on 6 January 2004. It creates a framework for the creation of a free trade zone covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives. The seven foreign ministers of the region signed a framework agreement on SAFTA with zero customs duty on the trade of practically all products in the region by end 2016. The SAARC Preferential Trading Arrangement (SAPTA), with concessional duty on sub-continent trade, went into force on 7 December 1995. The new agreement i.e. SAFTA, came into being on 1 January 2006 and will be operational following the ratification of the agreement by the seven governments. SAFTA requires the developing countries in South Asia, that is, India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developed nations in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives have an additional three years to reduce tariffs to zero. Pakistan has signed but not ratified the treaty, though there is hope in India that it will sometime in 2008.

North American Free Trade Agreement (NAFTA)

The **North American Free Trade Agreement (NAFTA)** (Spanish: *Tratado de Libre Comercio de América del Norte* [TLCAN], French: *Accord de libre-échange nord-américain* [ALENA]) is a trilateral trade bloc in North America created by the governments of the United States, Canada, and Mexico. The agreements were signed in December 1993 by the leaders of the three countries

MEASI INSTITUTE OF MANAGAMENT

— Brian Mulroney of Canada, Carlos Salinas of Mexico, and Bill Clinton of the United States but did not come into effect until January 1, 1994when Jean Chrétien was in office in Canada. In terms of combined purchasing power parity GDP of its members, as of 2007 the trade bloc is the largest in the world and second largest by nominal GDP comparison. It also is one of the most powerful, wide-reaching treaties in the world.

The effects of NAFTA, both positive and negative, have been quantified by several economists, whose findings have been reported in publications such as the World Bank's *Lessons from NAFTA for Latin America and the Caribbean*, *NAFTA's Impact on North America*, and *NAFTA Revisited* by the Institute for International Economics.[18] Some argue that NAFTA has been positive for Mexico, which has seen its poverty rates fall and real income rise (in the form of lower prices, especially food), even after accounting for the 1994–1995 economic crisis. Others argue that NAFTA has been beneficial to business owners and elites in all three countries, but has had negative impacts on farmers in Mexico who saw food prices fall based on cheap imports from U.S. agribusiness, and negative impacts on U.S. workers in manufacturing and assembly industries who lost jobs. Critics also argue that NAFTA has contributed to the rising levels of inequality in both the U.S. and Mexico. Some economists believe that NAFTA has not been enough (or worked fast enough) to produce an economic convergence, nor to substantially reduce poverty rates. Some have suggested that in order to fully benefit from the agreement, Mexico must invest more in education and promote innovation in infrastructure and agriculture.

International Monetary Fund (IMF)

Establishment of IMF

World War II had its adverse effect on the global economy. To remedy the situation, an international monetary conference was convened in 1994, at Bretton Woods in America. It was attended by the representatives of 44 countries. India also participated therein. It was decided in this Conference that two institutions be set up for the economic development of all countries:

1) International Monetary Fund

2) International Bank of Reconstruction and Development/World Bank.

MEASI INSTITUTE OF MANAGAMENT

Consequently, International Monetary Fund (IMF) was founded on 27thDecember1945.The Fund was established with the objective of solving the problem of balanced growth of world trade, international monetary co-operation, the balance of payments of member countries and their temporary disequilibrium. In 2009, the number of member countries of IMF was 186.Its

headquarters are in Washington. Currently there are 188countries who are members of International Monetary Fund.

Purpose of IMF

According to the Article I of the Bretton Woods Agreements, the following are the main purposes of the IMF.

1. To promote international monetary cooperation through a permanent institution, this provides the machinery for consultation and collaboration on international monetary system.
2. To facilitate expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high level of employment and real income to the development of the productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.
4. To assist member-nations in the establishment of a multilateral system of payments in respect of current transactions and in the elimination of foreign exchange restrictions which hamper the growth of world trade?
5. To give confidence to members by making the Fund's resources available to them to correct maladjustments in their balance of payments and to prevent them from restoring to measures destructive of national or international prosperity.
6. In accordance with the above objectives, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Objectives of International Monetary Fund

1. To promote International Monetary Co-operation

MEASI INSTITUTE OF MANAGAMENT

The main objective of the Fund is to promote monetary cooperation among member countries of world. It provides expert advice for solving international monetary problems.

2. To establish a system of Multilateral Payments

The Fund aims at establishing multilateral payments system among member countries. For this, IMF provides for conversion of currency of different countries into each other. It also has its own currency i.e., Special Drawing Right (SDR, which is acceptable to all member nations. IMF also lends or sells currencies of other countries to its member countries. By developing system of multilateral payments IMF promotes international trade.

3. To maintain Stability in Exchange Rate

Earlier maintaining stability in the rate of exchange was one of the objectives of IMF. But at present this objective is dropped. Now rate of exchange is decided on the basis of market forces of demand and supply.

4. To abolish Exchange Restrictions

It will try removing all restrictions and controlling on foreign exchange imposed by the member countries.

5. To Provide aid to members during Emergency

The fund aims at providing short-term monetary help to member countries during emergency.

6. To reduce disequilibrium in balance of Payments

The fund also provides monetary help to member countries to reduce disequilibrium in their balance of payments.

7. To help in profitable investment of capital

Another objective of the fund is to help the member countries invest their long-term funds in profitable activities special help to rich countries to invest their capital in poor countries.

8. To promote Balanced Economic Development

The fund aims at promoting economic development of member nations. For this, it promotes foreign trade thereby increases employment opportunities and national income.

9. To prevent Spreading of financial Crisis

IMF encourages member nations to adopt healthy economic policies so that spread of financial crisis could be prevented from one nation to other nations.

MEASI INSTITUTE OF MANAGAMENT

Membership

There are two types of members of the Fund:

1. Original Members
2. Ordinary Members

All those countries whose representatives whose representatives took part in Bretton woods Conference and who agreed to be the member off Fund prior to 31st December,1945 are called the original members of the Fund. All those countries who became its member subsequently are called ordinary members. Any country can cease to be its member after giving a notice in writing to that effect. Fund can terminate the membership of such a country, which does not observe its rules. In 1945, the number of member countries was 44,in year 2009 the number of member countries was 186.

Organization and management

In order to manage the fund, the following administrative boards have been set up:

1) Board of Governors:

The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank.

2) Ministerial Committees

The IMF Board of Governors is advised by two ministerial committees, the International Monetary and Financial Committee (IMFC) and the Development Committee. The IMFC has 24 members, drawn from the pool of 187 governors. Its structure mirrors that of the Executive Board and its 24 constituencies. As such, the IMFC represents the entire member countries of the Fund. The IMFC meets twice a year, during the Spring and Annual Meeting. The Committee discusses matters of common concern affecting the global economy and also advises the IMF on the direction its work. At the end of the Meetings, the Committee issues a joint communiqué summarizing its views. These communiqués provide guidance for the IMF's work program during the six months leading up to the next spring or Annual Meetings. There is no formal voting at the IMFC, which operates by consensus.

3. The Executive board

MEASI INSTITUTE OF MANAGAMENT

The IMF's 24-member Executive Board takes care of the daily business of the IMF. Together, these 24 board members represent all 188 countries. Large economies, such as the United States and China, have their own seat at the table but most countries are grouped in constituencies representing 4 or more countries. The largest constituency includes 24 countries. The Board discusses everything from the IMF staff's annual health checks of member countries' economies to economic policy issues relevant to the global economy. The board normally makes decisions based on consensus but sometimes formal votes are taken. At the end of most formal discussions, the Board issues what is known as a summing up, which summarizes its views. Informal discussions may be held to discuss complex policy issues still at a preliminary stage.

The main functions of IMF

1. Lending for meeting temporary Unfavorable Balance of Payments Position

The IMF lends o member countries that have temporary balance of payment problems. The IMF does not lend for developmental projects. The financial assistance provided by IMF enables the members to reduce its deficit of balance of payments and other short-term external liabilities. These lending's to be paid back in three to five years.

2. Purchase and Sale of foreign Currency

The fund buys and sells the currencies of the member countries. Whenever a country buys the currency of another country from the Fund, the latter makes it available by purchasing the same from the country concerned, of which it constitutes the national currency. In any one year a member country can purchase from the Fund foreign currency up to the maximum of 25% of its quota. But in some cases IMF can raise this limit to even 100 per cent of quota.

3. Bank of Central Banks

The fund is called the bank of the central banks of different member countries of the world. Just as a central bank holds the cash of the commercial banks of the country, likewise IMF also holds reserves of the central banks of the member countries.

4. Technical Assistance

The fund also provides technical assistance to its member countries. The fund sends its experts on deputation to member countries to advise them on matters like exchange control, foreign

MEASI INSTITUTE OF MANAGAMENT

payments, credit control, central banking and economic policy etc. The fund also publishes many technical journals and magazines.

5. Imparts training

It also imparts training to the representatives of member countries. This training is imparted to the senior officers of the central banks and finance departments. In 1975, a training Centre was set up to impart training to policy makers of different nations.

6. Facilities during Emergency

Although IMF is opposed to any sort of controls either on foreign exchange or on foreign trade, yet member countries have been given the right to resort to these controls during emergency in the hope that they will lift it as early as the situation warrants.

7. Increases International Liquidity

IMF has increased international liquidity by creating a new currency in the form of SDR.IMF also lends foreign currency to member countries. All this increases international liquidity.

8. Determining Exchange rate for every member country

When a country becomes member of the fund, it has to declare par value of its currency in terms of dollar or gold. This facilities multilateral convertibility of that currency. But now exchange rate is determined by market forces of demand and supply, so this function has been dropped.

9. Poverty Reduction

For helping low income countries having extreme poverty, IMF has set up a special fund. In this fund, contribution is received from developed nations and from emerging developing nations. India is also contributing US$1 million per year in this fund.

10. Change in Exchange rate

i. If any country wants to change its exchange rate from 11 to 20 percent, no prior permission is needed from IMF. Simply intimation to IMF will be sufficient.

ii. If any country wants to change its exchange rate from 11 to 20 percent, prior permission of IMF is required for such change.

iii. If the country wants to change its exchange rate by more than 20 percent, then such decision is taken with the consent of 2/3 of its members. At present determination of exchange rate and change in exchange rate are decided by the market forces,i.e. now a country cannot decide the par value of its currency, the exchange rate is decided by the demand and supply of that currency

MEASI INSTITUTE OF MANAGAMENT

in the foreign exchange market.

11. Research Functions:

IMF has setup a separate statistical bureau for conducting research regarding balance of payments, money and banking, finance and fiscal policy etc. IMF publishes report of such research work. Its main publications are-Finance and Development, IMF Survey, Balance of Payments year Book, Direction of Trade, International Financial Statistics, etc. These publications are useful for member nations for framing economic policies.

Success/achievements of International Monetary Fund

According to Halm,"funds is like an international reserve Bank". The fund has performed the significant functions to attain its objectives. Following are the main achievements of IMF:

1) International Monetary Cooperation

One of the main objectives of the Fund is to present a forum where most of the countries of the world are able to solve their monetary problems by mutual cooperation, The fund has created feeling among the member countries that their economic problems are not only their exclusive problems, but of the whole international society. IMF has succeeded in achieving this objective.

2) Reconstruction of European Countries

Because of the efforts of the Fund, rich countries like America gave liberal economic assistance under Marshal Plan for the reconstruction of European countries without these Plan war-devastated European countries could not have been rehabilitated.

3) Multilateral System of foreign Payments

At the time of the establishment of the Fund, almost all countries were exercising exchange control in one way or the other. There were many restrictions on foreign trade. IMF has succeeded in reducing the same and in establishing multilateral systems of foreign payments, and thus promoted world trade.

4) Increase in international Liquidity

Corresponding to increase in international trade, the Fund has succeeded in increasing international liquidity. It has created a new liquid asset in the form of SDRs.As a result, international liquidity has increased manifold. It provides credit facilities to member countries in foreign currency.

MEASI INSTITUTE OF MANAGAMENT

5) Increase in International Trade

The Fund has succeeded in expanding the international trade and making it free from restrictions to a large extent. It has rendered payments relating to international trade easy. By helping the countries suffering from trade disequilibrium, it has promoted their trade.

6) Special Aid to Developing Countries

The fund has done a special service to developing countries in finding a solution to their problems. It has been actively helping them in correcting their unfavorable balance of payments and achieving monetary stability. These countries have been receiving adequate guidance from the fund in framing their monetary, export-import and exchange policies.

7) Providing Statistical data and information

IMF has set up a separate statistical bureau for conducting research regarding balance of payments, money and banking, finance and fiscal policy etc. It also publishes report of such research work. These publications are useful for member nations for framing economic policies.

Helpful in Times of difficulties

The fund has come to the rescue of all member countries faced with economic crisis. On account of hike in petrol prices many countries of the world experienced acute shortage of foreign exchange. In order to ease this situation, it set up Petrol Facility Fund.

8) Easiness and flexibility in Making International Payments

Because of use of SDRs the dependence on gold for making international payments has reduced.

9) Special Lending to Crisis hit Nations

In year 208-2009, the growth momentum in world economy is adversely affected by the global financial crisis. In April 2009, the growth momentum in world economy is adversely affected by the global financial crisis. IMF made a special fund for lending to crisis hit countries. IMF seeks to inject cash into the world economy and help the crisis hit nations to overcome global financial crisis.

Failures of international Monetary Fund

The IMF has failed to achieve some of its objectives. Its main failures are as under:-

1) Lack of stability in Exchange rate

The fund has failed to achieve its main objective of exchange rate stability. It succeeded till 1972

MEASI INSTITUTE OF MANAGAMENT

in maintaining fixed rate of exchange. Thereafter, it became variable once again. Lack of stability in exchange rate is the major failure of the Fund. At present, rate of exchange is determined by market forces of demand and supply.

2) Lack of stability in the Price of Gold

Many efforts were made by the fund to bring stability in the price of gold but it failed miserably up to 1971 the price of gold was kept stable at $35 per ounce(oz.),but thereafter it has increased manifold.

3) Inability to Remove Restrictions on foreign Trade

The fund has failed to remove restrictions on foreign trade and control on foreign exchange. Many countries of the world have resorted to policy of protection with greater vigor.

4) Rich Nations Club

Critics say that IMF is a club of rich countries like America, Britain etc. and helps their supporters. It pursues a policy of description.

5) No help for Developmental Projects

IMF has been giving loans only for meeting temporary balance of payments deficit. It provides no loans for development projects to promote development.

6) No Solution of Problem of international Liquidity

Fund is not a proper solution of problem of international liquidity. Although Fund has considerably increased its permanent resources and helped in problem of the creation of new currency in form of Special Drawing Rights (SDRs), yet the problem of liquidity persists. Consequently it will be difficult for the Fund to lend resources to developing countries and help them overcome their balance of payments deficit.

7) Interference in Domestic Economies

While providing loans, IMF imposes many conditions on member nations, e.g. reduction in growth rate of money supply, measures to control wages/salaries and prices, devaluation, reduction in fiscal deficit etc. It results in excessive interference of IMF in the working of domestic economies of member nations.

MEASI INSTITUTE OF MANAGAMENT

World Bank

The World Bank is an international financial institution that provides loans to developing countries for capital programs. It comprises two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

MEASI INSTITUTE OF MANAGEMENT

The World Bank is a component of the World Bank Group, and a member of the United Nations Development Group.

The World Bank's official goal is the reduction of poverty. According to its Articles of Agreement, all its decisions must be guided by a commitment to the promotion of foreign investment and international trade and to the facilitation of Capital investment.

During World War II, in the year 1944, a decision for the establishment of two institutions was taken in a Conference held at Bretton Woods in America. The institutions to be established were

(1) International Monetary Fund and

(2) International Bank for Reconstruction and Development or World Bank.

The objective of IMF was to stabilize exchange rates by removing temporary balance of payments deficits. On the other hand, the objective of the International Bank for Reconstruction and Development (IBRD) or the World Bank was the reconstruction of war-ravaged economies and provision of necessary capital for the economic development of underdeveloped countries. The bank was established in 1945 and started its function in June 1945. The World Bank is an inter-governmental institution and corporate in form. Its capital is wholly owned by its member countries.

Objectives of the World Bank

The main objectives of the World Bank are:

(1) Reconstruction and Development

The main objective of the bank is to reconstruct the war devastated economies like Britain, France, Holland etc. and to provide economic assistance to underdeveloped countries like India, Pakistan, Sri Lanka, Burma etc.

(2) Encouragement to Capital Investment

Another important objective of the Bank is to encourage private investors to invest capital underdeveloped countries, by means of guarantee of participation in loans and other investment made by private investors and when private capital is not available on reasonable terms, to supplement private investment by providing on suitable conditions finance for productive purposes out of its own capital, funds raised by it and its other resources.

MEASI INSTITIUE OF MANAGAMENT

(3) Encouragement to International Trade

The third objective of the bank is to encourage international trade. It aims at promoting long- range growth of international trade and maintenance of equilibrium in member's international balance of payments, so that standard of living of the people of member-countries is raised.

(4) Establishment of Peace Time Economy

The fourth objective of the Bank is to help the member-countries changeover from war-time economy to peace-time economy.

(5) Environmental Protection

Global environmental protection is also an objective of Bank. To this end, World Bank gives substantial financial assistance to those underdeveloped countries which are engaged in the task of environmental protection.

6) Maintenance of equilibrium in balance of payment

To promote long term balanced growth of international trade and the maintenance of equilibrium in balance of payments of member countries by encouraging long term international investment so as to develop productive resources of members and thereby raising its productivity, the standard of living and labor conditions.

Membership

At the initial stage, provision was made to include all members of IMF as members of World Bank. Accordingly, those countries who were members of IMF as on 31st December, 1945 became the founder members of the Bank. Later on, the membership norms of the Bank were relaxed. Now any country can become the member of the Bank if 75 per cent of the existing members support its application. There were 151 members of the Bank as on October, 1988. Any member can also resign from its membership. Similarly, the Bank can also

MEASI INSTITUTE OF MANAGAMENT

suspend a member if its violates the rules of the Bank.

Capital of the World Bank

Initially, the authorized capital of the World Bank was to the tune of $ 10,000 million, which was divided into 1, 00,000 shares of $ 1, 00,000 each. All these shares were made available to member countries only. As per the system of the Bank, out of each share.

(a) 2 per cent in payable in gold or U.S. dollars;

(b) 18 per cent of the subscription is to be paid in terms of member's own currency;

(c) The remaining 80 per cent of the subscription is not immediately collected from the members but can be called up by the Bank as a Calah fund whenever it requires to meet its obligation. Thus it is observed that only 20 per cent of the total capital is called by the Bank and the same is available for its lending purposes.

The capital of the World Bank has also been increased time to time with the consent of its members. After the admission of new members, the authorized capital of the Bank has been increased to $ 171 billion. In its annual meeting held in September 1983, the World Bank decided to go in for a selective capital increase of 8.4 billion dollars and accordingly the shareholding of different member countries were suitably adjusted.

Management or Organization of World Bank

The organization of the World Bank is consisting of the Board of Governors, the Board of Executive Directors, the Loan Committee, the Advisory Committee, the President and other members of the staff. The management of the Bank is rested on the Board of Governors, the Executive Directors and the President.

Board of Governors

All powers of the Bank are vested with the Board of Governors. Being a general

MEASI INSTITUE OF MANAGAMENT

body of the Bank, the Board of Governors of the Bank is consisting of one Governor (generally the Finance Minister) and one alternate Governor (generally the Governor of the Central Bank) appointed by each member country for a term of five years. Each Governor has its voting power in relation to its financial contribution to the capital of the Bank. Normally, the Board is required to meet at least once in a year so as to chalk out the general policy of the Bank.

Executive Directors

The Board of Executive Directors are in charge of the general operations of the Bank. It is consisting of 21 Executive Directors, six of them are appointed by the six largest shareholders, namely, the U.S.A., the U.K., Germany, France, Japan and India. The remaining 15 members are elected by the remaining member countries.

Each Executive Director is holding voting power in proportion to their share of capital. This Board regularly meets once a month to carry on its routine works of the Bank. It also places its

audited accounts, annual budget and Annual Report of the Bank of the Board of Governors every year in its annual meeting.

President

The President of the Bank is appointed by the Board of Executive Directors. The President works as the chief of the operating staff and is also responsible for the conduct of normal day-to-day business of the Bank. He is also subjected to the direction of the Executive Directors in respect of policy matters.

Committees

The Bank usually performs its functions with the help of two committees, i.e., Advisory Committee and the Loan Committee. The Advisory Committee is consisting of seven experts appointed by the Board of Governors. The Loan Committee is constituted by the Executive Directors and also consulted by the Bank for extending any loan to the member countries to examine the

MEASI INSTITUTE OF MANAGAMENT

appropriateness of a loan.

Achievements

The following are the major achievements of World Bank:

(I) Membership

The total membership of the Bank has increased from a mere 30 countries initially to 68 countries in 1960 and then to 151 countries in 1988.

(ii) Increase in Working Capital

The bank has been increasing its Working Capital from time to time. Accordingly, it has raised its capital by selling its securities and bonds at different times to different countries like USA, UK etc. Accordingly, its capital has trebled during the past 40 years. In September, 1987, the Bank approved an increase in general of 74.8 billion dollars in its capital and thereby raised its lendable resources to 170 billion dollars.

(iii) Increase in Subscribed Capital

The Bank has also raised its subscribed capital from $ 10,000 million initially to $ 19,300 million in 1960 and then to $ 91,436 million in 1988. As a result of following such process, the lending capacity of the Bank has expanded.

(iv) Loan Approval

The amount of approval of loan to the member countries has been increasing and accordingly the amount increased from $ 659 million in 1960 to $ 14,762 million in 1988.

(v) Loan Disbursement

The volume of loan disbursement by the Bank among its members has also been increasing and accordingly the volume of loan disbursement has increased from $ 544 million in 1960 to $ 11,636 million in 1988.

(vi) Total Loan

The World Bank has advanced a significant amount of loan to its member countries. During the past 40 years of its existence since inception (up to June,

MEASI INSTITUTE OF MANAGAMENT

1989) the Bank had lent to the extent of

$ 1, 36,596 million to 115 member countries for various developmental projects.

(vii) Loans for Productive Purposes

The World Bank is granting loans to member countries for productive purposes, especially for the development of agriculture, irrigation, electricity and transportation projects. Economic development of a country depends on the basic infrastructure. Therefore, the Bank is lending for these aforesaid projects for this rapid economic development.

(viii) Technical Assistance

As per provisions of the Bank, the World Bank has been sending technical missions to member countries for collecting necessary information regarding the functioning of their economies. The Bank has been giving technical assistance to its member countries in order to solve their complicated economic problems and for assessing economic resources of the country and setting up of priorities for development programs.

(ix) New Loan Strategy

In recent years, the Bank has introduced new loan strategy for giving more emphasis of financing different schemes for influencing the wellbeing of the poor masses of member developing countries, especially for the purpose of agricultural marketing, forestry, fishery, development of feeder roads in rural areas, rural electrification, spread of education in rural areas etc. In respect of industry, the Bank made provision for direct lending to industries, more emphasis on heavy industries, fertilizer industry, labor intensive small scale industry etc.

(x) Assistance to Underdeveloped Countries

The World Bank has been playing a special role for assisting the underdeveloped countries by undertaking special economic and welfare schemes in the form of:

MEASI INSTITUE OF MANAGAMENT

(a) Financial assistance for the promotion of development;

(b) Developing 'third window' to advance loan at lower rate of interest to the underdeveloped countries;

(c) Providing technical assistance;

(d) Organizing meetings of creditor countries for providing loan to developing countries such as Aid India Club etc.;

(e) Setting up of subsidiary financial institutions like International Finance Corporation (IFC), International Development Association (IDA) for providing soft and concessional finance to developing countries etc.

(xi) Settlement of Disputes

The World Bank has been playing an important role in the settlement of international disputes successfully for the promotion of world peace. Accordingly it has resolved Indus river water dispute between India and Pakistan and Suez Canal dispute between England and Egypt.

Failures of the World Bank

Although the World Bank achieved name and fame for the promotion of development, trade and world peace but its functioning is also subjected to the following points of criticism:

(i) Inadequate share of developing countries in bank's capital

The share of developing countries in respect of capital resources of the World Bank was not at all adequate. Even after reallocation of share of member countries, the total voting strength of the Third World developing countries came down from 42 to 40 per cent.

Accordingly, more than 50 per cent of the share capital of the World Bank has been controlled by seven developed countries, namely, the USA, the UK, Japan, Germany, Canada and Italy.

MEASI INSTITUE OF MANAGAMENT

(ii) Inadequate volume of resources

The capital and financial resources of the Bank are considered as inadequate for meeting the increasing financial needs of member countries and especially of developing countries.

(iii) Discriminatory treatment

The World Bank has sometimes been discriminating against countries of Asia and Africa but has been found quite indulgent to the countries of Western Europe. Moreover, the Third World countries are also facing serious difficulties in getting loans from the World Bank.

(iv) Higher interest rate

The rates of interest charged by the World Bank from the borrowing countries of Asia and Africa have been quite high and its commission charges are also quite high. Accordingly, the interest charges are quite high in comparison to the returns generated from its investment.

(v) Insistence on repaying capacity

The Bank's insistence or repaying capacity of the country before granting loan is highly criticized, as it discourages the member countries from borrowing from the Bank. Rather, the repayment capacity of the member is to judge after the implementation of the project.

(vi) Loans for specific projects

The Bank has also been criticized on 'he ground that it has been extending loans only for specific projects, neglecting the needs of general development of developing countries.

(vii) Repayment in foreign currencies

The Bank is also criticized on the ground that it insist upon the repayment of loan by the borrower in terms of that foreign currency in which it was advanced. The developing countries sometimes find it difficult to comply with the repayment of loan in terms of either foreign currency or gold.

MEASI INSTITUE OF MANAGAMENT

(viii) No assistance for general welfare

Although the developing countries need considerable amount of funds for general welfare schemes such as education, public health etc. but the Bank's rule does not permit it to provide assistance for such purposes.

(ix) Loans for agriculture and allied activities

The Bank has been extending loan to the developing countries mostly for agriculture and allied activities but not extending loans for its basic and heavy industries. In respect of rate, most of the loans from World Bank arc related to agriculture, irrigation, power and mining.

(x) Dominations of Western countries

The management of World Bank has been dominated by Western countries. During the last 48 years of its existence not a single Asian, Latin American and African was selected as President of the Bank.

(xi) Interference with sovereignty

The World Bank often interferes with the sovereignty, decision making process and fundamental policy of the borrowing countries of the Third World, which sometimes goes against the wishes of people and long term policy of the country. However, although the functioning of the Bank has been criticized on many grounds, but it should also be remembered that the Bank has been playing an important role in the implementation of various projects of developing countries as well as for the betterment of weaker sections of society of those countries. Therefore, the functioning of the Bank should be reformed and strengthened further for the greater interests of developing and developed countries of the world.

MEASI INSTITUE OF MANAGAMENT

MEASI INSTITUTE OF MANAGEMENT
CHENNAI-14
Approved by All India Council of Technical Education and
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute

QUESTIONS

1. Explain the purpose of establishing IMF in international business.
2. Discuss the objectives of World bank.
3. Elaborate the functions of ASEAN in context of international trade.
4. Determine the role of SAARC.
5. Explain the major functions of IMF.

MEASI INSTITUE OF MANAGAMENT

DR.B.SAIPRIYA **ASSISTANT PROFESSOR**
MR.RIAZ AHMED **ASSISTANT PROFESSOR**
MRS.NISHATH SULTANA **ASSISTANT PROFESSOR**