

STRATEGIC MANAGEMENT, ALLIANCES AND INTERNATIONAL TRADE

Time allowed: 3 hours

Maximum marks: 100

NOTE: Answer all questions.

PART—A

(Answer **ANY TWO** questions from this part)

Question 1

In a market dominated by behemoths like SAIL and TISCO, finding a niche is of crucial importance for a small player. What could a Lloyds do with a meager annual capacity of making 6 lakh tonnes of HR coils while SAIL sold over 1,600 lakh tonnes in the same time? Should Lloyds follow the market leader or adopt its own unique approach to its business strategy? It is in the context of such questions that Lloyd's attention came to rest on the manufacturing process.

Almost all steel producers adopt the blast furnace technology. In this, the process starts with a clear differentiation among the ultimate products to be manufactured. So, manufacturing batch size has to be large enough to take up customised orders. The raw material, iron ore, has to pass through several complex stages of manufacturing.

Lloyds looked for an alternative technology that could suit its requirements. The solution lay in the electric arc furnace technology where the unique feature was that initial manufacturing stages need not differentiate among different products. Such a differentiation came at a much later stage. Translated into a business proposition, what is meant was that Lloyds could operate with a much smaller batch size of, say, 100 tonnes and deliver quickly. For instance, a 1,000 tonnes small order of specialised product custom-made to buyer's specification could be delivered in as little as 15 days. Such a quick delivery schedule would not be possible for a large integrated steel manufacturer. In this manner, analogous to small gunboats that could efficiently torpedo a large slow-moving ship, Lloyds carved out a niche in the highly competitive steel market.

Answer the following questions :

- (i) Comment on the nature of the business strategy of Lloyds. (10 marks)
- (ii) What are the conditions in which such a strategy would succeed? Could fail? (10 marks)

Answer 1(i)

Nature of business strategy of Lloyds:

Lloyds as a strategy first identified their position in the steel industry in comparison with other giant leaders like SAIL, TISCO etc. Lloyds business strategy was based on its limited annual capacity. The company identified following business strategy towards building its core competencies:

- (i) Production in small batch size to meet customer requirements.
- (ii) Quick delivery by re-engineering its total supply chain and manufacturing process.

For implementation of these strategies Lloyds preferred alternative technology i.e. electric arc furnace technology where the unique feature was that initial manufacturing stages need not differentiate among different products instead of adopting the blast furnace technology wherein the process starts with differentiating among the ultimate products to be

manufactured.

Through this process Lloyds built its niche in the highly competitive steel market by reducing its delivery time and by providing specialized products custom made to customer requirements.

Answer 1(ii)

Lloyds may have an added advantage with the new electric arc furnace technology since their customer base may react positively to this new technology. However, it may face competition from its bigger counterparts who in the coming time shift to this new technology and wipe out Lloyds completely.

The strategy would succeed in the following conditions:

- (i) The strategy adopted by Lloyds is successful where small batch size orders are to be manufactured.
- (ii) It is also successful where small orders of specialized products custom made to buyer's specification are to be made.
- (iii) When a dedicated regular customer base is present.
- (iv) Where there is no threat of competition from big players.
- (v) When custom made products are to be delivered in a short span of time.

The strategy would fail in the following conditions:

- (1) It is a failure where large orders are to be manufactured i.e., the manufacturing batch size is large enough to take-up customized orders.
- (2) Where large specialized products are to be delivered.
- (3) Where the delivery time is short.

Lloyds is a small player with small administrative cost, but situation may come where Tisco and Sail may completely wipe out Lloyds by following suit.

Question 2

Explain the following:

- (i) SWOT analysis
- (ii) BCG growth matrix
- (iii) McKinsey's 7-S Framework
- (iv) Balanced Score Card approach. (5 marks each)

Answer 2(i)

SWOT Analysis

SWOT Analysis, is a strategic planning tool used to evaluate the Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T) involved in a [project](#) or in a [business](#) venture. It basically involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable for achieving the objective. It is a tool of environment analysis. The SWOT Analysis forces management to analyse what it is that makes its company successful or unsuccessful.

In SWOT analysis Strengths, Weaknesses, Opportunities and Threats can be understood as:

- Strengths:** Attributes of the organization that are helpful in achieving the objective.
- Weaknesses:** Attributes of the organization that are harmful in achieving the objective.
- Opportunities:** External conditions that are helpful in achieving the objective.
- Threats:** External conditions that are harmful in achieving the objective.

The merit of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. SWOT analysis may also be used in pre-crisis planning and preventive crisis management.

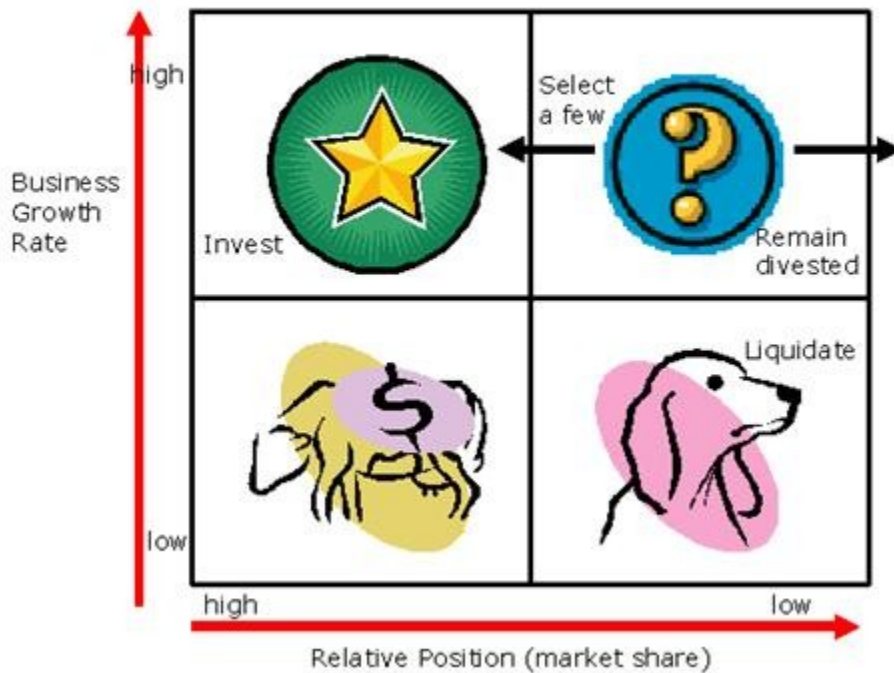
Answer 2(ii)

BCG Growth-Matrix (GSM)

The Boston Consulting Group developed the growth-share matrix model which helps to analyze the problem of resource deployment among the business units or products of multi-business firms. It is based on product life cycle theory. It is the most renowned corporate portfolio analysis tool. In other words, it is a comparative analysis of business potential and the evaluation of environment. The business units or products are analyzed by placing each one in the matrix according to their (1) expected growth rate (vertical axis), and (2) relative market share (horizontal axis). The basic idea behind this model is that if a product has a bigger market share or if the products' market grows faster, it is better for the organization. The original BCG model was based on a lifecycle view of the product of a company.

BCG Model provides a graphical representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. The four categories of strategic business units' of BCG matrix has been shown in the following diagram:

The BCG Matrix



The different categories as shown in the above pictorial presentation can be understood as follows:

1. **Dogs (Low Growth, Low Market Share):** Each of businesses or products with low expected growth rates and low relative market standing are labeled as "dogs" or "cash traps." The strategy for this category should consist of cost cutting.
2. **Question Marks (High Growth, Low Market Share):** Businesses and products with high projected growth rates and low market standing, are labeled as 'Question Mark'. This quadrant has worst cash characteristics of all, because they have high cash demands and generate low returns because of their low market shares.
3. **Stars (High Growth High Market):** Products or business units with high market standing and high industry growth potential are labeled as stars. Stars are leaders in the business and generate large amounts of cash.
4. **Cash Cows (Low Growth High Market Share):** A product or business would become a cash generator here. Cash cows have a strong market position in industries that have matured. These products or businesses can thus be "milked" by investing just enough cash to maintain market standing and applying excess cash inflows to the firm's other activities which are growth industries or products.

Answer 2(iii)

McKINSEYS 7-S FRAMEWORK

McKinsey developed the 7-S framework management model which organize seven factors to organize a company in an holistic and effective way with the objective to diagnose the causes of organization problem and formulate program for improvement due to the implementation of the strategy which are associated with change in the organization.

The organizational change is not simply a matter of structure although the structure is a significant variable in the management change. Effective organizational change may be understood to be a complex relationship between the 7-S i.e. strategy, structure, systems, style, skills, staff and shared values (super ordinate goals). They are discussed herein below:

(i) **Strategy:** Strategy means to achieve objectives. It provides the direction and the scope of the organization over the long-term. A strategy targets at gaining competitive advantage over rivals.

(ii) **Structure:** It is a basic framework to designate responsibilities and functions. Organization structure prefers relatively more durable organizational arrangements and relationship. It prescribes the formal relationship among various positions and activities.

(iii) **System:** It is a management tool for planning, decision-making, communication control and the procedures and processes regularly followed by an organization. Systems in the 7-S framework signifies all the rules and regulations, procedures both formal and informal that complement the organizational structure.

(iv) **Style:** Style stands for the patterns of behaviour and managerial style of top management over a period of time. It is visible through relationship among the three levels of management or managers, organizational culture which is a reflection of value system.

(v) **Staff:** According to 7-S framework the term 'staff' refers to the way organizations introduce young recruits into the main streams of their activities and the manner in which they manage their careers as the new entrants develop into future managers.

(vi) **Skills:** It means organization and individual capabilities. Skill is an ability or proficiency in performing a particular task. It includes those characteristics which most people use to describe a company.

(vii) **Shared Values (Super Ordinate Goals):** Super ordinate goals stands for company's mission, vision, values, philosophy in the backdrop of which organizational goals and objectives are set and strategies are formulated. These are essential as they inspire the members of the organization and provide a definite direction to its operations.

Answer 2(iv)

BALANCED SCORE CARD APPROACH

The balanced scorecard is a methodological tool meant to help businesses manage their future growth, objectives and plans. The balanced score card (BSC) is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization.

The purpose of the balanced scorecard is to give a measuring tape by which someone can determine whether the set goals have been met or exceeded. It adds non-financial metrics to traditional financial metrics to give a well-rounded view of the performance in an organization. Balanced scorecards can be as simple or complex as needed for the purposes of a company's metrics. There are four components to the balanced scorecard:

- Learning and Growth Perspective
- Business Processes Perspective
- Customer Perspective
- Financial Perspective

Some of the merits of BSC are listed as under:

- 1.A balanced view of a company's performance can be gauged after looking at all the four aspects of balanced scorecard.
- 2.Unlike traditional methods of [tracking the financial health of a business](#), the balanced scorecard gives a full picture as to whether the company is meeting its objectives.
- 3.The balanced scorecard approach doesn't only help in evaluating the immediate future rather allows for stakeholders to determine the health of short, medium, and long term objectives at a glance.

Some of the demerits of BSC approach include the following:are:

- 1.It is not a tool that will help when immediate results are required. Thus it does not solve last minute problems It is a long term tool which has to be used and implemented to attain objectives in the long run.
- 2.The financial information included on the scorecard is limited. Instead, to be successfully implemented, the balanced scorecard must be part of a bigger strategy for company growth that includes meticulous accounting methods.
- 3.Finally, many companies use metrics that are not applicable to their own situation. It is vitally important when using balanced scorecards to make the information being tracked applicable to your needs. Otherwise, the metrics will be meaningless.

Question 3

*(a)Explain in detail Michael F. Porter's five forces model of industry analysis.
(10 marks)*

(b)Distinguish between 'goals' and 'objectives'. Also mention the major features of objectives in an organisation. (10 marks)

Answer 3(a)

PORTER'S FIVE FORCES MODEL OF INDUSTRY ANALYSIS

Michael E. Porter developed an assessment model for analyzing industry structure that focuses on the forces imposed on the process of competing by five influences: the intensity of rivalry among competitors, the threat of new entrants, the threat of substitute products, the bargaining power of suppliers, and the bargaining power of buyers or customers.

Using Porter's model to analyze an industry for a particular firm, involves estimating the strength of each force, identifying its underlying source, and then formulating a strategy that will create an advantage for the firm.

The key task of the analyst is to understand the underlying causes of each of the competitive forces at work. With this knowledge, a company's strengths or weaknesses can be clarified, and the most fertile areas for drafting competitive thrusts can be defined. Also, knowing the magnitude of competitive forces allows the strategist to identify the most important trends that are emerging as opportunities and threats.

The five forces that can create strength for competitors are explained below:

(i) *Intensity of Rivalry among Competitors:* Some industries appear inactive because of a low level of rivalry among competitors. An example might be industrial fasteners, the manufacturers of nuts and bolts and other devices used to connect the components of products. A large number of quite small manufacturers accept low levels of profitability for

staying in business. Competition is key with little effort and expense devoted to differentiating brands or single products.

(ii) *Power of Buyers*: From an industry's point of view, the buyers can usually be classified into three major categories i.e.: consumers, industrial customers, and commercial customers. Consumers include the purchasers of the firm's service or product for their own use. Buyers, whether consumers, industrial, or commercial, can enjoy positions of strength over the firm from which they purchase products by superior bargaining power. For example, a large retailer (commercial buyer) with a loyal customer base and high volume of sales of the product in question may be able to virtually dictate price, shipping arrangements, order quantity, quality level, and other factors to its vendors.

(iii) *Power of Suppliers*: The suppliers of goods and services to an industry have the power to influence their customers through their ability to set price and control quality, delivery time, and order quantity. If these customers cannot manage successfully one supplier against another to protect their interest, then the industry's profits can be drained off by the suppliers.

(iv) *Substitute Products*: Substitute products refer to those products of industries which serve similar consumer needs. Existence of close substitutes represents a strong competitive threat which limits the price fixation power and the profitability of the firm. Conversely, if the firm's products have very few substitutes, then the company has the opportunity to raise prices and earn additional profits. It is an eye opener for the firms to select those lines which have least substitutes.

(v) *Potential Entrants*: New entrants to an industry pose several threats to existing competitors. New competitors can reduce the market share of all participants by dividing the pie into more pieces. As a result of this they may also bring new technology or greater resources not available to present competitors and capture a high market share position quickly to the detriment of all existing participants.

Thus, conducting an industry analysis following Porter's model involves collecting data and developing explanations for the ways in which industry competition is affected by the five forces.

Answer 3(b)

Goals and objectives are the end results which an organization strives for. Thus, goal and objective consists of a projected state of affairs which a person or a system intends to achieve. It is the desired end-point in some sort of assumed development.

A desire or an intention becomes a goal if and only if, it activates an action for achieving it. It is roughly similar to purpose or aim, the anticipated result which guides action, or end, which is an object, either a physical object or an abstract object, that has intrinsic value.

Objectives are aims, or purposes that organizations wish over varying periods of time. Objectives are the intended end result that an organization desires to achieve over varying periods of time. Because of time variation, objectives may be specified in different ways in which long-term objectives are supported by short-term objectives.

The objectives and goals may differ from each other in the following dimensions:

(1) **Time**: Objectives are timeless, enduring, and unending whereas goals are temporal, time-phased, and intended to be superseded by subsequent goals. Objectives relate to the ongoing activities of an organization, their achievement tends to be open-ended

and not bound by time. A goal on the other hand is short-lived as it is time bound.

(2)**Specification:** Objectives are stated in broad, general terms, dealing with matters of image, style and self-perception. These are aspirations to be worked in the future. Goals are very specific, stated in terms of a particular result that will be accomplished by a specific date. Goals are more specific and time bound.

(3)**Focus:** Objectives are usually stated in terms of some relevant environment which is external to the organization. Goals on the other hand, are more internally focused and carry important implications about how resources of the organization are utilized or will be utilized in future. Objectives are more generalized statements like maintaining market leadership, striving continuously for technological superiority, etc., whereas a goal may imply a resource commitment requiring the organization to use those resources in order to achieve the desired outcomes.

(4)**Measurement:** Both objectives and goals can be stated in terms, which are quantitatively measured, but the character of measurement is different. Generally quantitative objectives are set in relative terms. For example, Reliance Industries has put its objectives like this: to acquire top position among the Indian companies. This objective may not be achieved in one year, but it is timeless and externally focused, providing a continuing challenge for the company. Quantitative goals are expressed in absolute terms; say 20% increase in sales. The achievement of this goal can be measured irrespective of environmental conditions and competitors' actions.

MAJOR FEATURES OF OBJECTIVES IN AN ORGANIZATION

(1)Each organization has some objectives as it is created basically to attain the same. Members/employees in the organization try to achieve these objectives.

(2)Objectives may be broad or they may be specifically mentioned. They may pertain to a wide or narrow part of the organization. They may be set either for the long term or for the short term. For example, the basic objective of a business organization may be to earn profit. This may be quite a broad objective. In order to achieve this broad objective, some specific objective may be set, for example, amount of profit to be achieved in a particular period. Thus, general objectives may be translated into operative objectives to provide definite action.

(3)Objectives may be clearly defined and have to be interpreted by the behaviour of organizational members, particularly those at top level. However, clearly defined objectives provide clear direction for managerial action.

(4)Objectives have hierarchy. At the top level, it may be broad organizational purpose which can be broken into specific objectives at the departmental level. From departmental objectives, units of the department may derive their own objectives. This is due to grouping of people into sections, departments, divisions, etc., in the organization.

(5)Organizational objectives have social sanction; organizations are created within the social norms. They must conform to the general needs of the society.

(6)An organization may have multiple objectives which may be functional and interrelated. Sometimes, the objectives may be even incompatible. This happens because over a period of time, many interest groups exert their pressure on organizational objectives. There are trade off among objectives. The achievement of one may be at the cost of the other at one point of time, while at other time, both can

be integrated.

(7)Organizational objectives can be changed as new ones may replace old objectives. It is possible because organizations are free to set their objectives within the overall social norms. Since objectives are formulated keeping in view the environmental factors and internal conditions, any change in these may result into change in objectives. For example, the Red Cross which was originally formed to hold itself in readiness in the war or any calamity to help the people found itself underemployed after World War I. So subsequently added another objective-that of preserving and improving public health.

PART—B

*(Answer **ANY ONE** question from this part.)*

Question 4

(a)Discuss the preliminary steps required for the creation of a successful alliance. (8 marks)

(b)Discuss the restrictive covenants being used in the foreign collaboration and technology transfer agreements. (8 marks)

(c)What are the methods of funding investments in overseas joint-venture and wholly-owned subsidiaries? (4 marks)

Answer 4(a)

The preliminary steps necessary for creation of a successful alliance are as follows:

–Developing qualitative and quantitative partner criteria: The organizational culture and norms should be analysed, personnel functions should be analysed and the proposed criteria of partner to be selected should be outlined.

–*Developing a list of prospective partners:* It is essential that the partner analysis is proactive and not reactive. A partner that approaches a company may not be the optimum partner. It is therefore, necessary to examine other opportunities, if they exist. Accordingly, a list of prospective partners should be prepared.

–*Partner Selection:* While selecting a partner, companies must list the prospective standards against which they can measure the merits of a prospective partner; the most important being the three C's of successful alliances namely, Compatibility, Capability and Commitment.

–*Partner Analysis:* Once the potential partner has been identified, the next step is to analyse the strategic fit of the partner with the company. As much information as possible should be gathered about the prospective partner so as to adapt and improve the understanding of the appropriateness of the partner for the stated goals of the company. The legal and accounting team of the company should be involved in researching the implications of the alliance.

–*Obtaining internal approvals:* The policies should be completely unambiguous and clear internal approvals should be obtained from the CEO and the top advisory personnel to avoid embarrassment later.

–Creating an implementation plan: Alliance conceived entirely by the planning and corporate departments without the active participation of the operational managers, who will ultimately have responsibility for the implementation of projects are bound to

fail. It is therefore, essential that the operating managers are involved in at least the later stage of the negotiation process.

- Final predeal evaluation of all the relevant information.
- Negotiating the deal and managing the legal process.

Answer 4(b)

Following are some of the restrictive practices being used in the foreign collaboration and technology transfer agreements.

- Restrictions after expiration of industrial property rights or loss of secrecy of technical know-how.
- Restrictions on Research and Development
- Non-competition clauses
- Tying arrangements
- Export restrictions
- Direct and Indirect restrictions
- Implied restrictions
- Price fixing and grant-back practices
- Exclusive sales and representation arrangements
- Restrictions on field of use, volume or territory.

Answer 4(c)

Investment in an overseas joint venture and wholly-owned subsidiaries may be funded out of one or more of the following sources:

- Drawal of foreign exchange from an authorized dealer bank in India
- Capitalization of exports
- Swap of shares
- Utilization of proceeds of External Commercial Borrowings / Foreign Currency Convertible Bonds
- Balances held in EEFC account of the Indian party and
- Utilization of proceeds of foreign currency funds raised through ADR/GDR issues.

Question 5

(a) Discuss the important clauses to be incorporated in a foreign collaboration agreement. (10 marks)

(b) Discuss the types of strategic alliance and its advantages. (10 marks)

Answer 5(a)

The foreign collaboration agreement generally contains the following comprehensive clauses:

- (i) In case of agreement for provisions of technical know-how:
 - Definitions and characteristics of the subject matter of the know-how
 - The mode of transfer of technical know how
 - Clause safeguarding secrecy of the technology
 - Training of the technical personnel of the Indian company by the foreign collaborator

- Performance guarantee in regard to the achievement of the required qualities, standard of the product, quantities to be produced and minimum standard of performance with suitable indemnity clause
 - Conferring of license or patent right for technical know how and the product to be manufactured.
 - Mode and method of payment.
 - Who would own the future improvements in the technology by the transferee made by transferring the technology.
- (ii) In case of agreement for a joint venture:
- Since in India, a foreign company is not allowed to hold more than 51% shares in any company, care must be taken to promote the equity participation by the foreign company
 - The constitution of the Board of Directors with election, number of directors and power of the Board
 - The mode of declaration and distribution of the dividends
 - The area of marketing of the products
 - Restriction on any change in the ownership ratio, other provision as incorporated under an agreement for supply of technical know-how.

Answer 5(b)

Alliances may be in the form of:

- Management contract
- Supply or purchase agreement
- Marketing or distribution agreement
- Joint venture
- Agreement to provide technical services
- Licensing of know-how, technology, design or patent

These arrangements differ in scope mainly by virtue of the following:

- Capital commitment
- Structure of organization
- Decision making
- Proportion between risk and reward

Advantages

A business strategic alliance is also mean to an end, not just an end in itself. Strategic alliance often takes place between firm of different industries and of varied sizes for vertical and horizontal links, consolidation of position or any of the following:

- (i)Gains a means of distribution in international market
- (ii)Overcome legal or regulatory barriers
- (iii)Diversification
- (iv)Avoiding competition
- (v)Focus on new products and restructuring.

In addition to the above, the various perceived gains which may motivate strategic alliance include establishment of business network, gaining cost and quality competitiveness, defend

business interests, updating technology, starting new project, sharing of risks, increasing efficiency through economies of scale, specialization etc.

PART—C

(Answer ANY TWO questions from this part.)

Question 6

(a)What is fair trade? (3 marks)

(b)Explain the theory of comparative advantage in international trade. (7 marks)

(c)Why was NAFTA created and what objectives has it achieved? (5 marks)

(d)What are 'deminimis margins' and 'price undertakings' which necessitate the suspension or termination of anti-dumping investigations? (5 marks)

Answer 6(a)

Fair Trade

The term 'fair trade' gained currency in 1870s. It meant placing home and foreign producers on an equal level with regard to artificial conditions of production caused by export bounties, dumping under protection of high tariffs in the domestic market and indirect taxation, but not interfering with natural comparative advantage.

Answer 6(b)

Comparative advantage explains how trade can create value for both parties even when one can produce all goods with fewer resources than the other. The net benefits of such an outcome are called gains from trade. It is the main concept of the pure theory of international trade. The theory of comparative advantage suggests that a country should export goods in the country in which its relative cost advantage, and not the absolute cost advantage, is greatest in comparison to other countries. Suppose that the United States can produce both shirts and automobiles more efficiently than Mexico. But if it can produce shirts twice as efficiently as Mexico and can produce automobiles three times more efficiently than Mexico, the United States has an absolute productive advantage over Mexico in both the goods but a relative advantage in producing automobiles. In this case, the United States might export automobiles in exchange for imports of shirts—even though it can produce shirts more efficiently than Mexico. The practical import of the doctrine is that a country may export a goods even if a foreign country could produce it more efficiently if that is where its relative advantage lies; similarly, a country may import a goods even if it could produce that goods more efficiently than the country from which it is importing the goods. From Mexico's standpoint, it lacks an absolute productive advantage in either commodity, but has a relative advantage in producing shirts (where its relative disadvantage is least). This trade is beneficial for both the United States and Mexico.

Answer 6(c)

NAFTA stands for North American Free Trade Agreement. In January 1994, Canada, the United States and Mexico launched the North American Free Trade Agreement (NAFTA) and formed the world's largest free trade area. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment,

services, intellectual property, competition and the temporary entry of business persons.

NAFTA has been a remarkable success story for all three partners, viz. Canada, United States and Mexico. It has contributed to significant increases in trade and investment flows between Canada, the United States, and Mexico. It has benefited companies in all three countries, paving the way for increased sales, new partnerships, and new opportunities.

Since NAFTA came into effect, trade among the NAFTA countries has more than tripled. In 2008, Canada and the United States inward foreign direct investment from NAFTA partner countries enhanced. Meanwhile, Mexico has become one of the largest recipients of foreign direct investment among emerging markets from its NAFTA partners.

Since NAFTA came into effect, the overall job growth has been strong in all three partner countries. NAFTA has promoted higher wages. NAFTA partners work cooperatively to better understand and improve the protection of their environment and effectively enforce its environmental laws.

Answer 6(d)

De Minimis Margins and Price Undertakings

Any exporter whose margin of dumping is less than 2% of the export price shall be excluded from the purview of anti-dumping duties even if the existence of dumping, injury as well as the causal link is established. Further, investigations against any country are required to be terminated if the volume of the dumped imports from that particular source are found to be below 3% of the total imports, provided the cumulative imports from all those countries who individually account for less than 3%, are not more than 7%.

The Designated Authority may suspend or terminate investigation if the exporter concerned furnished an undertaking to revise his price to remove the dumping or the injurious effect of dumping as the case may be. No undertaking can however be accepted before preliminary determination is made. No anti-dumping duties are recommended on such exporters from whom price undertaking has been accepted. No price undertaking may, however, be accepted in case it is found that acceptance of such undertaking is impracticable or is unacceptable for any reason.

Question 7

(a) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(i) Quota is an important non-tariff barrier affecting the quantum of _____.

(ii) Tariff is a source of _____ to the government exchequer.

(iii) When duty is assessed as a percentage of the value of the imported commodity, it is called _____.

(iv) When the political relations between two countries are strained, a country imposes _____ on the imports from that particular country. (1 mark each)

*(b) Distinguish between **any four** of the following :*

(i) 'Prohibited subsidies' and 'actionable subsidies'.

(ii) 'Geographical indications' and 'trade marks'.

(iii) 'Green box' and 'blue box'.

(iv) 'Substantive rules' and 'procedural rules'.

(v) 'Most favoured nation (MFN)' and 'national treatment'. (4 marks each)

Answer 7(a)

- (i) Import
- (ii) Revenue
- (iii) Ad valorem duty
- (iv) Embargo

Answer 7(b)(i)

Distinction between Prohibited subsidies and Actionable subsidies

Prohibited subsidies: subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods, are prohibited because they are specifically designed to distort international trade, and are therefore likely to hurt other countries' trade. They can be challenged under the WTO dispute settlement procedure where they are handled under an accelerated timetable. If the dispute settlement procedure confirms that the subsidy is prohibited, it must be withdrawn immediately. Otherwise, the complaining country can take counter measures. If domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed.

Actionable subsidies: The complaining country has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted. The agreement defines three types of damage they can cause. One country's subsidies can hurt a domestic industry in an importing country. They can hurt rival exporters from another country when the two compete in third markets. And domestic subsidies in one country can hurt exporters trying to compete in the subsidizing country's domestic market.

Answer 7(b)(ii)

Distinction between Geographical indications and Trademarks

Geographical indications: Geographical Indications of Goods are defined as that aspect of industrial property which refers to the geographical indication referring to a country or to a place situated therein as being the country or place of origin of that product. Typically, such a name conveys an assurance of quality and distinctiveness which is essentially attributable to the fact of its origin in that defined geographical locality, region or country. Place names are sometimes used to identify a product. Well-known examples include "Champagne", "Scotch", "Tequila", and "Roquefort" cheese. Wine and spirits makers are particularly concerned about the use of place names to identify products, and the TRIPS agreement contains special provisions for these products. But the issue is also important for other types of goods.

Trademarks: A Trade Mark distinguishes the goods of one manufacturer or trader from similar goods of others and therefore, it seeks to protect the interest of the consumer as well as the trader. A trade mark may consist of a device depicting the picture of animals, human beings etc., words, letters, numerals, signatures or any combination thereof. Since a trade mark indicates relationship in the course of trade, between trader and goods, it serves as a useful medium of advertisement for the goods and their quality. The object of trademark law is to permit an enterprise by registering its trademark to obtain an exclusive right to use, share, or assign a mark.

Answer 7(b)(iii)

Distinction between Green Box and Blue Box

Green Box: In order to qualify for the "green box", a subsidy must not distort trade, or at

most cause minimal distortion. They have to be government-funded and must not involve price support. They tend to be programmes that are not directed at particular products, and include direct income supports for farmers that are not related to production. “Green box” subsidies are therefore allowed without limits, provided they comply with relevant criteria.

Blue Box: The blue box is an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. It covers payments directly linked to acreage or animal numbers, but under schemes, which also limit production, by imposing production quotas or requiring farmers to set aside part of their land. Countries using these subsidies say they distort trade less than alternative amber box subsidies.

Answer 7(b)(iv)

Distinction between Substantive Rules and Procedural Rules

Substantive Rules: A Member may not impose a countervailing measure unless it determines that there are subsidized imports, injury to a domestic industry and a causal link between the subsidized imports and the injury. The existence of a specific subsidy must be determined in accordance with the criteria provide under SCM Agreement. SCM Agreement provides for the explicit authorization of cumulation of the effects of subsidized imports from more than one Member where specified criteria are fulfilled. In addition, SCM Agreement contains rules regarding the determination of the existence and amount of a benefit.

Procedural Rules: SCM Agreement contains detailed rules regarding the initiation and conduct of countervailing investigations, the imposition of preliminary and final measures, the use of undertakings, and the duration of measures. A key objective of these rules is to ensure that investigations are conducted in a transparent manner, that all interested parties have a full opportunity to defend their interests, and that investigating authorities adequately explain the basis for their determinations.

Answer 7(b)(v)

Distinction between Most-favoured-nation (MFN) and National treatment

Most-favoured-nation: It suggests some kind of special treatment for one particular country, but in the WTO it actually means non-discrimination — treating virtually everyone equally. Each member treats all the other members equally as “most-favoured” trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same “best” treatment to all the other WTO members so that they all remain “most-favoured”. Most-favoured nation (MFN) status did not always mean equal treatment. In the 19th Century, when a number of early bilateral MFN treaties were signed, being included among a country’s “most-favoured” trading partners was like being in an exclusive club because only a few countries enjoyed the privilege. Now, when most countries are in the WTO, the MFN club is no longer exclusive. The MFN principle ensures that each country treats its over-153 fellow-members equally.

National treatment: Treating foreigners and locals equally. Imported and locally produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these. National treatment only applies once a product; service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if

locally produced products are not charged an equivalent tax.

Question 8

Write critical notes on **any four** of the following :

- (i) World Intellectual Property Organisation (WIPO)
- (ii) Multilateral trading system
- (iii) Export subsidy on agriculture
- (iv) Role of WTO
- (v) Necessity of dumping for exporting countries. (5 marks each)

Answer 8(i)

The World Intellectual Property Organization

The World Intellectual Property Organization (WIPO) is an international organization dedicated to helping ensure that the rights of creators and owners of intellectual property are protected worldwide and that inventors and authors are, thus, recognized and rewarded for their ingenuity.

The roots of the World Intellectual Property Organization go back to 1833. That year marked the birth of the Paris Convention for the Protection of Industrial Property, the first major international treaty designed to help people of one country obtain protection in other countries for their intellectual creations in the form of industrial property rights.

In 1974, WIPO became a specialized agency of the United Nations system of organizations, with a mandate to administer intellectual property matters recognized by the member states of the UN. WIPO expanded its role and further demonstrated the importance of intellectual property rights in the management of globalized trade in 1996 by entering into a cooperative agreement with the World Trade Organization.

WIPO seeks to:

- Harmonize national intellectual property legislation and procedures.
- Provide services for international applications for industrial property rights.
- Exchange intellectual property information.
- Provide legal and technical assistance to developing and other countries.
- Facilitate the resolution of private intellectual property disputes.
- Marshal information technology as a tool for storing, accessing, and using valuable intellectual property information.

Answer 8(ii)

Multilateral Trading Agreement:

Trade agreements are either bilateral, involving only two countries, or multilateral, involving more than two countries. They are usually intended to lower trade barriers between participating countries and, as a consequence, increase the degree of economic integration between the participants.

Multilateral trade agreements are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreement is that all nations get treated equally, and provides level playing field, especially for poorer nations that are less competitive by nature which bind all the members. The WTO trade agreements are multilateral trade agreement between all members of the World Trade Organization. Some of

the example of multilateral agreements are: Agreement on Agriculture, Textile and Clothing, TRIPS, TRIMS, Anti-Dumping Agreement, etc.

Answer 8(iii)

Export Subsidy on Agriculture

Agriculture Agreement prohibits export subsidies on agricultural products unless the subsidies are specified in a member's lists of commitments. Where they are listed, the agreement requires WTO members to cut both the amount of money they spend on export subsidies and the quantities of exports that receive subsidies. Taking averages for 1986-90 as the base level, developed countries had agreed to cut the value of export subsidies by 36% over the six years starting in 1995 (24% over 10 years for developing countries). Developed countries had also agreed to reduce the quantities of subsidized exports by 21% over the six years (14% over 10 years for developing countries). Least developed countries do not need to make any cuts. During the six-year implementation period, developing countries were allowed under certain conditions to use subsidies to reduce the costs of marketing and transporting exports.

Answer 8(iv)

Role of WTO

In pursuit of the goal of sustainable growth and development for the common good, the Ministers envisaged a world where trade flows freely and renewed their commitment to:

- A fair, equitable and more open rule-based system;
- Proressive liberalization and elimination of tariff and non-tariff barriers to trade in goods;
- Progressive liberalization of trade in services;
- Rejection of all forms of protectionism;
- Elimination of discriminatory treatment in international trade relations;
- I ntegration of developing and least-developed countries and economies in transition into the multilateral system; and
- The maximum possible level of transparency.

With this philosophy in mind the WTO has been established to ensure the above.

Answer 8(v)

Necessity of dumping for exporting countries

Dumping obviously means exporting goods at cheaper prices, which is against the general business principle of maximizing the profits. Exporters may be compelled to charge different prices in different markets for various reasons. When they charge lower prices in foreign markets as compared to prices in the domestic market it is considered to be dumping in the context of the Agreement on Anti-dumping.

Since no one in the business may be expected to sell at a loss over a substantial period of time, one may sell at lower prices in the foreign market only at the cost of higher prices in the domestic market i.e. by cross subsidising the foreign market sales or one may resort to such practices for capturing the foreign markets with the ultimate intention of monopolizing the same.

It may also be a result of a desire to maximize sales by pushing goods even at prices

which provide only for a marginal profit over the variable costs but do not provide adequately for the recovery of all costs, particularly the fixed costs. There may be other external reasons too for dumping, for example, compulsion to bring prices in line with the prices prevailing in the importing country.

Generally speaking countries having advantage of geographical nearness or having the advantage of their goods being treated with preferential tariffs or exchange rate advantages may be able to supply goods at prices cheaper than other exporters.
