

PROFESSIONAL PROGRAMME EXAMINATION
DECEMBER 2010
STRATEGIC MANAGEMENT, ALLIANCES AND
INTERNATIONAL TRADE

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer ANY TWO questions from this part)

Question 1

(a) In the context of strategic management, discuss, with reasons in brief, any five of the following statements :

- (i) Napoleon used to say, "It is all in the execution".*
- (ii) There is often a fight to finish in the modern business world. Individual units and companies either die (fold up) or get 'eaten up' (acquired, etc.)\ while in animal world, once a contestant accepts defeat, he is left to lick his wounds alone.*
- (iii) Strategic management is a term broader than strategy itself.*
- (iv) There are no foreign lands. It is the traveller only who is foreign.*
- (v) A company faced with decline in fortunes has only one option of adopting liquidation strategy.*
- (vi) Benchmarking is the break-in-process of measuring products, services and practices against the competitors and companies recognised as industry leaders.* *(2 marks each)*

(b) Write notes on the following :

- (i) Stability strategies*
- (ii) Decision support system (DSS).* *(5 marks each)*

Answer 1(a)

- (i) In the context of strategic management, execution or implementation is really important. Strategies, by themselves, do not lead to action. It is implementation that translates intents into action. In simple words, one can have a great plan, but unless it's implemented properly, it won't lead to the desired result. Therefore, in order to achieve the desired objectives, execution is everything.*
- (ii) Firms compete not merely because they have to survive, but because they wish to acquire good things such as money, wealth, and power—well beyond what they need for survival and provisioning*
- (iii) Strategic management is a process that includes top management's analysis of the environment in which the organization operates prior to formulating a strategy, as well as the plan for implementation and control of strategy. Strategy is defined*

as a long-term course of action through which an organization relates itself to the environment so as to achieve its objectives whereas strategic management combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and his executive team. Strategic management provides overall direction to the enterprise.

- (iv) Every country has its own cultural, administrative (political), geographical and economic (CAGE) environments. And, a foreigner, brought up in a different CAGE feels stranger to the values and the practices of the land.
- (v) If the organization chooses to focus on ways and means to reverse the process of decline, it adopts turnaround strategy. If it cuts off the loss-making units, divisions or Strategic Business Units, curtails its product line or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.
- (vi) Benchmarking is the continuous process of measuring products, services and practices against the competitors and those companies recognized as industry leaders. It is based on the concept that it makes no benefit to reinvent something that someone else is already using. It involves open learning from others to do something better than one's own company so that one not only can improve, but perhaps even improve on their current technique.

Answer 1(b)(i)

Stability Strategy

A Stability Strategy arises out of a basic recognition by management that the firm should concentrate on utilizing its present resources so as to develop its competitive strength within a restricted product-market configuration. In other words, stability strategy implies that the company will continue in the same or a similar business as it now pursues, and with the same or similar objectives. This is not to be misunderstood as a 'do-nothing' strategy. For, stability strategy also implies focusing on improvements of functional performance and maintaining the level of achievements as in the immediate past. If the company had sales revenue or net earnings increasing at a certain rate per annum, it is required that the same performance should be evidenced in the years to come.

The distinctive elements of a stability strategy are:

- (i) There is no major change in the product or service line, markets or functions;
- (ii) The focus is on maintaining and developing competitive advantages, consistent with the present resources and market requirements;
- (iii) The policy thrust is aimed at not only the maintenance of the present level of performance but also to ensure that the rate of improvement continuing in the past is sustained.

Usually followed by small and medium-sized organizations, these strategies can be useful in the short run when such organizations are satisfied with their current performance.

Stability strategies can be of various types. They are as follows:

- (i) No change strategy
- (ii) Profit Strategy
- (iii) Pause-Proceed- with-Caution strategy

Answer 1(b)(ii)

Decision Support System (DSS)

A decision support system is an information system application which assists decision making. DSS tend to be used in planning, analyzing alternatives and trial and error search for solutions. They are generally operated through terminal based interactive dialogues with users. They incorporate a variety of decision models.

In other words, decision support system is a computer system that combines data, analytical tools, user-friendly software to support decision-making at the management level. DSS are slightly focused on a specific decision of classes of decision such as routing, querying, on three basic parameters which are given below:

- (i) *Philosophy* : DSS provides integrated analytical tools, data, model base (a collection of mathematical and analytical models), and a interface to the user in the form of a user friendly software.
- (ii) *System Analysis* : DSS establish what tools are used to incorporate the decision making process of an organization.
- (iii) *Design* : The design of DSS is based on iterative process and keep on changing with every feedback of the user.

A DSS is required to possess the following core capabilities:

- (i) *Representations* : It includes the presentation of the information in the form of graphs, charts, lists, reports, formatted reports, symbols etc.
- (ii) *Operations* : It includes logical and mathematical manipulation of data.
- (iii) *Memory Aids* : It also provides updation of databases and memory, viewing of data, work spaces, libraries etc.
- (iv) *Control Aids* : It provides the facility to user to control the activity of DSS. It includes a language permitting user control of operations, representations and memory.

Question 2

- (a) *Discuss the constraints that exist in operating a 'management information system' (MIS).* (8 marks)
- (b) *"McKinsey framework shows that there is a multiplicity of factors that influence an organisation's ability to change." Discuss.* (8 marks)
- (c) *"The function of the internal control is to enable the adopted plan to operate efficiently, profitably and economically." Comment.* (4 marks)

Answer 2(a)**Management Information System:**

The main purpose of MIS is to provide timely, specific and accurate information at all levels in an organization. To achieve this goal, different types of information systems are devised by the organizations. The MIS is derived from these information systems used in the organizations.

MIS refers broadly to a computer-based system that provides managers with the tools for organizing, evaluating and efficiently running their departments.

Constraints in operating a Management Information System (MIS)

Major constraints which come in the way of operating an information system are:

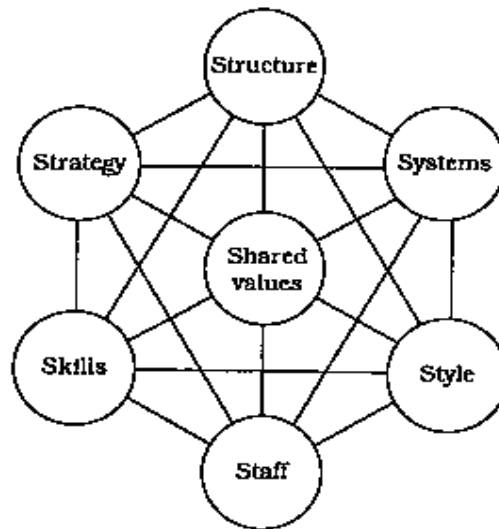
1. Non-availability of experts, who can diagnose fully the objectives of the organization and give a desired direction needed for operating information system.
2. Difficulty usually faced by experts, in selecting the sub-systems of MIS, to be designed and operated upon first.
3. Source of availability of experts for running MIS effectively, is not always known to management.
4. Due to varied objectives of business concerns, the approach adopted by experts for designing and implementing MIS is non-standardized one.
5. Non-availability of co-operation from staff.
6. Non-availability of heavy financial resources required for running the MIS effectively.
7. Turnover of experts is quite high.
8. It is difficult to quantify the benefits of MIS, so that it can be easily comparable with cost.
9. Perceptual problems as its utility are not readily perceptible by many users.

Answer 2(b)

McKinsey framework shows that there is a multiplicity of factors which influence an organization's ability to change is correct. 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 framework rests on the proposition that effective organizational change is best understood in terms of the complex relationship between strategy, structure, systems,

style, skills, staff and shared values (super ordinate goals)- the seven S's. The relationship is diagrammatically presented as follows:



McKinsey 7 Framework

The above framework shows that there is a multiplicity of factors which influence an organization's ability to change and understand as to how the 7-S model mechanism works. In general terms, the proposition of the 7-S model suggests that there are multiple factors which influence an organization's ability to change and its proper mode of change. Since the variables are interconnected, significant progress cannot be made in one area unless corresponding progress is made in other areas too. It is imperative to know what each 'S' means and what is its implication. The 3S's across the top of the model are described as Hard S's and 4S's across the bottom of the model are less tangible, more cultural in nature and some time neglected in major change efforts and mergers and were termed as soft Ss by McKinsey.

Shared values will be in the center surrounded by other factors that influence the organization's ability to change and understand as to how the 7-S model mechanism works. It combines rational and hard elements into emotional and soft elements and thereby helps guide organizational change.

Answer 2(c)

Internal Control

Internal control refers to the whole of measures taken, procedures introduced and methods established in an organization for obtaining timely information about the orderly conduct of the business to achieve the organizational objectives. Internal control can be described as any action taken by an organization to help enhance the likelihood that the

objectives of the organization will be achieved. The measures, procedures and methods as whole are referred as internal controls.

The function of the internal control is to enable the adopted plan to operate efficiently, profitably and economically so that:

- (i) Duties and responsibilities for operations to individual employees are assigned to achieve the established policy of the company.
- (ii) Feed back to the management of the results periodically, particularly in regard to abnormal or unusual situations both favourable and unfavourable and deviation from the standards.
- (iii) To safeguard the interest of the company against fraud, waste and loss of efficiency or carelessness, fire, accident, theft, etc.
- (iv) To promote efficiency of personnel and operations.
- (v) To lay and circumscribe the definite units for performance of duties.
- (vi) To establish and circumscribe the definite limits within which the internal routines of the business must be conducted. The individual who violates the limits will have to explain and justify his action.

Question 3

Distinguish between any four of the following :

- (i) *'Corporate strategies' and 'business strategies'.*
- (ii) *'Market value added concept' and 'economic value added concept'.*
- (iii) *'Vision' and 'mission'.*
- (iv) *'Internal audit' and 'internal check'.*
- (v) *'Market risk' and 'business risk'.* (5 marks each)

Answer 3(i)

Distinction between Corporate Strategies and Business Strategies

The main points of distinction between the two are:

Sl. No	Basis	Corporate Strategies	Business strategies
1	Decision	It is decided by the top management team in consultation with the Board of Directors	It is decided by the business unit managers in consultation with the top management team
2	Objectives	Shareholders return, economic profit, growth, net income, income diversity, synergy, corporate citizenship	Growth, Economic profit, quality, market share, employee development, productivity, knowledge generation.

<i>Sl. No</i>	<i>Basis</i>	<i>Corporate Strategies</i>	<i>Business strategies</i>
3	Scope	An overarching plan of action covering various functions, performed by different SBUs; deals with the objective of the company, allocation of resources and coordination of the SBUs for optimal performance	A comprehensive plan providing objectives for SBU, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate level objectives.
4	Types	Its various types are : Expansion (concentration, integration and diversification), stability, retrenchment and combination strategies.	Its various types are : Generic strategies : Cost leadership, differentiation and focus strategies to derive competitive advantage.

Answer 3(ii)**Distinction between Market Value Added and Economic Value Added**

The main points of distinction between the two are:

<i>Sl. No.</i>	<i>Market Value Added</i>	<i>Economic Value Added</i>
1	It is difference between current market value of a firm and the capital contributed by investors	It is the net earnings in excess of cost of capital employed.
2	Value is the estimated amount at which it can be exchanged	It is the return firm is said to have earned over a period of time.
3	Value is the estimated amount at which it can be exchanged	It is the return firm is said to have earned over a period of time.
4	It is market centric	It is business centric
5	MVA is the real wealth that is available right now for total investment	This has nothing to do with the price business can be sold or exchanged at
6	The higher the MVA better it is.	It should ideally be positive.

Answer 3(iii)**Distinction between Vision and Mission**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Vision</i>	<i>Mission</i>
1	Vision is the mental perception of the kind of environment that organization strives to achieve in the long run.	It is the general statement that distinguishes the organization from all others
2	A vision statement concentrates on future and should answer, "What we want to become?".	It addresses the basic purpose of the firm and the reasons for which it exists. It answers the question, "What is our business?"
3	It provides clear decision making criteria	A clear mission statement is essential for effectively establishing objectives and formulating strategies.
4	It relates to an organizations broadest and most desirable goal.	It is the guiding principle that drives the processes of goal and action plan formulation.

Answer 3(iv)**Distinction between Internal Check and Internal Audit**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Internal Check</i>	<i>Internal Audit</i>
1	It is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another.	It is an independent review of operations and records.
2	There is no special staff to carry-out the system of internal check. It represents the arrangements of duties of the staff in a particular manner.	For carrying out internal audit, normally separate staff is engaged specially for the purpose.
3	The objective of internal check is to reduce the errors and frauds.	The objective of internal audit is to discover the errors and frauds, if any.
4	It represents a process under which the work goes on uninterruptedly and checking too is more or less automatic.	The internal auditor has to see as to how far the work is correct and done according to the specified rules.

Answer 3(v)**Distinction between Market Risk and Business Risk**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Market Risk</i>	<i>Business Risk</i>
1	This risk is also called the un-diversifying risks and cannot be avoided no matter how many different stocks be present in the portfolio.	It refers to the situation of uncertainty associated with operating cash flow of a business.
2	Market risk is the day-to-day fluctuations in a stock's price.	Business risk does not fluctuate on the basis of prices of securities
3	Factors affecting it are equity price movement; interest rate, currency fluctuation, commodity prices and credit	Factors affecting it are raw material and end product pricing, credit availability and interest rates, pure risk—competition and imports/exports labor unrest etc.

PART B

(Answer ANY ONE question from this part)

Question 4

Read the following case and answer the questions given at the end :

Tata Tea and PepsiCo appear to have agreed in-principle to set-up a joint venture (JV) for non-carbonated, health and wellness beverages to explore the low cost, bottom-of- pyramid segment beverages. The JV is considering leveraging the Tata brand and expertise in low-cost consumer products and coupling it with PepsiCo's distribution muscle, go-to-market expertise and R&D strength in beverages. The proposed JV may consider wellness packaged water initially followed by other beverages. The JV's focus on the lower end of the market will ensure that PepsiCo's existing alliance with Hindustan Unilever to sell Lipton ice tea, which focuses on mid-to-premium segment, will not be impacted. The new tie-up will give PepsiCo the opportunity to be perceived as a wholesome beverages company making fizzy drinks. Tata Tea will get a larger foothold in the wellness beverages segment after an earlier attempt to foray in the category had to be aborted within a year. Tata Tea, through its indirect UK subsidiary, Tata Tea (GB) Investments, has picked up 30% stake in the US based maker of vitamin water 'Glaceau' in mid 2006 for \$677 million. But in 2007, Tata Tea had to sell off its 30% stake in Energy Brands Inc., which owns Glaceau—to beverage giant Coca-cola for \$1.2 billion, less than a year after it acquired the stake. Though, Tata Tea has been aggressive in acquiring companies in the beverages sector including Tetley, Eight O'clock Coffee and Good Earth, its wellness and health beverages portfolio in India so far is limited to Himalayan packaged water and Ti'.ON, an energy drink made from fruit juice and tea extracts. Ti'.ON is not a national brand yet. It is also important to note that PepsiCo's partnership with Hindustan Unilever

for distributing Lipton iced tea in India did not take off in the way both companies expected to. Tata Tea and PepsiCo have said, “The proposed joint venture, is not intended to conflict with any existing arrangements of either party.” Though, Rs. 7,000 crore aerated soft drink market has been growing at a healthy 20% plus in India, PepsiCo has been expanding its portfolio in the health and wellness space aggressively globally as well as in the domestic market, in line with its ambition of being a global leader in the ‘good for you’ beverages segment.

PepsiCo’s existing health and wellness brands include packaged water Aquafina, Tropicana juices, Nimbooz nimbu pani and sports drink Gatorade.

Questions —

- (i) Is joint venture the only way to enter into strategic alliance ?*
- (ii) Alliances are not new, but in the competitive landscape, distinguishing features are emerging. Identify these features.*
- (iii) Is strategic alliance different from merger and when does an alliance become a merger ?*
- (iv) What reasons can you anticipate that Tatas had to sell Glaceau to Coca-Cola within such a short time ?* (5 marks each)

Answer 4(i)

No, joint venture is not only a way to enter into a strategic alliance. Apart from joint venture, Strategic alliances may be in the form of –

- Management contract.
- Franchising
- Supply or purchase agreement
- Marketing and distribution agreement
- Agreement to provide technical services
- Licensing of know-how, technology, design, patent, etc.

Answer 4(ii)

All alliances involve some measure of inter-corporate integration. In the new emerging competitive environment the companies are finding innovative ways of alliances with features meeting their requirements. Trading alliances are only a bit more complicated than traditional buy-sell relationship. Normally the objectives of such trading alliances include the need to secure supplies of product, buy or exchange skills/technology and exploit market networks. The main features of such alliance are management at arm’s length, implementation at a fast pace, exclusivity, limited time frames with options to renew based on certain well-defined milestones.

On the other hand, partnerships involving an integration of business resources can take the form of functional alliances. Functional alliances are usually joint ventures or equity-based partnerships. They are characterised by management integration, open-ended collaboration, separate joint-venture entity and long-term commitment.

Answer 4(iii)

Any arrangement or agreement under which two or more firms cooperate in order to achieve certain commercial objectives is referred to as strategic alliance. A true strategic alliance is a written arrangement between two companies that complement each other in a particular identified area. It is not a partnership, and neither company has legal power to control or obligate the other. Instead, it is a commitment by the two companies to provide capabilities or cross servicing in certain identified areas.

In merger, one of the two existing companies merges its identity into another existing company or one of more existing companies may form a new company and merge their identities into the new company by transferring their business and undertakings including all other assets and liabilities to the new company.

Alliances between companies have become a crucial weapon in the battle for competitive advantage. Mergers/acquisitions/strategic alliance can be termed as coalescing and are becoming more and more popular. A “strategic alliance” is an excellent vehicle for two companies to work together profitably. As the alliance is developing, there is every chances that both the party will finally merge all their operations.

Answer 4(iv)

The reasons for Tata to sell Glaceau to Coca-Cola within short time might have been as under:

- Tata were to make some other acquisition abroad and they needed funds for the same.
- Tatas wanted to make quick money
- There might have been cross cultural differences
- Failure to eradicate competitive rivalry
- Complex structure and process
- Size of the organization
- Organizational age
- Dissimilarities scope of management

Question 5

- (a) *Discuss the procedure for foreign direct investment in India.* (8 marks)
- (b) *Discuss the problems associated with technology transfer agreements.* (8 marks)
- (c) *State the categories for which government approval through Foreign Investment Promotion Board (FIPB) route is necessary.* (4 marks)

Answer 5(a)**Procedure for Foreign Direct Investment are as under**

- Foreign Direct Investment in India is governed by FDI Policy issued by the Government of India and Foreign Exchange Management Act, 1999 and Rules and Regulation made thereunder.

- Foreign Direct Investments (FDI) can be made under two routes—Automatic Route and Government Route.
- RBI has given permission to Indian Companies to accept investment under automatic route without obtaining prior approval from Reserve Bank of India. However, investors will have to file the required document with the concerned Regional Office of the RBI within 30 days after issue of shares to foreign investors.
- Under the Government Route,
 - (i) The Minister of Finance who is in-charge of FIPB would consider the recommendations of FIPB on proposals with total foreign equity inflow of and below Rs.1200 crore.
 - (ii) The recommendations of FIPB on proposals with total foreign equity inflow of more than Rs. 1200 crore would be placed for consideration of Cabinet Committee on Economic Affairs (CCEA). The FIPB Secretariat in DEA will process the recommendations of FIPB to obtain the approval of Minister of Finance and CCEA.
 - (iii) The CCEA would also consider the proposals which may be referred to it by the FIPB/ the Minister of Finance (in-charge of FIPB).
- Companies may not require fresh prior approval of the Government i.e. Minister in-charge of FIPB/CCEA for bringing in additional foreign investment into the same entity, in the following cases:
 - (i) Cases of entities whose activities had earlier required prior approval of FIPB/ Cabinet Committee on Foreign Investment (CCFI)/CCEA and who had, accordingly, earlier obtained prior approval of FIPB/CCFI/CCEA for their initial foreign investment but subsequently such activities/sectors have been placed under automatic route;
 - (ii) Cases of entities whose activities had sectoral caps earlier and who had, accordingly, earlier obtained prior approval of FIPB/CCFI/CCEA for their initial foreign investment but subsequently such caps were removed/increased and the activities placed under the automatic route; provided that such additional investment alongwith the initial/original investment does not exceed the sectoral caps; and
 - (iii) The cases of additional foreign investment into the same entity where prior approval of FIPB/CCFI/CCEA had been obtained earlier for the initial/original foreign investment due to requirements of Press Note 18/1998 or Press Note 1 of 2005 and prior approval of the Government under the FDI policy is not required for any other reason/purpose.

Answer 5(b)

The problems associated with technology transfer agreements are as under:

- Identification of the required level of technology. For this purpose, the recipient may have to depend on the information, product bulletin supplied by the technology supplier company.
- No technology supplier will transfer the technology being used by him. Rather,

he may prefer to provide the second level of technology which has already been exploited by him.

- After identification, defining technology transfer in the agreement poses certain practical difficulties. Technology cannot be transferred in one lot through transfer of documents. This may have to be done through transfer of designs and drawings, supply of additions and improvements made by the technology supplier, providing the services of its experts and for training of Indian staff at the works of the technology supplier etc.
- The most difficult task in an imported technology is its indigenisation. While the technology supplier desires the recipient company to achieve the same level of quality to be able to compete in the National and Inter-national markets, the achievement of this goal bristles with practical difficulties.
- The nature of technology transferred for the purposes of manufacture and sale poses another problem.
- Technological support of an umbrella type is the emerging scenario in these days of inter-nationalisation of business and this provides technology transfer on a continuous basis.
- Long term business relationship can be built up provided that the technology supplier has a stake in the technology recipient company.

Answer 5(c)

Major Categories for which government approval through Foreign Investment Promotion Board (FIPB) is necessary, are as under:

- Defence Industries
- Terrestrial Broadcasting FM(FM Radio)
- Cable network
- Direct to Home Broadcasting
- Print Media
- Security Agency in Private Sector
- Banking- Public Sector
- Commodity Exchange
- Credit Information Companies
- Infrastructure Companies in Securities market.

PART C

(Answer ANY TWO questions from this part)

Question 6

The South Asian Association for Regional Co-operation (SAARC) comprises Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. The main goal of the association is to accelerate the process of economic and social development in member States, through joint action in the agreed areas of co-operation.

The idea of regional co-operation in South Asia was first mooted in November, 1980. After consultations, the Foreign Secretaries met in Colombo in April, 1981, which was followed by the meeting of the Committee of the Whole, which identified five broad areas for regional co-operation. The Foreign Ministers at their first meeting in New Delhi in August, 1983 formally launched the Integrated Programme of Action through the adoption of the Declaration of South Asian Regional Co-operation. At the first Summit in Dhaka on 7-8 December, 1985, the charter establishing the SAARC was adopted.

Answer the following questions :

- (i) What are the objectives of SAARC ?*
- (ii) Discuss the institutional structure of SAARC.*
- (iii) Explain the role of SAARC Chamber of Commerce and Industry.*
- (iv) "SAARC has miserably failed to perform and fulfill its objectives, but it must succeed." Comment. (5 marks each)*

Answer 6(i)

The objectives of the SAARC are as follows:

- To promote the welfare of the peoples of South Asia and to improve their quality of life;
- 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 realise their full potentials;
- To promote and strengthen collective self-reliance among the countries of South Asia;
- To contribute to mutual trust, understanding and appreciation of one another's problems;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;
- To strengthen cooperation among themselves in international forums on matters of common interests; and
- To cooperate with international and regional organizations with similar aims and purposes.

Answer 6(ii)

Institutional structure of SAARC

Summits

The highest authority of the Association rests with the Heads of State or Government.

Council of Ministers

Comprising of the Foreign Ministers of member states is responsible for the formulation of policies; reviewing progress; deciding on new areas of cooperation; establishing additional mechanisms as deemed necessary.

Standing Committee

Comprising of the Foreign Secretaries of member states is entrusted with the overall monitoring and coordination of programmes and the modalities of financing; determining inter-sectoral priorities; mobilising regional and external resources; and identifying new areas of cooperation based on appropriate studies.

Programming Committee

Comprising of the senior officials meets prior to the Standing Committee sessions to scrutinize Secretariat Budget, finalise the Calendar of Activities and take up any other matter assigned to it by the Standing Committee.

Technical Committees

Comprising of representatives of member states, formulates programmes and prepare projects in their respective fields. They are responsible for monitoring the implementation of such activities and report to the Standing Committee.

Action Committees

According to the SAARC Charter, there is a provision for Action Committees comprising member states concerned with implementation of projects involving more than two, but not all member states.

SAARC Secretariat

SAARC Secretariat is in Kathmandu and is responsible for coordinating and monitoring the implementation of SAARC activities, servicing the meetings of the Association and serving as the channel of communication between SAARC and other international organizations. The Secretariat comprises of the Secretary-General, a Director from each member state and the General Services Staff.

Answer 6(iii)

Role of SAARC Chamber of Commerce and Industry (SCCI) are as under:

- To act as a dynamic instrument of promoting regional cooperation in the areas of trade and economic relations.
- Instrumental in disseminating the information about the content, scope, and potential of the Framework Agreement on SAARC Preferential Trading Arrangement (SAPTA) among the business community in the region.
- To organise various National Seminars on SAPTA in the Member Countries.
- To visit various countries for expanding the exports from the SAARC region.
- To expand activities in the field of promoting trade both within and outside the SAARC region.

Answer 6(iv)

SAARC have achieved a number of important milestones during twenty five years of its existence. The scope and substance of cooperation have expanded to diverse fields, providing a firm basis for genuine partnership. However, number initiatives could not be

translated into meaningful and tangible benefits to the people. SAARC therefore, highlights the need for more efficient, focused, time-bound and people-centric activities and calls for appropriate reflection of all the SAARC decisions into the national policies and programmes of Member States. There is need to make SAARC a truly action oriented by fulfilling commitments, implementing declarations and decisions and operationalizing instruments and living up to the hopes and aspirations of one fifth of humanity.

Greater focus is needed to pursue people-centric development with due emphasis on socio-cultural progress, upholding traditions, values preservation of environment and better governance. At the 16th SAARC Summit held in April 2010, the leaders emphasized the need to strengthen the role of private sector in regional initiatives, concrete measure to improve trade facilitation and cooperation in the field of education. The need for promotion of tourism to enhance people to people contact by creating tourism friendly environment has also been emphasized. With these proposed initiative the SAARC is bound to succeed.

Question 7

- (a) *State, with reasons in brief, whether the following statements are true or false :*
- (i) *The Harmonised Code for custom classification, custom valuation and rules of origin are the three basic custom laws.*
 - (ii) *Safeguard measures and anti-dumping actions and countervailing duties are one and the same.*
 - (iii) *Regional trade agreements are entered into only between neighbouring countries.*
 - (iv) *Trade policy mechanism has no utility.* (2 marks each)
- (b) *Write notes on the following : (i) Limitations of dispute settlement procedure mechanism under the WTO. (ii) Role of Director General of the WTO.* (6 marks each)

Answer 7(a)(i)

True

Three basic custom laws are:

- Harmonised Code of custom classification.
- Custom valuation.
- Rules of origin.

Answer 7(a)(ii)

False

Safeguard measures are applied to all imports of the product in question irrespective of the countries in which it originates or from which it is exported. This aspect distinguishes Safeguards from anti dumping and anti subsidy measures which are always country specific and exporter specific. Safeguards are applied in the form of either safeguard duty or in the form of safeguard Quantities Restrictions (import licenses). These measures

are administered in India by an Authority called Director General (Safeguards) who functions under the jurisdiction of the Department of Revenue, Ministry of Finance.

Anti dumping and anti subsidies & countervailing measures in India are administered by the Directorate General of Anti dumping and Allied Duties (DGAD) functioning under the Dept. of Commerce in the Ministry of Commerce and Industry.

Answer 7(a)(iii)

False

In the WTO context, regional trade agreements (RTAs) have both a more general and a more specific meaning: more general, because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; more specific, because the WTO provisions relates specifically to conditions of preferential trade liberalization with RTAs.

Answer 7(a)(iv)

False

Individuals and companies involved in trade have to know as much as possible about the conditions of trade. It is therefore fundamentally important that regulations and policies are transparent. In the WTO, this is achieved in two ways: governments have to inform the WTO and fellow- members of specific measures, policies or laws through regular “notifications”; and the WTO conducts regular reviews of individual countries’ trade policies — the trade policy reviews. Therefore, trade policy mechanism has utility as it provide trading partners a predictable environment.

Answer 7(b)(i)

Limitations of dispute settlement procedure mechanism under the WTO may be summarized as under —

- The panel process is required to be more transparent to build confidence.
- Confusion apparently still exists as to the panel’s function while performing a mediating function.
- Under current WTO procedures, a panel’s Interim Report is not made available to countries which have intervened in the case as interested third parties.
- Questions of procedure, interpretations of agreements, burdens of proof, evidentiary standards, establishment of doctrines, requires an independent and standing judiciary composed of individuals who are free from undue bias.
- Requires reduction in time line for resolving dispute.

Answer 7(b)(ii)

Role of the Director-General of the WTO

The WTO Secretariat in Geneva is headed by a Director-General. The role of the Director General may be summarized as under —

- To supply technical and professional support for the various councils and committees.

- To provide technical assistance for developing countries, to monitor and analyze developments in world trade
- To provide information to the public and the media and to organize the ministerial conferences.
- To advise governments wishing to become Members of the WTO.

The Director-General of the WTO acting in an ex officio capacity, offer good offices, conciliation or mediation with a view to assisting Members to settle a dispute. The Director-General may also be requested, in certain circumstances, to appoint panel members. The Director-General is to determine the composition of the panel in consultation with the Chairman of the DSB and the Chairman of the relevant Councils or Committees, after consulting the parties to the dispute. The Director-General may appoint an arbitrator in cases where it is necessary to determine the reasonable period of time for implementation or where a suspension of concessions or other obligations has been authorized by the DSB.

Question 8

- (a) *What are the different kinds of intellectual property rights protected by Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement ? (4 marks)*
- (b) *What are the remedies against prohibited subsidies ? (4 marks)*
- (c) *“Injury analysis can be broadly classified into two categories.” Elucidate. (4 marks)*
- (d) *Briefly discuss the duration and review of countervailing duties. (4 marks)*
- (e) *What are anti-dumping actions ? (4 marks)*

Answer 8(a)

TRIPS agreement looks at different kinds of intellectual property rights and how to protect them. The purpose is to ensure that adequate standards of protection exist in all member countries. The different kinds of intellectual property rights protected by TRIPS agreement are as under:

Copyright

The TRIPS agreement ensures protection to literary works including computer programmes. It also expands international copyright rules to cover rental rights.

Trademarks

The agreement defines what types of signs must be eligible for protection as trademarks, and what the minimum rights conferred on their owners must be. It says that service marks must be protected in the same way as trademarks used for goods. Marks that have become well known in a particular country enjoy additional protection.

Geographical indications

Place names are sometimes used to identify a product and the TRIPS agreement contains special provisions for these products.

Industrial designs

Under the TRIPS agreement, industrial designs must be protected. Owners of protected designs must be able to prevent the manufacture, sale or importation of articles bearing or embodying a design, which is a copy of the protected design.

Patents

Under TRIPS agreement patents protection available for inventions.

Answer 8(b)

Prohibited subsidies 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.

Answer 8(c)

Injury analysis can broadly be divided in two major categories as under :

The Volume Effect

The Authority examines the volume of the dumped imports, including the extent to which there has been or is likely to be a significant increase in the volume of dumped imports, either in absolute terms or in relation to production or consumption in India, and its effect on the domestic industry.

The Price Effect

The effect of the dumped imports on prices in the Indian market for like articles, including the existence of price undercutting, or the extent to which the dumped imports are causing price depression or preventing price increases for the goods which otherwise would have occurred. The consequent economic and financial impact of the dumped imports on the concerned Indian industry can be demonstrated, *inter alia*, by decline in output, loss of sales, loss of market share, reduced profits, decline in productivity, decline in capacity utilization, reduced return on investments, price effects, adverse effects on cash flow, inventories, employment, wages, growth, investments, ability to raise capital, etc.

Answer 8(d)**Duration and review of countervailing duties**

A countervailing duty remains in force only as long as and to the extent necessary to counteract subsidization, which is causing injury. The authorities review the need for the continued imposition of the duty, where warranted, on their own initiative or, provided that a reasonable period of time has elapsed since the imposition of the definitive countervailing duty, upon request by any interested party, which submits positive information substantiating the need for a review.

Interested parties have the right to request the authorities to examine whether the continued imposition of the duty is necessary to offset subsidization, whether the injury

would be likely to continue or recur if the duty are removed or varied, or both. If, as a result of the review, the authorities determine that the countervailing duty is no longer warranted, it is terminated immediately.

Answer 8(e)

Anti dumping, in common parlance, is understood as a measure of protection for domestic industry. However, anti dumping measures do not provide protection per se to the domestic industry. It only serves the purpose of providing remedy to the domestic industry against the injury caused by the unfair trade practice of dumping. In fact, anti dumping is a trade remedial measure to counteract the trade distortion caused by dumping and the consequential injury to the domestic industry. Only in this sense, it can be seen as a protective measure. It can never be regarded as a protectionist measure.

Anti-dumping action can be taken only when there is an Indian industry which produces "like articles" when compared to the allegedly dumped imported goods. The article produced in India must either be identical to the dumped goods in all respects or in the absence of such an article, another article that has characteristics closely resembling those goods.

Anti-dumping actions include imposition of anti-dumping duty and countervailing duty.
