Institute of
Management Technology
Centre for Distance Learning, Ghaziabad
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IMT-16

INTERNATIONAL TRADE

Notes:

a. Write answers in your own words as far as possible and refrain from copying from the text books/handouts.
b. Answers of I[st] Set (Part-A), II[nd] Set (Part-B), III[rd] Set (Part – C) and Set-IV[th] (Case Study) must be sent together.
c. Submit the assignments in IMT CDL H.O.along with the assignments Question Papers for evaluation .
d. Only hand written assignments shall be accepted.

A. First Set of Assignments	5 Questions, each question carries 1.5 marks.
B. Second Set of Assignments	5 Questions, each question carries 1.5 marks.
C. Third Set of Assignments	5 Questions, each question carries 1.5 marks. Confine your answers to 150 to 200 Words.
D. Forth Set of Assignments	Two Case Studies : 7.5 Marks. Each case study carries 3.75 marks.

SECTION - A

1. Discuss the major benefits and risks of international trade?
2. Explain the various types of Non-Tariff Barriers of international trade.
3. Critically discuss the major changes that have taken in global trade in the last decade.
4. Explain the comparative cost advantage theory of trade with the help of an example.
5. What is the importance of TRIPS in India?

SECTION - B

1. Describe the factor endowments theory of Heckscher-Ohlin.
2. Distinguish between FDI and FII.
3. Explain the inward-oriented and outward oriented trade strategy.
4. How is WTO different from GATT?
5. What is current account deficit? How can it be minimised?

SECTION - C

1. Discuss the Doha Development Agenda of World Trade Organisation.
2. What are the objectives of ASEAN and SAPTA?
3. Explain the different stages of economic integration in formation of Regional Trade Agreements with examples.
4. How is IMF different from IBRD?
5. Describe the stages of issuing a letter of credit (L/C) for international payments.

Regional Trading Agreements (RTAs)

The proliferation of regional trading arrangements (RTAs), especially after 1990, has sparked a lot of interest. Prof Bhagwati, a staunch multilateralist, has likened them to 'stumbling blocs' to the multilateral focus of the World Trade Organization (WTO). As countries perceive that the multilateralism of WTO is falling apart, they are rushing to get into regional alliances as a defensive response. Presumably, RTAs act as an insurance against protectionism, particularly for small and developing countries. Small countries, it can be argued, conclude RTAs with large countries before they are excluded by other countries doing the same — a kind of first-mover advantage. But do developing countries benefit from these RTAs? Are these benefits economic in terms of market access? These are two issues I will take up in this article.

The number of RTAs was negligible — around 20 — till about 1990 or so, and increased exponentially to over 300 by 2005, and are close to 400 today. In addition, around 75% are now operational. Second, more than 50% of these are between developing countries, including the so-called transition economies. Third, according to a World Bank estimate — usually read with a bucket of salt next to you! — if we exclude RTAs involving countries that have close to aero most-favoured nation (MNF) tariffs, the share of world trade in RTAs falls from 33% to about 20%. Finally, 85% of these RTAs are free trade agreements (FTAs) rather than Customs unions (CUs). In the former, countries retain their tariff-setting independence vis-a-vis non- RTA members. Last, most countries are members of multiple RTAs. This feature is particularly true of developing countries, especially those in the African continent.

The gains from an RTA stem from the fact that some countries are excluded from the RTA. Hence, members of RTAs have tariff advantages in other RTA markets vis-a-vis non-RTA suppliers. If the non-RTA member loses an RTA market only on account of the tariff preferences available to RTA members, this is called trade diversion. However, trade increase within the RTA due to removal of tariffs is called trade creation. Without going into the relative intricacies of calculating the net effect of trade diversion and trade creation, one implication is that the RTA must lead to increased trade among the RTA members if the RTA is presumed to have been beneficial to the members of the RTA.

What is the evidence? One simple calculation would be to look at the share of intra-RTA trade compared to total global trade of all the RTA countries before and after implementation of an RTA. As a rough approximation, one can argue that this must increase if RTAs have been beneficial. Since there is a time gap between the signing of an RTA and the actual implementation of tariff concession, a rough rule would be to look at this ratio a few years before and after the implementation of an RTA. Such a calculation for major RTAs is shown in the accompanying table. The conclusion is obvious. Barring Mercosur, in no other RTA has there been a significant increase in intra-RTA trade after implementation of the agreement. The logic of taking just few years before and after was to try to isolate trade increase that can be attributed to the RTA alone, that is, trade that is not influenced by other well-known factors such as incomes, prices, etc, and that would have occurred anyway.

RTA	-3	-2	-1	Year of Implementation	+1	+2
MERCOSUR	6.71	8.25	8.86	11.10	13.98	18.51
NAFTA	42.22	43.64	45.79	47.95	46.22	47.62
ASEAN	17.84	18.94	19.75	20.07	21.35	24.32
GCC	4.88	5.23	5.93	4.98	4.62	4.54
SAARC	6.63	6.48	6.74	6.37	6.48	6.31
EU	67.49	68.83	69.26	65.16	65.65	67.22

It must also be remembered that an RTA has administrative costs in terms of implementing the system of rules of origin, cumulation, etc, that are an integral part of such agreements. It is debatable — I have seen no calculations — whether the small percentage increase in RTA trade — as in the case of ASEAN — justifies such costs. So, RTAs do not give a significant market access benefits to members. Yet, RTAs continue to flourish. In fact, India, a latecomer to RTAs, is now stepping up efforts to contract a number of RTAs.

Source: The ET, Aug. 2010

Questions

1. On the basis of the case analyse the reasons for the countries to sign Regional Trading Arrangements (RTAs), especially after 1990.
2. Do you consider the regional trading arrangements (RTAs) as a threat to free trade? Give reasons.

CASE STUDY - 2

Global Operations of P & G

Proctor and Gamble (P & G), "a global consumer products giant," stormed the Japanese market with American products, American managers, American sales methods and strategies. The result was disastrous until the company learnt how to adapt products and marketing style of Japanese culture. P & G which entered the Japanese market in 1973 lost money until 1987, but by 1991 it became the second largest foreign market."

P & G, acclaimed as "the world's most admired marketing machine", entered India, which has been considered as one of the largest emerging markets, in 1985. It entered the Indian detergent market in the early nineties with the Ariel brand through P & G India (in which it had a 51 percent holding which was raised to 65% in January 1993 the remaining 35% being held by the public). Later in 1993 it established a 100 % subsidiary, P & G Home Products.

Over a period of about one and a half decades since its entry in India, P & G invested several thousand crores. However, dissatisfied with its performance in India, it decided to restructure its operations, which in several respects meant a shrinking of activities – the manpower was drastically cut, and thousands of stockists were terminated. P & G however holds that, it will continue to invest in India.

China, on the other hand, with business worth several times than in India in less than 12 years, has emerged as a highly promising market for P & G. When the Chinese market was opened up, P & G was one of the first MNCs to enter. Prior to liberalization, Chinese consumers had to content with shoddy products manufactured by government companies. Per capita income of China is substantially higher than India's and the Chinese economy was growing faster than that of India. Further, the success of the single child concept in China means higher dispos able income.

It is also pointed out that for a global company like P & G, understanding Chinese culture was far easier since the expat Chinese in the US was not very different from those back home where as most Indian expats tended to adapt for ore to the cultural nuances of the immigrant country.

One of P&Gs big bets in India was the compact technology premium detergent brand 'Ariel'. After an initial show, Ariel, however, failed to generate enough sales – consumers seem to have gone by the per kilo cost than the cost per wash propagated by the promotion. To start with, P&G had to import the expensive state-of-the-art ingredients, which attracted heavy custom duties. The company estimated that it would cost Rs 60 per kilo for Ariel compared to Rs 27 for Surf and Rs 8 for Nirma, Because of the Rupee devaluation of the early 1990s, the test market price of Rs 35 for 500 gms was soon Rs 41 by the time the product was launched. HLL fought Ariel back with premium variants for Surf like Surf Excel.

It is pointed out that, "in hindsight, even P & G managers privately admit that bringing in the latest compact technology was a big blunder. In the eighties, P & G had taken a huge beating in one of its most profitable markets, Japan, at the hands of local company Kao. Knowing the Japanese consumer's fondness for small things, Kao weaved magic with its new found compact technology. For a company that prided itself on technology, the drubbing in Japan was particularly painful. It was, therefore, decided that compacts would now be the lead brand for the entire Asia-Pacific region. When P & G launched Ariel in India, it hoped that the Indian consumer would devise appropriate benchmarks to evaluate Ariel. As compacts provided economy of use, P&G hoped that consumers would buy in the low-cost-per-wash story. But selling that story through advertising was particularly difficult, especially since Indian consumers believed that the washing wasn't over unless the bar had been used for scrubbing. Even though Ariel was targeted at the consumers with high disposable income, who represented half the urban population, consumers simply baulked the outlay.

Thereafter, one thing led to another. Ariel's strategy of introducing variants was a smart move to flank Lever at every price point by cleverly using the brand's halo effect. And by supporting the brand in mass media and retaining the share of voice. By 1996, it had become clear that Ariels's equity as a high performance detergent had begun to take a beating. Its equity as a top-of –the-line detergent was getting eroded. Nowhere in P&G's history had a concept like Super Soaker been used to gain volumes. It was decided that Super Soaker would no longer be supported, nor Ariel bar be supported in media.

Questions

1. Discuss the reasons for the differences in the performance of P&G in India and China.
2. From the evidence given in the case, state the benefits and risks of investment by an MNC in foreign countries.