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STUDY MATERIAL

for

INTERNATIONAL BUSINESS

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NTERNATIONAL BUSINESS

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International Business

UNIT – I

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INTERNATIONAL MARKETING: AN INTRODUCTION:

The marketing environment across the world has been becoming more and more global. It is true not only in the competitive and technological dimensions but also in the socio-cultural dimensions. In other words, the marketing environment is global for firms from national to local, including many tiny enterprises. Considering this fact, this author would define International marketing as marketing in an internationally competitive environment, whether the market is home or foreign.

As Thomas L. Friedman points out in the well-known book "The World is Flat", the technological revolution that was levelling the global economic playing field and enabling so many more people around the world to compete, connect, and collaborate has been ushering in a new phase of globalisation that would have a huge impact on economics, politics, and military and social affairs. Globalisation, in fact, has implications not only for business but also for other organisations and individuals. The following two anecdotes expose this Peter Drucker observes in the Management Challenges for the 21st Century: “No institution, whether a business, a university or hospital, can hope to survive, let alone to succeed, unless it measures up to the standards set by the leaders in its field any place in the world.” The ramifications of globalisation, thus, are all pervasive. As a result of the liberalisation and globalisation, the marketing environment across the world has been becoming more and more global. As a result of the globalisation of even the domestic business environment, the major competition

which many Indian firms encounter in the home market now, for instance, is from foreign firms – they now face a substantially growing competition from goods produced in India by MNCs and imports. In short, national markets are being internationalised/globalised by imports and foreign investment. Look at, for example, the competition which Nirma, whose market is almost entirely confined to India, is encountering. Its major competitors are multinational giants like Unilever, Procter and Gamble (P&G) and Henkel. Apart from goods manufactured in India by the multinational outfits, Nirma also faces competition from imported products. Further, there is competition from large and small Indian firms.

It is obvious that in the domestic market, Nirma is competing against the technological, financial, marketing, and managerial and prowess of multinationals and domestic firms. Even tiny local enterprises face severe foreign competition. For example, a wayside shop selling local products like fresh lime soda or nimbu pani and fresh juice encounter competition from natural and synthetic beverages marketed by multinationals. The tiny enterprises, however, often take advantage of the emerging environment by selling competing products, including that of the MNCs, along with his own. In fact, he benefits by dealing in fast moving items in other categories too. Indeed, the tiny entrepreneur does an excellent optimisation of his highly limited shop space, capital and human resource by the prudent choice of the product mix. Many such shops also sell a number of foreign goods. It is often said that distribution is one of the most important factors in international marketing. But one who takes a look at the foreign goods – both durable and non-durable, sold on the footpaths and other unorganised bazaars, would marvel at the channels of distribution of foreign goods. In short, marketing environment ubiquitously has become global, tempting one to think that marketing invariably is international/global.

EXPANSION OF INTERNATIONAL MARKET:

Statistics clearly show that the international market is much more dynamic and is growing much faster than the domestic market. One of the most important facts of this is the difference between the growth rate of the GDP and the global trade. For a long time now international trade has been growing at almost twice the rate of the global GDP. In other words, the proportion of the domestic output sold in the foreign markets has been growing faster than the growth of the domestic income or market. As a result of this, the export-GDP ratio (i.e., the value of exports expressed as a percentage of the GDP) has been increasing in all categories of economies. The growth was faster for the developing economies. In 2013, the export-GDP ratio was 31 per cent for developing economies and 22 per cent for the developed economies. For the world as a whole, it increased from 14 per cent in 1990 to 26 per cent in 2007 and was 25 per cent in 2013.

The increase in the export-GDP ratio has been very fast in respect of a number of emerging economies whose economic growth has been driven by exports, like several South-East Asian economies (particularly the Asian tigers – South Korea, Taiwan, Singapore and Hong Kong) and China. In other words, their growth has been depended to a very large extent on the international market. The export dependence of China's enviable economic growth in the last three decades is particularly noteworthy. Indeed, China's international market dependent economic growth has been spectacular. A new epoch in the economic growth of China started with the economic reforms ushered in 1978, particularly with the second phase of the reform which characterised a major thrust on foreign investment and exports. The results of the transformation from mark to the market has been marvelous. China's merchandise export-GDP ratio has risen from 5.6 per cent in 1979 to 17 per cent in 1990, 23 per cent in 2000 and further to 37 per cent in 2007. Including services, in 2013 more than 25 per cent of China's GDP was sold in the foreign market. The value of goods and services imported to China in 2013 was equivalent to about 24 per cent of GDP value. Thus, China's foreign trade (exports and imports) GDP ratio was 50 per cent in 2013. In other words, the economy of communist China is nearly 50 per cent foreign. If one makes an assumption for a moment that foreigners stop buying Chinese goods, it will have the effect Chinese GDP falling by about 25 per cent. The export (goods and services)-GDP ratio of the world in 2013 was about 30 per cent. This implies that, on an average, every nation sells more than 30 per cent of its domestic production of goods and services in foreign markets and imports goods and services of almost an equal amount. The average, however, conceals some important factors. For example, the foreign market is highly important for many countries than others. Secondly, a number of countries sell abroad much more than they buy from other countries (examples, China, Germany, Japan) and many countries buy from abroad much more than they sell there (examples, USA, UK, India). Thirdly, many countries which have merchandise trade surplus have services trade deficit (like Germany, Japan and China) and vice versa (examples, USA, UK, India). That the international market is expanding much faster than the domestic market is clear from wide difference between the growth rates of the world GDP and trade that has been observed for a very long period. Estimates of growth rates of world GDP and trade since 1850 (estimates for the war disturbed period of 1914-1950 are not available) show that global trade has grown much rapidly than the GDP. Since 1950, the world trade growth was much faster than the GDP. Foreign markets are important not only for MNCs or other large companies but also for many small firms. About half of the total US exports is the creation of small firms. The same is true of Germany. More than one-third of the total exports of India is contributed by the small scale sector, including village and cottage industries. Many of India's hundred per cent export-oriented units (EOUs) are small firms.

FEATURES OF INTERNATIONAL BUSINESS:

IMPORTANCE OF INTERNATIONAL BUSINESS:

- Helps in expansion: Geographic expansion may be used as a business strategy. Even though companies may expand their business at home.
- Helps in managing product life cycle: Every product has to pass through different stages of product life cycle when the product reaches the last stages of life cycle in present market; it may get proper response at other markets.
- Technology advantages: Some companies have outstanding technology advantages through which they enjoy core competency. This technology helps the company in capturing other markets.
- New business opportunities: Business opportunities in overseas markets help in expansion of many companies. They might have reached a saturation point in domestic market.
- Proper use of resources: Sometimes industrial resources like labour, minerals etc. are available in a country but are not productively utilized.
- Availability of quality products: When markets are open, better quality goods will be available everywhere. Foreign companies will market latest products at reasonable prices. Good product will be available in the markets.
- Earning foreign exchange: International business helps in earning foreign exchange which may be used for strategic imports. India needs foreign exchange to import crude oil, deface equipment, raw material and machinery.
- Helps in mutual growth: Countries depend upon each other for meeting their requirements. India depends on gulf countries for its crude oil supplies.
- Investment in infrastructure: International business necessitates proper development of infrastructure.

GLOBAL SOURCING AND PRODUCTION SHARING:

The trend of global sourcing and production sharing has been growing. Encouraged by the success of the Japanese industry, outsourcing became so prominent in the United States, that an increasing dependence on outside suppliers during the decade of 1980s helped reverse a trend toward increased vertical integration that had been occurring for almost a century. In other words, the 1980s witnessed a trend toward de-integration or the emergence of hollow manufacturing companies.

Outsourcing has been much more conspicuous with the Japanese industries than others. For instance, typically figures of about 60 to 70 per cent outsourcing for Toyota versus 30 to 40 per cent for General Motors were reported. The successful use of higher percentage of subcontracting by Toyota, Nissan and other Japanese automotive companies has been cited increasing in recent years as a model for US managers who have increased their own outsourcing.2 As a result of the massive outsourcing programme, GM's share of parts and components produced in-house was predicted to drop from 60 per cent to 45 per cent by the end of 1980s. Much of the increased sourcing over the past decade or so has been global in nature. Many companies have adopted global sourcing as a major competitive strategy. Some of the offshore sourcing was in fact accompanied by plant or product line closings in the United States as US manufacturers sought the advantage of cheaper labour abroad, either in their own plants or from others. According to the Purchasing survey, the reasons for offshore purchases are the following: listed in the order -

(i) Lower price,

(ii) Better quality,

(iii) Only source available,

(iv) More advanced technology,

(v) More consistent attitude,

(vi) More cooperative delivery, and

(vii) Countertrade requirements.

It may be noted that, besides the above, outsourcing has certain other advantages. It reduces the capital and manpower requirements. It may also impart more flexibility to adjust to certain conditions like a recession. International sourcing accounts for an estimated one-third of the world trade. Many developing countries have taken a lot of advantage of this trend. India, however, has not benefited to any significant extent. However, with the changes in the business environment, there are positive signs of change. The Indian auto components industry has become, for instance, suppliers to foreign heavy weights like General Motors, Renault, Fiat, etc. The export performance of the Indian auto components is expected to improve very significantly with the further improvement in quality and productivity which the industry is now striving to achieve. Production sharing is a natural corollary of the growing international sourcing. Production sharing, a term introduced by Drucker, refers to the practice of carrying out different stages of manufacturing of a product in several countries. Such production sharing has become quite common in many industries including high technology and sophisticated products. The technical development and designing may be done in one country, the various components may be manufactured in different countries, the assembling may be done in some other country/countries and the product may be marketed globally. For example, the parts and components of a motor car finally assembled in US or a European country are obtained from a large number of suppliers in different countries. In short, what is marketed as an American car or German car is not purely American or German, but really transnational. Most of the parts and components of the IBM personal computer sold in the US, under the label 'made in USA' are manufactured abroad. According to the data given in one report in 1985, 6 nearly three-fourths of the total manufacturing costs of the IBM PC was accounted for by parts and components manufactured overseas. The US owned plants overseas supplied more than one-third of these foreign parts and components. Drucker points out that the only thing really made in Japan in respect of an handheld electronic calculator with the label "made in Japan" is the label. Drucker argues that the practice of production sharing will be "the most important form of economic integration, needed by developed and developing countries alike. In production sharing, the resources of the developing countries — their abundant labour for traditional jobs — are brought together with the resources of the developed countries — their management, their technology, their educated people, their markets and purchasing power." Drucker further argues that "production sharing is the best hope — perhaps the only hope — for most of the developing countries to survive without catastrophe the explosive expansion of workingage people in search of a job."8 Developing countries can, of course, benefit immensely by production sharing. But, to argue that it is the only hope is to grossly underestimate the potentials of the developing countries. Further, Drucker does not appear to have paid sufficient attention to the fact that substantial production sharing takes place between advanced economies. An interesting fallout of the production sharing is that a ban on the import of a product could mean harm to some industrial units in that country which are parties to the production sharing. Thus, "When shoe workers' union in the United States or shoe manufacturers in North Carolina agitate for a ban on importation of 'cheap foreign imports', no cattle grower in the Great Plains realises that they are actually agitating to ban the export of American hides (out of which the shoes are manufactured) on which his livelihood depends."

TRENDS IN INTERNATIONAL BUSINESS:

- As the economy of countries around the world continuous to develop foreign trade and interdependence of firms Markets and countries continuous to grow and expand
- This development as lead to intense competition among different countries, industries and Business to climb the shape within the Global market.
- There are several major Trends influencing the growth of international business.

Five of the major international business trends are:

1. **Forced dynamism**
2. **Cooperation among countries**
3. **Liberalisation of cross-border Movement**
4. **Transfer of technology**
5. **Growth in emerging market**
6. **Other Trends in International Business**

- ✓ **Demographic Shifts**
- ✓ **Speed of Innovation**
- ✓ **More Informed Buyers**
- ✓ **Increased Competition**

1. Forced dynamism: International business is a complex topic because the environmental is constantly changing & business continuously push from new ways to expand and grow adopting new technology in the process the cultures and the politics that shaped countries and the way in which these countries at are continuously changing as well as the factors influencing the way in which global economics developed and interact with each other.
2. Cooperation among countries: Countries corporate and conduct business with each other through thousands of different international organisation treaties and consultation this corporation trends in emerging globalisation because restrictions on business operation tends to become less restricted business and countries are able to benefit from more and cooperate because they can grow their market, solve more Complex problem and deal with concerns that lie outside of once territory.
3. Liberalisation of cross-border Movement:

a. In one way or the ways every country restrict the movement across its borders of goods services and resources these restrictions tends to limit international trade and business.

b. However countries today & in post match favourable restriction on cross-border movement were introduced so that a lot many companies can take the advantage of opportunities and Markets around the world.

c. When countries are more open to cross-border movement consumer have better access to a greater variety of goods and services at a lower price this also creates more competition forcing producers to become more efficient because they are competing with foreign companies.

4. Transfer of technology: Transfer of Technology refers to the process by which Commercial technology is disseminated to governments and business around the world. When organisation agrees to a technology transfer all areas of the economy and Society benefits including Research and Education, transportation, employment, infrastructure and Agriculture among others.
5. Growth in emerging market: the growth of emerging market as benefited international business in two measure ways:

a. First, they have increase the potential size of markets giving companies a greater number of people to sell their products or services too.

b. Second, as these markets grow they are developing and enter a new generation of innovative companies that can help address the world's most important issue.

6. Other Trends in International Business:
    a. Demographic Shifts: The population of the industrialized world in many developing countries is still having very youthful populations.
    b. Speed of Innovation: The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.
    c. More Informed Buyers: More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.
    d. Increased Competition: As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

INTERNATIONAL MARKETING:

International marketing is not the same thing as international trade. Only a part of the international trade flows represents international marketing. Further, there is a category of international marketing which is not captured by the international trade statistics.

Walsh, who states international marketing is perhaps best regarded as a short-hand expression for the special international aspects of marketing, defines international marketing as:

(a) The marketing of goods and services across national frontiers, and

(b) The marketing operations of an organisation that sells and/or produces within a given country when:

(i) That organisation is part of, or associated with, an enterprise which also operates in other countries; and

(ii) There is some degree of influence on or control of the organisation's marketing activities from outside the country in which it sells and/or produces."

"Another view is that international marketing is simply an attitude of mind, the approach of a company with a truly global outlook, seeking its profit impartially around the world, "home" market included, on a planned and systematic basis."

"Another definition of international marketing is that it is the marketing function of multinational companies."

As stated earlier, international marketing is not the same thing as international trade. The sale abroad of a good produced in India is international trade but from a truly managerial point of view it can be regarded as international marketing if it is sold to the ultimate buyer under the brand name of the exporter. Many of India's exports are repacked or further processed and sold to the ultimate buyer under foreign brand names. For example, the spices imported in bulk from India are packed in consumer pack, after processing or in the same condition as it was imported, and sold under foreign brands. Even products exported in consumer packs from India are repacked abroad, without any further processing, and sold under foreign brand names. In such cases, the Indian exports represent international trade but not international marketing. It may also be noted that a considerable share of several products sold abroad under the Indian brand names, like pickles and curry powders, are bought by the ethnic population (i.e., the Indian population abroad).

SPECIAL PROBLEMS IN INTERNATIONAL MARKETING:

Some people talk of "the differences between domestic marketing and international marketing". But, the fact is that, there is no basic difference between these two; the principles of marketing are universal. What are referred to by some people as differences are not really differences but special problems or features of international marketing? What make international marketing strategy different from the domestic one is the differences in the marketing environment. The important special problems in international marketing are given below:

1. **Political and Legal Differences**
2. **Cultural Differences**
3. **Economic Differences**
4. **Differences in the Currency Unit**
5. **Differences in the Language**
6. **Differences in the Marketing Infrastructure**
7. **Trade Restrictions**
8. **High Costs of Distance**
9. **Differences in Trade Practices**

1. Political and Legal Differences: The political and legal environment of foreign markets is different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. It should also be noted that the political and legal environment is not the same in all provinces of many home markets. For instance, the political and legal environment is not exactly the same in all the States of India.

2. Cultural Differences: The cultural differences are one of the most difficult problems in international marketing, as explained in the next chapter. Many domestic markets, however, are also not free from cultural diversity.

3. Economic Differences: As described in a following chapter, the economic environment may vary from country to country.

4. Differences in the Currency Unit: The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

5. Differences in the Language: An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words or

terms may have different meanings or connotations. The language problem, however, is not something peculiar to the international marketing. The multiplicity of languages in India is an example.

6. Differences in the Marketing Infrastructure: The availability and nature of the marketing facilities available in different countries may vary widely. For example, an advertising medium very effective in one market may not be available or may be underdeveloped in another market.

7. Trade Restrictions: A Trade restriction, particularly import controls, is a very important problem which an international marketer faces.

8. High Costs of Distance: When the markets are far removed by distance, the transport cost becomes high and the time required for affecting the delivery tends to become longer. Distance tends to increase certain other costs also.

9. Differences in Trade Practices: Trade practices and customs may differ between countries.

REASONS FOR/MOTIVES OF INTERNATIONAL MARKETING:

There are several answers to the question ‘why firms go international?’ The factors which motivate or provoke firms to go international may be broadly divided into two groups, viz., the pull factors and the push factors. The **pull factors**, most of which are proactive reasons, are those forces of attraction which pull the business to the foreign markets. In other words, companies are motivated to internationalize because of the attractiveness of the foreign market. Such attractiveness includes, broadly, the relative profitability and growth prospects.

The **push factors** refer to the compulsions of the domestic market, like saturation of the market, which prompt companies to internationalize. Most of the push factors are reactive reasons. Important reasons for going international are described below.

Profit Motive

One of the most important objectives of internationalization of business is the profit advantage. International business could be more profitable than the domestic. As pointed out earlier, there are cases where more than 100 per cent of the total profit of the company is made in the foreign markets (in which case the domestic operation, obviously, is incurring loss). Even when international business is less profitable than the domestic, it could increase the total profit. Further, in certain cases, international business can help increase the profitability of the domestic business. This is illustrated with the help of the following diagram.

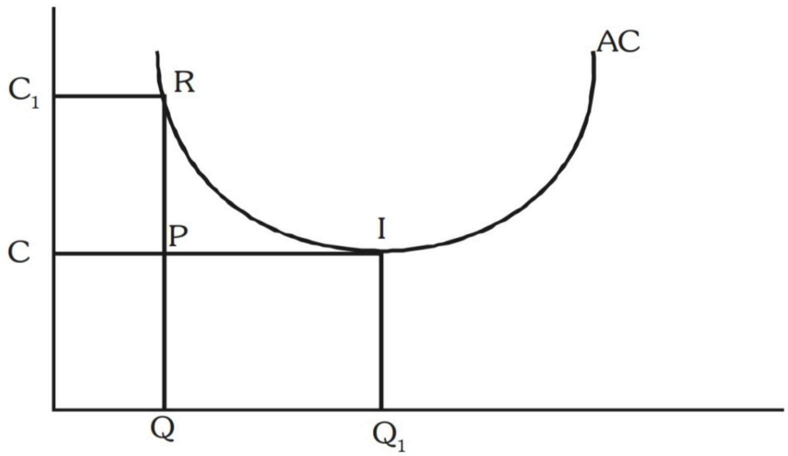

Fig. 1.2: Impact of Exports on Average Unit Cost

One of the important motivations for foreign investment is to reduce the cost of production (by taking advantage of the cheap labour, for example). While in some cases, the whole manufacturing of a product may be carried out in foreign locations, in some cases only certain stages of it are done abroad. A significant share of the merchandise imported into the United States is manufactured by foreign branches of American companies. Several American companies ship parts and components to overseas locations where the labour-intensive assembly operations are carried out and then the product is brought back home. The North American Free Trade Agreement comprising the US, Canada and Mexico is expected to encourage large relocation of production to Mexico where the labor is substantially cheap.

Growth Opportunities

The enormous growth potential of many foreign markets is a very strong attraction for foreign companies. In a number of developing countries, both the population and income are growing fast. It may be noted that several developing countries, the newly industrializing countries (NICs) and the Peoples' Republic of China in particular, have been growing much faster than the developed countries. Growth rate of India has also been good and the liberalization seems to have accelerated the growth. Even if the market for several goods in these countries is not very substantial at present, many companies are eager to establish a foothold there, considering their future potential. Similarly, when the East European economies have been opened up, there has been a rush of MNCs to establish a base in these markets.

Domestic Market Constraints

Domestic demand constraints drive many companies to expanding the market beyond the national border. The market for a number of products tends to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. In the United States, for example, the stock of several consumer durables like cars, TV sets etc. exceed the total number of households. Estimates are that in the first quarter of the 21st century, while the population in some of the advanced economies would saturate or would grow very negligibly, in some others there would be a decline. Such demographic trends have very adverse effects on certain lines of business. For example, the fall in the birth rate implies contraction of market for several baby products. Another type of domestic market constraint arises from the scale economies. The technological advances have increased the size of the optimum scale of operation substantially in many ndustries making it necessary to have foreign market, in addition to the domestic market, to take advantage of the scale economies. It is the thrust given to exports that enabled certain countries like South Korea to set up economic size plants. In the absence of foreign markets, domestic market constraint comes in the way of benefiting from the economies of scale in some industries. Domestic recession often provokes companies to explore foreign markets. One of the factors which prompted the Hindustan Machine Tools Ltd. (HMT) to take up exports very seriously was the recession in the home market in the late 1960s. The recession in the automobile industry in the early 1990s, similarly, encouraged several Indian auto component manufacturers to explore or give a thrust to foreign markets.

Competition

Competition may become a driving force behind internationalization. A protected market does not normally motivate companies to seek business outside the home market. Until the liberalizations which started in July 1991, the Indian economy was a highly protected market. Not only that the domestic producers were protected from foreign competition but also domestic competition was restricted by several policy induced entry barriers, operated by such measures as industrial licensing and the MRTP regulations. Being in a seller's market, the Indian companies, in general, did not take the foreign market seriously. The economic liberalization ushered in India since 1991, which has increased competition from foreign firms as well as from those within the country, has, however, significantly changed the scene. Many Indian companies are now systematically planning to go international in a big way.

Many companies also take an offensive international competitive strategy by way of counter competition.

The strategy of counter-competition is to penetrate the home market of the potential foreign competitor so as to diminish its competitive strength and to protect the domestic market share from foreign penetration. "Effective counter-competition has a destabilizing impact on the foreign company's cash flows, product related competitiveness and decision making about integration. Direct market penetration can drain vital cash flows from the foreign company's domestic operations. This drain can result in lost opportunities, reduced income, and limited production, impairing the competitor's ability to make overseas thrusts."13 Thus, IBM moved early to establish a position of strength in the Japanese main frame computer industry before two key competitors, Fujitsu and Hitachi, could gain dominance. Holding almost 25 per cent of the market, IBM denied its Japanese competitors vital cash flow and production experience needed to invade the US market. They lacked sufficient resources to develop the distribution and software capabilities essential to success in America. So the Japanese have finally entered into joint ventures with US companies having distribution and software skills (Fujitsu with TRW, Hitachi with National Semi-conductor). In fact, in Fujitsu's case, it was an ironic reversal of the counter-competitive strategy by expanding abroad to increase its economies of scale for the fight with IBM back home.14 The Texas Instruments established semi-conductor production facilities in Japan "to prevent Japanese manufacturers from their own markets". Even after much development work, the Japanese producers could muster neither the R&D resources nor the manufacturing capability to compete at home or overseas with acceptable product in sufficiently large quantities.

Government Policies and Regulations

Government policies and regulations may also motivate internationalization. There are both positive and negative factors which could cause internationalization. Many governments give a number of incentives and other positive support to domestic companies to export and to invest in foreign countries. Similarly, several countries give a lot of importance to import development and foreign investment. Sometimes, as was the case in India, companies may be obliged to earn foreign exchange to finance their imports and to meet certain other foreign exchange requirements like payment of royalty, dividend, etc. Further, in India, permission to enter certain industries by the large companies and foreign companies was subject to specific export obligation. Some companies also move to foreign countries because of certain regulations, like the environmental laws in advanced countries. Government policies which limit the scope of business in the home country may also provoke companies to move to other countries.

Here is an interesting case: In the early seventies, having failed to make any headway within India, the only alternative left for the Birla Group was to set up industries in other countries and it put up several successful companies in all the ASEAN countries. "This was surely a paradox. The same government which refused us permission to set up manufacturing capacities within the country allowed us to set up industries outside the country for the same products for which it has said 'no' in India. Thus, we set up a viscose staple fiber plant in Thailand, and started exporting fiber back to India."16 According to one study, "the evidence suggests that one of the most important motivations behind foreign direct investment by Indian firms has been the desire to escape the constraining effects of Government of India's policy. It appears that a number of Indian locally domiciled foreign collaboration industries, those involved in manufacturing at least, go overseas to avoid a policy environment that restricts their domestic growth and undermines their competitiveness. To the extent that foreign direct investment from India takes place for such negative reasons, the phenomenon may be regarded as disguised form of capital flight from India." With the recent changes in the government of India's economic policy, the situation, however, has changed. Many Indian companies are entering international market or are expanding their international operations because of positive reasons.

Monopoly Power

In some cases, international business is a corollary of the monopoly power which a firm enjoys internationally. Monopoly power may arise from such factors as monopolization of certain resources, patent rights, technological advantage, product differentiation etc. Such monopoly power need not necessarily be an absolute one but even a dominant position may facilitate internationalization. As Czinkota and Ronkainen observe, exclusive market information is another proactive stimulus. This includes knowledge about foreign customers, marketplaces, or market situations not widely shared by other firms. Such special knowledge may result from particular insights by a firm based on international research, special contacts a firm may have or simply being in the right place at the right time (for example, recognizing a good business situation during a vacation). Although such monopoly element may give an initial advantage, competitors could be expected to catch up soon.

Spin-off Benefits

International business has certain spin-off benefits too. International business may help the company to improve its domestic business; international business helps improve the image of the company. International marketing may have pay-offs for the internal market too by giving the domestic market better products. Further, the foreign exchange earnings may enable a company to import capital goods, technology etc. which may not otherwise be possible in countries like India. Another attraction of exports is the economic incentives offered by the government.

Strategic Vision

The systematic and growing internationalisation of many companies is essentially a part of their business policy or strategic management. The stimulus for internationalisation comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation. Many companies in India, like several pharmaceutical firms, have realised that a major part of their future growth will be in the foreign markets. There are a number of corporations which are truly global. Planning of manufacturing facilities, logistical systems, financial flows and marketing policies in such corporations are done considering the entire world as its, and a single, market — a borderless world.

INTERNATIONAL ORIENTATIONS:

The degree and nature of involvement in international business or the international orientations of companies vary widely. The analysis provided by Wind, Douglas and Perlmutter within the framework of the modified EPRG scheme is helpful in understanding the levels of involvement of firms in international business. The EPRG framework identifies four types of attitudes or orientations toward internationalisation that are associated with successive stages in the evolution of international operations. These four orientations are:

1. Ethno-centrism (home country orientation);
2. Poly-centrism (host country orientation),
3. Regio-centrism (regional orientation); and
4. Geo-centrism (world orientation).

These stages are assumed to reflect the goals and philosophies of the company insofar as international operations are concerned and lead to different management strategies and planning procedure for international operations.

Ethnocentric Orientation:

In the ethnocentric company, overseas operations are viewed as secondary to domestic operations and primarily as a means of disposing of "surplus" domestic production. The top management views domestic techniques and personnel as superior to foreign and as the most effective in overseas markets. Plans for overseas markets are developed in the home office, utilising policies and procedures identical to those employed in the domestic market. Overseas marketing is most commonly administered by an export department or international division, and the marketing personnel is composed primarily of home country nationals. Overseas operations are conducted from a home country base, and there is likely to be a strong reliance on export agents. There is a tendency to employ the domestic product mix without major modifications for the overseas market. The ethnocentric position appears to be appropriate for a small company just entering international operations, or for companies with minimal international commitments because this approach entails a minimal risk and commitment to overseas markets — no international investment is required, and no additional selling costs incurred, with the possible exception of higher distribution costs. This position may be inappropriate for a company which wants to expand its international business significantly.

Polycentric Orientation:

As the company begins to recognise the importance of inherent differences in overseas markets, a polycentric attitude emerges. The prevalent philosophy at this stage is that local personnel and techniques are best suited to deal with local market conditions. Subsidiaries are established in overseas markets, and each subsidiary operates independently of the others and establishes its own marketing objectives and plans. The environment of each market is considered while formulating the marketing strategy. There is market segmentation, at least on a country basis. "Emphasis is put on local laws, custom and culture and great care is taken to understand the local way of doing business. This usually results in the maximum degree of geographic decentralisation as local managers are recognised as being psychologically close to markets, environments and customers." The important merit of polycentrism is the adaptation of the marketing strategies to the local conditions.

Regiocentric and Geocentric Orientations:

A regiocentric company views different regions as different markets. A particular region with certain important common marketing characteristics is regarded as a single market, ignoring national boundaries. "Strategy integration, organisational approach and product policy tend to be implemented at regional level. Objectives are set by negotiation between headquarters and regional HQ on the one hand and between regional HQ and individual subsidiaries on the other."

A geocentric company views the entire world as a single market and develops standardised marketing mix, projecting a uniform image of the company and its products, for the global market. "The business of the geocentric multinational is usually characterised by sufficiently distinctive national markets that the ethnocentric approach is unworkable, and where the importance of learning curve effects in marketing, production technology and management makes the polycentric philosophy substantially sub-optimal."

Wind, Douglas and Perlmutter have pointed out the advantages and problems of these orientations as follows.

Since the regiocentric and geocentric orientations imply the identification of regional or global market segments crossing national boundaries as well as the development of standard policies throughout a given segment, they may provide improved coordination and control. Geocentrism is viewed as entailing high costs in collecting information and administering policies on a worldwide scale. In this respect, the regiocentric appeal is generally viewed as more economical and manageable. In both cases, however, national environmental constraints may restrict multinational operations and make the approach unfeasible. For example, national differences in laws and currencies may severely hinder any practical implementation of this "world market" perspective. The impact of these national environmental differences is considered in most cases to be more critical for marketing activities than for production and finance activities. The geocentric position may, therefore, be more advantageous for production and research and development than for marketing.

In general, the desirability of a particular international orientation — E, P, R, or G — tends to depend on several factors, such as the size of the firm, the experience gained in a given market, the size of the potential market, and the type of the product and its cultural dependency.

INTERNATIONALISATION STAGES:

Most companies pass through different stages of internationalisation. There are, of course, many companies which have international business since their very beginning, including 100 per cent export-oriented companies. Even in the case of many of the hundred per cent export-oriented companies, the development of their international business would pass through different stages of evolution. A firm which is entirely domestic in its activities normally passes through different stages of internationalisation before it becomes a truly global one. There are many companies which enthusiastically and systematically go international as part of their corporate plan. However, in the case of many firms the initial attitude towards international business is passive and they get into the international business in response to some external stimuli. For example, a sample survey23 of US firms exporting industrial products revealed that most of them first began exporting through the action of an outside party — about 48 per cent responded to unsolicited orders and 44 per cent were approached by foreign distributors. In the earlier surveys, the percentage of the total number of firms which began exporting responding to unsolicited orders was much higher. A firm may start exports on an experimental basis and if the results are satisfying it would enlarge the international business and in due course it would establish offices, branches or subsidiaries or joint ventures abroad. The expansionary process may also be characterised by increasing the product mix and the number of market segments, markets and countries of operation. In the process, the company could be expected to become multinational and finally global. In short, in many firms overseas business initially starts with a low degree of commitment or involvement; but they gradually develop a global outlook and embark upon overseas business in a big way. The important stages in the evolutionary process are the following:

1. **Domestic Company**
2. **International Company**
3. **Multinational Company**
4. **Global/Transnational Company**

Domestic Company

Most international companies have their origin as domestic companies. The orientation of a domestic company essentially is ethnocentric. A purely domestic company "operates domestically because it never considers the alternative of going international. The growing stage-one company, when it reaches growth limits in its primary market, diversifies into new markets, products and technologies instead of focusing on penetrating international markets." However, if factors like domestic market constraints, foreign market prospects, increasing competition etc. make the company reorient its strategies to tap foreign market potential, it would be moving to the next stage in the evolution. A domestic company may extend its products to foreign markets by exporting, licensing and franchising. The company, however, is primarily domestic and the orientation essentially is ethnocentric. In many instances, at the beginning exporting is indirect. The company may develop a more serious attitude towards foreign business and move to the next stage of development, i.e., international company.

International Company

International company is normally the second stage in the development of a company towards the transnational corporation. The orientation of the company is basically ethnocentric and the marketing strategy is extension, i.e, the marketing mix 'developed' for the home market is extended into the foreign markets. International companies normally rely on the international division structure for carrying out the international business.

Multinational Company

When the orientation shifts from ethnocentric to polycentric, the international company becomes multinational. In other words, "When a company decides to respond to market differences, it evolves into a stage three multinational that pursues a multidomestic strategy. The focus of the stage-three company is multinational or, in strategic terms, multidomestic (That is, the company formulates a unique strategy for each country in which it conducts business)". In multinational companies, "each foreign subsidiary is managed as if it were an independent city state. The subsidiaries are part of an area structure in which each country is part of a regional organisation that reports to world headquarters."

Global/Transnational Company

According to Keegan, global company represents stage four and transnational company stage five in the evolution of companies. However, several people use these terms as synonyms and by global corporation they refer to the final stage in the development of the corporation. According to Keegan, "the global company will have either a global marketing strategy or a global sourcing strategy but not both. It will either focus on global markets and source from the home or a single country to supply these markets, or it will focus on the domestic market and source from the world to supply its domestic channel."27 However, according to the interpretation of some others, all strategies — product development, production (including sourcing) marketing etc. — will be global in respect of the global corporation. The "transnational corporation is much more than a company with sales, investments, and operations in many countries. This company, which is increasingly dominating markets and industries around the world, is an integrated world enterprise that links global resources with global markets at a profit."

Bartlett and Ghoshal point out that in transnational companies, "the activities and resources are neither centralised in the parent company, nor decentralised so that each subsidiary can carry out its own tasks on a local-for-local basis. Instead the resources and activities are dispersed but specialised, so as to achieve efficiency and flexibility at the same time. Furthermore, these dispersed resources are integrated into an interdependent network of worldwide operations."29 They further elaborate that, "in contrast to the global model, the transnational mentality recognises the importance of flexibility and responsive country-level operations — hence, the return of national into the terminology. And compared to multinational approach, it provides for linking and coordinating those operations to retain competitive effectiveness and economic efficiency — as indicated by the prefix trans."

The orientation is geocentric and marketing strategy is, by and large, standardised. As Keegan observes, "it recognises similarities and differences and adopts a world view. This is the company that thinks globally and acts locally. It adopts a global strategy allowing it to minimise adaptation in countries to that which will actually add value to the country customer. This company does not adapt for the sake of adaptation. It only adapts to add value to its offer."

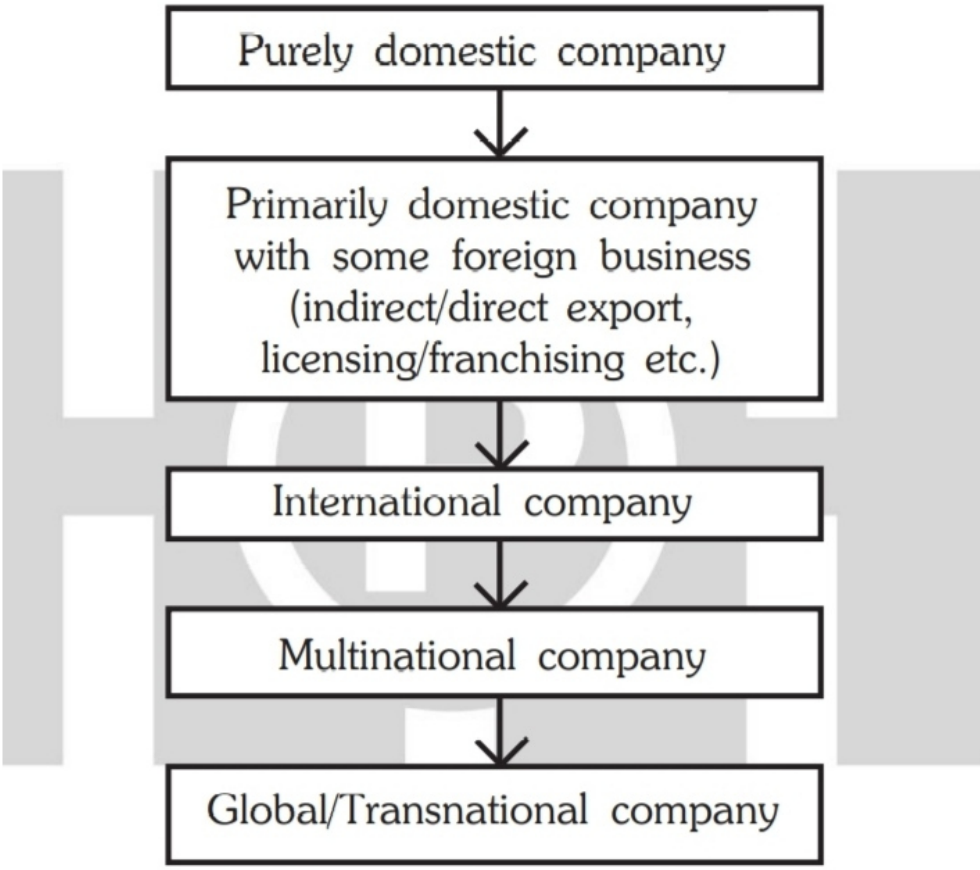

Fig. 1.3: Stages in the Evolution of Companies

The different stages of development from a purely domestic to a transnational company is summarised in the above diagram.

Bartlett and Ghoshal explain the differences between the different types of companies as follows:

"The global company tends to concentrate all its resources — often locating them in its home country — so as to exploit the scale economies available in each activity. The multinational company typically disperses its resources among its different national operations so as to be able to respond to local needs. And the international company tends to centralise those resources that are key to developing innovations to be adapted worldwide. The transnational, however, must develop a more sophisticated and differentiated configuration of assets and capabilities. It first decides which key resources and capabilities are best centralised within the home-country operation, not only to realise scale economies but also to protect certain core competencies and to provide the necessary supervision of corporate management. Certain other resources may be concentrated but not necessarily at home — a configuration that might be termed excentralisation rather than centralisation.

Some other resources may be decentralised on a regional or local basis, either because potential economies of scale are smaller than the benefits to be gained from greater differentiation or market responsiveness, or because of the need to create flexibility and reduce risks by avoiding exclusive dependence on a single facility. The result is a complex configuration of assets, resources and capabilities that centralises some resources at home, excentralises some abroad, and distributes yet others among its many national operations. Furthermore, the company integrates these dispersed yet specialised resources through strong interdependencies."

INTERNATIONAL MARKETING DECISIONS:

A firm which plans to go international has to make a series of strategic decisions. They are broadly the following:

(i) International Business Decision: The first decision a company has to make, of course, is whether to take up international business or not. This decision is based on a serious consideration of a number of important factors, such as the present and future overseas opportunities, present and future domestic market opportunities, the resources of the company (particularly skill, experience, production and marketing capabilities and finance), company objectives, etc.

(ii) Market Selection Decision: Once it has been decided to go international, the next important step is the selection of the most appropriate market. For this purpose, a thorough analysis of the potentials of the various overseas markets and their respective marketing environments is essential. Company resources and objectives may not permit a company to do business in all the overseas markets. Further, some markets are not potentially good, and it may be suicidal to waste company resources in such markets. A proper selection of the overseas market(s), therefore, is very important.

(iii) Entry and Operating Decisions: Once the market selection decision has been made, the next important task is to determine the appropriate mode of entering the foreign market.

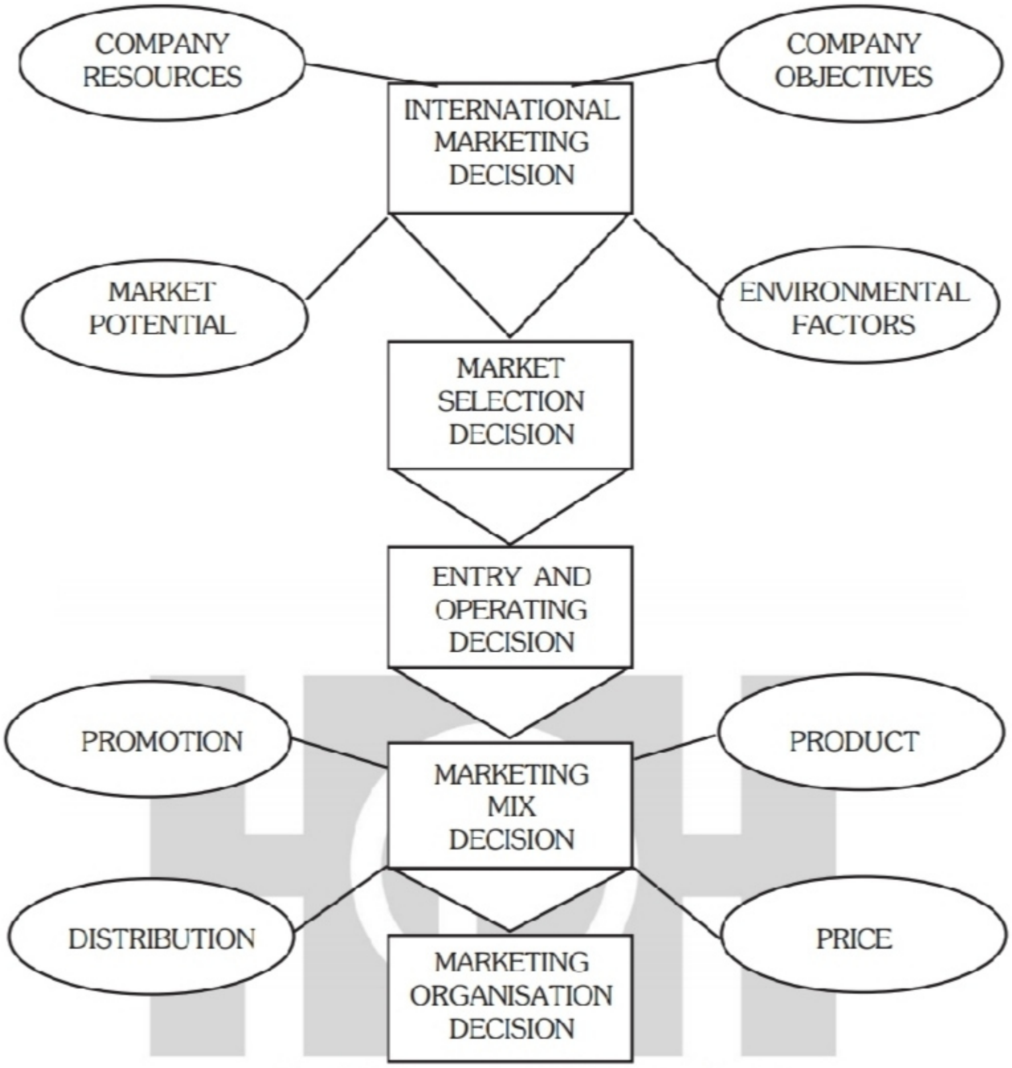

Fig. 1.4: International Marketing Decisions

(iv) Marketing Mix Decision: The foreign market is characterised by a number of uncontrollable variables. The marketing mix consists of internal factors which are controllable. The success of international marketing, therefore, depends to a large extent on the appropriateness of the marketing mix. The elements of the marketing mix — product, promotion, price and physical distribution — should be suitably designed so that they may be adapted to the characteristics of the overseas market.

(v) International Organisation Decision: A company which wants to do direct exporting has also to decide about its organisational structure, so that the exporting function may be properly performed. This decision should necessarily be based on a careful consideration of such factors as the expected volume of export business, the nature of the overseas market, the nature of the product, the size and resources of the company, and the length of its export experience. The nature of the organisation structure of the company will depend on a number of factors like its international orientation, nature of business, size of business, future plans etc.

DRIVING AND RESTRAINING FORCES:

There are a number of forces which induce and propel globalisation and thereby expand the scope and importance of international marketing. On the other hand, there are also forces which restrain globalisation.

I. DRIVING FORCES

The important forces driving globalisation are the following:

Liberalisation:

One of the most important factors, which have given a great impetus to globalisation since the 1980s is the almost universal economic policy liberalisations which are fostering a borderless business world. While a lot of the liberalisations owe it to the GATT/WTO, substantial liberalisations have been occurring outside the GATT/WTO like, for example, the revolutionary economic policy changes in China and other socialist/communist nations. It may be noted that it has become quite common to describe the global trend as LPG (liberalisation, privatisation and globalisation) indicating the mutually interdependent and reinforcing nature of these forces. One of the impacts of liberalisation and privatisation is the surge in cross-border M&As and other FDI resulting in greater global economic integration.

MNCs:

Multinational enterprises which link their resources and objectives with world market opportunities, have been a powerful force driving globalisation. Taking advantage of the liberalisation trend, there has been a fast growth of the number of MNCs and their global network of affiliates. The MNCs leverage their strengths to link global resources and opportunities and thereby strengthen the globalisation trend, as explained in the next chapter.

Technology:

Technology is a powerful driving force of globalisation. Technological advances have tremendously fostered globalisation. Several technological developments become a compelling reason for internationalisation. Technological break-throughs are substantially increasing the scale economies and the market scale required to break-even.

Transportation and Communication Revolutions

Technological revolution in several spheres, like transport and communication, has given a great impetus to globalisation by their tremendous contribution to the reduction of the disadvantages of natural barriers like distance and cost. The developments in the field of air cargo transportation has fostered globalisation by enabling quick and safe transportation of sensitive goods (like perishables and goods subject to quick changes in fashion/taste). Developments of containerisation and refrigeration have also been of high significance. The steep fall in the cost of transportation and communication
have considerably accelerated pace of globalisation. All these have contributed to the drastic transformation of the logistical and global distribution of the value chain system. The world wide web has a stupendous impact on globalisation. Global sourcing was encouraged not only by trade liberalisation but also by technological developments, which reduced transport costs. Advent of containerisation and supertonnage cargo ships drastically reduced transport costs. The IT revolution has made an enormous contribution to the emergence of the global village.

Product Development Costs and Efforts

The cost of new product development is very huge in several industries such as pharmaceuticals. To recoup such high costs a global market is required. A corollary is that the fast technological changes, which hasten product obsolescence, necessitate a short payback period, which can be realised only with a very large market. Further, because of the huge investment and diverse skill requirements associated with new product development, cross-border alliances in research and development are becoming more and more popular. Again, in a number of cases different phases of the product development are carried out in different countries either by a company's own affiliates or by outsourcing.

Quality and Cost:

The two most important determinants of demand are the quality and price of the offering. These can be better achieved when a firm is global in its operations.

Rising Aspirations and Wants

Because of the increasing levels of education and exposure to the media, particularly the electronic media, and the aspirations of people all around the world are rising. They aspire for everything that can make life more comfortable or satisfying. If domestic firms are not able to meet their wants, they would naturally turn to the foreign firms. The customer today is, by and large, global. He wants a world-class product or a product of desired attributes at international price. He may desire a product available anywhere in the world. His aspirations cannot be tied down to the domestic availability.

Competition:

Another important force driving the globalisation is increasing competition. Heightened competition compels firms to explore new ways of increasing their efficiency, including by extending their international reach to new markets at an early stage and by shifting certain production activities to reduce costs. It also results in international production taking new forms, with new ownership and contractual arrangements, and new activities being located in new sites abroad.

World Economic Trends:

There are some world economic trends, which add momentum to the globalisation trend. One of the important trends is the difference in the growth rates of the economies/markets. The comparatively slow growth of the developed economies or the stagnation of some of their markets and the fast growth of a number of developing countries prompt developed country firms to turn to the expanding markets elsewhere. The differences in the growth characteristics exist even within the categories of developed and developing countries. Secondly, the domestic economic growth and the opportunities outside reduce the opposition to globalisation. A classic example is China. China has benefited tremendously out of foreign investment; the fast growing Chinese economy provides scope for a large number of players in the expanding market. At the same time, China is enormously exploiting the business opportunities outside the country. Globalisation should be a two-way process, which can be mutually beneficial. Another driving force of globalisation is the economic liberalisation, as pointed out earlier, characterised by deregulation and privatisation.

Regional Integration:

The proliferation of regional integration schemes, like the European Union (EU), North American Free Trade Agreement (NAFTA) etc., by creating a borderless world between the members of such trade blocs, foster the globalisation trend. A major part of the global trade now is intra-regional trade (i.e., trade between the members of the trade blocs). Some of these regional blocs also give a fillip to the cross-border investments and financial flows.

Leverages:

A very important factor that supports globalisation is the unique opportunity global company possesses to develop leverage. A global company can leverage its experience to expand its global operations. The more the number of countries it operates in a business sector, the more could be the scope for leverage. According to Keegan, “leverage is simply some type of advantage that a company enjoys by virtue of the fact that it conducts business in more than one country” and a global company possess the following four important types of leverage."

1. Experience Transfers: A great strength of a global corporation is the experience it can leverage for expanding or strengthening its global operations. “It can draw on management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been tested in actual markets and apply them in other comparable markets.”
2. Scale Economics: As pointed out earlier, the cost is one of the important determinants of success. Cost advantage, in many cases, derives out of scale economies. The scale economies have been expanding in a number of industries. To realise scale economies, it is often essential to go after the global market. Technological break-through are substantially increasing the scale economies and the market scale required to break-even. Although scale economies are often most conspicuous in manufacturing, a global company may achieve economies on a global scale by centralising other functional activities too.
3. Resource Utilisation: Strength of a global company is its competence in sourcing the resources globally.
4. Global Strategy: Keegan observes that “the global company’s greatest single advantage can be its global strategy. A global strategy is built on an information system that scans the world’s business environment to identify opportunities, trends, threats, and resources. When opportunities are identified, the global company adheres to the three principles identified earlier: It leverages its kills and focuses its resources to create superior perceived value for customers and achieve competitive advantage. The global strategy is a design to create a winning offer on a global scale. This takes great discipline, much creativity, and constant effort. The reward is not just success — it is survival.”

II. RESTRAINING FORCES:

There are also several forces, which restrain the globalisation trend. There are two types of factors, which hamper globalisation, viz., external factors and internal factors.

External Factors:

External factors include government policies and controls, which restrain cross-border business, social and political opposition against foreign business etc.

Internal Factors:

Internal factors refer to factors within the organisation, which discourage globalisation. One such factor is the management myopia or "near-sightedness" which comes in the way of a global orientation. Further, the organisational culture may hamper or pamper globalisation.

Growing Economic Power of Developing Countries:

- Economic Growth: is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources (by education etc.) & improvements in technology or in another way an increase in the value of goods and services produced by every sector of the economy. Economic Growth can be measured by an increase in a country's GDP (gross domestic product).
- GDP: is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.
- Economic development is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The definition of economic development given by Michael Todaro – "an increase in living standards, improvement in self-esteem needs and freedom of Liberty as well as a greater choice" United Nations Development Programme defines Economic development - " is about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. People are the real wealth of nations. Development is thus about expanding the choices of people to lead their lives that they value."

Case Study on PepsiCo

Overview of PepsiCo, Inc.

PepsiCo, Inc. is an American multinational food, snack, and beverage corporation headquartered in Purchase, New York. PepsiCo has interests in the manufacturing, marketing, and distribution of grain-based snack foods, beverages, and other products. PepsiCo was formed in 1965 with the merger of the Pepsi-Cola Company and Frito-Lay, Inc. PepsiCo has since expanded from its namesake product Pepsi to a broader range of food and beverage brands, the largest of which have included an acquisition of Tropicana Products in 1998 and the Quaker Oats Company in 2001, which added the Gatorade brand to its portfolio. As of January 26, 2012, 22 of PepsiCo's brands generated retail sales of more than $1 billion apiece, and the company's products were distributed across more than 200 countries, resulting in annual net revenues of $43.3 billion Based on net revenue, PepsiCo is the second largest food and beverage business in the world. Within North America, PepsiCo is the largest food and beverage business by net revenue. Indra Krishnamurthy Nooyi has been the chief executive of PepsiCo since 2006. The company's beverage distribution and bottling is conducted by PepsiCo as well as by licensed bottlers in certain regions. Approximately 274,000 employees generated $66.415 billion in revenue as of 2013.

History of Pepsi Cola Pakistan

The market in Pakistan is surely dominated by Pepsi. It has proven itself to be the No.1 soft drink in Pakistan. Now days Pepsi is recognized as Pakistanis National drink. In 1971, first plant of Pepsi was constructed in Multan, and from their after Pepsi is going higher and higher. Pepsi is the choice soft drink of every one. It is consumed by all age groups because of its distinctive taste. Compared with other Cola in the market, it is a bit sweeter and it contributes greatly to its liking by all. Consumer’s survey results explain the same outcome and Pepsi has been declared as the most wanted soft drink of Pakistan.

Pepsi’s greatest rival is Coca Cola. Coca Cola has an international recognized brand. Coke’s basic strength is its brand name. But Pepsi with its aggressive marketing planning and quick diversification in creating and promoting new ideas and product packaging, is successfully maintaining is No.1 position in Pakistan. In coming future Pepsi is also planning to enter into the Case Study on PepsiCo field of fruit drinks. For this purpose it has test marketed its mango juice in Karachi for the first time.

When Pepsi was introduced in Pakistan, it faced fierce competition with 7up, lemon and lime drinks, which was established during 1968, in Multan. Pepsi introduced its lemon and lime, “Teem” to compete with 7up. It successfully, after some years, took over 7up, and this enhanced Pepsi’s profits and market share. In Pakistan, Pepsi with 7up enjoys 70% of the market share where as the coke just has 20% markets share. Now days

PepsiCo. Is focusing on youngster's best choice Mountain Dew as a energatic soft drinks. Pepsi is operating in Pakistan, through its 12 bottlers all over Pakistan. These bottlers are Pepsi's strength. Pepsi has given franchise to these bottlers. Bottlers produce, distribute and help in promoting the brand.

Vision:

"PepsiCo's responsibility is to continually improve all aspects of the world in which we operate - environment, social, economic - creating a better tomorrow than today." Pepsi cola international vision is put into action through programs and a focus on environmental stewardship, activities to benefit society, and a commitment to build shareholder value by making PepsiCo a truly sustainable company.

Mission Statement:

Our mission is to be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity.

Review of Mission Statement:

- To be a result oriented and profitable Company by consistently improving market share, quality, diversity, availability, presentation, reliability and customer acceptance.
- To ensure cost consciousness in decision making and operations without compromising the commitment to quality.
- To set up highly ethical business standards and be a good corporate citizen, contributing towards the development of the national economy and assisting charitable causes.
- To adopt appropriate safety rules and environment friendly policies.

CORPORATE GOVERNANCE:

Organizational Structure of PepsiCo,Inc.

PepsiCo leadership of six divisions have nearly 140 years of combined PepsiCo experience across multiple categories, markets and functions. PepsiCo Board of Directors comprises 15 members with Indra K. Nooyi serving as Chairman of the Board and Chief Executive Officer. The name of IndraNooyi is on every list of top female leaders around the globe and she is widely acknowledged as a charismatic and effective corporate leader. PepsiCo leadership can be assessed as strong and dynamic and this has been reflected on strong financial performance of the company over the years. Despite an evident effectiveness of PepsiCo leadership, a lack of clarity on CEO succession plan can be specified as a noteworthy issue. Specifically, a number of reputable members of senior management team and rising starts have been leaving PepsiCo recently. These include the departure of Enderson Guimaraes executive vice president for Global Categories and Operations, the Pepsi President John Compton, former nutrition head Debra Crew and former president ZeinAbdalla. It has been noted that “when questioned about the string of high-level departures, PepsiCo has consistently pointed to its status as a well-known supplier of executives to other companies, a talent factory of sorts”. Nevertheless, this tendency may cause CEO-succession related problems in long-term perspectives.

PepsiCo organizational structure can be described as divisional and it integrates the following divisions:

- Frito-Lay North America (FLNA).
- Quaker Foods North America (QFNA).
- Latin America
- Asia, Middle East & North America (AMENA).
- Europe & Sub-Saharian Africa (ESSA).
- North America Beverages (NAB).

Each division is led by a divisional CEO, who report to PepsiCo CEO and Chairman Indra K. Nooyi. Besides divisional CEOs, PepsiCo leadership team comprises the following positions:

- Executive Vice President, Communications
- President, North America Nutrition
- Senior Vice President, Chief HR officer for Human Capital Management Services and Operations
- Senior Vice President and Chief Information Officer
- President, ESSA Category Teams, Franchise and Po1 Sub-Saharan Africa
- Senior Vice President, Talent Management Training and Development
- President, Global Foodservice

- Senior Vice President and Controller
- President, Global Beverage Group
- Vice Chairman and Chief Financial Officer
- Vice Chairman and Chief Scientific Officer, Global Research and Development
- Chairman, Greater China Region
- President, Global Snacks Group and Global Insights
- President, Latin America Beverages
- Executive Vice President, Global Operations
- President, Mexico
- President and Chief Operating Officer, Frito-Lay North America
- Senior Vice President, Chief Global Diversity and Engagement Officer
- President and Chief Executive Officer, Greater China Region
- President and Chief Operating Officer, North America Beverages
- Executive Vice President, Human Resources and Chief Human Resources Officer
- Executive Vice President, Government Affairs, General Counsel and Corporate Secretary
- Senior Vice President and Chief Supply Officer
- Executive Vice President, Global Categories & Franchise Management

Pepsico Products List

Several people asked for a list of Pepsico products. They are listed below.

PepsiCo Companies and Products list

PepsiCo companies

- Pepsi-Cola
- Gatorade
- Quaker
- Frito Lay
- Tropicana

Pepsi-Cola Brands

- Pepsi
- Caffeine Free Pepsi
- Diet Pepsi
- Caffeine Free Diet Pepsi

- Diet Pepsi Max
- Jazz Diet Pepsi
- Diet Pepsi Lime
- Diet Pepsi Vanilla
- Pepsi Wild Cherry
- Diet Pepsi Wild Cherry
- Pepsi ONE
- Mountain Dew
- Diet Mountain Dew
- Caffeine Free Mountain Dew
- Mountain Dew Code Red
- Diet Mountain Dew Code Red
- Mountain Dew LiveWire
- Manzanita Sol
- Mirinda
- Mug Root Beer
- Diet Mug Root Beer
- Mug Cream Soda
- Diet Mug Cream Soda
- Sierra Mist
- Sierra Mist Free
- Slice
- AMP energy drink etc.

Frito Lay Brands

- Lay's potato chips
- Lays Kettle Cooked potato chips
- Wavy Lay's potato chips
- Baked Lay's potato crisps
- Maui Style potato chips
- Ruffles potato chips
- Baked Ruffles potato crisps
- Ruffles Flavor Rush potato chips
- Doritos tortilla chips

- Baked Doritos tortilla chips
- 3D's snacks
- Tostitos tortilla chips
- Baked Tostitos tortilla chips
- Santitas tortilla chips
- Fritos corn chips
- Cheetos cheese flavored snacks
- Rold Gold pretzels & snack mix
- Funyuns onion flavored rings
- Go Snacks
- Sunchips multigrain snacks etc.

Gatorade Brands

- Gatorade Thirst Quencher
- Gatorade Frost Thirst Quencher
- Gatorade Ice Thirst Quencher
- Gatorade Xtremo Thirst Quencher
- Gatorade X-Factor Thirst Quencher
- Gatorade Fierce Thirst Quencher
- Propel Fitness Water

Tropicana Brands

- Tropicana Pure Premium juices
- Tropicana Twister juice drinks
- Tropicana Smoothies
- Tropicana Pure Tropics juices
- Dole juices (License)
- Tropicana 100 juices
- Naked Juice

Quaker Brands

- Quaker Oatmeal
- Quaker Instant Oatmeal
- Quaker Oatmeal Breakfast Squares

- Cap'n Crunch cereal
- Life cereal
- Quaker Oatmeal Brown Sugar Bliss
- Quaker Oatmeal Honey Nut Heaven
- Quaker 100% Natural cereal
- Quaker Squares cereal

Current situation of PepsiCo, Inc.

A. Current performance:

PepsiCo, inc. is one of the most successful consumer products companies in the world, with 2000 revenues of over $20 billion and 125,000 employees. The company consists of: Fito-Lay Company, the largest manufacturer and distributor of snack chips; Pepsi-cola Company, the second largest soft drink business and Tropicana Products, the largest marketer and producer of branded juice. PepsiCo brands are among the best known and most respected in the world and are available in about 190 countries and territories. In 2000, PepsiCo has 2 reported net sale of $20,348 and a comparable net sale of $20,144 In comparison to its 1999's net sales of $20,367 and $18,666 respectively. PepsiCo has increased its comparable net sale of 8% in 2000 while it had an increase of 15% in 1999. This reflects the increasing rate is going slower. On the other hand, PepsiCo’s interest expense declines 39% showing that the company’s is significantly lower the average debt level. Back to 1999, the report shows that the company's interest expense dropped 8%, which indicates that the company is performing well in managing its financial strategies. More details about the financial performance of the company will be discussed in the later part of this paper.

I. External Environment

General Environment (PESTEL analysis):

PepsiCo is the second biggest company in the global food and beverage industry. To keep this position, PepsiCo’s strategic decision-making processes must account for the issues outlined in this PESTEL/PESTLE analysis. The PESTEL/PESTLE analysis model is a strategic management tool that identifies various external factors relevant to firms, based on the conditions of their remote or macro-environment. In PepsiCo’s case, these factors determine the company’s growth path. The global market presents challenges that threaten PepsiCo while creating opportunities for improvement. Thus, strategies and reforms based on the elements of the PESTEL/PESTLE analysis model can boost PepsiCo’s long-term growth. PepsiCo’s long-term growth trajectory is partly dependent on how the company addresses the major issues identified in this PESTEL/PESTLE analysis. PepsiCo must develop strategies that enhance its abilities to withstand the external factors in its remote or macro-environment.

There are 6 factors which affect the business. The factors are:

• Political

• Economic

• Social

• Technological

• Legal

• Environmental

Political Factors Affecting PepsiCo's Business

Governments are external factors that impose requirements on PepsiCo. This element of the PESTEL/PESTLE analysis considers the effects of governmental action on companies' remote or macro-environment. PepsiCo must address the following political factors:

1. Political stability in major economies (opportunity)
2. Improved intergovernmental cooperation (opportunity)
3. Government initiatives against carbonated drinks (threat)

Major economies like the United States and Canada are politically stable, thereby presenting growth opportunities for PepsiCo. In addition, the trend of intergovernmental cooperation improves opportunities for global expansion. However, government initiatives against sweetened carbonated drinks are a threat that could reduce PepsiCo's revenues from affected segments. In this element of the PESTEL/PESTLE analysis, PepsiCo must consider changing its products to overcome the identified threat about carbonated drinks.

Economic Factors Important to PepsiCo

PepsiCo's performance is directly linked to the economy. The influence of economic conditions on the remote or macro-environment of businesses is covered in this element of the PESTEL/PESTLE analysis. The political external factors that relate to PepsiCo are as follows:

1. Economic stability of most major markets (opportunity)
2. Rapid growth of developing economies (opportunity)
3. Slowdown of the Chinese economy (threat)

PepsiCo has opportunities for growth and expansion based on the economic stability of developed countries like the United States, as well as the high growth rates of developing economies, such as those in Asia. However, the current slowdown of the Chinese economy threatens PepsiCo's potential international growth, considering that China is among the biggest economies in the world. This element of the PESTEL/PESTLE analysis shows that PepsiCo must ensure market diversification to achieve stable international growth.

Social/Socio cultural Factors Influencing PepsiCo's Business Environment

Many of PepsiCo's consumers follow socio cultural trends. This element of the PESTEL/PESTLE analysis identifies the impact of social conditions and changes on companies' remote or macro-environment. The following are notable socio cultural external factors relevant to PepsiCo's business:

1. Higher health consciousness (threat & opportunity)
2. Increasing busy lifestyles (opportunity)
3. More discriminating attitudes about product quality (opportunity)

Higher health consciousness is a threat to PepsiCo because of concerns about the sugar, salt, and fat content of its products. However, this external factor also presents the opportunity for the company to improve its products to address such concerns. PepsiCo can also take advantage of the busy lifestyles of consumers, especially in urbanized and industrializing markets around the world. People with these lifestyles are more likely to purchase ready-to-eat food products like those of PepsiCo. The company has the opportunity to continue enhancing product quality to maximize revenues, with regard to consumers' increasingly discriminating attitudes about product quality. Based on this element of the PESTEL/PESTLE analysis, PepsiCo must align its products and marketing strategies to changes in consumer behaviors.

Technological Factors in PepsiCo's Business

PepsiCo's business is partly dependent on technologies. The link between technological change and companies' remote/macro-environment is examined in this element of the PESTEL/PESTLE analysis. The technological external factors significant to PepsiCo are as follows:

1. Moderate R&D investments in the food and beverage industry (opportunity)
2. Improving knowledge management systems (opportunity)
3. Increasing automation in business (opportunity)

Based on moderate research and development (R&D) investments in the industry, PepsiCo can boost its own R&D investments to improve its competency in this business aspect. Also, PepsiCo can exploit the benefits of knowledge management systems to support its various business processes, such as product innovation and strategic decision-making. In addition, an increase in the number of automated processes in the company can enhance business performance. This element of the PESTEL/PESTLE analysis indicates that PepsiCo must include new technologies as tools to improve business competitiveness.

Ecological/Environmental Factors

PepsiCo's supply chain and brand image are linked to environmental concerns. This element o f the PESTEL/PESTLE analysis considers the ecological trends and issues that affect consumers, employees, and companies' remote or macro-environment. The following ecological external factors are significant to PepsiCo:

1. High focus on business sustainability (opportunity)
2. More complex expectations and standards on waste disposal (opportunity)
3. Climate change (threat & opportunity)

Consumers are now pushing companies like PepsiCo to improve their sustainability standing. In relation, PepsiCo can improve its waste disposal strategies, such as recycling, to gain more support from customers. On the other hand, climate change poses a threat to PepsiCo's supply chain. However, the company can further diversify its global supply chain to minimize risk exposure to climate change. Based on this element of the PESTEL/PESTLE analysis, PepsiCo must improve its environmental impact to attract and retain customers, and to stabilize its supply chain.

Legal Factors in PepsiCo's Industry

PepsiCo and its competitors are subject to legal requirements. Such requirements and regulations are evaluated in this element of the PESTEL/PESTLE analysis in terms of their effect on the industry's remote or macro-environment. The legal external factors relevant to PepsiCo's business are as follows:

1. Regulation on GMO ingredients (opportunity)
2. Health and product safety regulations (opportunity)
3. Moderate rate of regulatory change (opportunity)

Genetically modified organisms (GMOs) are now increasingly regulated worldwide, particularly in Europe. PepsiCo has the opportunity to reduce its use of GMO ingredients to satisfy these regulations. Similarly, the company can improve products to address regulations about product safety and health effects. The moderate rate of regulatory change gives opportunity for PepsiCo to grow with the expectation that its current strategic decisions will satisfy regulatory requirements in the long term. In this element of the PESTEL/PESTLE analysis, it is shown that PepsiCo can focus on product innovation to comply with regulations.

II. Internal Environment:

PepsiCo's Corporate Structure

PepsiCo's organizational culture indicates the company's commitment to maximizing the strengths of its human resources. A firm's organizational culture defines the traditions, values, and ways through which workers perform. In PepsiCo's case, employees are encouraged to focus on excellence in a collaborative way. As the second biggest food-and-beverage company in the world, PepsiCo continually strives to improve its workforce. It is essential to maintain a high performance culture to sustain this market position. PepsiCo uses its organizational culture as a strategic approach to optimize its performance by harnessing the strengths of its people. PepsiCo's organizational culture emphasizes taking care of employees and using their capabilities to achieve high business performance. PepsiCo originally had a hierarchical organizational structure in its early years. However, after a number of key mergers and acquisitions, along with global expansion, the company has changed its organizational structure accordingly. The following are the main characteristics of PepsiCo's organizational structure:

- Market divisions
- Functional corporate groups/offices
- Global hierarchy

Market Divisions:

The most prominent feature of PepsiCo's organizational structure is its market divisions. These divisions are based on two variables: business and geography. In terms of business, PepsiCo's maintains one global division for Frito-Lay and another global division for Quaker Foods. In terms of geography, the company has divisions for the Americas, Europe, and other regions. The following are the market division in PepsiCo's organizational structure:

- PepsiCo Americas Beverages
- Frito-Lay
- Quaker Foods
- Latin America Foods
- PepsiCo Europe
- PepsiCo Asia, Middle East & Africa

Functional Corporate Groups/Offices:

This characteristic of PepsiCo's organizational structure refers to basic business functions. The company has global or corporate offices for these functions. PepsiCo's objective in having functional groups is to ensure corporate control and rapid implementation of policies and strategies. An Executive Vice President or Senior Vice President heads each of these groups. The following are the main functional corporate groups/offices at PepsiCo:

- Global Categories and Operations
- Global Research and Development
- Human Resources
- Finance

- Government Affairs and Legal
- Talent Management, Training and Development
- Communications

Global Hierarchy:

PepsiCo's organizational structure also features a hierarchy that spans the global organization. A hierarchy typically supports monitoring, control and governance at the global/corporate level. PepsiCo has maintained considerable hierarchy for top-down communications, monitoring and control. This characteristic of the organizational structure also provides a means through which PepsiCo minimizes deviations from its policies and strategies.

A. PepsiCo's Organizational Culture

PepsiCo adjusts its organizational culture through the years. This aspect of the business responds to changes in leadership as well as business situations. At present, the following are the main characteristics of PepsiCo's organizational culture:

1. Performance with Purpose
2. Real World Leadership
3. Collaboration

Performance with Purpose:

PepsiCo employees perform with the purpose of achieving excellence for the company, customers, communities, and the planet. This feature of the organizational culture indicates PepsiCo's commitment to fulfill its corporate social responsibilities. In essence, employees are encouraged to address the concerns of PepsiCo's stakeholders. The most significant impact of this characteristic of the organizational culture is that it motivates workers to do better. For example, PepsiCo employees are motivated to excel in what they do, and to ensure that their efforts contribute to the improvement of the business and its stakeholders.

Real World Leadership:

PepsiCo's organizational culture emphasizes leadership based on what employees, investors, customers and communities really need. The company uses employee knowledge to develop its leadership. More specifically, PepsiCo promotes employees to leadership positions. This internal leadership development indicates that PepsiCo's organizational culture facilitates the use of employees' work-based experiential knowledge to fuel business leadership and growth. As a result, the process of organizational learning is maintained through PepsiCo's organizational culture.

Collaboration:

Teamwork is an integral part of PepsiCo's organizational culture. The company believes that collaboration enables the business to achieve excellent performance. While PepsiCo recognizes the strengths of individual employees, its corporate culture sustains the use of these strengths through collaborative efforts. For example, teams are used throughout the organization. Through this feature of the organizational culture, PepsiCo supports synergy in its human resources, instead of just relying on separate individual efforts.

B. Organizational Activities Analysis

Research and Development

Through research and development quality of the product can be improved or better techniques or machinery can be developed which can increase the production. When technology is advance the supply of the product increase hence the company experiences growth in their business. Pepsi operates in almost all the countries and these are also technological factors:

- Introduction of cans and plastic Bottles
- Newer and attractive Designs
- State-of-the-Art plants
- Advertisement

Human resource:

Functional expertise involves the development of business teams, administration of HR management systems and the identification of staffing needs. Execution of processes and the handling of daily HR-based transactions provide direct and technical support to the business. Business partnership allows HR professionals to actively participate in the business and learn our ongoing challenges. This allows our HR team to match the right solutions, ideas, skills, people and processes to the specific needs of their business units. You will be able to leverage your functional knowledge and skills with the needs of the business in ways that create measurable results. Creating valuable change in line with the business agenda defines our overall contribution to the results of the business unit. At PepsiCo, we reserve a spot for you at the leadership table, but it's up to you to earn your voice and make an impact.

Marketing:

PepsiCo's marketing mix has evolved over time, especially because of the effects of mergers and acquisitions. The marketing mix or 4Ps (Product, Place, Promotion & Price) is the combination of strategies and tactics that the firm uses to implement its marketing plan. In this regard, PepsiCo employs various strategies and tactics based on its array of products and brands. The differences among markets also require variations in approaches used in the marketing mix. However, despite these variations, PepsiCo’s marketing mix has a number of general characteristics that define the company’s general corporate approaches to its marketing plan implementation. PepsiCo remains effective and globally successful in this aspect.

Core competence:

PepsiCo enjoys the stature of the dominant force that it is in various segments of the food and beverage industry due to its famed distribution systems. PepsiCo goes to market through a distribution network of extraordinary strength and flexibility. This is a core competency as it satisfies all the four criteria of sustainable competitive advantage i.e., it is a valuable capability, rare, costly to imitate and non-substitutable. The reason why is it so is explained below.

The goal of the distribution channel of PepsiCo is to put its products within easy reach of the consumer. Because practices and customs vary by market, and because retail customers have different needs, PepsiCo has several successful models for service that it uses around the world.

Direct store delivery - Direct store delivery (DSD) systems are at the heart of this network. Through these systems, PepsiCo takes its products directly to tens of thousands of distribution outlets, from the tiniest convenience stores to the largest warehouse outlets. Pepsi and its bottlers personally take products into stores and set them on the shelves, helping to ensure that products are fresh and that fragile items such as chips are handled with care. It also allows PepsiCo to merchandise its brands for maximum visibility and appeal. PepsiCo's systems can move new products into national distribution quickly-sometimes as quickly as a week. And because representatives call on retail customers so frequently, they know very quickly how a new product is selling. At the same time, DSD provides financial benefits to retailers. Since Pepsi handles the products and merchandising, retailers save on labor. And because these products typically are sold and restocked every few days, while retailers pay for them on 30-day cycles, Pepsi adds to a store's cash flow. In fact, PepsiCo contributes more than any other manufacturer to the revenue growth, profit growth and cash flow of the big U.S. retailers. In international markets, PepsiCo is able to adapt its distribution to reap the benefits of traditional DSD-particularly the merchandising capabilities and the reach into many retail outlets-without the costs that would burden a young or subscale business.

Broker-Warehouse Distribution- For some of PepsiCo's products, traditional broker warehouse distribution is more economical and just as effective as DSD. According to this system, third party distributors move PepsiCo's products to stores, and store employees stock the shelves. This system works best for non-"impulse" products such as Gatorade, Quaker Oats, Tropicana Twister, or Cap'n Crunch cereal, which are neither fragile nor highly perishable. PepsiCo's merger with Quaker dramatically expanded the company's broker-warehouse distribution capabilities, adding the large and efficient warehouse system used for Quaker and Gatorade products. To leverage that strength, PepsiCo has combined that system with Tropicana's.

Additionally, the Quaker-Gatorade system is used for certain Frito-Lay snacks that are better suited to warehouse distribution. Vending and Foodservice-Every year, consumers buy more snacks and beverages from vending machines and the foodservice companies that serve stadiums, office buildings, colleges, and similar venues. By combining the capabilities of Frito-Lay, Tropicana, and Quaker, it has created one of the biggest vending and foodservice sales forces in North America, a 600-person team that already generates well over $1 billion in annual sales.

Industry Environment (Porter's Five Forces Analysis of Pepsi)

Pepsi and Coca Cola are the leading brands in the soda industry. However, the soda industry has felt the chill during the last few years. Apart from the sweeping health consciousness, there are other factors too that are affecting its profitability. Pepsi had a bad 2015 and things do not seem to be taking a very bright turn. There are economic and social factors that are affecting business in the industry. Below is a five forces analysis that analyses the state of competition in the soda industry and how much control Pepsi has over it. The five forces model was developed by Michael E Porter. These five forces are a part of every industry and market and have an important influence on profitability. Evaluating the strength of these five forces can provide the business managers with valuable insights to formulate effective strategies.

Potter's Five Forces Model:

1. Rivalry among Existing Competitors: VERY HIGH

 High diversification from the competitor like Coca cola.

 Few strong companies have a control over the market.

 In the present, the main competitor is Coca-Cola wand the competitor also provide a wide range of beverage products under its brand. Both Coca-Cola and Pepsi are the predominant carbonated beverages and commit heavily to sponsoring outdoor festivals and activities.

2. Bargaining Power of Buyers: HIGH

 There are many substitute products in the market; therefore, customer has large varieties of product.

 The customer in the beverage market is price sensitive, as company cannot charge high price because they have many choice of product.

 The consumer can switch to other product or other company' product as there are many same kind of drink in the same market.

3. Threat of Substitute: HIGH

 There are many kinds of energy drink and soda products in the market.

 Many companies provide similar product in the same market.

 Not only coca cola is the main competitor but PepsiCo also have other product line, which means that they also have other competitors.

4. Threats of New Entrants: LOW

 Entry barriers are relatively low for beverage industry as there is already various number of the company in the market.

 Few multinational groups own the largest part of the market share.

 There is high initial cost, therefore, few company want to enter this market

5. Bargaining Power of Suppliers: LOW

 Dependence on raw materials, however, there are a lot of suppliers available in the market.

 The main ingredients for soft drink include carbonated water, phosphoric acid, sweetener, and caffeine. The suppliers are not concentrated or differentiated.

 Any supplier would not want to lose a huge customer like PepsiCo.

SWOT Analysis of Pepsi CoLa:

STRENGTHS:

Pepsi cola has a brand name that holds its own prestige in the world market. The multinational entity of the Pepsi Cola Pakistan gives it an edge upon other competitors. The management of this beverage company comprises of one of the most professional people and the strong financial firmness guarantees it a solid backing to sell its products. It is rated as the Pakistan’s number one cold drink and is famed for its internationally well-known brand name “Pepsi Cola”. The product quality has improved due to upgraded quality of packaging and the ameliorated liquid in comparison to its competitors. My personal experience is that the product is far better than any product of it’s kind and also the improvement in packaging and the commencement of plastic shells has received a favorable Response from the dealers and the loaders. The regular supply of the products is another strength of the company. The products are regularly supplied to the dealers through proficient means of delivering and distribution has given Pepsi Cola Pakistan an added Advantage. Pepsi Cola trucks supply the products regularly and always have the desired products for the dealers. Its marketing strategy is very aggressive which aids it in further and incessant production and distribution of its products. It gives trade offers to its dealers for storing more and more Pepsi Cola products and the signage strategies and agglomeration of all the marketing strategies proves that it has a very aggressive marketing Strategy. This will help Pepsi Cola

Pakistan in strengthening its integrity in the market. The location of the Pepsi plant is utilized that all major markets of Punjab are within the reach of the Pepsi Plant within 30-45 minutes.

WEAKNESS:

PepsiCo. Does not enjoy the number one position at international level and is far away from leader Coca-cola in the international market. Pepsi target only young customers in their promotions not focusing different age groups social classes. One of the major weaknesses as in majority of companies is the lack of co-ordination between the management and the worker. In short there is a weak point in their Human Resource management. Workers feel that they are being exploited and are not given the remuneration that they deserve.

The decision making process in the company is highly centralized and the workers feel that there exists no proper authority existing in the firm. The salesmen feel Dissatisfied for they are totally powerless to make any decisions themselves In dealing with their buyers they have not the slightest authority to allow them any credit or discount.

OPPORTUNITY:

Company has brand equity in the eyes of customers, so its new Products can easily penetrate in the market. The company may also diversify its business in some other potential business. PepsiCo May tie up or liaison with major showrooms, computer centers &Restaurant. Noncarbonated drinks (Often a substitute for water) are the fastest-growing part of the industry catering to Health Consciousness of People. There are Lower entry barriers due to presence of highly distribution system for other Pepsi products. PepsiCo may focus on technological advancement & utilization of Internet promotion such as banner, ads and keywords can increase their sales, and more computerized Manufacturing and ordering processes can increase their efficiency.

THREATS:

Fake beverages by the name of PepsiCo are being supplied by unknown people. Such activities really hamper the company's name and its brand originality. Above all the fake beverages supplied are almost similar to the taste of the original PepsiCo. brand and not everyone can decipher the difference between the original and the fake product. This is in fact a great threat to PepsiCo. for unworthy people is taking advantage of its brand name and spoiling its good name in the market The greatest affect is on the revenue from the rural areas where mango drinks take over.

However this is one factor that PepsiCo cannot do anything about for it is not in their hands. If the mango season is to come then it will and nothing can be done about it. The main competitor of the company is the Coca Cola. At the international level, PepsiCo has a very strong competition with Coke. Coke has started its advertisements more effectively to increase their demand and it is a very strong threat for Pepsi. Cola drinks are not good for the health so the awareness level of the people is increasing which is a big threat to the company.

SWOT:

STRENGHTS:

 Strong Multinational (Brand Equity)

 Strong & Vast Distribution Channels

 Lack of Capital Constraints

 Record Market Share

 Strong Brand Portfolio

 Aggressiveness in the Market (Market Leader)

 Brand Promotion & Sponsorship

WEAKNESS:

 Targeting Only Young Customers

 Political Franchises

 Centralized Decision Making

 Decline in Taste

 Motivational Factor

 Not All Products Bear the Company Name

OPPORTUNITY:

 PepsiCo new Products Can Easily Penetrate In The Market.

 Noncarbonated Drinks Are the Fastest-Growing Industry

 Demand of Pepsi Is More than Of Competitor

 Changing Social Trends (Fast Foods)

 Internet Promotion and Ordering Processes

 May Tie Up or Liaison with Major Showrooms, Computer Centers &Restaurant

THREATS:

 Non-Carbonated Substitutes (The Mango Season)

 Beverage Industry Is Mature

 Fake Products (Imitators)

 Competitor’s Schemes

- Strong Competition With Coca-Cola Company

Conclusion

PepsiCo should do market surveys of their target market segments in order to analyze the existing brand awareness in the marketplace every two quarters and then analyze the overall change and trend on the calendar year. PepsiCo should cut their expenses by a set percentage every quarter in order to increase their Net Income each quarter and year. This would increase the bottom-line and benefit the stockholders. It would be advised to reduce costs by 10% as an original amount, and then potentially increase the percentage after a few trial quarters. PepsiCo should position themselves on the cutting edge of the health trend in the marketplace by increasing funds for R&D in order to research potential new product ideas. Funding should be increased significantly and then the ROI on the positioning should be analyzed after multiple quarters of study.

Unit-2 INTERNATIONAL BUSINESS ENVIRONMENT

Trading Environment – Commodity Agreements – Cartels – State Trading – Trading Blocks and Growing Intra-Regional Trade – Other Regional Groupings – SAARC – GATT/WTO and Trade Liberalization – The Uruguay Round – Evaluation – UNCITRAL.

Introduction:

Study of environment helps to know the opportunities & threats of the international business. A global company has to formulate strategies based on its mission, objectives and goals. Strategy formulation is a must for a global company to make decisions regarding the markets to enter, product/service range to introduce in the foreign countries and the like. Further, the severe & intensified competition in the global market makes the strategy formulation a challenging task.

Environment provides the opportunities to the business to produce and sell a particular product. Similarly, environment in India provides opportunities for production and selling of fuel saving motor bicycles. Environment, sometime poses threats & challenges to business. Business should enhance its strength in order to face the challenges posed by the environment.

For ex: China dumped steel at cheap prices in the Indian market & posed the threat to the Indian steel industry, i.e., consequently, Indian steel industry improved its technology in order to meet the challenges & dumped its steel U.S. market.

Study of environment helps the business to formulate strategies & run the business efficiently in the competitive global market

MEANING OF INTERNATIONAL BUSINESS ENVIRONMENT

Environment means surrounding. International business environment means the factors / activities those surround/encircle the international business. In other words business environment means the factors that affect or influence the MNCs & transactional companies.

DEFINITION:

William F. Glueck defines the term environmental analysis as, “The process by which strategists monitor the economic, governmental/legal, market/ competitive, supplier/technological, geographical and social settings to determine opportunities and threats to their firms.

I. INTERNATIONAL BUSINESS ENVIRONMENTAL FACTORS

Business environmental factors are broadly divided into internal environmental factors & external environmental factors.

Internal environmental factors affect the business from within. They include:

1. Organizational Structure
2. Production
3. Finance
4. Marketing
5. Human resource
6. R&D

II. EXTERNAL ENVIRONMENTAL FACTORS ARE FURTHER DIVIDED INTO:

Micro & Macro external factors

A) Micro external factors include:

1. Suppliers of raw materials
2. Competitors
3. Market intermediaries
4. Customers
5. The general public
6. Others:
    - Shareholders
    - Creditors
    - Bankers & financial institutions

B) Macro external factors include: STEPIN

1. Social and cultural factors
2. Technological factors
3. Economic factors
4. Political factors
5. International factors
6. Natural factors

A) MICRO ENVIRONMENT

The micro environment consists of the actors in the company‘s immediate environment‖ that effect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers, and publics. ―The macro environment consists of the larger societal forces that affect all the actors in the company‘s micro environment namely, the demographic, economic, natural, technological, political and cultural forces‖. It is quite obvious that the micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. For example, a firm, which depends on a supplier, may have a supplier environment, which is entirely different from that of a firm whose supply source is different. When competing firms in an industry have the same microelements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

Suppliers An important force in the microenvironment of a company is the supplier, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases. It has been pointed out that factories in India maintain indigenous stocks of 3-4 months and imported stocks of 9 months as against an average of a few hours to two weeks in Japan. Because of the sensitivity of the supply, many companies give high importance to vendor development. Vertical integration, where feasible, helps solve the supply problem. It is very risky to depend on a single because a strike, lock out or any other production problem with that supplier may seriously affect the company. Similarly, a change in the attitude or behavior of the supplier may also affect the company. Hence, multiple sources of supply often help reduce such risks. The supply management assumes more importance in a scarcity environment. ―Company purchasing agents are learning how to ―wine and dine‖ suppliers to obtain favorable treatment during periods of shortages. In other words, the purchasing department might have to ―market‖ itself to suppliers‖.

CUSTOMERS As it is often, exhorted, the major task of a business is to create and sustain customers. A business exists only because of its customers. Monitoring the customer sensitivity is, therefore, a prerequisite for the business success. A company may have different categories of consumers like individuals, households, industries and other commercial establishments, and government and other institutions. For example, the customers of a tyre company may include individual automobile owners, automobile manufacturers, public sector transport undertakings and other transport operators. Depending on a single customer is often too risky because it may place the company in a poor bargaining position, apart from the risks of losing business consequent to the winding up of business by the customer or due to the customer‘s switching over the competitors of the company. The choice of the customer segments should be made by considering a number of factors including the relative profitability, dependability, stability of demand, growth prospects and the extent of competition.

COMPETITORS A firm‘s competitors include not only the other firms, which market the same or similar products, but also all those who compete for the discretionary income of the consumers. For example, the competition for a company‘s televisions may come not only from other T.V. manufacturers but also from two-wheelers, refrigerators, cooking ranges, stereo sets and so on and from firms offering savings and investment schemes like banks, Unit Trust of India, companies accepting public deposits or issuing shares or debentures etc. This competition among these products may be described as desire competition as the primary task here is to influence the basic desire of the consumer. Such desire competition is generally very high in countries characterized by limited disposable incomes and many unsatisfied desires (and, of course, with many alternatives for spending/investing the disposable income). If the consumer decides to spend his discretionary income on recreation (or recreation cum education) he will still confronted with a number of alternatives choose from like T.V., stereo, two-in-one, three –in-one etc. The competition among such alternatives, which satisfy a particular category of desire, is called generic competition. If the consumer decides to go in for a T.V. the next question is which form of the T.V. – black and white or colour, with remote-control or without it etc. In other words, there is a product form competition. Finally the consumer encounters the brand competition i.e., the competition between the different brands of the same product form. An implication of these different demands is that a marketer should strive to create primary and selective demand for his products.

MARKETING INTERMEDIARIES The immediate environment of a company may consist of a number of marketing intermediaries which are ―firms that aid the company in promoting, selling and distributing its goods to final buyers‖. The marketing intermediaries include middlemen such as agents and merchants who ―help the company find customers or close sales with them‖, physical distribution firms which ―assist the company in stocking and moving goods form their origin to their destination‖ such as warehouses and transportation firms; marketing service agencies which ―assist the company in targeting and promoting its products to the right markets‖ such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risks. Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of this link, or a wrong choice of the link, may cost the company very heavily. Retail chemists and druggists in India once decided to boycott the products of a leading company on some issue such as poor retail margin. This move for collective boycott was, however, objected to by the MRTP commission; but for this company would, perhaps, have been in trouble. DEMOCRATIC A company may encounter certain publics in its environment. ―A public is any group that has an actual or potential interest in or impact on an organisation‘s ability to achieve its interests. Media publics, citizens action publics and local publics are some examples. For example, one of the leading companies in India was frequently under attack by the media public, particularly by a leading daily, which was allegedly bent on bringing down the share prices of the company by tarnishing its image. Such exposures or campaigns by the media might even influence the government decisions affecting the company. The local public also affects many companies. Environmental pollution is an issue often taken up by a number of local publics. Actions by local publics on the issue have caused some companies to suspend operations and/or take pollution abatement measures.

The general public: Your organization has a duty to satisfy the public. Any actions of your company must be considered from the angle of the general public and how they are affected. The public has the power to help you reach your goals; just as they can also prevent you from achieving them.

B) Macro external factors include: STEPIN

SOCIAL & CULTURAL FACTORS:

Social and cultural factors in various countries of the globe affect the international business. These factors include attitude of the people to work, attitude to wealth, family, marriage, religion, education, ethics, human relations, social responsibilities, etc.

Cultural is, “The thought & behavior patterns that member of the society learns through language other forms of symbolic interaction – their customs, habits, beliefs & values, the common view points which bind them together as a social entity. Culture change gradually picking up new ideas and dropping old once, but many of the culture of the past have been so persistent & self-contained that the impact of such sudden change has torn them apart , uprooting their people psychologically”.

- Prescriptive: It prescribes the kinds of behavior considered acceptable in the society. It limits product choices to those which are socially acceptable. FOR EX: Consumption of alcoholic drinks is acceptable in the west, but it is not socially acceptable in India & it is socially and unacceptable in Saudi Arabia. Similarly, smoking is medically unacceptable in the USA – in the recent times

- Socially Shared: Culture is based on social interaction and creation. In fact, it is out of necessity. FOR EX: Child marriage in India during 18 & 19 Centuries were meant to protect the teenage girls. Chinese parents, at one time preferred their female children to have small feet. The practice of the Sikhs wearing turbans and keeping a knife was originally out of the necessity of protecting themselves from the invaders from other countries.
- Dynamic: Culture is not immune to change. It goes on changing. New ideas are added and old ideas are dropped. The present generation wants to become slim. Therefore, they reduce the fat contains in all the food items unlike the previous generation. Further, the present generation youth would like to work smart but not hard unlike their parents. Japanese tastes have been changing from rice & fish to meat & dairy products.
- Culture attitude & International business: Dressing habits, living styles, eating habits and other consumption patterns, priority of needs are dictated/ influenced by culture. Some Chinese & most if the Indian do not consume beef. Thailand Chinese believe consumption of beef is improper and Indian believes that eating beef is a sin as they believe cow is sacred. The eating habits vary widely.

  Chinese eat fish stomachs, & birds nest soup, they also eat uncooked sea food, Iraqis eat dried, salted locusts and snakes while drinking. Indian eats mostly vegetarian food. However, the foreign culture regarding food has been adapted. Masala dosa , Hyderabadi Biryani has become popular in Europe and the USA, where as pizzas have become popular in India.

TECHNOLOGICAL FACTORS:

Man of the third millennium is able to see any part of the world, get any product from any country, and get messages from all over the world with bare minimum cost by simply staying at his home or office. The distance is shrunken among the countries due to technology. All this, 'once-up-on-a-time's' illusion has become reality. The latest information technology has dissolved the national boundaries and the advancements of transportation technology have reduced the distance among the world nations.

Technological environment has significant and direct influence on business in general and international business in particular. Technology is the application of knowledge. J.K. Galbraith defines technology as "a systematic application of scientific or other organized knowledge to particular tasks". Technology advanced phenomenally during the past 50 years.

Technology changes at a faster rate. In fact, it brings change in the society, economy and politics. Technology affects all walks of life, all countries and the entire globe. As stated by Alvin Toffler, "Technology feeds on itself. Technology makes more technology possible." Thus, technology is self-reinforcing. Technology brings the globe closer. Technology flows from the advanced countries to the developing world through the multinational corporations (MNCs), joint-venture, technological alliances, licensing & franchising.

Technology & Economic development

- Technology is one of the significant factors which determine the level of economic development of a country. The difference between the nations is mostly reflected by the level of technology. For ex: though India had vast natural resources, it remained as a major importing country due to its low level technology before 1991. Japan with its high level technology could export finished goods to India, by importing the raw material from India itself. Thus, though Japan is endowed with poor natural resources, the Japanese became rich and advanced due to technology.
- As such, developing countries allows MNCs entry into their countries in order to have benefits of the latest technology and to develop the domestic industry. But often, it is criticised that the MNCs transfer obsolete technology to developing countries

Technology & International Corporations

- Nations develop economically when they translate science into useful technology & in turn create wealth from innovations. Innovation is the useful adaptation of science or knowledge including invention of new products or processes. Invention is creation of entirely new. A few companies or people invent many companies adapt scientific knowledge to generate wealth by application and commercialization.
- Major inventions or discoveries do not remain properly for a long period. The inventions or innovation process & global competitiveness are two determinants of a nation's wealth, Japan concentrates on process innovation in automobiles, steel, telecommunication and microelectronics while Germany concentrates on innovations in chemicals, pharmaceuticals, automotive engineering and machine tools. Italy concentrates on innovations in textiles & leathers.

Technology & Location of Plants

- In addition, MNCs relocate their manufacturing facilities based on the technology. In other words, MNCs locate the plants with high technology in advanced countries and establish the labour driven manufacturing facilities in developing countries, in order to get the advantages of cheap labour.

ECONOMIC FACTORS:

The economic environment of various countries mostly and directly influences international business. In fact, international economic environment and global business interact with each other. Global economy has undergone a sea change during the last 50 years. The change was revolutionary after 1990. The results of these changes are the emergence of global markets, establishment of World Trade Organization, emergence of global business houses and global competitors rather than local competitors. The major changes include:

- Capital flow rather than trade or product flow across the globe.
- Establishment of production facilities in various countries.
- Technological revolution delinked the relation between the size of production and level of employment.
- Primary products are delinked from the industrial economies.
- The macroeconomics factors of individual nations independently do not significantly control the global economic outcomes.
- The contest between 'capitalism 'and 'communism' is over. Capitalism succeeded over communism/socialism as a model for the organization of economic activity.

BUSINESS AND ECONOMIC DEVELOPMENT

Business helps for identification of people's needs, wants, production of goods, supply them to the people. Thus, it creates for the conversion of inputs into output and enables for consumption. Ultimately, it leads to economic development. The developing countries concentrate on allocation of scarce resources, increasing production and productivity to meet the growing needs of the population. Further, business also streamlines the distribution of goods from the manufacturing centres to the customers. International business houses establish their manufacturing centers in various countries and distribute the goods to the customers of a number of countries. Thus, international business contributes to the economic development.

Countries do also compete among themselves develop their economies as MNCs compete by enhancing its competitiveness. China is competing in order to be the biggest economy of the world. Malaysia enhanced its competitiveness in manufacturing and service sector. Similarly, most of the emerging economies like India, Russia, brazil have been working for improving their competitiveness.

ECONOMIC ISSUES AFFECTING THE BUSINESS DECISIONS:

- ECONOMIC GROWTH: The high economic growth rate of the countries lift the quality of life of their citizens in addition to providing an opportunity of expanding marketing share to international business firms. The stagnation or decline in economic growth of countries result in intensive competition among the companies to retain their market share and/or to increase their market share. The stagnation in global economy in 2001 and 2002 led to the aggressive competition among the international business firms. Managers of multinational companies are interested in knowing the future economic growth rates of various countries in order to select the market either to enter or concentrate or to commit more resources to the market. According to the Organisation of Economic Cooperation and Development (OECD) the global economic recession in 2001 was the highest in the last 20 years. The USA and European Union started recovering after this

- RECESSION at a faster rate than Japan. However, china and India recorded continuous growth rate of around 7 percent to 6 percent respectively.
- INFLATION: inflation is another important factor that affects the market share of international business firms. Inflation affects the interest rates, as the demand for money is high due to higher price. Banks increase interest rate in order to attract deposits and governments raise interest rates in order to combat inflation. Inflation also affects the exchange rate of the domestic currency in terms of various foreign currencies. Inflation weakens the domestic currency and thereby makes the exports dear and imports cheap.

- BALANCE OF PAYMENTS: BOP position of the country is the outcome of the international business and also affects the future of the international business. Export and import trade in goods and services affect current account position and flow of capital affects the capital account position. Excessive imports of goods, services, and capital over exports result in the negative BOP. Continuous negative BOP will lead to currency instability and control over imports and incentives to boost exports. Excessive imports over exports in USA led to decline in value of US dollar in the last 2004 and early 2005.
- ECONOMIC TRANSITION: many former command/communist economies and mixed economies are undergoing transition to market economies due to the failure of central planning and public sector to generate the economic development. The collapse of the former USSR and the break-up of Berlin wall and foreign exchange crisis in India in 1991 and opening up of china towards extensive international trade paved the way for increased globalization of business. This process enhanced the interest of MNCs in carrying out the business in many parts of the world conversion of many national countries in many countries to multinational companies.

POLITICAL ENVIRONMENT

Countries with stable political system enjoyed the stable business operation. The USA is the best example for stable politics and dynamism. Hence business people prefer to locate their business operation in USA. John Kenneth Galbraith argues that, in all the advanced countries, "the early emphasis was not on capital investment but on political and then on cultural development. In the USA, west Europe and more recently in Japan, a secure political context was stressed in both thought and action on economic development; it was considered the first requisite for economic progress."

- In addition to stable and dynamic governments, the political environment includes the policies and characteristics of political parties, the nature of the constitution and government system.
- Some countries do not differ from other countries regarding the philosophies of the political parties some other countries differ radically. Some countries are highly bureaucratic in decision making regarding the foreign investment, technology imports, etc., while some other countries have simple and quick decision making mechanisms with their democratic approach.
- It does not mean that the communist countries do not allow MNCs. In fact, the former USSR allowed the Pepsi when India did not allow it to enter. Similarly, even non-communist countries encouraged public sector companies. This is more so in most of the developing countries including India in 1991. Even today India reserved nine strategic industries exclusively for public sector. Even the USA has Pubic sector organizations.
- Political friendship/friendly diplomatic relations result in the growth of bilateral and multilateral trade. For example: the friendly relation between India and former.
- USSR helped not only Indian companies but also the MNCs operating in India to have close business linkages with the former USSR. Similarly, the friendly relation between Pakistan and USA helped Pakistan companies to have close business linkages with the USA.
- **POLITICAL RISKS:** international business firms face political risks as and when there are changes in government policies and/or changes in political parties in power. some of the political risks are mentioned below.
- Confiscation
- Expropriation
- Nationalization
- Domestication
- General instability risk
- Operation risk

LEGAL ENVIRONMENT

- Laws of the land directly affect the international business wherever they operate. Therefore international business managers should be aware of the legal system and the laws that are in force in various foreign countries along with the laws of their mother country. Different types of law like common law, civil law, theocratic law, contract law and the degree of independence of the judiciary system vary from country-to-country. However the countries in transition from communism to market-economy, mixed-economy to market economy and different types of totalitarianism to democracy and capitalism may not have perfect business laws.

- There are various laws related to international business and in order to run the successful international business one need to follow the below mentioned things
- PROTECTION OF INTELLECTUAL PROPERTY
- PRODUCT SAFETY AND PRODUCT LIABILTY
- LABOUR LAWS.

TRADING ENVIRONMENT

1. **Commodity Agreements**
2. **Cartels**
3. **State Trading**
4. **Trading Blocks and**
5. **Growing Intra-Regional Trade**
6. **Other Regional Groupings**

1. Commodity Agreements

INTRODUCTION:

Commodity agreements are arrangements between producing and consuming countries to stabilise markets and raise average prices. Such agreements are common in many markets, including the market for coffee, tea and sugar.

MEANING:

International Commodity Agreements which are inter- governmental arrangements concerning the production of & trade in, certain primary products with a view to stabilizing their prices.

OBJECTIVES:

The basic objective is to stimulating a dynamic & steady growth & ensuring reasonable predictability in the real export earnings of the developing countries so as to provide:

- Expanding the resources for economic & social development.
- Consider the interest of the consumers in importing countries.
- Considering the remunerative & equitable & stable prices for primary commodities.
- Considering the import purchasing power.
- Increased imports & consumption & also coordination of production & marketing policies.

FORMS OF COMMODITY AGREEMENT:

A) Quota agreements
B) Buffer Stock Agreements
C) Bilateral or Multilateral Contracts

A) Quota agreements:

- In international trade, a government imposed limit on the quantity of goods and services that may be exported or imported over a specified period of time. Limits on the amount of a goods produced, imported, exported or offered for sale -
- International quota agreements seek to prevent a fall in commodity prices by regulating prices.
- This agreement undertakes to restrict the export or production by a certain percentage of the basic quota decided by the Central Committee or Council.
- This type of agreement mostly in the case of the commodities like coffee, tea & sugar
- This agreement avoids accumulation of stocks require no financing & do not call for continuous operating decisions.

B) Buffer Stock Agreements:

- A practice in which a large investor, especially a government, buys large quantities of commodities during periods of high supply and stores them so they do not trade or circulate. The investor then sells them when supply is low. This is done to stabilize the price -
- It is to stabilizing the prices by maintaining the demand & supply balance.
- It is more useful for the commodities like tea, sugar rubber, copper.
- This arrangements only for those products which can be stored at relatively low cost without the danger of deterioration & this is one of the limitation of this agreement.

C) Bilateral or Multilateral Contracts:

- Bilateral agreements may be formed as business or personal agreements between individuals or companies. They may also be formed between sovereign countries in the form of trade agreements or agreements in other areas. In either case, a bilateral agreement is a binding contract between the two parties that have agreed to mutually acceptable terms -
- International sale & purchase contracts may also be entered into by two or more major exporters & importers.

- Bilateral contract to purchase & sell certain quantities of a commodity at agreed prices.
- In this agreement, an upper price & a lower price are specified.

INTERNATIONAL COFFEE AGREEMENT:

- The International Coffee Organization (ICO) is the main inter-Governmental organization for coffee in the year 1962.
- ICO exporting members account for more than 97% of world coffee production, and its importing members are responsible for around 80% of world coffee consumption.
- The main object is increasing world coffee consumption through innovative market development activities by means of statistics and market study and also promoting the improvement of coffee quality.
- The United States led recent efforts to renegotiate the ICA, and seventh International Coffee Agreement (ICA 2007) was adopted by the International Coffee Council on September 28, 2007
- Features of new agreement is a first-ever "Consultative Forum on Coffee Sector Finance" to promote the development of innovations and best practices that enables coffee producers to better manage financial aspects of the inherent volatility and risks associated with evolving markets.
- Other features include strengthening efforts to develop, review and implement capacity building projects that are particularly important to small scale farmers in key developing country trading partners.
- Other Agreements

- International Natural Rubber Agreement
- International Tin Agreement
- International Wheat Agreement
- A case on The Organization of Petroleum Exporting Countries (OPEC) is also notable.

CARTELS

A Cartel is formal "agreement'' among competing firms. It is a formal organization of producers and manufacturers that agree to fix prices, marketing, and production.

Cartels usually occur in an oligopolistic industry. A group of parties, factions, or nations united in a common cause; a bloc.

DEFINITION OF 'CARTEL'

A cartel is a collection of businesses or countries that act together as a single producer and agree to influence prices for certain goods and services by controlling production and marketing. A cartel has less command over an industry than a monopoly - a situation where a single group or company owns all or nearly all of a given product or service's market.

FEATURES:

- ➢ Cartel agreements are economically unstable.
- ➢ Once a cartel is broken, the incentives to form the cartel return and the cartel may be re-formed.
- ➢ International and national cartels are hard to burst.
- ➢ Cartels do not abolish competition, but regulate it.
- ➢ Cartelization is a formal agreement among the firms, producing the similar products.

OBJECTIVES:

- ✓ To Organize and control distribution
- ✓ To set prices
- ✓ To reduce competition
- ✓ To share technical expertise
- ✓ To lower total production

Why Cartels often fail?

- firms don't cooperate due to a lack of trust

- Firms “cheat”
- Produce extra output (or lower the price)

STATE TRADING CORPORATIONS (STC):

International agreements entered into by governments or government agencies for the sale or purchase of commodities.

The State Trading Corporation (STC) was established by the Union Government in May 1956. It was incorporated under the Indian Companies Act, 1956. Initially, it was designed as the sole import export agency by the Govt. of India.

Initially, it dealt with bilateral trading partners, largely in the socialist block. It has now become a wholly owned holding company of the Projects and Equipment Corporation of India Ltd. The Cashew Corporation of India Ltd; the Handicrafts and Handlooms Export Corporation of India Ltd.

Prior to October 1963, STC looked after the foreign trade of minerals and metals. But with the establishment of Minerals and Metals Trading Corporation of India Ltd (MMTC) in October 1963, the STC has handed over the trading activities in minerals and metals to the newly set up corporation.

Objectives of the STC

The objects of the STC as specified in its memorandum of association are given below:

1. Organizing and undertaking trade in socialist countries as well as other countries in commodities entrusted to the company from time to time by the Government of India; undertaking the purchase, sale and transport of such commodities in India or elsewhere in the world.

2. Undertaking at the instance of the Union Government of India import or internal distribution of any commodity in short supply with a view to stabilizing prices and rationalizing distribution.

3. Implementing such special arrangements for imports, exports, international trade and or distribution of particular commodities as the Union Government may specify in the public interest.

4. Checking the declining trend in exports or to boost export by introducing new products in new markets.

5. Assisting export oriented organizations in their export and financial and organizational activities.

Other objectives of STC:

- To develop core competencies in selected areas and exploit the market opportunities in these areas to the best advantage of the Corporation.
- To make best use of financial strength of the Corporation in expanding its business.
- To lay emphasis on quality of services to customers so as to develop long-term business relationship with buyers and suppliers in and outside the country.
- To create new infrastructure and make optimum utilisation of infrastructure available with the Corporation.
- To pay adequate returns to the stakeholders.
- To fulfil Corporation's social responsibility by following ethical business practices and reinforcing commitment to customers, employees, partners and communities.
- To act as a facilitator to small and medium exporters and importers.

Evaluation of STC

The State Trading Corporation has played a significant role in achieving its objectives for which it was created. Its functioning may be evaluated on the following lines:

I. Turnover

In the initial stage, the STC's efforts were guided by the policies of the government. But later it developed the non-canalized exports of marine products, garments, engineering goods, food products, textiles, etc.

II. Range of products

The STC deals in a wide variety of goods. It includes nearly 300 items such as agricultural items, consumer items, construction materials, software, miscellaneous engineering goods, processed foods, leather and leather products, meat and marine products. However, other products include edible oil, cement, explosives, natural rubber, standard and glazed new prints. It has dealings with more than 84 countries.

III. Other related fields

Apart from dealing in a wide range of commodities, the STC has concentrated on the following activities:

1. Diversification

The STC has taken steps to add new items to its export basket like orthopedic shoes, sports shoes upper, compressors, H.D pipes etc.

2. Market expansion

The STC has spearheaded the national efforts to cultivate new markets for Indian commodities and manufactured goods. The STC has established itself in the new markets on long term basis.

3. Export Oriented Units

The STC has promoted 100 percent export oriented production unites mainly with foreign collaboration and equity participation and 100 percent buy back arrangements.

4. Strong supply base

The STC has developed a reliable supply base for the manufacture of quality goods in association with state undertakings, cooperative organizations and others in selected and identified sectors.

5. Facilitating function

The STC brings together both the buyer and the seller and assist them in fulfilling business contracts. It helps government departments and industrial concerns in procuring supplies of plant and machinery abroad. It also settles disputes in trade that arise between Indian and foreign parties.

6. Trade with socialist countries

Originally, the STC was formed with the objective of developing foreign trade with socialist countries. So, it has improved trade relations with countries of socialist bloc and at the same time, stepping up its operations with non-Communist countries.

7. Marketing expertise to small industry

The marketing expertise offered by the STC to industry has been advantageous to the industry in developing its trade. Without the support of STC, small industrial units will be unable to participate in foreign trade.

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STATE TRADING CORPORATION

- The State Trading Corporation of India Ltd. (STC) is a premier International trading company of the Government of India
- Its engaged primarily in exports, and imports operations.
- It was set up in 1956.
- STC help private trade and industry in developing exports from the country.
- Group of countries
- Existence within a geographical region.
- Motive is to protect themselves from the imports of non-members
- **A form of economic integration** increasingly shaping the pattern of world trade.

TRADE BLOCKS:

A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members. Trading blocs are a form of **economic integration**, and increasingly shape the pattern of world trade. There are several types of trading bloc:

Preferential Trade Area

Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate **tariff** barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.

Free Trade Area

Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members.

Customs Union

A customs union involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members. This means that members may negotiate as a single bloc with 3rd parties, such as with other trading blocs, or with the **WTO**.

Common Market

A 'common market' (or single market) is the first significant step towards full economic integration, and occurs when member countries trade freely in all economic resources – not just tangible goods. This means that all barriers to trade in goods, services, capital, and labour are removed. In addition, as well as removing tariffs, non-tariff barriers are also reduced and eliminated. For a common market to be successful there must also be a significant level of harmonisation of micro-economic policies, and common rules regarding monopoly power and other anti-competitive practices. There may also be common policies affecting key industries, such as the **Common Agricultural Policy** (CAP) and Common Fisheries Policy (CFP) of the European Single Market (ESM).

- A group of countries
- → Which are geographically close to each other
- → Have similar trade policies
- → With their mutual co-operation allow free flow of goods
- Trade blocs have liberal rules for the member countries and separate set of rules for the non-member countries.
- They facilitate trade to member countries of the group but create barriers and block the trade of member countries (so that they can't trade with other countries).

FEATURES OF TRADE BLOCS

- Voluntary in Character/ by nature
- Mutual Negotiations
- Regional in Character
- Divisions based on political considerations
- Existence based on usefulness

OBJECTIVES OF TRADE BLOCS

- → Reduction of trade barriers among the member countries
- → Maintaining better relationship
- → Imposing barriers on non member countries
- → Promoting free transfer of labour, capital and other factors
- → Creating common currency and Central Banking system.
- → Collective Bargaining
- → Assisting member countries
- → Enhancing welfare of consumers
- → Generating competition
- → Promoting Higher Employment

Positive Effects of Trade Blocs:

- → Economic Integration
- → Co-operative Spirit among member countries.
- → Expansion of Markets
- → Growth and Development of the region
- → Uniform policies
- → Increase in trade
- → Product and Market Development
- → Benefits to consumers of member countries
- → Free transfer of resources / factors

Negative Effects of Trade Blocs:

- → Common External Barriers
- → Absence of Collective Bargaining
- → Affects Competition
- → Affects global and international trade
- → High Tariffs (a tax or duty to be paid on a particular class of imports & exports)
- → Import Restrictions
- → Loss of Political Sovereignty

MAJOR TRADE BLOCS

A. EU (European Union)

B. NAFTA (North American Free Trade Agreement)

C. OPEC (Organisation of Petroleum Exporting Countries)

D. ASEAN (Association of South East Asian Nations)

E. SAARC (South Asian Association for Regional Cooperation)

F. MERCOSUR (Mercado Comun del Cono Sur, also known as Southern Common Markets (SCM)

A. European Union:

- ✓ EU stands for European Union.
- ✓ Came into existence on **1st January 1958**
- ✓ It is headquartered at Brussels, Belgium
- ✓ In January 1999, a common currency € (Euro) was introduced
- ✓ Type: Economic Union
- ✓ EU offers financial aid to the developing countries
- ✓ It is a strong trade bloc politically, industrially and economically
- ✓ The world's largest trading bloc.
- ✓ The 2nd largest economy in the world.
- ✓ Originally called the "Economic Community". (Common Market or The Six)
- ✓ Formed from the 'Treaty of Rome' in 1957.
- ✓ It comprised of 6 members- Germany, France, Italy, Belgium, Netherlands and Luxemburg.
- ✓ At present it comprises of 28 member states.

Objectives of European Union:

- ✓ Setting up a common market for all goods & services by eliminating all trade barriers.
- ✓ Promoting free trade among the members.
- ✓ Continuous and balanced expansion.
- ✓ Closer relations between the member states

It has 28 member countries:

- United Kingdom
- Belgium
- Finland
- France
- Germany
- Greece and 18 more
- Netherlands
- Norway
- Poland
- Portugal

B. NAFTA (North American Free Trade Agreement):

- Initially bilateral trade between Canada & U.S.
- NAFTA went into effect in January 1,1994 after the joining of Mexico, creating a trilateral trade bloc in North America.
- World's largest free trade area.

NAFTA has two supplements:

1.The North American Agreement on Environmental Cooperation (NAAEC) and

2. The North American Agreement on Labour Cooperation (NAALC).

Provisions of NAFTA:

- ✓ Eliminate barriers to trade & investment between US, Canada & Mexico.
- ✓ Duty-free market access.
- ✓ Trade rules- safeguard, subsidies countervailing & antidumping duties, health & safety standards.
- ✓ Rules on trade in services & investment.
- ✓ Protection of intellectual property.
- ✓ Dispute settlement mechanism.

C. OPEC (Organisation of Petroleum Exporting Countries):

- ✓ A permanent, intergovernmental Organization, created at the Baghdad Conference on September 14, 1960 (Iraq, Kuwait, Iran, Saudi Arabia and Venezuela).
- ✓ Later joined by 8 more countries.
- ✓ The main objective is to coordinate and unify petroleum policies among the member countries.
- ✓ To secure fair and stable price for petroleum producers.

- ✓ Proper price and regular supply for petroleum consuming nations.
- ✓ Its Headquarter is in Vienna, Austria.

Member Countries:

- Iraq
- Kuwait
- Iran
- Saudi Arabia
- Venezuela
- Libya
- United Arab Emirates
- Qatar
- Indonesia
- Algeria
- Nigeria
- Ecuador
- Angola
- Gabon.

D. ASEAN (Association of South East Asian Nations):

- ✓ Formed 8th August,1967 (Indonesia, Malaysia, Philippians, Singapore & Thailand)
- ✓ Later joined by Brunei, Burma, Cambodia, Laos & Vietnam
- ✓ Established ASEAN Free Trade Area (AFTA)
- ✓ Headquarter- Jakarta, Indonesia.

Primary goals of AFTA are:

- ✓ To encourage inflow of foreign investment into this region.
- ✓ To establish free trade area in the member countries.
- ✓ To reduce tariff of the products produced in ASEAN countries.

Objectives of ASEAN:

- ✓ Accelerating Economic Growth.
- ✓ Social Progress.
- ✓ Cultural Development among its members.
- ✓ Protection of regional peace and stability.
- ✓ Discuss issues peacefully.

Members Countries:

- Indonesia
- Malaysia

- Philippines
- Singapore
- Thailand
- Brunei
- Myanmar
- Cambodia
- Laos
- Vietnam

E. SAARC (South Asian Association for Regional Cooperation)

Introduction:

The South Asian Association for Regional Cooperation (SAARC) comprises the seven countries of South Asia, i.e. Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. It is an Association based on the consciousness that in an increasingly independent world, the objectives of peace, freedom, social justice and economic prosperity are best achieved in the South Asian region by fostering mutual understanding, good neighborly relations and meaningful cooperation among the Member States which are bound by ties of history and culture. The idea of regional cooperation in South Asia was first mooted in November 1980. After consultations, the Foreign Secretaries of seven countries met for the first time in Colombo in April 1981. This was followed up, a few months later, by a meeting of the Committee of the Whole, which identified five broad areas for regional cooperation. The Foreign Ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on South Asian Regional Cooperation (SAARC) and formally launched the Integrated Programme of Action (IPA) initially in five agreed areas of Cooperation namely, Agriculture; Rural Development; Telecommunications; Meteorology, and Health and Population. Scientific and Technological Cooperation; Sports, Arts and Culture were added to the IPA at a later stage. The Heads of State of Government at their First SAARC Summit held in Dhaka on 7-8 December 1985 adopted the Charter formally establishing the South Asian Association for Regional Cooperation (SAARC).

Objectives of SAARC:

- ✓ To promote the welfare of the people of South Asia and to improve their quality of life.
- ✓ To accelerate economic growth, social progress and cultural development in the region.
- ✓ To promote and strengthen selective self-reliance among the countries of South Asia.
- ✓ To contribute to mutual trust, understanding and appreciation of one another's problems.

- ✓ To strengthen cooperation with other developing countries.
- ✓ To maintain peace in the region.

Member countries:

- ➢ Afghanistan
- ➢ Bangladesh
- ➢ Bhutan
- ➢ India
- ➢ Maldives
- ➢ Nepal
- ➢ Pakistan
- ➢ Sri Lanka

F. MERCOSUR (Mercado Comun del Cono Sur, also known as Southern Common Markets (SCM):

- ✓ Established in 1991 by Brazil, Argentina, Paraguay, and Uruguay.
- ✓ These four members generate 70% GNP of South America.
- ✓ By 1996, MERCOSUR had abolished tariffs on goods accounting for 90% of the trade between its member's countries, with remaining tariffs to be abolished by 2000.
- ✓ MERCOSUR & EU signed a cooperation agreement to pave the way for a free trade accord in 2001.

GATT – General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) covers international trade in goods. The workings of the GATT agreement are the responsibility of the Council for Trade in Goods (Goods Council) which is made up of representatives from all WTO member countries. The current chair is Ambassador Mikael ANZÉN (Sweden).

The Goods Council has 10 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures and so on). Again, these committees consist of all member countries.

Also reporting to the Goods Council are a working party on state trading enterprises, and the Information Technology Agreement (ITA) Committee.

- ✓ 23 countries met in Geneva in 1947 & signed a agreement on tariff & international trade. (GATT).
- ✓ Set of multilateral trade agreements aimed at the abolition of quotas and the reduction of tariffs among member countries.

- ✓ Signed on October 30, 1947, by 23 countries in Geneva (to take effect on January 1, 1948).
- ✓ It Consists of 8 Rounds –Rounds of trade negotiations.

Functions of GATT

In fulfillment of its objectives, GATT adopted certain measures. These may be discussed under the following headings.

1. Most favored nation clause
2. Trade negotiations
3. Tariff and non-tariff measures
4. Safeguards
5. Complaints and waivers
6. Settlement of disputes

1. **Most Favored Nation clause**

The "Most favored Nation clause is one of the significant provisions adopted by GATT. Under the concept of Most Favored Nation, all contracting parties of the agreement would be treated as most favored nations. The principal objective is that the benefits extended to one should also be extended to all contracting parties. There should be no discrimination among nations. Trading should be carried on the principle of non-discrimination and reciprocity. This clause discouraged the member countries from granting any new trade concessions unless those were mutually agreed upon. However, many escape clauses were found. Under specific circumstances, less developed countries were allowed to exercise the right to discriminate. For example, dumping and export subsidy might be countered by trade measures only against the offending country. Moreover, special concessions were allowed for trade with former colonies of less developed western countries.

2. **Trade negotiations under GATT**

From 1947 to 2001, GATT has organized 12 trade negotiations. The following table shows various negotiations of GATT and WTO since 1947.

Year	Round	Outcome of Negotiations
1947	Geneva Round	Several thousands of tariff concessions covering nearly 50 per cent of world trade.

Year	Round	Outcome of Negotiations
1949	Annecy Round (France)	Announcement of modest tariff reductions.
1950-51	Torquay, England Round	Over 1948 level, 25 per cent ' tariff reductions were made.
1955-56	Geneva Round	Modest tariff reductions
1961-62	Geneva, Dillon Round	Modest tariff reductions
1964-67	Geneva, Kennedy Round	35 percent tariff reduction on industrial products and modest reduction in agricultural products. Also antidumping code was announced.
1973-79	Geneva, Tokyo Round	Negotiation of additional tariff cuts developed a series of agreements governing the use of non-tariff measures.
1986-94	Uruguay Round	Tariff non tariff measures, rules, services, intellectual property, dispute settlement, creation of WTO etc.
1996 (9 to 13 Dec)	Singapore Ministerial	Two separate working parties were setup on investment and commercial law. Working group was also formed on Government procurement, Trade facilitation added to WTO agenda.
1998 (18 to 20 May)	Geneva Ministerial	Programme on E-commerce launched.
1999 (30 Nov to 3 Dec)	Seattle Ministerial	Market access, agriculture, services, E-Commerce
2001 (9 to 13 Dec)	Doha Ministerial	New Round

3. **Tariff and Non-tariff measures:**

a) Tariff measures:

Tariffs were the important obstacle to international trade. Therefore, GATT encouraged negotiations for the reduction of hig4 tariffs, The participating countries agreed to cut tariff of thousands of industrial products. Reduction of tariff was on reciprocal and mutually advantageous basis. Article 11 of the GATT provided that all concessions granted by contracting parties must be entered in a schedule of concessions. Once a concession was included in the schedule of concessions, it could not be withdrawn except under specified circumstances.

b) Non-Tariff measures of GATT

- **Restriction on use of subsidies**: Subsidies were recognized as an alternative to tariff. Subsidies and countervailing measures committed signatory governments. Use of subsidies by them does not harm the trading interest of another signatory. Moreover, countervailing measures do not unjustifiably impede international trade. However, if any country resorts to dumping (where export price of the product is lower than its domestic price), then the affected country is allowed to impose countervailing duty; The rate of countervailing duty should not be higher than what is required to offset the margin of dumping.
- **Technical barriers**: GATT provides for some technical barriers to trade. These are known as “the code”. Technical regulations or standards, testing and certification schemes adopted by the signatories to GATT should not create unnecessary obstacles to international trade.
- **Import licensing procedures**: Import licensing procedures must be appropriate. Their inappropriate use may hamper international trade leading to restrictions in imports. The signatories to the agreement should follow simple import licensing procedures. They should not create unnecessary obstacles to trade. Governments should administer import licensing procedures fairly.
- **Government procurement**: Government procurement aims at achieving greater international competition while bidding for government procurement contracts. Tenders for government contracts are subject to detailed rules. Tenders should be invited and awarded as per rules laid. Government procurement should be transparent and should not protect domestic products or suppliers or discriminate among foreign products or suppliers.
- **Custom valuation**: Customs valuation sets a fair and uniform system for the validation of goods for customs purpose. Use of arbitrary or fictitious custom values should be avoided. The code lays down a revised set of valuation rules giving greater precision to the provisions of customs valuation. Developing countries are empowered to counter potentially unfair valuation practices.
- **Anti-dumping code**: Article VI of GATT lays down anti-dumping code. It specifies the conditions under which anti-dumping duties may be imposed as a defense against dumped imports. GATT has revised provisions of anti-dumping code in line with the relevant provisions of the code on subsidies and countervailing measures.

4. **Safeguards**

The Agreement on Safeguards ("SG Agreement") sets forth the rules for application of safeguard measures pursuant to Article XIX of GATT 1994. Safeguard measures are defined as "emergency" actions with respect to increased imports of particular products, where such imports have caused or threaten to cause serious injury to the importing Member's domestic industry (Article 2). Such measures, which in broad terms take the form of suspension of concessions or obligations, can consist of quantitative import restrictions or of duty increases to higher than bound rates.

5. **Complaints and waivers**

Article XXII of the GATT entertains complaints from contacting party relating to the operation of the agreement. The contracting party who is likely to be deprived of the benefits under GATT agreement can request the other party for consultation. The basic principle of GATT is that member countries should consult one another on trade matters and problems. Article XXV of the GATT provides the procedure for granting waiver to some contracting party from the application of the provisions of the GATT. Waivers are granted on the approval by two thirds of voting contracting parties.

6. Settlement of disputes

GATT aimed at the smooth settlement of disputes among the contracting parties. GATT allows the member countries to settle problems among them by consulting one another on matters of trade. Initially, the contracting parties should resolve the disputes by holding talks on bilateral basis. In case of failure, the dispute may be referred to panels of independent experts formed under GATT council. The panel members are drawn from countries which have no direct interest in the disputes. If the offending parties does not act upon the panel's decision, the aggrieved party is authorized to withdraw all concessions offered to the offending party. Since the panel procedure ensures mutually satisfactory settlement, members make increased use of the panel.

Principles of GATT

For the realization of the above mentioned objectives, GATT adopted the following principles.

1. Non Discrimination,
2. Protection through tariffs,
3. A stable basis of trade, and;
4. Consultation

1. Non Discrimination

The international trade should be conducted on the basis of nondiscrimination. No member country shall discriminate between the members of GATT in the conduct of international trade. On this basis, the principle

"**Most favored Nation**" (MFN) was enunciated. This means that "each nation shall be treated as good as the most favored nation". All contracting parties should regard others as most favorable while applying and administering import and export duties and charges. As far as quantitative restrictions are concerned, they should be administered without favor.

his basic rule are to be allowed. There is no objection to form free trade areas or custom unions. Such integration should facilitate consistent trade between the constituent territories. They should not raise barriers to the trade of other parties. GATT allows its members to follow measures to counter dumping and export subsidies. However, such measures should be applied only to offending countries.

2. Protection through tariffs only

GATT rules prohibit quantitative restrictions. Domestic industries should be protected only through customs tariffs. Restrictions on trade should be limited to the less rigid tariffs.

Exceptions: exceptions to this principle is given to the countries which suffer from unfavorable balance of payments position. Developing countries also enjoy this exception. Import restrictions may be applied to agricultural and fishery products if their domestic production is subject to equally restrictive production.

3. A stable basis of trade

GATT seeks to provide a stable and predictable basis for trade. It binds the tariff levels negotiated among the contracting countries. Binding of tariffs prevents the unilateral increase in tariffs, But still there is a provision for renegotiation of bound tariffs. A return to higher tariffs is discouraged by the requirement that any increase is to be compensated for.

4. Consultation

The member countries should consult one another on trade matters and problems. The members who feel aggrieved that their rights under GATT are withheld can call for a fair settlement. Panels of independent experts have been formed under the GATT council. Panel members are drawn from countries which have no direct interest in the disputes under investigation. They look into the trade disputes among members. The panel procedure aims at mutually satisfactory settlement among members.

OBJECTIVES OF GATT

- ✓ To raise the standard of living.
- ✓ To ensure full employment and a large and steadily growing volume of real income and effective demand.
- ✓ To develop the full use of the resource of the world
- ✓ To expand production and international trade

EVALUATION OF GATT

- ✓ Strength increased from 23 to 125 countries.
- ✓ 50 years has witnessed an exception growth in world trade.
- ✓ Merchandise export grew on an average of 6% annually.
- ✓ Total trade in 2002 was 22 times than that of 1950.
- ✓ Principal achievements of GATT were the establishment of a forum for continuing consultation. Disputes that could have resulted in hard feeling are compromised.
- ✓ Developing countries with balance of payment problems were generally exempted from liberalization.
- ✓ The average level of tariff on manufactured products in industrial countries was brought down from about 40% in 1947 to nearly 3% after Uruguay round.
- ✓ The first 6 rounds concentrated on reducing tariffs while the 7th round of Tokyo moved on to tackle non tariff barriers.
- ✓ The 8th round helped in establishing the WTO a global organization to regulate trade between nations.
- ✓ Today 97 % of the world trade is routed through GATT & WTO

WORLD TRADE ORGANIZATION (WTO) :

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible.

The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the 'Doha Development Agenda' launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to open markets for trade. But the WTO is not just about opening markets, and in some circumstances its rules support maintaining trade barriers — for example, to protect consumers or prevent the spread of disease.

At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side effects — because this is important for economic development and well-being. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be 'transparent' and predictable.

Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since the end of the Second World War. Whereas the GATT mainly dealt with trade in goods, the WTO and its agreements also cover trade in services and intellectual property. The birth of the WTO also created new procedures for the settlement of disputes.

FORMATION OF WTO

- ✓ The world trade organization was established on 1st January 1995.
- ✓ It is the embodiment of the Uruguay round results & the successor to GATT.
- ✓ WTO has 153 members, India being one of the founder members.
- ✓ The head of WTO is located in Geneva of Switzerland.
- ✓ "Child becomes a Parent & Parent a child".
- ✓ As per 2nd March 2013, there are 159 Members of WTO.

HEADQUARTERS OF WTO AT GENEVA, SWITZERLAND

WTO

- "WTO is an International body designed to play the role of a watchdog in spheres of trade in Goods, services foreign investments, IPR (intellectual property rights) etc."
- WTO is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

The important objectives of WTO are:

- To improve the standard of living of people in the member countries.
- To ensure full employment and broad increase in effective demand.
- To enlarge production and trade of goods.

- ✓ To increase the trade of services.
- ✓ To ensure optimum utilization of world resources.
- ✓ To protect the environment.
- ✓ To accept the concept of sustainable development.

Functions of WTO:

1. To implement rules and provisions related to trade policy review mechanism.

2. To provide a platform to member countries to decide future strategies related to trade and tariff.

3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

4. To administer the rules and processes related to dispute settlement.

5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

7. Other functions:

- ✓ Administering WTO trade agreements.
- ✓ Forum for trade negotiations.
- ✓ It acts as a watch dog of international trade.
- ✓ Monitoring national trade policies.
- ✓ Technical assistance and training for developing countries.
- ✓ Cooperation with other international organizations.
- ✓ Providing technical assistance and training for developing countries.

WTO Agreements:

The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATI).

GATT is now the WTO's principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement and trade policy reviews.

The complete set runs to some 30,000 pages consisting of about 30 agreements and separate commitments (called schedules) made by individual members in specific areas such as, lower customs duty rates and services market-opening.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each country promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

(a) Goods:

It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important, rules, particularly non-discriminations since 1995, the updated GATT has become the WTO s umbrella agreement for trade in goods.

It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping.

(b) Services:

Banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.

These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

(c) Intellectual Property:

The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information such as trade secrets "intellectual property" should be protected when trade is involved.

(d) Dispute Settlement:

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore, for ensuring that trade flows smoothly.

Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgments by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

The system encourages countries to settle their differences through consultation. Failing that, they can follow a carefully mapped out, stage-by-stage procedure that includes the possibility of the ruling by a panel of experts and the chance to appeal the ruling on legal grounds.

Confidence in the system is bourne out by the number of cases brought to the WTO, around 300 cases in eight years compared to the 300 disputes dealt with during the entire life of GATT (1947-94).

(e) Policy Review:

The Trade Policy Review Mechanism's purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting and to assess their impact. Many members also see the reviews as constructive feedback on their policies.

All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

Administration of agreements:

- ✓ GATT
- ✓ GATS
- ✓ TRIP'S
- ✓ TRIM'S
- ✓ Disputes settlement mechanism
- ✓ Antidumping measures

- ✓ Agreement on agriculture

General Agreement on Trade in Services – GATS

The creation of the GATS was one of the landmark achievements of the Uruguay Round, whose results entered into force in January 1995. The GATS was inspired by essentially the same objectives as its counterpart in merchandise trade, the General Agreement on Tariffs and Trade (GATT): creating a credible and reliable system of international trade rules; ensuring fair and equitable treatment of all participants (principle of non-discrimination); stimulating economic activity through guaranteed policy bindings; and promoting trade and development through progressive liberalization.

GATS envisage the objective of establishing a sound multilateral framework or principles and rules for trade in services. Many countries directly have laws, which restrict entry of foreign services enterprises in areas like finance, media, communications, transport etc.

The GATT looks upon these regulations relating to investment in the service sector as distorting factors affecting free trade. Hence these distortions have to be eliminated or minimized. The GATS Agreement covers all services (there are 161 tradable services under GATS) – financial services (banking insurance etc), education, telecommunications, maritime transport etc.

Service trade expansion has big prospects though countries are in general reluctant to liberalise it. According to the WTO, "while services currently account for over 60 percent of global production and employment, they represent no more than 20 per cent of total trade (BOP basis)."

The Four Modes of Services Supply

The GATS define services in four 'modes' of supply: cross-border trade, consumption abroad, commercial presence, and presence of natural persons.

Mode 1: Cross Border

Services which themselves cross-frontiers from one country to another e.g. Distance learning, consultancy, BPO services.

Mode 2: Consumption abroad

Services, which are made available within a country for foreign consumers', e.g.: tourism, educational students for students, medical treatment etc.

Mode 3: Commercial Presence

Services supplied by an entity of one country, which is commercially pressed in another e.g.: banking, hotel etc.

Mode 4: Movements of natural persons

This is a foreign national providing services like that of doctor, nurse, IT engineer etc. functioning as a consultant, employee, from one country to another.

Services given by governments are exempted from GATS. These are services provided on a non-market basis (e.g. Social security schemes, health Education etc). Besides, Air Transport Services are also exempts from coverage that affects traffic rights. GATS divides services liberalization commitments into two – general obligations and specific obligations.

The GATS is basically a primary step towards service trade that was reached at the Uruguay Round. Service trade liberalization under it is at the entry level stage. As a Multilateral rule making and trade liberalization regime, the GATS has to be expanded by making further discussions.

Trade Related Aspects of Intellectual Property Rights – TRIP'S

The foundations for the Uruguay Round were laid by a ministerial meeting in Geneva in November 1982, where contracting parties agreed to a new negotiation round to begin in September 1986 in Punta del Este, Uruguay.

Government ministers assembled in Uruguay adopted an agenda covering every outstanding trade-related policy issue. Within the framework of these negotiations there was a request from the United States of America to include a multilateral agreement on minimum standards for intellectual property rights.

The growing international economic relations between States all over the world has given rise to global counterfeiting and piracy problems related to intellectual property. This has become a critical policy issue in trade relations due to the significant value of know-how embodied in commercialized products.

The lack of protection of IP at the international level has been the source of rising tensions in economic relations and has hindered technological transfer and innovation. Existing agreements in the area did not have enforcement mechanisms or sanctions if the obligations were not met. Equally, there was concern that measures and procedures to enforce IPR do not themselves become barriers to legitimate trade. It was to deal with these issues that the international community engaged in the development of a multilateral agreement on trade-related aspects of intellectual property rights.

OBJECTIVES:

- ✓ To encourage & reward creative work . ô Technological innovations.
- ✓ Fair competition.
- ✓ Consumer protection.
- ✓ Transfer of technology.

Features of the TRIPS Agreement

There are three main features of TRIPS agreement which are discussed below:

• **Standards:** The main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.
• **Enforcement:** The second main set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights. It contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies.

• **Dispute Settlement:** The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.

Important Trade Related Aspects Of Intellectual Property Rights (TRIPs) are as follows:

(i) Copyright
(ii) Trademarks
(iii) Geographical Indications
(iv) Industrial Designs
(v) Patents
(vi) Integrated Circuits
(vii) Trade Secrets**.**

The Agreement on Trade Related Intellectual Property Rights (TRIPs) is comprehensive in giving cover to all areas of technology, property, patents, trademarks, copyrights and so on.The TRIPs encourages upon the member country’s sovereign right to frame its own legislation on intellectual property matters. This clause has been included on account of persistent demand from the developed and industrialized countries.

Trade Related Investment Measures – TRIM'S

The Agreement on Trade-Related Investment Measures (TRIMS) recognizes that certain investment measures can restrict and distort trade. It states that WTO members may not apply any measure that discriminates against foreign products or that leads to quantitative restrictions, both of which violate basic WTO principles. A list of prohibited TRIMS, such as local content requirements, is part of the Agreement. The TRIMS Committee monitors the operation and implementation of the Agreement and allows members the opportunity to consult on any relevant matters.

These objectives include the reduction of distortions and impediments to international trade, promotion of effective and adequate protection of intellectual property rights, and ensuring that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.

TRIMs Agreement: main features

∗ Applies only to investment measures related to trade in goods (not trade in services)

∗ Focuses on the discriminatory treatment of products (imported/exported), not producers

∗ Does not regulate the entry of foreign investment or investors

∗ Concerns measures applied to both foreign and local firms

DISPUTE SETTLEMENT:

The dispute settlement procedure of the World Trade Organization (WTO) is governed by the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). With certain exceptions, the DSU is uniformly applicable to differences that arise in the context of all WTO agreements. In some cases, the "Special or Additional Rules and Procedures Contained in the Covered Agreements" apply (article 1.2 and appendix 2 of the DSU). WTO demands that all its Members respect the rules in the interests of a safer and more reliable multilateral trade system. In this sense, WTO Members have agreed that, when they judge that other Members have broken trade rules, they shall refer the matter to the dispute settlement mechanism rather than adopting unilateral measures. This involves complying with the agreed procedures and respecting the decisions reached by the dispute settlement bodies set up for that purpose.

It has a fixed dead line in settlement of disputes .

- The first ruling does not extend beyond 1 year.
- The appeal is generally disposed off before 60 days.

How are disputes settled?

Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish “panels” of experts to consider the case, and to accept or reject the panels’ findings or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

- First stage: consultation (up to 60 days). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.

- Second stage: the panel (up to 45 days for a panel to be appointed, plus 6 months for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. The country “in the dock” can block the creation of a panel once, but when the Dispute Settlement Body meets for a second time, the appointment can no longer be blocked (unless there is a consensus against appointing the panel).

Officially, the panel is helping the Dispute Settlement Body make rulings or recommendations. But because the panel’s report can only be rejected by consensus in the Dispute Settlement Body, its conclusions are difficult to overturn. The panel’s findings have to be based on the agreements cited.

The panel’s final report should normally be given to the parties to the dispute within six months. In cases of urgency, including those concerning perishable goods, the deadline is shortened to three months.

The agreement describes in some detail how the panels are to work. The main stages are:

- Before the first hearing: each side in the dispute presents its case in writing to the panel.

- First hearing: the case for the complaining country and defence: the complaining country (or countries), the responding country, and those that have announced they have an interest in the dispute, make their case at the panel’s first hearing.

- Rebuttals: the countries involved submit written rebuttals and present oral arguments at the panel’s second meeting.

- Experts: if one side raises scientific or other technical matters, the panel may consult experts or appoint an expert review group to prepare an advisory report.

- First draft: the panel submits the descriptive (factual and argument) sections of its report to the two sides, giving them two weeks to comment. This report does not include findings and conclusions.

- Interim report: The panel then submits an interim report, including its findings and conclusions, to the two sides, giving them one week to ask for a review.

- Review: The period of review must not exceed two weeks. During that time, the panel may hold additional meetings with the two sides.

- Final report: A final report is submitted to the two sides and three weeks later, it is circulated to all WTO members. If the panel decides that the disputed trade measure does break a WTO agreement or an obligation, it recommends that the measure be made to conform with WTO rules. The panel may suggest how this could be done.

- The report becomes a ruling: The report becomes the Dispute Settlement Body's ruling or recommendation within 60 days unless a consensus rejects it. Both sides can appeal the report (and in some cases both sides do).

ANTI-DUMPING MEASURES:

"Dumping" is defined as a situation in which the export price of a product is lower than its selling price in the exporting country. A bargain sale, in the sense of ordinary trade, is not dumping. Where it is demonstrated that the dumped imports are causing injury to the importing country within the meaning of the WTO Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 ("Anti-dumping Agreement"), pursuant to and by investigation under that Agreement, the importing country can impose antidumping measures to provide relief to domestic industries injured by imports.1 The country's imposition of an anti-dumping duty is determined by the dumping margin--the difference between the export price and the domestic selling price in the exporting country. By adding dumping margin to export price, the dumped price can be rendered a "fair" trade price. When it is impossible to obtain a comparable domestic price because there are none or low volume sales in the ordinary course of trade in the domestic market, either export prices to third countries or a "constructed value" is used in price comparison. A "constructed value" is the cost of production in the country of origin plus a reasonable amount for administrative, selling and general costs and for profits. Similarly, when the export price is found to be unreliable, the price at which the product is first resold to independent buyers, or another price according to a reasonable basis determined by the authorities may be used in price comparison. Because anti-dumping measures are an exception to the rule of most-favoured-nation treatment, the utmost care must be taken in invoking them. However, unlike safeguard measures, which are also instruments for the protection of domestic industry, the implementation of anti-dumping measures does not require the government to provide offsetting concessions or consent to countermeasures taken by the trading partner. This has increasingly led to the abuse of anti-dumping measures. For example, anti-dumping investigations are often commenced based on insufficient evidence, and anti-dumping duties may be retained long after the conditions for their levy have been eliminated. Some countries have applied anti-dumping measures in an arbitrary manner to restrict imports, rather than to achieve the limited, remedial objective authorized in the Agreement. In light of this situation, one of the focal points of the Uruguay Round negotiations was to establish disciplines to rein in the abuse of anti-dumping measures as tools for protectionism and import restriction.

- ✓ Meaning-It means selling the product at below the on going market price or at the price below the cost of production.
- ✓ Anti-Dumping laws is applicable if the margin of dumping is more than 2% of the export price or the volume of dumped products is more than 3% of the product.
- ✓ Anti-Dumping duty shall not exceed the margin of dumping .
- ✓ Anti-Dumping action may be suspended or terminated if the exporter agrees to remove the dumping or the injurious effect of it.

AGREEMENT ON AGRICULTURE – AOA

The 1986–94 Uruguay Round negotiations produced the first comprehensive set of multilateral trade rules specifically on agriculture. There are four main components:

(1) the WTO's Agreement on Agriculture (sometimes abbreviated as AoA)

(2) the "schedules" or lists of commitments WTO members have made to set new limits on tariffs and other aspects of market access, and on domestic support and export subsidies (they are called "schedules" because they include timetables for moving to the new tariff and subsidy limits)

(3) the Sanitary and Phytosanitary (SPS) Measures Agreement

(4) the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net FoodImporting Developing Countries.

"Agriculture" does not mean the same in all these documents. In particular, the Agriculture Agreement does not include fisheries and forestry products. The SPS Agreement does. The Uruguay Round deal provided a framework for the long-term reform of agricultural trade and domestic policies. The Agriculture Agreement reflects the compromises made to satisfy the many interests represented in the negotiations. Over 120 countries participated, including developed, developing and least developed countries, and net importers and exporters. The Agreement establishes a number of general rules and commitments, mainly in three areas sometimes called the "three pillars". These are: market access, domestic support and export competition (which covers export subsidies and export-related measures with equivalent effect). The Agreement came into effect in 1995 along with the WTO. Its 21 articles are divided into 13 parts. It has five annexes. The 1995 Agreement is described in detail below. Briefly, it starts by defining the agricultural products that it covers. It deals with legally binding commitments on market access such as reduced import duties and related issues, domestic subsidies such as price and income support that have an impact on trade, and export subsidies. The Agreement does allow governments to support their rural economies. This should preferably be through policies that do not distort trade, or do so minimally. It also allows some flexibility for developing and least developed countries in the way they and other countries implement their commitments. The cuts that developing countries made on their subsidies or tariffs as a result of the Uruguay Round were smaller than for developed countries, and they were given extra time to do it. Least developed countries were not required to make any reductions. Special provisions deal with the interests of poorer countries that rely on imports for their food supplies, and the concerns of least developed economies. In this way, the Uruguay Round deal kicked off a reform programme in agriculture. The Agreement's preamble recognizes that the reform has the long-term objective of establishing a fair and market-oriented agricultural trading system. The Agreement committed WTO members to continue the reform by resuming negotiations in 2000. It also takes into account non-trade concerns, including food security, and environmental protection. Developing countries enjoy treatment (such as more lenient and flexible terms, officially known as "special and differential treatment"). This includes a pledge to improve opportunities for their exports to gain access to other markets, under improved terms. Cuts in richer countries' subsidies means their exports are no longer artificially cheap, and therefore food supplies can be more expensive for importing countries. The Uruguay Round included a separate ministerial decision to deal with the concerns of two groups of countries that relied on cheaper, subsidized food from industrial countries: least developed countries as a whole, and other developing countries that are net food importers. This "Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed (LDCs) and Net-Food-Importing Developing Countries (NFIDCs)" recognizes that these two groups of countries might need help temporarily to adjust to higher priced imports resulting from the reforms. Backing up this set of rules are the commitments member governments have made to limit tariffs and provide access to their markets in other ways, and to reduce domestic support and export subsidies. These pledges are listed in legally binding documents known as "schedules" (because they include timetables for reaching the commitment levels). They are an integral part of the updated General Agreement on Tariffs and Trade (GATT). The other WTO agreements complement the Agriculture Agreement — governments have to observe them as well, when devising agricultural trade policies.

There are 3 principal commitments.

- ✓ Market Access :-no import restrictions & limitations
- ✓ Domestic support :-Elimination of govt support to domestic company's.

- ✓ Export subsidies:-phase out support given to exporters .

Other important aspects are:

a) Tariff:-means removal of tariff quotas.

b) Tariff binding:-means fixing the max rate of import duty, above which a country does not raise the duty unilaterally.

c)

DIFFERENCE BETWEEN GATT & WTO:

GATT	WTO
1. GATT is an agreement. 2. It was designed with an attempt to establish International Trade Organizations. 3. It was applied on provisional bases. 4. GATT covered only goods. **5.** Disputes settlement mechanism slow & at times in conclusive.	1. WTO is an organization. 2. It is establishes to serve its own purpose. 3. Its activity is full and permanent. 4. It covers goods, services, IPR. 5. Dispute settlement system is fast.

URUGUAY ROUND AGREEMENT

- ➢ Soon after the conclusion of the Tokyo round, countries started feeling that it would be desirable and necessary to expand the coverage of multilateral trading system so is to include new issues such as services, IPR, and investment.
- ➢ It took seven and a half years, almost twice the original schedule. By the end, 123 countries were taking part.

- The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. it took four more years of exploring, clarifying issues and ministers agreed to launch the new round.
- During 1982 - 1985 GATT Council Held Special meetings to review the understanding regarding Notification, consultation, Dispute settlement and Surveillance of Tokyo round.
- In 1985 a preparatory committee for the Uruguay round was established by the contracting parties to determine the objectives, subject matter for the participation of in the upcoming round of multilateral negotiations.
- Discussed about the agriculture, subsidies, tariffs, dispute settlement, safeguards etc.
- In April 1986 - the US representative suggested that there was an urgent need of :

  1. To liberalize trade
  2. To strengthen the multilateral trading system
  3. Need to improve existing GATT Disciplines such as safe-guards, agriculture, dispute settlement etc.
  4. Expand the scope of the GATT into areas of growing economic concern such as services, intellectual property rights and investment.
- The Ministerial meeting at the special session of the contracting parties at Punta del este, Uruguay, launched a new and very broad incomparable to any earlier rounds of multilateral trade negotiation.
- PUNTA DEL ESTE declaration can be summarized as follow:
- **First Section:** Covering negotiation on trade in goods consisting of preamble.
- Preamble – to negotiate, remove distortions to trade, preserve GATT and develop multilateral trading system to promote and development, relevance of the round to international finance, money and debt, strengthening the trade and other economic policies.
- **Second section**: General principals of negotiations
- **Third Section:** 13 subjects were settled for negotiations, tariff, nontariff measure, tropical products, natural resources product, textile and clothing, Agriculture, GATT articles, safeguards and Arrangements (i.e. Codes negotiated in the Tokyo round), Subsidies and countervailing measures, Anti Dumping Measures dispute settlement, trade related aspect of intellectual property and trade related investment measures and functioning of GATT system
- All the original GATT articles were up for review. It was the biggest negotiating mandate on trade ever agreed, and the ministers gave themselves four years to complete it.

DOHA ROUND NEGOTIATIONS:

The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work programme covers about 20 areas of trade. The Round is also known semi-officially as the Doha Development Agenda as a fundamental objective is to improve the trading prospects of developing countries.

- The Round was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.
- The Doha Ministerial Declaration provided the mandate for the negotiations, including on agriculture, services and an intellectual property topic, which began earlier.
- In Doha, ministers also approved a decision on how to address the problems developing countries face in implementing the current WTO agreements.
- The **Declaration on the TRIPS Agreement and Public Health presents a political interpretation of the WTO** Agreement on Trade-Related Intellectual Property Rights (TRIPS). A document on Implementation- Related Issues and Concerns includes numerous decisions of interest to developing countries.

The main achievements of the Uruguay Round included:

1- A trade-weighted average tariff cut of 38%;

2- Conclusion of the Agreement on Agriculture which brought agricultural trade for the first time under full GATT disciplines;

3- Adoption of the **General Agreement of trade in Services (GATS)**;

4- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS);

5- The Agreement on Trade-Related Investment Measures (TRIMS);

6- The creation of unified and predictable dispute settlement mechanism (**Dispute Settlement Body-DSB)**;

7- Confirmation f the trade Policy Review Mechanism (TPRM);

8- The establishment of the WTO, which administers 15 multilateral, and four plurilateral trade agreements;

The Uruguay Round had extended considerably the acquired the world trade rules with agreements on intellectual property and trade in services in ex-change for finally tackling agricultural protectionism on a broader scale and getting rid of the textile and clothing quotas.

- The Uruguay Round was, without a doubt, the largest trade negotiation ever, and may very well have been the largest negotiation ever. It set out rules and principles to cover all global trade, from banking to consumer products.
- The subjects for negotiations, the widest of any GATT round, were tariffs, non-tariff measures, tropical products as a priority area, natural resource-based products, textiles and clothing, agriculture, review of GATT articles, safeguards, Tokyo Round agreements ad arrangements, subsidies and countervailing

measures, dispute settlement, trade-related aspects of intellectual property rights, trade-related investment measures and the Functioning of the GATT System (FOGS).

- **Multilateral trade** agreements are commerce treaties between three or more nations. The agreements reduce tariffs and make it easier for businesses to import and export. Since they are among many countries, they are difficult to negotiate.
- The **Marrakesh Agreement**, manifested by the **Marrakesh Declaration**, was an agreement signed in Marrakesh, Morocco, by 124 nations on 15 April 1994, marking the culmination of the 8-year-long Uruguay Round and establishing the World Trade Organization, which officially came into being on 1 January 1995
- The Uruguay Round was the 8th round of Multilateral Trade Negotiations (MTN) conducted within the framework of the **General Agreement on Tariffs and Trade (GATT)**, spanning from 1986 to 1994 and embracing 123 countries as "contracting parties". The negotiations and process ended with the signing of the Final Act of the Marrakesh Agreement in April 1994 at Marrakesh, Morocco. The round led to the creation of the **World Trade Organization (WTO)**, with GATT remaining as an integral part of the WTO agreements.

UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW - UNCITRAL

In an increasingly economically interdependent world, the importance of an improved legal framework for the facilitation of international trade and investment is widely acknowledged. The United Nations Commission on International Trade Law (UNCITRAL), established by the United Nations General Assembly by resolution 2205 (XXI) of 17 December 1966 (see annex I), plays an important role in developing that framework in pursuance of its mandate to further the progressive harmonization and modernization of the law of international trade by preparing and promoting the use and adoption of legislative and non-legislative instruments in a number of key areas of commercial law.

UNCITRAL is formulating modern, fair, and harmonized rules on commercial transactions. These include: conventions, model laws and rules which are acceptable worldwide; legal and legislative guides and recommendations of great practical value; updated information on case law and enactments of uniform commercial law; technical assistance in law reform projects; regional and national seminars on uniform commercial law.

Member countries:

- This is the core legal body for International Trade Law. UNCITRAL exist to Harmonize International Business
- Found in 1966 with 29 members
- Grew to 36 in 1973
- It was 60 in 2002
- Now it's 66

With this large group, all principal economic and legal system has representation.

It focuses on 9 subject area:

- International sale of goods
- International commerce arbitration
- Transportation
- Insurance
- International Payments
- Intellectual property
- Elimination of discrimination in laws affecting international trade
- Agency
- Legalization of Documents

The environment is surroundings which we live in; the outer powers following up on the business are the business environment. The environment incorporates the variables outside the firm, which can prompt to open doors for or dangers to the firm. These components can be financial, mechanical, political, and social and so forth. Along these lines, the universal business environment is the business

Importance of International Business Environment

- **Helps in the extension:** Geographic development might be utilized as a business system. Despite the fact that organizations may extend their business at home.
- **Helps in overseeing item life cycle:** Every item needs to go through various phases of item life cycle when the item achieves the last phases of the life cycle in present market; it might get a legitimate reaction at different markets.

- **Innovation focal points:** Some organizations have exceptional innovation favorable circumstances through which they appreciate center competency. This innovation helps the organization in catching different markets.
- **New business open doors:** Business openings in abroad markets help in the extension of many organizations. They may have achieved an immersion point in the household advertise.
- **Legitimate utilization of assets:** Sometimes mechanical assets like work, minerals and so forth are accessible in a nation, however, are not profitably used.
- **Accessibility of value items:** When markets are open, better quality products will be accessible all around. Outside organizations will advertise most recent items at sensible costs. A decent item will be accessible in the business sectors.
- **Winning remote trade:** International business helps in acquiring outside trade which might be utilized for key imports. Creating nations require outside trade to import raw petroleum, mutilate gear, crude material, and hardware.
- **Helps in shared development:** Countries rely on upon each other for meeting their necessities. India relies on upon inlet nations for its unrefined petroleum supplies.
- **Interest in the foundation:** International business requires the best possible advancement of the framework.

Problems in International Business

- **Controlling the market:** Multinational attempt to control the market of the host nation. At whatever point they enter another nation, the primary system is to dispense with the contenders either by assuming control over their business or driving them out of the market by taking after value decrease strategies.
- **Debilitating characteristic assets:** Multinational partnerships set up their generation offices in those nations where regular assets are accessible in adequate amounts.
- **Significance to extravagances:** Multinational partnerships enter those ranges where the edge of benefits is high.
- **Monetary advancement:** It is, by and large, felt that the passage of specialists from outside may help in the financial improvement of that nation. The real practice in numerous nations is distinctive.
- **Moving of speculation:** International business is identified with the benefit of its operations. On the off chance that a business is getting adequate benefits in a specific nation then the speculation stay there.

Coca-Cola and McDonald's – Case Study

Introduction:

McDonald's partnered with Coca-Cola in 1955, when McDonald's opened its first restaurants in Des Plaines and a beverage supplier was required. (Gelles, 2014). Since they possessed the same American expansion ambition, their executives agreed with this alliance. Despite the lack of paper contract, there is considerable contact between the two companies at board level (The Economist, 1998).

Achievement & Overall Assessment:

McDonald's and Coca-Cola alliance is a big success, making the two companies what they are today. McDonald's is now the world's leading global food service retailer with more than 35000 local restaurants serving nearly 70 million people in more than 100 countries (McDonald's, 2014), while Coca-Cola is the world's largest beverage company owning and licensing around 1.9 billion beverage servings worldwide every day in more than 200 countries (Coca-Cola Annual Report, 2013). Customers are accustomed to enjoying a meal with a coke inside all along, which result in that the soft drink becoming a key revenue stream, covering about five percent of McDonald's revenue (Edward Jones, 2012). Due to the incredible contribution of McDonald's to Coca-Cola's returns, one unique executive offered by Coca-Cola exclusively takes charge of this important account's co-operation issues (Storm, 2014).

Dick Starmann, a confidant of Ray Kroc who expanded McDonald's around the world, once commented,

"When you'd ask Coca-Cola in what countries it had the biggest sales, it would say something like the United States, Japan, Germany and McDonald's — and in that order. It was kind of funny but it was true." (David, 2014)

Their partnering seems destined for success from the beginning. Not only does a joint mission naturally exist between a chain restaurant and a beverage supplier, but also McDonald's shared the very exact destination, expansion first across the US, then around the world with Coca-Cola. As the result, they managed to create and deliver excellent transformational value for both sides, mainly focusing on developing an integrated supply chain, and enabling rapid entry and large-scale expansion into new geographies. Moreover, the top management teams from both sides have been very careful about partnering relationship since the handshake between the two top executives in 1955 (David, 2014). Javier C. Goizueta, the Vice President of the Coca-Cola Company and President of the global McDonald's Division, is in charge of a worldwide organization responsible for building the strategic alliance with McDonald's in over 31,000 restaurants and over 100 countries (Coca-Cola, 2014). Goizueta is an experienced mature leader with over 20 years of leading businesses successfully and fully empowered. Although McDonald's and Coca-Cola seem to be a natural fit, it is the compelling partnership 'Value Propositions' and 'offers' they jointly designed that make the partnering extraordinary rather than good.

Compelling partnership value propositions and offers

Specifically, they manage to create excellent offers that follow:

1. The joint expansion vision

Partners are encouraged to be of equal footing and have a common vision and not simply relying on chemistry McDonald's and Coca-Cola shared a common mission and vision to expand globally.

2. Source of value (SoVs)

Cheap to set up, alliances is a method to achieve quicker and cheaper growth. Coca-Cola has saved the cost of vertical integration from the partnership with McDonald's (Douglas et al., 1996), compared to Pepsi who expanded distribution of its products to end customers by acquiring Kentucky Fried Chicken, Pizza Hut and Taco Bell at an expensive cost (PepsiCo, 2014). Meanwhile, targeting similar demographic end customers, that partnership benefited each other in terms of resources & expertise sharing, marketing synergies and risk reduction.

3. Areas of co-operation (AoCs)

A. Market expansion

Both of them are the leaders in their industries and possess numerous resources and operation experiences, thus adding more symmetry to the vision of global expansion (David, 2014). For example, to help McDonald's expand worldwide, Coca-Cola often provides existing offices in different regions as a base of operation for McDonald's to get up (Gelles, 2014).

B. Product development

The know-how and expertise from Coca-Cola benefits the product development of McDonald's. In 1993, Coca-Cola offered business advice on the product offering of McDonald's, creating the Extra Value Meal (David, 2014). In 2002, both of them executed collaborative strategies for Latin America, designing and testing of new packaging for drinks (Taina, 2002). Moreover, recently, Coca-Cola helped McDonald's create a new product line of smoothies Meal (David, 2014).

C. Unique strategic values created by the supply chain integration

The unique supply chain co-operated by both Coca-Cola and McDonald's creates added values. Evidence shows that the best taste of Coca-Cola is only available in McDonald's (Mark, 2011), as they established a unique system for the delivery and production of coke. Coke syrup is normally delivered in plastic bags; however, since McDonald's sells a larger amount of coke, syrup can be delivered in stainless steel tanker truck (Chart Inc., 2013). Additionally, McDonald's has a reverse osmosis filter offering the cleanest water. All these make coke taste fresher and better, enabling McDonald's to possess competitive advantage of better-taste coke.

D. Advertising and Corporate social responsibilities (CSR)

From opposing Bloomberg on super-size sodas (Watson, 2012) to being the 'biggest sponsors of Brazil's 2014 world cup' (Smith, 2014), McDonald's and Coca-Cola have stood by each other and worked countless campaigns globally over years. Most recently, in Philippines, both partners started #BetterTogether, a social media campaign to promote 'the fast food chain's BFF Bundle, a set meal which includes Coca-Cola drinks.' (Adobe Magazine, 2014) Moreover, McDonald's and Coca-Cola constantly innovate together in a more sustainable supply chain. In 2002, they pursued new sponsorship and charity opportunities in Latin America, and helped more than 100 local schools to allow students to see the collection from Art Museum (Taina, 2002). Furthermore, they also developed a new cup with a locking lid to prevent children from spilling their drinks.

UNIT – III

MULTINATIONAL CORPORATIONS:

Definition – Organizational Structures – Dominance of MNC's – Recent Trends – Code of Conduct – Multinationals in India – Case Studies. Multinational Corporations (MNCs)

Meaning

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country. It must be emphasized that the headquarters of a multinational company are located in the home country.

Example

The true definition of a multinational company isn't that it manufactures in other countries, however; the true meaning is that the business has operations in multiple countries. This can take form in many different ways besides manufacturing. Take McDonalds for example. They have almost 35,000 restaurants located in 119 countries around the world. This means that not only operate the physical restaurants, they also operate supply chains to deliver the beef and other products required to keep their locations working properly.

Definition:

Neil H. Jacoby defines a multinational company as follows:

"A multinational corporation owns and manages business in two or more countries."

Point of comment:

A multinational corporation is known by various names such as: global enterprise, international enterprise, world enterprise, transnational corporation etc.

Some popular examples of multinationals are given below:

Foreign Multinational	Indian Affiliate/Subsidiary
Bata Corporation	Bata India
Cadbury	Cadbury India
Coca-Cola Corporation	Coca Cola India
Unilever	Hindustan Lever
Timex	Timex Watches
Colgate Palmolive	Colgate India
Pepsi Corporation	Pepsi India
Philips	Philips India
Sony Corporation	Sony India
Suzuki	Maruti Suzuki
GEC	GEC Alsthom
ABB	ABB India

Features of MNC:

Features of MNCs – at a glance

1. Huge assets and turnover
2. International operations through a network of branches
3. Unity of control
4. Mighty economic power
5. Advanced and sophisticated technology
6. Professional management
7. Aggressive advertising and marketing
8. Better quality of products

Following are the salient features of MNCs:

(i) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(ii) International Operations through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(iii) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(iv)Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(v) Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(vi)Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(vii)Aggressive Advertising and Marketing:

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

(viii) Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

Characteristics of a Multinational Corporation

Not all businesses can be called a multinational corporation. There are certain features that must be met for them to be named as such. The following are the characteristics of multinational corporations:

1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are so high that they are also able to make substantial profits.

2. Network of branches

Multinational companies keep production and marketing operations in different countries. In each country, the business oversees more than one office that functions through several branches and subsidiaries.

3. Control

In relation to the previous point, the management of the offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and even doing mergers and acquisitions.

5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing.

6. Right skills

Multinational companies employ only the best managers who are capable of handling huge funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a huge amount of money on marketing and advertising. It is how they are able to sell every product or brand they make.

8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

Advantages and Limitations of MNCs:

Advantages of MNCs from the Viewpoint of Host Country:

We propose to examine the advantages and limitations of MNCs from the viewpoint of the host country. In fact, advantages of MNCs make for the case in favour of MNCs; while limitations of MNCs become the case against MNCs.

(i) Employment Generation:

MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

(ii) Automatic Inflow of Foreign Capital:

MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

(iii) Proper Use of Idle Resources:

Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

(iv) Improvement in Balance of Payment Position:

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

(vi) Technical Development:

MNCs carry the advantages of technical development 10 host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

(vii) Managerial Development:

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

(viii) End of Local Monopolies:

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality. In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

(ix) Improvement in Standard of Living:

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

(x) Promotion of international brotherhood and culture:

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country:

(i) Danger for Domestic Industries:

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

(ii) Repatriation of Profits:

(Repatriation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

(iii) No Benefit to Poor People:

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

(iv) Danger to Independence:

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

(v) Disregard of the National Interests of the Host Country:

MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

(vi) Misuse of Mighty Status:

MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the dirties strategy of MNCs to wipe off local competitors from the host country.

(vii) Careless Exploitation of Natural Resources:

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

(viii) Selfish Promotion of Alien Culture:

MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

(ix) Exploitation of People, in a Systematic Manner:

MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.

Advantages and Limitations of MNCs – at a glance
(from the viewpoint of host country)

Advantages

1. Employment generation
2. Automatic inflow of foreign capital
3. Proper use of idle resources
4. Improvement in Balance of Payment position
5. Technical development
6. Managerial development
7. End of local monopolies
8. Improvement in standard of living
9. Promotion of international brotherhood and culture

Limitations

1. Danger for domestic industries
2. Repatriation of profits
3. No benefit to poor people
4. Danger to independence
5. Disregard of the national interests of the host country
6. Misuse of mighty status
7. Careless exploitation of natural resources
8. Selfish promotion of alien culture
9. Exploitation of people, in a systematic manner

Advantages from the Viewpoint of the Home Country:

Some of the advantages of the MNCs from the viewpoint of the home country are:

(i) MNCs usually get raw-materials and labour supplies from host countries at lower prices; specially when host countries are backward or developing economies.

(ii) MNCs can widen their market for goods by selling in host countries; and increase their profits. They usually have good earnings by way of dividends earned from operations in host countries.

(iii) Through operating in many countries and providing quality services, MNCs add to their international goodwill on which they can capitalize, in the long-run.

Limitations from the Viewpoint of the Home Country:

Some of the limitations of MNCs from the viewpoint of home country may be:

(i) There may be loss of employment in the home country, due to spreading manufacturing and marketing operations in other countries.

(ii) MNCs face severe problems of managing cultural diversity. This might distract managements' attention from main business issues, causing loss to the home country.

(iii) MNCs may face severe competition from bigger MNCs in international markets. Their attention and finances might be more devoted to wasteful counter and competitive advertising; resulting in higher marketing costs and lesser profits for the home country.

Reasons for Being a Multinational Corporation

There is a reason why many companies want to become multinational corporations. Here are some of them:

1. Access to lower production costs

It is a very common reason for companies to go global because if they set up production in other countries, especially in developing economies, they spend less on production costs. Though outsourcing is a way of doing this, setting up manufacturing plants in other countries may be even cheaper.

2. Proximity to target international markets

It is beneficial to set up business in countries where the target market of a company is. It helps reduce transport costs, and it gives multinational corporations easier access to consumer feedback and information, as well as to consumer intelligence.

3. Avoidance of tariffs

When a company produces or manufactures its products in another country where they sell them, they are exempt from import quotas and tariffs.

MODELS OF MULTINATIONAL CORPORATIONS

The following are the different models of multinational corporations:

1. Centralized

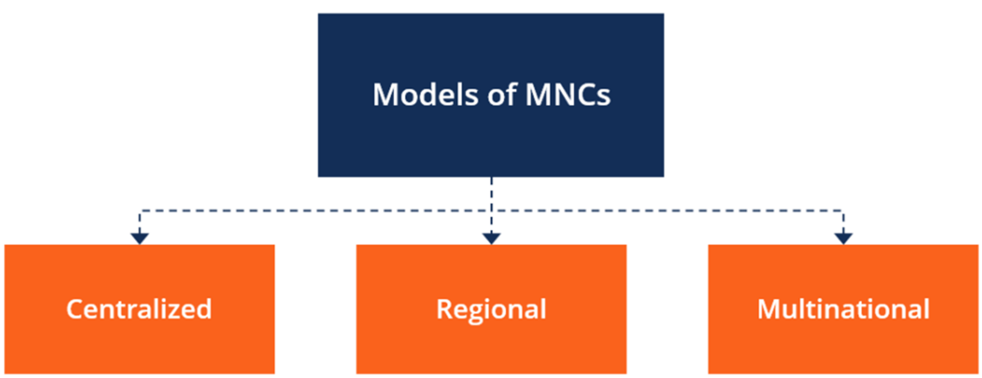
In the centralized model, companies put up an executive headquarters in their home country and then build various manufacturing plants and production facilities in other countries. Its most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs.

2. Regional

The regionalized model states that a company keeps its headquarters in one country that supervises a collection of offices that are located in various countries. Unlike the centralized model, the regionalized model includes subsidiaries and affiliates that all report to the headquarters.

3. Multinational

In the multinational model, a parent company operates in the home country and puts up subsidiaries in different countries. The difference is that the subsidiaries and affiliates are more independent in their operations.



Organizational Structure of MNCs:

Organizational structure is a representation of the formal reporting relationships within an organization. Span of control refers to the maximum number of subordinates a manager can effectively supervise. A narrow span of control means fewer numbers of people reporting to a manager and a wide span means more subordinates reporting to one manager.

While a narrow span of control creates a tall organization with many managers and centralized decision making, wide span creates a flat organization with fewer managers and more delegation of authority. The degree to which authority is delegated determines centralization and decentralization.

Though centralization helps avoid conflict of interest that could arise in a decentralized environment, it generally leads to slower, ineffective and inefficient decision-making. Horizontal differentiation is concerned with how the departments in an organization function together. An organization based on functions is the traditional and the most logical. But a firm offering many product lines will find this structure less successful. In a product division based organizational structure, product heads are responsible for all functions relating to a product.

This enables the managers to gain expertise of various functions relating to the product. Marketing plans can vary among product groups and need not be tied up with the overall organizational marketing plan. Most MNCs in their initial stages of globalization employed an international division covering certain regions of the world to supervise the functions in those regions.

But conflicts could arise between the functional heads and the heads of the international division.

Worldwide Area Structure and Strategic Business Units (SBU) are more popular forms of organizational structure in big corporations. SBUs function as independent organizations with a separate income statement and balance sheet.

But the challenge of globalization and the growth in technology have brought about more complex organizational structures like the Matrix structure and the management networks.

Matrix organizations are a hybrid of the functional and divisional structures. Normally, this results in a subordinate having to report to two bosses. But matrix structures can prove very effective without any conflict in the reporting relationships, if they are well chalked out. Network or virtual organizations use technology to collect and disseminate information. They identify customer requirements and deliver products and services through a network of specialists.

Types of Organizational Structures: their Advantages and Disadvantages

All managers must bear that there are two organisations they must deal with-one formal and the other informal.

The formal organisation in usually delineated by an organisational chart and job descriptions. The official reporting relationships are clearly known to every manager.

Alongside the formal organisation exists are informal organisation which is a set of evolving relationships and patterns of human interaction within an organisation that are not officially prescribed.

Formal organisational structures are categorised as:

(i) Line organisational structure.

(ii) Staff or functional authority organisational structure.

(iii) Line and staff organisational structure.

(iv) Committee organisational structure.

(v) Divisional organisational structure.

(vi) Project organisational structure.

(vii) Matrix organisational structure and

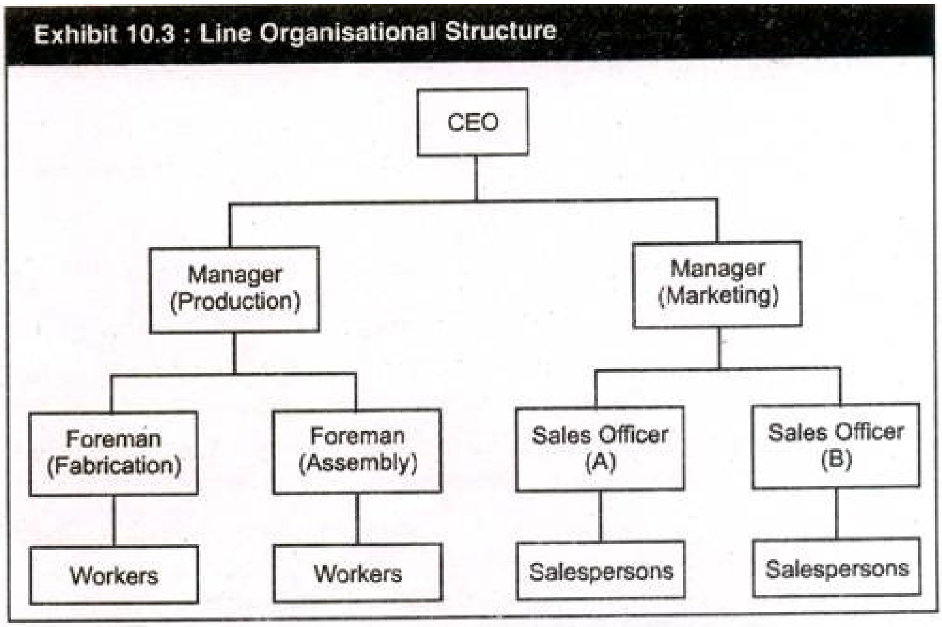
(viii) Hybrid organisational structure.

These organisational structures are briefly described in the following paragraphs:

1. Line Organisational Structure:

A line organisation has only direct, vertical relationships between different levels in the firm. There is only line departments-departments directly involved in accomplishing the primary goal of the organisation. For example, in a typical firm, line departments include production and marketing. In a line organisation authority follows the chain of command.

Exhibit 10.3 illustrates a single line organisational structure.



Features:

Have only direct vertical relationships between different levels in the firm.

Advantages:

1. Tends to simplify and clarify authority, responsibility and accountability relationships

2. Promotes fast decision making

3. Simple to understand.

Disadvantages:

1. Neglects specialists in planning

2. Overloads key persons.

Some of the advantages of a pure line organisation are:

(i) A line structure tends to simplify and clarify responsibility, authority and accountability relationships. The levels of responsibility and authority are likely to be precise and understandable.

(ii) A line structure promotes fast decision making and flexibility.

(iii) Because line organisations are usually small, managements and employees have greater closeness.

However, there are some disadvantages also. They are:

(i) As the firm grows larger, line organisation becomes more ineffective.

(ii) Improved speed and flexibility may not offset the lack of specialized knowledge.

(iii) Managers may have to become experts in too many fields.

(iv) There is a tendency to become overly dependent on the few key people who an perform numerous jobs.

2. Staff or Functional Authority Organisational Structure

The jobs or positions in an organisation can be categorized as:

(i) Line position:

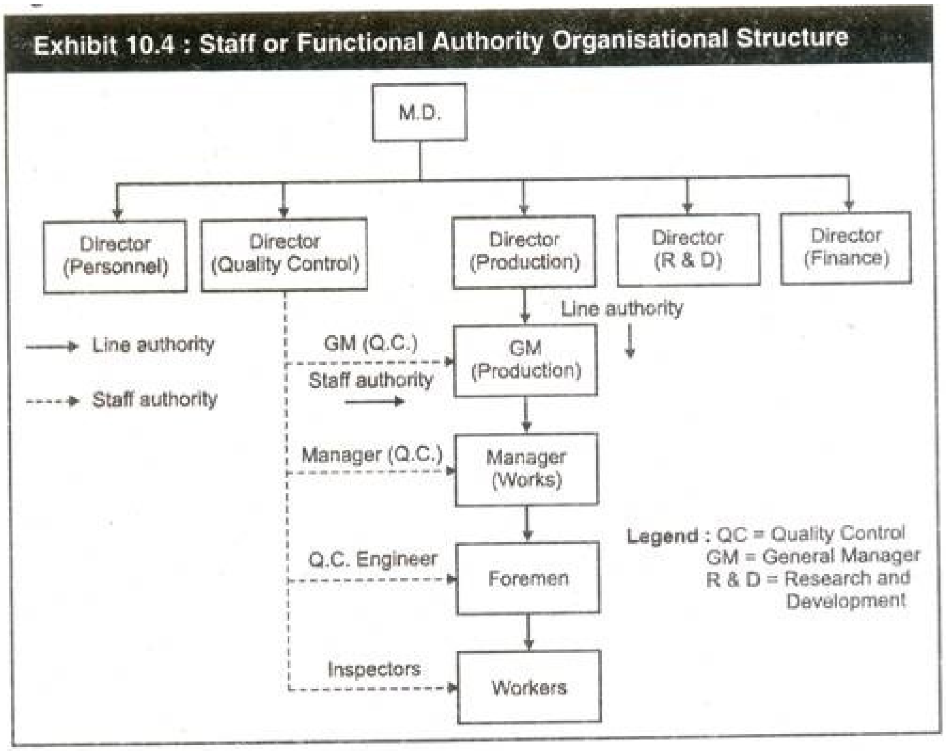
a position in the direct chain of command that is responsible for the achievement of an organisation's goals and

(ii) Staff position:

A position intended to provide expertise, advice and support for the line positions.

The line officers or managers have the direct authority (known as line authority) to be exercised by them to achieve the organisational goals. The staff officers or managers have staff authority (i.e., authority to advice the line) over the line. This is also known as functional authority.

An organisation where staffs departments have authority over line personnel in narrow areas of specialization is known as functional authority organisation. Exhibit 10.4 illustrates a staff or functional authority organisational structure.



In the line organisation, the line managers cannot be experts in all the functions they are required to perform. But in the functional authority organisation, staff personnel who are specialists in some fields are given functional authority (The right of staff specialists to issue orders in their own names in designated areas).

The principle of unity of command is violated when functional authority exists i.e., a worker or a group of workers may have to receive instructions or orders from the line supervisor as well as the staff specialist which may result in confusion and the conflicting orders from multiple sources may lead to increased ineffectiveness. Some staff specialists may exert direct authority over the line personnel, rather than exert advice authority (for example, quality control inspector may direct the worker as well as advise in matters related to quality).

While this type of organisational structure overcomes the disadvantages of a pure line organisaional structure, it has some major disadvantages:

They are: (i) the potential conflicts resulting from violation of principle of unity of command and (ii) the tendency to keep authority centralized at higher levels in the organisation.

3. Line and Staff Organisational Structure:

Most large organisations belong to this type of organisational structure. These organisations have direct, vertical relationships between different levels and also specialists responsible for advising and assisting line managers. Such organisations have both line and staff departments. Staff departments provide line people with advice and assistance in specialized areas (for example, quality control advising production department).

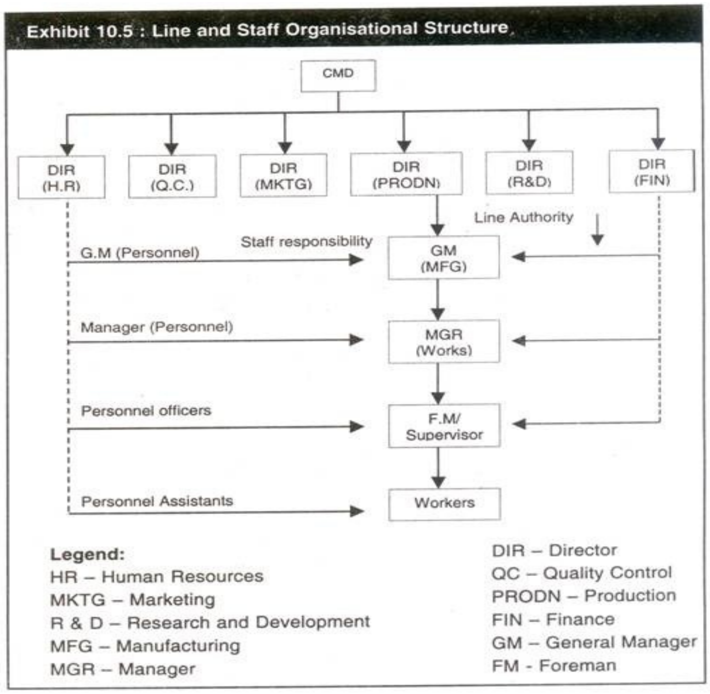


Exhibit 10.5 illustrates the line and staff organisational chart. The line functions are production and marketing whereas the staff functions include personnel, quality control, research and development, finance, accounting etc. The staff authority of functional authority organisational structure is replaced by staff responsibility so that the principle of unity of command is not violated.

Three types of specialized staffs can be identified:

(i) Advising,

(ii) Service and

(iii) Control.

Some staffs perform only one of these functions but some may perform two or all the three functions. The primary advantage is the use of expertise of staff specialists by the line personnel. The span of control of line managers can be increased because they are relieved of many functions which the staff people perform to assist the line.

Some advantages are:

(i) Even through a line and staff structure allows higher flexibility and specialization it may create conflict between line and staff personnel.

(ii) Line managers may not like staff personnel telling them what to do and how to do it even though they recognize the specialists' knowledge and expertise.

(iii) Some staff people have difficulty adjusting to the role, especially when line managers are reluctant to accept advice.

(iv) Staff people may resent their lack of authority and this may cause line and staff conflict.

Features:

1. Line and staff have direct vertical relationship between different levels.

2. Staff specialists are responsible for advising and assisting line managers/officers in specialized areas.

3. These types of specialized staff are (a) Advisory, (b) Service, (c) Control e.g.,

(a) Advisory:

Management information system, Operation Research and Quantitative Techniques, Industrial Engineering, Planning etc

(b) Service:

Maintenance, Purchase, Stores, Finance, Marketing.

(c) Control:

Quality control, Cost control, Auditing etc. Advantages'

(i) Use of expertise of staff specialists.

(ii) Span of control can be increased

(iii) Relieves line authorities of routine and specialized decisions.

(iv) No need for all round executives.

Disadvantages:

(i) Conflict between line and staff may still arise.

(ii) Staff officers may resent their lack of authority.

(iii) Co-ordination between line and staff may become difficult.

Committee Organisational Structure Features:

(a) Formed for managing certain problems/situations

(b) Are temporary decisions.

Advantages:

1. Committee decisions are better than individual decisions

2. Better interaction between committee members leads to better co-ordination of activities

3. Committee members can be motivated to participate in group decision making.

4. Group discussion may lead to creative thinking.

Disadvantages:

1. Committees may delay decisions, consume more time and hence more expensive.

2. Group action may lead to compromise and indecision.

3. 'Buck passing' may result.

4. Divisional Organisational Structure:

In this type of structure, the organisation can have different basis on which departments are formed. They are:

(i) Function,

(ii) Product,

(iii) Geographic territory,

(iv) Project and

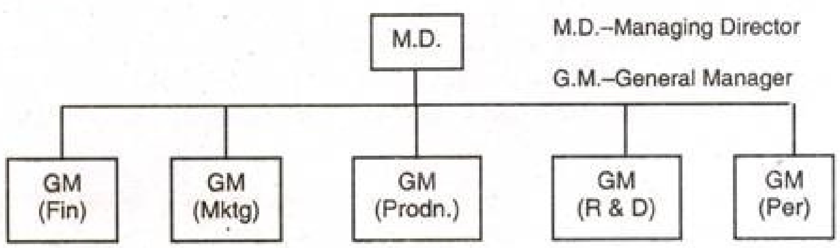
(iv) Combination approach.

Exhibit 10.6 illustrates organisational structures formed based on the above basis of departmentation.

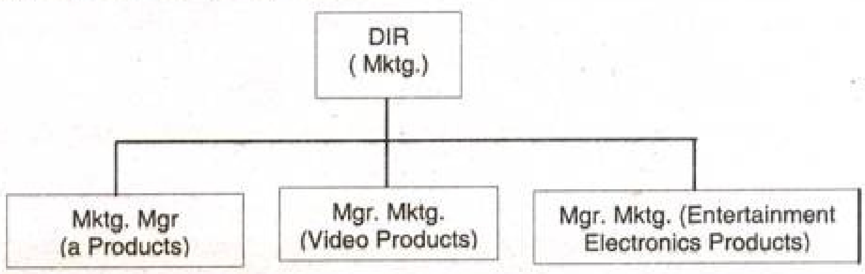
Exhibit 10.6 : Divisional Organisational Structure (Departmentation)

Features : Structure based on division of work based on a functional activity such as finance, marketing etc., or based on type of products manufactured or based on geographic location of the units or based on projects undertaken.

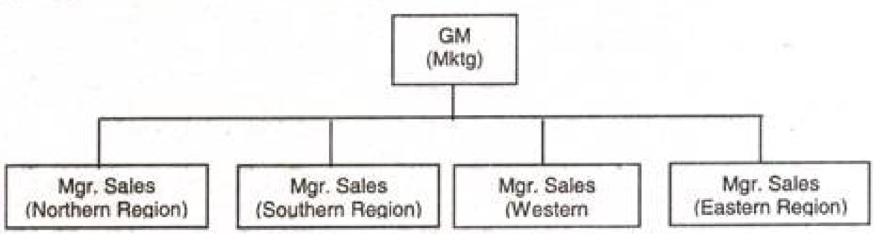
(a) Departmentation by Function



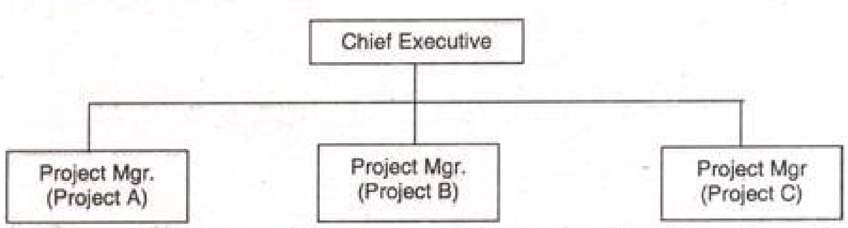
(b) Departmentation by Product



(c) Departmentation by Geographic territory



(d) Departmentation by Project



(e) Departmentation by combination approach (Combination of any two or more bases discussed above).

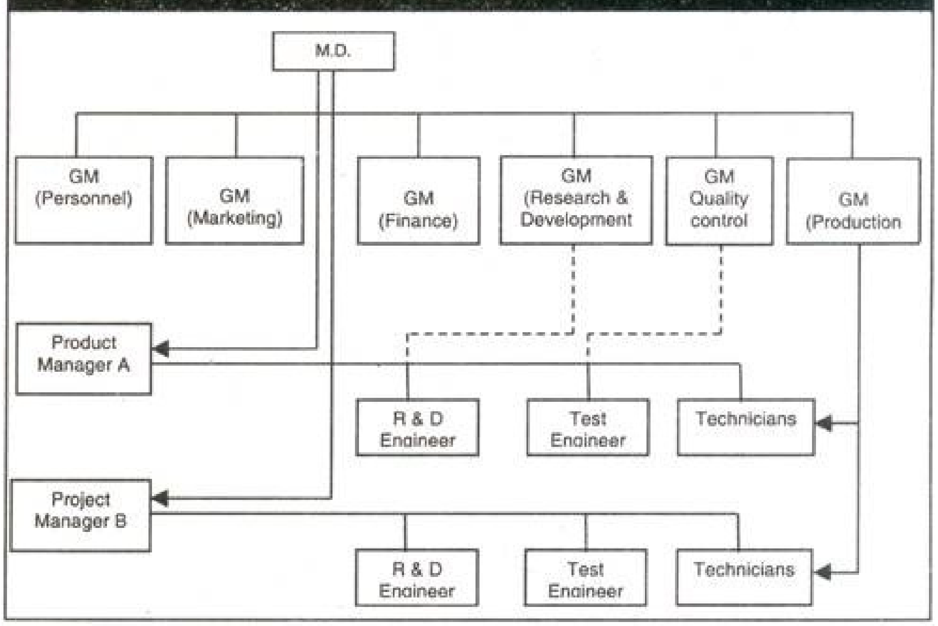
5. Project Organisational Structure:

The line, line and staff and functional authority organisational structures facilitate establishment and distribution of authority for vertical coordination and control rather than horizontal relationships. In some projects (complex activity consisting of a number of interdependent and independent activities) work process may flow horizontally, diagonally, upwards and downwards. The direction of work flow depends on the distribution of talents and abilities in the organisation and the need to apply them to the problem that exists. The cope up with such situations, project organisations and matrix organisations have emerged.

A project organisation is a temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation. The project team focuses all its energies, resources and results on the assigned project. Once the project has been completed, the team members from various cross functional departments may go back to their previous positions or may be assigned to a new project. Some of the examples of projects are: research and development projects, product development, construction of a new plant, housing complex, shopping complex, bridge etc.

Exhibit 10.7 illustrates a project organisational structure.

Exhibit 10.7 : Project Organisational Structure



Feature:

Temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation.

Importance of Project Organisational Structure:

Project organisational structure is most valuable when:

(i) Work is defined by a specific goal and target date for completion.

(ii) Work is unique and unfamiliar to the organisation.

(iii) Work is complex having independent activities and specialized skills are necessary for accomplishment.

(iv) Work is critical in terms of possible gains or losses.

(v) Work is not repetitive in nature.

Characteristics of project organisation:

1. Personnel are assigned to a project from the existing permanent organisation and are under the direction and control of the project manager.

2. The project manager specifies what effort is needed and when work will be performed whereas the concerned department manager executes the work using his resources.

3. The project manager gets the needed support from production, quality control, engineering etc. for completion of the project.

4. The authority over the project team members is shared by project manager and the respective functional managers in the permanent organisation.

5. The services of the specialists (project team members) are temporarily loaned to the project manager till the completion of the project.

6. There may be conflict between the project manager and the departmental manager on the issue of exercising authority over team members.

7. Since authority relationships are overlapping with possibilities of conflicts, informal relationships between project manager and departmental managers (functional managers) become more important than formal prescription of authority.

8. Full and free communication is essential among those working on the project.

6. Matrix Organisational Structure:

It is a permanent organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation. The matrix organisation is illustrated in Exhibit 10.8.

Feature:

Superimposes a horizontal set of divisions and reporting relationships onto a hierarchical functional structure

Advantages:

1. Decentralised decision making.

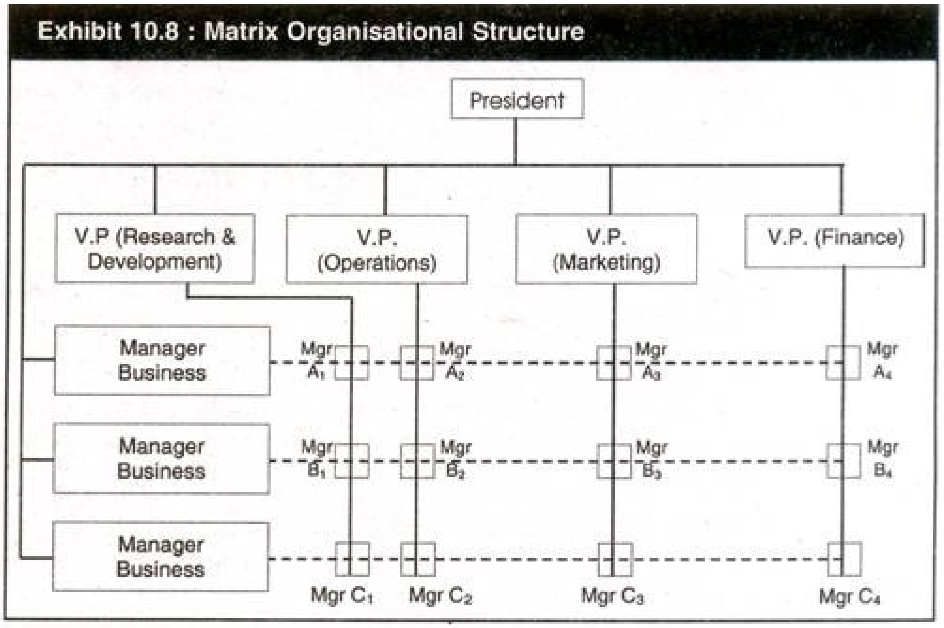
2. Strong product/project co-ordination.

3. Improved environmental monitoring.

4. Fast response to change.

5. Flexible use of resources.

6. Efficient use of support systems.



Disadvantages:

1. High administration cost.

2. Potential confusion over authority and responsibility.

3. High prospects of conflict.

4. Overemphasis on group decision making.

5. Excessive focus on internal relations.

This type of organisation is often used when the firm has to be highly responsive to a rapidly changing external environment.

In matrix structures, there are functional managers and product (or project or business group) managers. Functional manager are in charge of specialized resources such as production, quality control, inventories, scheduling and marketing. Product or business group managers are incharge of one or more products and are authorized to prepare product strategies or business group strategies and call on the various functional managers for the necessary resources.

The problem with this structure is the negative effects of dual authority similar to that of project organisation. The functional managers may lose some of their authority because product managers are given the budgets to purchase internal resources. In a matrix organisation, the product or business group managers and functional managers have somewhat equal power. There is possibility of conflict and frustration but the opportunity for prompt and efficient accomplishment is quite high.

7. Hybrid Organisational Structure:

Exhibit 10.9 (a) illustrates the hybrid organisational structure.

Exhibit 10.9 *(a)* : Hybrid Organisational Structure (IBM Structure)

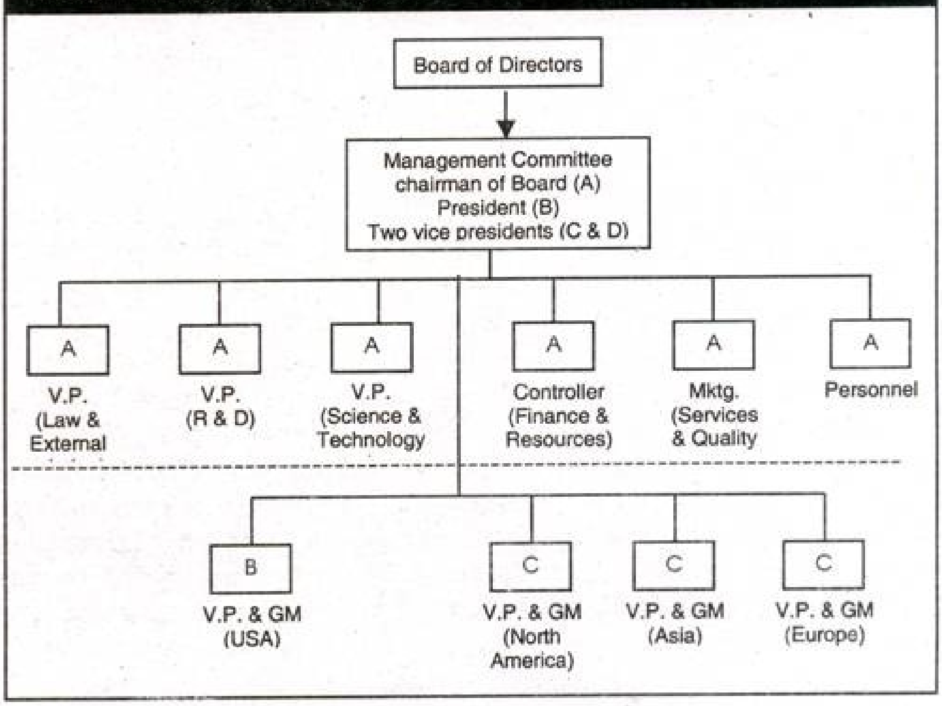
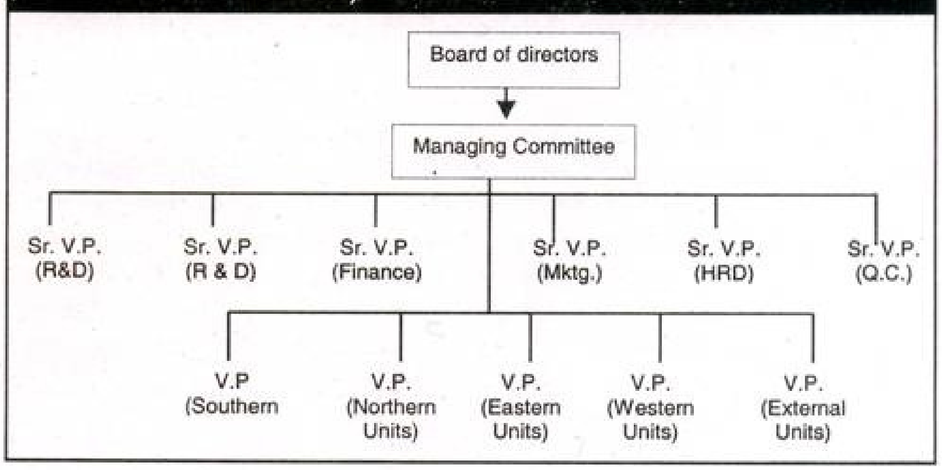


Exhibit 10.9 (b) illustrates a combination structure

Exhibit 10.9 *(b)* : Combination Structure (Functional and geographic divisions)



Advantages:

1. Alignment of corporate and divisional goals.

2. Functional expertise and efficiency.

3. Adaptability and flexibility in divisions.

Disadvantages:

1. Conflicts between corporate departments and units.

2. Excessive administration overhead.

3. Slow response to exceptional situations.

Uses:

Used in organisations that face considerable environmental uncertainty that can be met through a divisional structure and that also required functional expertise or efficiency

This type of structure is used by multinational companies operating in the global environment, for example, International Business Machines USA. This kind of structure depends on factors such as degree of international orientation and commitment. Multinational corporations may have their corporate offices in the country of origin and their international divisions established in various countries reporting to the CEO or president at the headquarters. The international divisions or foreign subsidiaries may be grouped into regions such as North America, Asia, Europe etc. and again each region may be subdivided into countries within each region.

While the focus is on international geographic structures, companies may also choose functional or process or product departmentation in addition to geographic pattern while at the head quarter's the departmentation may be based on function.

The Informal Organisation:

An informal organisation is the set of evolving relationships and patterns of human interaction within an organisation which are not officially presented. Alongside the formal organisation, an informal organisation structure exists which consists of informal relationships created not by officially designated managers but by organisational members at every level. Since managers cannot avoid these informal relationships, they must be trained to cope with it

The informal organisation has the following characteristics

(i) Its members are joined together to satisfy their personal needs (needs for affiliation, friendship etc.)

(ii) It is continuously changing:

The informal organisation is dynamic.

(iii) It involves members from various organisational levels.

(iv) It is affected by relationship outside the firm.

(v) It has a pecking order: certain people are assigned greater importance than others by the informal group.

Even though an informal organisational structure does not have its own formal organisational chart, it has its own chain of command:

Benefits of Informal Organisation:

(i) Assists in accomplishing the work faster.

(ii) Helps to remove weakness in the formal structure.

(iii) Lengthens the effective span of control.

(iv) Compensation for violations of formal organisational principles.

(v) Provides an additional channel of communication.

(vi) Provides emotional support for employees.

(vii) Encourages better management.

Disadvantages of informal organisation:

(i) May work against the purpose of formal organisation.

(ii) Reduces the degree of predictability and control.

(iii) Reduces the number of practical alternatives.

(iv) Increases the time required to complete activities.

Dominance of MNC

At present Multinational Corporations are having a stronghold over the Indian economy. Even during 1970s, i.e. by two decades ago about 53.7 per cent of the total assets of the giant sector were controlled by the MNCs. As per the estimates of the Industrial Licensing Policy Inquiry Committee, in 1966, there were about 112 MNCs operating in India with assets worth Rs. 10 crore or more.

Out of these companies, 48 were either foreign branches or Indian subsidiaries of foreign companies. Besides, there were 14 other companies, having heavy loans and equity capital, which were almost controlled by foreign companies. Thus these 62 companies had nearly Rs. 1,370 crore worth of assets which jointly constituted about 54 per cent of the total assets of the giant sector operating in India.

D.S. Swamy was of the opinion that a good number of other companies were also under foreign domination and some of these companies were depending heavily on international financial institutions for financial assistance. Thus during the mid-1960s, Western foreign capital mostly dominated the big business of the country and thereby controlled the apex of India’s industrial pyramid.

Another important feature of MNCs in India is that they have been raising a major part of investment resources within the boundary of Indian economy. Sudip Choudhury made a study on the source of finance of MNCs during the period 1956 to 1975 by taking sample of 50 largest foreign subsidiaries.

The study revealed that out of the total financial resources of these companies only 5.4 per cent were contributed by foreign sources (equity capital and loans) and the remaining 94.6 per cent were contributed by domestic sources. Another study made by John Martinussen revealed that amount of capital issues contributed by foreign participation declined from 61.5 per cent all consent of public limited companies in 1976 to only 29.5 per cent in 1980.

Moreover, about 20 TNCs affiliated Companies also reduced their foreign funding. During the period 1972 to 1983, some of these companies did not obtain any foreign funds. Thus in reality, the MNCs mostly collect their capital from within the country and repatriate a big chunk of their profits to their parent countries.

Recent Trends of MNCs:

Recently there has been a change in the attitude towards the multinationals. These are not subject to severe criticism as they were in the past. Even communist countries have developed some favourable attitude to them.

Paul Streeten points out that there are five recent trends that point out the changes:

1. Shift in Bargaining Power:

There has been a shift in bargaining power between multinational and the host countries. There is some evidence that it has become the policy of multinational companies to shift from equity investment ownership of capital and managerial control of overseas facilities to the sale of technology, management services and marketing as a means of earning returns on corporate assets, at least in those countries that have policies against inflows of packaged technology.

2. Dealings with a Greater Number of Foreign Companies:

Not only do the host countries deal with a greater variety of foreign companies, comparing them and weighing them against one another, but the large MNCs are being replaced by smaller and more flexible firms.

3. Competition among the MNCs:

Many more nations are now competing with US multinationals in setting up foreign activities. Japanese and European firms figure prominently among the new MNCs.

4. Establishment of MNCs by the Developing Countries:

In addition to the companies from the organisation of Petroleum Exporting Countries (OPEC) and firms established in tax haven countries, the leading countries where MNCs are being established are Argentina, Brazil, Colombia, Hong-Kong, India, Korea, Paris, Philippines, Singapore and Taiwan.

6. Fifthly, some multinationals from the developed countries have accommodated themselves to the needs of the developing countries.

Code of Conduct

A Code of Conduct is a written collection of the rules, principles, values, and employee expectations, behavior, and relationships that an organization considers significant and believes are fundamental to their successful operation.

A Code of Conduct enumerates those standards and values that make an organization remarkable and that enable it to stand out from similar organizations. The Code of Conduct is named by an organization to reflect the culture that is present in the organization and to make a statement.

The Purpose of a Code of Conduct

While Code of Conduct is a popular title, other companies call it their Code of Business Ethics, Code of Ethical Business Conduct and Code of Ethics and Standards. The last is popular in professional associations. No matter what an organization calls it, the Code of Conduct serves as a framework for ethical decision making within an organization. The Code of Conduct is a communication tool that informs internal and external stakeholders about what is valued by a particular organization, its employees, and management.

The Code of Conduct is the heart and soul of a company. Think of a Code of Conduct as an in-depth view of what an organization believes and how the employees of an organization see themselves and their relationship with each other and the rest of the world. The Code of Conduct paints a picture of how employees, customers, partners, and suppliers can expect to be treated as a result.

This offers one model.

According to the Brandt Commission, the principal elements of an international regime for investment should include:

1. A framework to allow developing countries as well as transnational corporations to benefit from direct investment on contractually agreed upon.

Home countries should not restrict investment or the transfer of technology abroad, and should desist from other restrictive practices such as export controls or market allocation arrangements.

Host countries in turn should not restrict current transfers such as profits, royalties and dividends, or the repatriation of capital, so long as they are on which were agreed when the investment was originally approved or subsequently negotiated.

2.Legislation promoted and coordinated in home and host countries, to regulate the activities of transnational corporations in such matters as ethical behavior, disclosure of information, restrictive business practices, cartels, anticompetitive practices and labor standards. International codes and guidelines are a useful step in that direction.

3. Cooperation by governments in their tax policies to monitor transfer pricing and to eliminate the resort to tax havens.

4. Fiscal and other incentives and policies towards foreign investment to be canonized among host developing countries, particularly at regional and sub regional levels, to avoid the under lining of the tax base and competitive positions of host countries

5. An international procedure for discussions and consultations on measures affecting direct investment and the activities of transnational corporations.

Role of Multinational Corporations in the Indian Economy

Prior to 1991 Multinational companies did not play much role in the Indian economy. In the pre-reform period the Indian economy was dominated by public enterprises.

To prevent concentration of economic power industrial policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies were quite big and operate in several countries.

While multinational companies played a significant role in the promotion of growth and trade in South-East Asian countries they did not play much role in the Indian economy where import-substitution development strategy was followed. Since 1991 with the adoption of industrial policy of liberalisation and privatisation rote of private foreign capital has been recognized as important for rapid growth of the Indian economy.

Since source of bulk of foreign capital and investment are multinational corporation, they have been allowed to operate in the Indian economy subject to some regulations. The following are the important reasons for this change in policy towards multinational companies in the post-reform period.

Some of world's largest multinational corporations are given below:

World's Some Important Non-Financial Multinational Corporations

S.No.	International Corporation	Parent Country	Industry of operation
1.	General Electric	United States	Electronics
2.	Exxon Mobil Corporation	United States	P:troleum (exploring, refining and distributing)
3.	Royal Duch Shell Group	Netherland/UK	-do-
4.	General Motors	United States	Motor Vehicles
5.	Ford Motor Co.	United States	Motor Vehicles
6.	Toyata Motor Co.	Japan	Motor Vehicles
7.	IBM	United States	Computers
8.	BP	United Kingdom	Petroleum (Exp/Ref./Distt.)
9.	Nesle SA	Switzerland	Food/Beverages
10.	Nippon Oil Co.	Japan	Petroleum/Expl., Ref./Distt.
11.	Sieman AG	Germany	Electronics
12.	BMW AG	Germany	Motors Vehicles
13.	ABB	Switzerland	Electrical equipment
14.	Sony Corporation	Japan	Electronics
15.	Seagram	Canada	Food/Beverages
16.	Aventis	France	Pharmaceuticals/Chemicals
17.	Roche Group	Switzerland	Pharmaceuticals
18.	Honda Motor Co.	Japan	Motor Vehicles
19.	Phillips Electronics	Netherland	Electronics
20.	Hewlett-Packard	United States	Electronics/Computers

1. Promotion Foreign Investment:

In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India.

The liberalized foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.

For example, the effect of Suzuki firm's investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars.

Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

2. Non-Debt Creating Capital inflows:

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from

India and this resulted in balance of payments crisis in 1991. As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India's balance of payments (BOP).

3. Technology Transfer:

Another important role of multinational corporations is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology. Whenever, multinational firms set up their subsidiary production units or joint-venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery.

As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

4. Promotion of Exports:

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry.

Historically in India, multinationals made large investment in plantations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India.

However, in case of Pepsi, a famous cold -drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

5. Investment in Infrastructure:

With a large command over financial resources and their superior ability to raise resources both globally and inside India it is said that multinational corporations could invest in infrastructure such as power projects, modernisation of airports and posts, telecommunication.

The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth.

In view of above, even Common Minimum Programme of the present UPA government provides that foreign direct investment (FDI) will be encouraged and actively sought, especially in areas of (a) infrastructure, (b) high technology and (c) exports, and (d) where domestic assets and employment are created on a significant scale.

Problems from the Growth of MNCs:

Much of the concern about MNCs stems from their size, which can be formidable. MNCs may impose on their host governments to the advantages of their own shareholders and the disadvantages of citizens and shareholders in the country of shareholders in the past.

It can be difficult to manage economics in which MNCs have extensive investments. Since MNCs often have ready access to external sources of finance, they can blunt local monetary policy. When the Government wishes to constrain any economic activity, MNCs may nevertheless expand through foreign borrowing.

Similarly, efforts at economic expansion may be frustrated if MNCs move funds abroad in search of advantages elsewhere. Although it is true that any firm can frustrate plans for economic expansion due to integrated financial markets, MNCs are likely to take advantage of any opportunity to gain profits.

As we have seen, MNCs can also shift profits to reduce their total ‘tax burden by showing larger profits in countries with lower tax rates citizens and shareholders in the country of shareholders in the past.

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Multinational Corporations in India:

MNCs have been operating in India even prior to Independence, like Singer, Parry, Philips, Unit- Lever, Proctor and Gamble. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. The entry of MNCs in India was controlled by existing industrial policy statements, MRTP Act, and FERA. In the pre-reform period the operations of MNCs in India were restricted.

New Industrial Policy 1991 and Multinational Corporations:

The New Industrial Policy 1991, removed the restrictions of entry to MNCs through various concessions. The amendment of FERA in 1993 provided further concession to MNCs in India.

At present MNCs in India can—

(i) Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.

(ii) Borrow money or accept deposit without the permission of Reserve Bank of India.

(iii) Transfer shares from one non-resident to another non-resident.

(iv) Disinvest equity at market rates on stock exchanges.

(v) Go for 100 percent foreign equity through the automatic route in Specified sectors.

(vi) Deal in immovable properties in India.

(vii) Carry on in India any activity of trading, commercial or industrial except a very small negative list.

Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FERA.

Criticisms against MNCs in India:

The operations of MNCs in India have been opposed on the following grounds:

(i) They are interested more on mergers and acquisitions and not on fresh projects.

(ii) They have raised very large part of their financial resources from within the country.

(iii) They supply second hand plant and machinery declared obsolete in their country.

(i v) They are mainly profit oriented and have short term focus on quick profits. National interests and problems are generally ignored.

(v) They use expatriate management and personnel rather than competitive Indian Management.

(vi) Though they collect most of the capital from within the country, they have repatriated huge profits to their mother country.

(vii) They make no effort to adopt an appropriate technology suitable to the needs. Moreover, transfer of technology proves very costly.

(viii) Once an MNC gains foothold in a venture, it tries to increase its holding in order to become a majority shareholder.

(ix) Further, once financial liberalizations are in place and free movement is allowed, MNCs can stabilize the economy.

(x) They prefer to participate in the production of mass consumption and non-essential items.

CASE STUDY

Why Nestle is Multinational Corporate?

Nestle is a multinational corporate since the headquarter is located in Switzerland but operates businesses in the many other countries over the world such as Europe, United State, China, Malaysia, Hong Kong etc. As we know, Nestle is an infant's product. Besides producing infants, Nestle has also produces some other products such as chocolate, yogurt drink, cornflakes, ice-cream etc which can easily found in supermarkets all over the world.

Introduction to Nestle

In 1860s, a pharmacist named Henri Nestle had succeeded developed a food for babies whom are unable to breastfeed. And his first success was to be able to feed a premature infant who could not tolerate his mother's milk or any of the usual substitutes. (Nestle, 2010)

In 1867, he adopted his own coat of arms as a trademark in 1867. In German Nestle means little nest. The Nestle symbol is universally understood to carry the meaning of nurturing and caring, security, nourishment and family bonding. These attributes are still the guiding legacy for the company Henri Nestlé founded which fulfills the commitment to 'Good Food, Good Life.

In 1905 Nestlé work together with the Anglo-Swiss Condensed Milk Company, the year after Nestlé added chocolate to its line of foods. The newly formed Nestlé and Anglo-Swiss Milk Company had factories in the Spain, Germany, United States and Britain. Soon, the company had full-scale manufacturing in Australia with warehouses in Hong Kong, Singapore and Bombay. Most production still took place in Europe. (English Tea Store, 2004-2009)

At first, Nestle business was mainly based on milk and dietetic foods for children. Then, Nestlé grew and diversified its range of products, through acquisitions and mergers with the already famous brands of that time. For example, the manufacturing of LACTOGEN began in 1921, and in the same year, a beverage containing wheat flour was marketed under the brand name MILO. In 1938, NESCAFÉ was introduced to the as the first instant coffee. Then, in 1947, Nestlé merged with the MAGGI Company.

Currently, Nestle is still having their principles, which to provide the best products throughout the world. As the leading Food, Nutrition, Health and Wellness Company, Nestlé provides the best food for any time of day and for anytime of your life. Nestlé has grown to become the world's largest food company which offers more than 8500 brands and 10000 products throughout the whole world. With its headquarters in Vevey, Switzerland, Nestlé has more than 456 factories in more than 80 countries and having more than 283,000 employers. (Nestle Products Sdn Bhd , 2010)

Actual impact of globalization on Nestle

PESTLE analysis which contains of political, economic, social, technology, legal and environment analysis which consist of external environmental. It is a useful analysis to understanding the situation of a company in an industry.

Political analysis

The stability of political in a country will be under the consideration by NESTLE to build a plant that can operates NESTLE's factories that considering the country's political stability, good tax incentives as well as its skilled workforce, NESTLE chose Malaysia to be the site of another regional manufacturing centre for NESCAFE (Mr. José Lopez, Executive Vice President, Nestle S.A. responsible for global operations and GLOBE (Nestlé's Global Business Excellence Programmer)).

Economic Analysis

The important of economic factors will leads to the strength of consumer spending. For example, in recession economy, people might cut of their budget to consume household stuff rather than unnecessary stuff such as chocolate. Americans likes luxury chocolates, a new premium line of cacao which is called Nestle Treasures God had launched in order to cash in on the recession.

Social Analysis

Even though Nestle as a multinational corporate which operates their business in the other country, but do respect to people's culture and traditional which is a corporate that think global, act local by working hard to integrate itself into the cultures and traditions of the country. For example, Kit-Kat's formula is almost different everywhere. A Russian Kit-Kat is smaller than a Bulgarian, but less sweet than Germany's Kit-Kat. While in Japan, the strawberry Kit-Kat is all the rage.

Technology Analysis

As the technology of recently changed rapidly in global, Nestle have attracted people to purchasing their products by using advertising. For example, Kit-Kat have been advertised by attracting youngster or child because it is a sweeten tid-bits. Infants food's advertisement is to attracted housewife to purchase it to given their child a healthy life.

Recent research on technology analysis (Nestle Policy and Environmental sustainable) (2008) reports shown that during the manufacturing process, Nestle had using efficient technologies to ensure that there is no wasted energy while producing products. In addition, to control the eliminate emission including the greenhouse gases.

Legal Analysis

In 1996, Nestle was the first multinational corporate that voluntary for Halal certification for its own food products. Those food products that exported to the other countries were certified as Halal products. As a global food company like Nestle, hygiene is a must. Since Nestle has the Halal certification and hygiene was the procedure which contain in that certificate.

Besides that, health and safety were the principle that keeps by Nestle. While provided employees to minimize risks in their personal lives, Nestle had always emphasize each of their employees about to change the employee's attitudes towards personal safety.

Environmental Analysis

Nestle always committed to people to produce the best quality to their consumers. Besides that, Nestle also prevented the wasted food by reduced the material's weight and volume, yet supported initiatives of recycle from used packaging. Nestle have also use recycled materials to produce its products.

But, Nestle had done a fact that will cause of the lost of the home for orangutan. According to Heidi Marshall (2010), Nestle's product-Kit Kat is a product of environmental destruction. This is because of the material that used in the candy bars and for the other Nestle products as well was comes from a palm oil that get from by destroying Indonesia rainforests.

The strategy that used by Nestle to actual impact of globalization are included:

Market Penetration Strategy

Market penetration strategy is which to refer to increase market share of the current products. A firm using this method by raises their sale revenue without any changing of their existing products. Nestle may try to use the promotion which is buy 1 free 1 for its products. For example, buy 2 packs of 1kg Milo free a 10 pack of instant Nescafe.

A market penetration will also involve the 4ps which is products, price, promotion and place. According to (Stuart Wall; SonalMinocha and Bronwen Rees, 2010), the product in international marketing is the extent to which a standard and differentiated product should be provided. For example, Nestle is using the differentiated products since it produce its products Kit-Kat in different flavor. A Russian Kit-Kat is smaller than a Bulgarian, but less sweet than Germany's Kit-Kat. While in Japan, the strawberry Kit-Kat is all the rage.

The international price is related to the account market different between countries, exchange rates, difficulties of voicing and collecting payment across borders, the effects of tariffs and purchase taxes on competitiveness, governmental regulations of the host country and the long term strategic plan of the company in the different markets in which it operates.

For the promotion, it is often expressed to attracted people to consume their products and yet to capture a new consumer to purchasing their products. Nestle is always advertise their products thru media ways. To make sure that people know their products yet to pursuing people to make a purchase on their products. For example, Nestle advertise its products thru the television advertisement. This can make sure that children will attracted by its advertisement while it advertise.

A place or distribution it is difficult to control from outside the overseas country itself. A company will solve this problem by its own subsidiary. In addition, if the products are being imported, a multinational company will recruit a local agent to ensure that there is safety, cheapest and quickest way is using. For example, Nestle might recruit a people that located outside of overseas of it country to solve the problem such as a warehouses, the selling markets and etc.

SWOT Analysis of Nestle

As Dr. Jill Novak, (2009) commented that:

Strength

Nestle is a global food producer since it located in over 100 countries. It is consistently one of the world's largest producers which with global sales in 2008 topped $101 billion. In addition, Nestle was named one of "America's Most Admired Food Companies" in Fortune magazine. Furthermore, Nestle provides quality brands and products and line extensions that are well-known, top-selling brands including: Maggi, Haagen Dazs, Kit Kat, Nescafe, CoffeeMate, prepared baby foods, yogurt, foods for infants and many more.

Weakness

Most of the products have their own weaknesses. For Nestle, it was not as successful as the other country in France. Nestle could not compete against a strong and established brand which is Dannon that entered into France earlier than Nestle which is top selling of health yogurt. Besides that, since 2004, Nestle has been forced to reduce the amount of sugar in their products that may cause of diabetes among American children. In addition, Nestle has been removed the packaging and advertising that false claims of "heart healthy" and "lower cholesterol" which is an order from FDA(Food and Drug Administration) and American Medical Association which is the under fire of the breakfast cereal industry.

Opportunities

In today, everyone hope and needs to have a healthy life, as a producer like Nestle, it has an opportunities to raise their selling profits with producing health-based products. Since Nestle was a well-known branded, for sure, it will be easy to attract people to purchase their products. Further, they launched a new premium line of cacao called Nestle Treasures Gold, in order to cash in on the "recession economy" in which consumers cut back on luxury goods, but regularly indulge in candy and chocolate. Americans want luxury chocolates, and high-end chocolate is immune to the recession (so far), because it is an inexpensive indulgence.

Threats

Even though Nestle was a big producer in the world, but it still has its competitor, such as Hershey's, Cadbury-Schweppes (owned by Pepsi), Kellogg's, Starbucks, , Quaker, Kraft Foods, Danone, , Heinz, Unilevel and many more. Furthermore, any contamination foods supply especially e.coli which causes the recalled of their brand-Toll House cookie dough. Outbreaks were linked to 28 states and the product had to be recalled globally. Nestlé has yet to find out how this happened, and is still investigating (Dr. Jill Novak, (2009).

Potential impacts of globalization on Nestle:

Nestle corporate have its own potential in globalization since it is a big foods producer in global.

Technology

In the world of today, technology will be changing rapidly in global. And this will leads a good improvement in all type of products that will be produce around the world. A research and development department will be a part of Nestle from today towards future achievement by gaining profits without wasting the raw material in manufacturing process. Besides that, by using a developed technology may reduce the effects that will occurs greenhouse effect. For example, use of plastics packaging in every single of Nestle products improve to recycled paper packaging, used of plastic bottle in filling the Nestle beverage into tin that can recycle use.

On the others side, a case that occurs in India, which is Nestle chocolate, will be melted before its eyes. This is because there are lacks of distribution and the heat temperature in India will make the chocolate melted. By using the technology that can solve this problem that is using the technology to change its chocolate ingredients so that can afford India heat temperature.

Environmental

As the info below, Nestle's Kit Kats was made from a palm oil that came from by destroying the rainforest in Indonesia. This is cause of the pollution in Indonesia. To solve this problem, Nestle corporate should consider using the palm oil from the other countries by not destroying the rainforest of the country. On the other side, there is another solution too. That is, refining the vegetables oil that can out inside the ingredient of making chocolate.

Social

As a food producer in global, Nestle may do some different in their products. Such as, a new flavor of the chocolate could be launch. This is because different country has a different taste towards foods. For Malaysia, a durian can be a part of the ingredient in the making of Kit-Kat. For Korea, a Kim chi flavor Kit-Kat can also create. This is a try for Nestle to attract people by producing different flavor but same products around the world.

The strategy that might use by Nestle in the potential impacts on globalization is:

Diversification strategy

According to Stuart Wall;SonalMinocha and Bronwen Rees diversification strategy involve the company branching out into both new products and new markets. For example, from the info that I mention below, Nestle might create a different flavor of Kit-Kat to attracted new customer. For Malaysia, Nestle may create a durian flavor Kit-Kat to attracted those customer who are not chocolate lover but is a durian lover to purchase this products.

Conclusion

On the day Nestle was introduced, it was only food for infants. As time goes, Nestle has grown to be more famous in brand name and focus in widen its product line. Today, Nestle is one of the most famous and successful foods and drinks producer. Furthermore, Nestle had expands to globalization which consist of factories around the world. Besides that, Nestle will always try counter threats and competitor, such as the current products or new product entrants. Therefore, Nestle still has the potential to grow more and continue to be the one of the leader in the market share.

UNIT – IV

INDIA IN THE GLOBAL SETTING:

India an Emerging Market – India in the Global Trade – Liberalization and Integration with Global Economy – Obstacles in Globalization – Factors Globalization – Globalization Strategies – Case Studies.

India an Emerging Market:

India is emerging as one of the largest markets in the world. It is indeed one of the growth markets of the future. While the market for a number of products in the developed countries are saturating or declining

India presents an expanding market because of the some factors:

- Existence of a large backlog of unsatisfied desires, like those for consumer durables.
- Fast increase in population.
- Rising income.

The communication revolution and changing social attitudes giving rise to a revolution of rising expectations and spurt in demand.

India has emerged as the second most promising market after China in terms of maximum opportunity for rapid growth among emerging market economies, says a survey.

According to the survey by Tata Communications in association with research company Vanson Bourne, more than half of the respondents believe China offers the maximum opportunity for rapid growth opportunities, followed by India at 46 per cent and Brazil at 26 per cent.

Russia comes a distant eighth with just 11 per cent of emerging market business leaders feeling it offers rapid business growth, according to the survey covering 1,600 business leaders from ten emerging and developed markets.

Going ahead, 39 per cent of all global respondents stated that their organization is looking at expanding into India, making it the second most favored market for global expansion after China at 51 per cent.

Thirty three per cent identified Brazil as a likely target market and 19 per cent selected Russia.

India had an incredible banner year.

The world's largest democracy, home to 1.25 billion people, was the best-performing emerging market in 2014, delivering over 29 percent.

It was followed by the Philippines in second place and Indonesia in third.

Prudent investors are generally "risk-averse," and thus, seek to avoid uncertainty. This is a major reason why equity markets of developed countries attract more capital than emerging markets.

But with traditional powerhouses of the world – the United States, Western Europe and Japan – each now facing their own economic uncertainties, is now the time to look to emerging markets to pick up the slack?

Emerging nations make up roughly 90 per cent of the world's population, and now represent more than half of world GDP (at purchasing power parity).

The emerging world is vastly underrepresented by capital markets though, making up only approximately 10 per cent of the global equity market.

Profits rise as GDP rises, or if corporate profits as a percentage of GDP rise. This cannot persist in the long run though, because the people employed by corporations won't continue to work for a smaller share of these profits (in the form of salaries and wages).

Roughly half of India's 1.25 billion people are under 25. They are entrepreneurial and place tremendous importance on education.

In 2014, Narendra Modi was elected Prime Minister in a landslide victory in an election with the single biggest voter turnout in human history.

He won on a promise to fix the economy and provide opportunity for the hundreds of millions of hopeful and ambitious young Indians.

India's role in global trade:

In global trade, power has shifted and new blocs have been created. After two decades of changes in the fundamental structures of the global trading system, China has risen to the rank of the mega-trader of its own class, whereas the USA, Canada and the European Union have consolidated their dominance of the Transatlantic Trade and Investment region and the USA, Japan, South-Korea together with smaller Asian economies represent the Trans-Pacific trading bloc. India, soon the most populous nation of the world, remains outside of these trading blocs. While the growth of trading economies demonstrates the age-old experience that only trade enhances the growth of national economies, India's example illustrates the sobering recognition of the fact that in a globalising economy and society the size of the domestic economy, even if it is very large as in India, nevertheless remains a secondary factor in wealth-creation compared to the impact of international trade. China, after recovering from century-old subjugation and misery, has become the world's second-biggest economy by turning world-champion as a trading nation through exporting manufactured goods globally. India with all its successes in the disproportionate growth of its export of services in the IT field, remains a relative dwarf in international trade, and therefore a suboptimal performer in the global competition of nations for the growth of their economies. A one-million community of IT brains and experts cannot raise living standards of a one-billion nation, of who one third is illiterate and surviving in subsistence agriculture. Population wise, China and India are roughly the same. Fundamentally, they must aspire to the same economic and strategic role. For practically every criterion taken individually, India compares negatively with China. China is on its way to realise all its potential. It is the world's largest trading nation, it has probably the largest military manpower, it is reaching out strategically and economically to all corners of the globe, it is challenging strategic competitors in its region, Japan and Korea in the East China Sea, Vietnam, Malaysia and the Philippines in the South China Sea, and it has become the overall economic challenger of the world's only super power, the USA. Under every heading, India is behind, except on the statistics of buyers of military goods, and does not show the capacity to equal China in the speed of economic growth, let alone to overtake it. India does have specific assets and qualities that could be turned into comparative advantages: the industrial production of generic pharmaceuticals (the "Pharmacy of the World"), a globally relatively dominant position in the field of IT services, a level of industrial wages estimated at ten percent lower than in China, which could facilitate a take-off in manufacturing industries following the Chinese example by producing more for the global market, and, finally, a free press and democratic structures, which will, eventually, prevail over collective authoritarian regimes in a globalised society. In everything he tackles, current Prime Minister Modi is heading in the right direction, but the effect on figures and international political recognition for India is still not what it could and should be. The task awaiting every Indian leader surpasses his or her possibilities by far; the sheer size of the country and its challenges is beyond any government's means. But the world still needs India as a counterweight to existing dominant forces in international affairs.

The USA and China could, on their historic way to their current dominant position, rely on the support by the often tacit but effective loyalty of underlying networks of private business and individuals. For the USA it was the Anglo-Saxon community still dominating much of global society, for China it was the equally loyal Chinese communities spread over large parts of the world. Indian communities are also spread over large parts of the world, but they do not seem to feel the same loyalty for the Government of India, at least there is no comparable impact of their global influence on the well-being of India. And yet, their role could be determining for the development of India, not by supporting the Indian government of the day, but by taking back to India as individuals and private business their understanding of global rules and standards in developing an economy against bureaucracy, mismanagement, corruption and waste of resources. The unanswered question remains relevant: Who starts doing what first?

Liberalization and Integration with Global Economy

Liberalization is the process of relaxation from government control. It is a very important economic term. Technically, it means the reductions in applied restrictions of the government on international trade and capital. Liberalization is also used in tandem with another term − Deregulation.

Deregulation is the disappearance of state restrictions on both domestic and international business. However, in principle, the two terms are distinct because liberalized markets are often subject to government regulations for various reasons, such as consumer protection. But in practice, both terms generally refer to the removal of state intervention in markets.

Favourable effects

Investment in the infrastructural and industrial sectors has increased substantially; Industrial production has recorded good growth. Competition has increased to the advantage of consumers.

Export GDP ratio and export intensity of companies (the ratio of export sale to total sales) have increased.

Foreign investments, both portfolio and direct, have increased very substantially.

Economic integration is an economic arrangement between different regions, marked by the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies.

India’s Integration into the new dynamics of Global Economy

The world economy has undergone tremendous structural shifts in the last few years due to rising influence and role of the emerging economies across the globe.

This has led to a shift of balance of powers between the global north and the global south. This is perhaps the most significant geo-political development of the recent times.

The emerging economies including countries like India, China and Brazil has evolved from being policy takers to policy makers. This development has brought the emerging economies to the forefront where they actively participate in the trade negotiations and global economic governance at various international forums.

India has already marked its presence as one of the fastest growing economies of the world. As per the IMF forecast, the Indian economy is projected to grow at 7.5 per cent for fiscal year 2016-17.

It has emerged as the fourth largest economy globally with a high growth rate and also improved its global ranking in terms of per capita income.

Over the years, India has given a new direction to its economic and political diplomacy. It has negotiated comprehensive free trade agreements **with some of the important economies of the world which include Japan, Korea and ASEAN. Currently, India is negotiating comprehensive trade agreements with EU, Australia, Canada and New Zealand.**

One of distinct features of India’s growing integration with the world is its deepening economic engagement with East Asian countries. Following the ’Look East Policy’, adopted in early 1990 and under its new phrase ’Act East Policy’, India’s economic and political engagements are being renewed with a series of proactive measures. Today, while China is India’s major trading partner, Japan and Korea are major sources of foreign direct investment into India.

In the run-up to the 2015 APEC Summit in Manila, a debate started on the possible accession of India into Asia Pacific Economic Cooperation (APEC). APEC is of major economic significance as it includes the largest and most dynamic economies, namely – USA, China, Japan, Canada, Australia, Taiwan, Russia, Indonesia, Mexico and South Korea. Most of these economies are important trade and investment partners to India.

While Indian industry has responded very well to this new emerging dynamics of global economy, one of the areas where industry has to work hard is integrating itself into the Global Value Chains (GVCs). Building production value chain is very important. Globally, value chains are important drivers of both trade and investment. More than fifty per cent of global trade is currently happening within GVCs.

India, at present, has limited number of products where it owns GVCs. As a result, its’ share in total value added created by global trade is not more than 1 per cent. India’s exports and imports of intermediates, one of the important indicators of integration into GVCs, are much smaller than countries like China.

GLOBALIZATION

Definition of Globalization

The International Monetary Fund (IMF) describes it as ―the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.

The United Nations ESCWA has written that globalisation ―is a widely used term that can be defined in a number of ways. When used in economic terms it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, and services and labor although considerable barriers remain to the flow of labor.

Friedman (1999) defined Globalisation as the ―inexorable integration of markets, nation-states and technologies to a degree never before in a way that is enabling individuals, corporations and nation- states to reach around farther, faster, deeper and cheaper than ever before and in a way that is enabling the world to reach into individuals, corporations and nation- states farther, faster, deeper and cheaper than ever before. This process of globalisation is also producing a powerful backlash from those brutalized or left behind by this new system.

Globalisation is the integration of national economies leading to the notion of a borderless global or planetary, an interwoven net of factories, fields and forests, governments, laboring populations, cities and transports spread over the surface of the earth (Avinash, 2000).

Jagdish Bhagwati (2004) defines _Globalisation‘ as integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology.

Dimensions of Globalization

Theoretically the concept of globalisation may be viewed as the expansion of the world system, accompaniment of modernity, creation of a single world market and a resultant of modernity.15

Globalisation is a phenomenon that has many dimensions in economic, cultural, environmental and political. Almost every aspect pertaining to the issue of globalisation is a subject matter of vital academic debate. The term globalisation is widely and generally applicable in the economic and commercial perspective. Nevertheless its impact-range encompasses cultural and philosophical dimensions as much as fundamental principles pertaining to the culture and philosophy of a particular nation or society are likely to interact with the changed situations arising in the state of globalisation.

Impact of Globalization on National Economies

While governments had no choice but to float their currencies, doing so was just a short-term fix rather than a long-term solution. In the new economy countries did not join in and deregulate their currencies (and economies) they became sitting ducks for global money speculators, foremost among which are multinational banks. The floating of national currencies was an inevitable result of the US severance from regulated currency. It was an offer to weaker economies that could not be refused - either join the club of globalised currency or be clubbed by globalised currency. The floating of currencies partly addressed the threat from global money speculators, but it did not fix the fault in the global monetary system, which continues to hamstring national economies through debt.

Obstacles in Globalization

The Indian business suffers from a number of disadvantages in respect of globalisation of business. The important problems are the following.

(a) Resistance to Change: There are several socio-political factors that resist change and this comes in the way of modernization, rationalization and efficiency improvement. Technological modernization is resisted due to fear of unemployment. The extent of excess labour employed by the Indian industry is alarming. Because of this labour productivity is very low and this in some cases more than offsets the advantages of cheap labour.

(b) Government Policy and Procedures: Government policy and procedures in India are among the most complex, confusing and cumbersome in the world.

Even after the much published liberalisation, they do not present a very conducive situation. One prerequisite for success in globalisation is swift and efficient action. Government policy and the bureaucratic culture in India in this respect are not that encouraging.

(c) High cost: High cost of many vital inputs and other factors like raw materials and intermediates, power, finance, infrastructural facilities like port, etc. tend to reduce the international competitiveness of the Indian business.

(d) Poor Infrastructure: Infrastructure in India is generally inadequate and inefficient and, therefore, very costly. This is a serious problem affecting the growth as well as competitiveness.

(e) Obsolescence: The technology employed mode and style of operations etc are in general, obsolete and these seriously affect the competitiveness.

(f) Poor Quality Image: Due to various reasons, the quality of many Indian products is poor. Even when the quality is good, the poor quality image of India becomes a handicap.

(g) Supply Problems: Due to various reasons like low production capacity, shortage of raw materials and infrastructure like power and port facilities, Indian companies in many instances are not able to accept large orders or to keep up delivery schedules.

(h) Small Size: Because of the small size and the low level of resources, in many cases Indian firms are not able to compete with the giants of other countries. Even the largest of the Indian companies are small compared to the multinational giants.

(i) Lack of Experience: The general lack of experience in managing international business is another important problem.

(j) Limited R & D and Marketing Research: Marketing Research and R & D in other areas are vital inputs for development of international business. However, these are poor in Indian business. Expenditure on R&D in India is less than one per cent of the GNP while it is two to three per cent in most of the developed countries. In 1994-95, India's per capita R&D expenditure was less than \$ 3 when it was between \$ 100 and \$ 825 for most of the developed nations.

(k) Growing Competition: The competition is growing not only from the firms in the developed countries but also from the developing country firms. Indeed, the growing competition from the developing country firms is a serious challenge to India's international business.

(l) Trade Barriers: Although the tariff barriers to trade have been progressively reduced thanks to the GATT/WTO, the non-tariff barriers have been increasing, particularly in the developed countries. Further, the trading blocs like the NAFTA, EU, etc. could also adversely affect India's business.

Factors of Globalization

Human Resources: Apart from the low cost of labour, there are several other aspects of human resources to India's favour. India has one of the largest pool of scientific and technical manpower. The number of management graduates is also surging. It is widely recognized that given the right environment, Indian scientists and technical personnel can do excellently.

Similarly, although the labor productivity in India is generally low, given the right environment it will be good. While several countries are facing labour shortage and may face diminishing labour supply , India presents the opposite picture. Cheap labour has particular attraction for several industries.

Wide Base: India has a very broad resource and industrial base which can support a variety of businesses. Globalisation, however, must not be confused with capitalism. According to Jagdish Bhagwati, globalization has brought an unprecedented level of growth in poor countries. The percentage of people living in developing countries on $1 per day has halved in the past 20 years and life expectancy has almost doubled in the developing world. Child mortality has declined in every developing region and literacy levels have risen. India has largely benefitted from the impact of globalization.

When India opened up to globalisation, growth accelerated to almost 7% on an average, compared to 4% in the first 35 years after independence. Second, there has been a remarkable reduction in poverty, especially in the last 15 years, though it is still too high for comfort.

Growing Entrepreneurship: Many of the established industries are planning to go international in a big way. Added to this is the considerable growth of new and dynamic entrepreneurs who could make a significant contribution to the globalisation of Indian business.

Growing Domestic Market: The growing domestic market enables the Indian companies to consolidate their position and to gain more strength to make foray into the foreign market or to expand their foreign business.

Expanding Markets: The growing population and disposable income and the resultant expanding internal market provides enormous business opportunities.

Transnationalisation of World Economy: Transnationalisation of the world economy, i.e., the integration of the national economies into a single world economy as evinced by the growing interdependence and globalisation of markets is an external factor encouraging globalisation of India business.

NRIs: The large number of non-resident Indians who are resourceful – in terms of capital, skill, experience, exposure, ideas etc., is an asset which can contribute to the globalization of Indian business..

Economic Liberalisation: The economic liberalisation in India is an encouraging factor of globalisation. The delicensing of industries, removal of restrictions on growth, opening up of industries earlier reserved for the public sector, import liberalisations, liberalisation of policy towards foreign capital and technology etc., could encourage globalisation of Indian business. Further, liberalization in other countries increases the foreign business opportunities for Indian business.

Competition: The growing competition, both from within the country and abroad, provokes many Indian companies to look, to foreign markets seriously to improve their competitive position and to increase the business. Sometimes companies enter foreign market as a counter – competitive strategy, i.e., m fight the foreign company in its own home market to weaken its competitive strength.

7 Factors Influencing Globalization:

Historical:

The trade routes were made over the years so that goods from one kingdom or country moved to another. The well known silk-route from east to west is an example of historical factor.

Economy:

The cost of goods and values to the end user determine the movement of goods and value addition. The overall economics of a particular industry or trade is an important factor in globalisation.

Resources and Markets:

The natural resources like minerals, coal, oil, gas, human resources, water, etc. make an important contribution in globalisation.

Production Issues:

Utilisation of built up capacities of production, sluggishness in domestic market and over production makes a manufacturing company look outward and go global. The development of overseas markets and manufacturing plants in autos, four wheelers and two wheelers is a classical example.

Political:

The political issues of a country make globalisation channelised as per political bosses. The regional trade understandings or agreements determine the scope of globalization. Trading in European Union and special agreement in the erstwhile Soviet block and SAARC are examples. (China and Pakistan)

Industrial Organisation:

The technological development in the areas of production, product mix and firms are helping organisations to expand their operations. The hiring of services and procurement of sub-assemblies and components have a strong influence in the globalisation process.

Technologies:

The stage of technology in a particular field gives rise to import or export of products or services from or to the country. European countries like England and Germany exported their chemical, electrical, mechanical plants in 50s and 60s and exports high tech (then) goods to under developed countries. Today India is exporting computer / software related services to advanced counties like UK, USA, etc.

Eight barriers in economic activities:

Many countries in Particular developing ones impose restrictions to globalisations by:

i.Imposing high taxes and duties for capital goods, spares and materials,

ii. Licensing restrictions,

iii. Foreign exchange restrictions,

iv. Investment restrictions,

v. Incentives and prioritization to specific domestic industries, and

vi. Banning / restricting products of foreign origin.

vii. Procedural hassles, bureaucracy

viii. Closed mind-set

The fears of the countries in that case may be:

i.To provide local employment,

ii. To raise standard of living and GDP,

iii. To help in building up foreign exchange reserves,

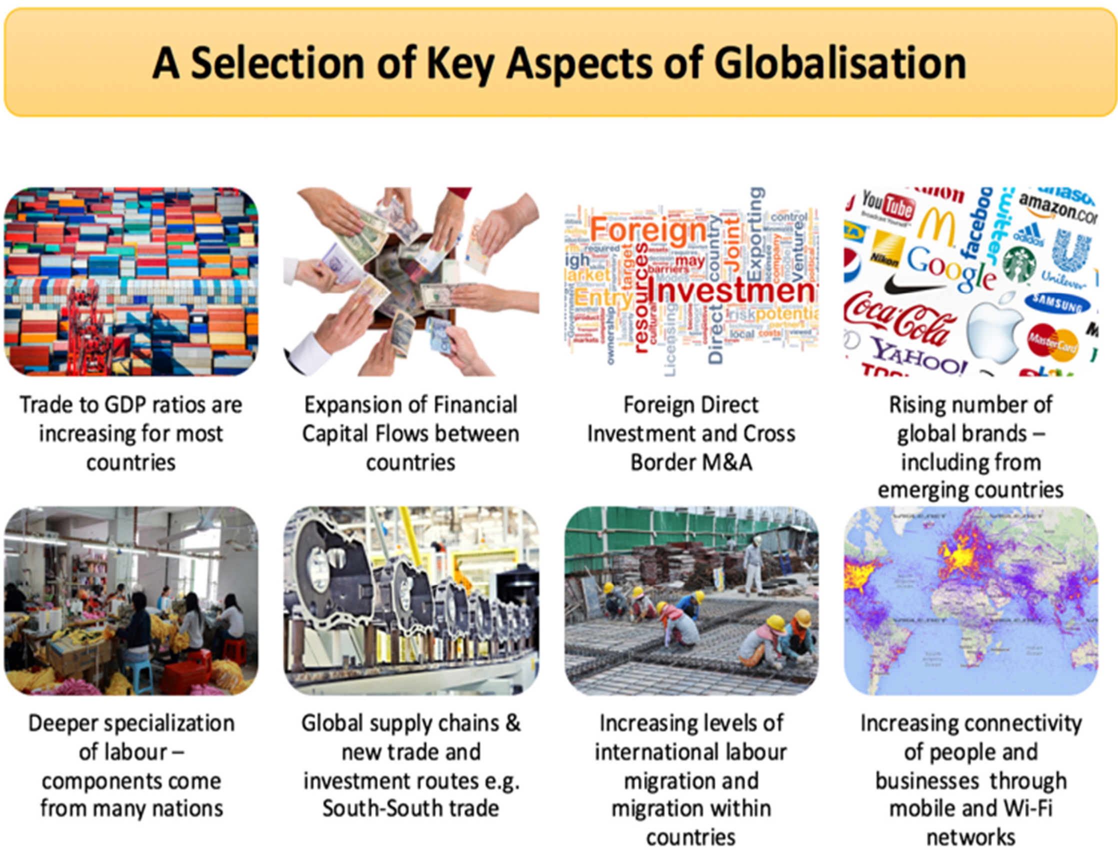
iv. To channelize the resources of the country,

v. To develop new skills / markets and

vi. To mobilise capital.

Transport, communication and IT:

The technological revolution the world has witnessed in the last two decades is overwhelming. Development has immensely influenced world trade by bridging space and time. IT has revolutionised the way the business goes. E-money, e-banking, B2B business, B2C business and internet have added to speed up globalisation. Buying and selling of stocks and transfer of funds can take place now instantly



Containerization

The costs of ocean shipping have come down, due to containerization, bulk shipping, and other efficiencies. The lower unit cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to those in export markets, and it makes markets more contestable globally

Technological change

Rapid and sustained technological change has reduced the cost of transmitting and communicating information – sometimes known as “the death of distance” – a key factor behind trade in knowledge products using web technology

Economies of scale

Many economists believe that there has been an increase in the minimum efficient scale (MES) associated with some industries. If the MES is rising, a domestic market may be regarded as too small to satisfy the selling needs of these industries. Many emerging countries have their own transnational corporations

Differences in tax systems

The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI). Many countries have become engaged in tax competition between each other in a bid to win lucrative foreign investment projects.

Less protectionism

Old forms of non-tariff protection such as import licensing and foreign exchange controls have gradually been dismantled. Borders have opened and average import tariff levels have fallen.

That said, it is worth knowing that, in the last few years, there has been a rise in non-tariff barriers such as import quotas as countries have struggled to achieve real economic growth and as a response to persistent trade and current account deficits.

Growth Strategies of Transnational and Multinational Companies

In their pursuit of revenue and profit growth, increasingly global businesses and brands have invested significantly in expanding internationally. This is particularly the case for businesses owning brands that have proved they have the potential to be successfully globally, particularly in faster-growing economies fuelled by growing numbers of middle class consumers.

Globalization Strategies:

'Global Strategy' is a shortened term that covers three areas: global, multinational and international strategies. Essentially, these three areas refer to those strategies designed to enable an organization to achieve its objective of international expansion.

In developing 'global strategy', it is useful to distinguish between three forms of international expansion that arise from a company's resources, capabilities and current international position. If the company is still mainly focused on its home markets, then its strategies outside its home markets can be seen as international. For example, a dairy company might sell some of its excess milk and cheese supplies outside its home country. But its main strategic focus is still directed to the home market.

One of the basic decisions in global strategy begins by considering just how much local variation, if any, there might be for a brand. (Maintain a consistent brand across cultures.

No matter what country you're in, Apple's products are the same. Their products, their adverts and their website use the same clean, minimalist design the world over. Apple iPhones all have the same features. The visuals on the website are the same no matter what language option you choose.

We talk quite a bit about the importance of customising your marketing and your website to account for different cultural preferences. But it's also important that your brand maintains an underlying consistency.

Apple is not known for catering to their customers. When you buy an Apple product, you're buying Apple's vision. So, it makes sense that they would customise their content and products less than other brands.)

Another more basic decision might be whether to undertake any branding at all. Branding is expensive. It might be better to manufacture products for other companies that then undertake the expensive branding. Apple iPods are made in China with the Chinese company manufacturing to the Apple specification. The Chinese company then avoids the expense of building a brand. But faces the strategic problem that Apple could fail to renew its contract with the Chinese company, which might then be in serious financial difficulty.

As international activities have expanded at a company, it may have entered a number of different markets, each of which needs a strategy adapted to each market. Together, these strategies form a multinational strategy.

For example, a car company might have one strategy for the USA – specialist cars, higher prices – with another for European markets – smaller cars, fuel efficient – and yet another for developing countries – simple, low priced cars.

For some companies, their international activities have developed to such an extent that they essentially treat the world as one market with very limited variations for each country or world region. This is called a global strategy. For example, the luxury goods company Gucchi sells essentially the same products in every country.

Implications of the three definitions within global strategy:

International strategy: the organization's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage – important in strategy development – is developed mainly for the home market.

Multinational strategy: the organization is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined separately for each country.

Global strategy: the organization treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis.

Benefits of a global strategy

Economies of scope: the cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of the group to another – for example, a biotechnology sales team sells more than one product from the total range.

Economies of scale: the extra cost savings that occur when higher volume production allows unit costs to be reduced – for example, an Arcelor Mittal steel mill that delivers lower steel costs per unit as the size of the mill is increased.

Global brand recognition: the benefit that derives from having a brand that is recognized throughout the world – for example, Disney.

Global customer satisfaction: multinational customers who demand the same product, service and quality at various locations around the world – for example, customers of the Sheraton Hotel chain expect and receive the same level of service at all its hotels around the world.

Lowest labor and other input costs: these arise by choosing and switching manufacturers with lower labour costs – for example, computer assembly from imported parts in Thailand and Malaysia where labour wages are lower than in countries making some sophisticated computer parts (such as high-end computer chips) in countries like the USA

Recovery of research and development (R&D) costs and other development costs across the maximm number of countries – new models, new drugs and other forms of research often amounting to billions of US dollars. The more countries of the world where the goods can be sold mean the greater number of countries that can contribute to such costs. For example, the Airbus Jumbo A380 launched in 2008 where development costs has exceeded US$ 10 billion.

Emergence of new markets: means greater sales from essentially the same products.

Case study on Globalization:

Nokia-Made in India

In April 2005, Nokia India, a subsidiary of Finland-based Nokia, announced that it was setting up a manufacturing facility for mobile devices in Chennai, the state capital of Tamil Nadu in southern India. Nokia planned to invest US$ 100-150 million in the facility, where the production was expected to begin in the first half of 2006. Pekka Ala-Pietilä, President and Head of Customer & Market Operations, Nokia Corporation said, "Establishing a new factory in India is an important step in the continuous development of our global manufacturing network." India was ideal for Nokia's new production facility. Each mobile handset has more than 400 parts and the average production capacity of each manufacturing unit of Nokia is around 20 million units. This level of manufacturing involves a total of 8 billion components per annum, requiring strong logistical support. Nokia's manufacturing facility needed to be located close to a major international airport or sea port for quick supply of components. India met all these requirements, and also enjoyed cheap manpower costs and proximity to the rapidly growing Asia Pacific markets.

Besides, Nokia was the market leader in mobile communication devices in India. The company has been carrying out sales & marketing, customer care and research & development activities in the country. Nokia considers India to be one of its most important markets. The company's Code Division Multiple Access (CDMA) facility is located in Mumbai and provides software and technical support to CDMA consumers in India and other Asia Pacific countries. In 2004, Nokia was chosen as 'the most respected consumer durables company ‘by Business world. The magazine wrote, "This Finnish Company’s debut at the top of the heap says two things.

One, that its strategies - including ones like developing a phone specifically for India - are respected. But, more importantly, Nokia's win is also an endorsement of the importance of the ubiquitous cell phone as a durable in today's world. After all, unlike its competitors, most of which offer a slew of durables, Nokia is mostly a cell phone company."

In 2005, Nokia was recognized as the 'Brand of the Year’ by the Confederation of Indian Industry, India's apex industry association. The company was chosen for this award because of its high brand recall, well established distribution channels and being 'most preferred' by the consumers.

UNIT – V

TRADE POLICY AND REGULATION IN INDIA

Trade Strategies – Trade Strategy of India – Export – Import Policy – An Evaluation of the Policies – Regulation and Promotion of Foreign Trade in India – Expert Incentive – Product Assistance/Facilities – Marketing Assistance – Import Facilities for Exporters – Export Units and Export Processing Zones – Export Houses and Trading Houses – Case Studies.

Trade Strategy

The trade strategy of a nation has impact not only on the volume and composition of foreign trade, but also on the pattern of investment and direction of development, entrepreneurial and business behavior, consumption pattern etc.

There are mainly two trade strategies; outward oriented and inward oriented. • An outward oriented or outward strategy is one in which trade and industrial policies do not discriminate between production for the domestic market and exports, or between purchase of domestic goods and foreign goods.

An inward oriented or inward looking strategy is characterized by the bias of the trade and industrial policies in favor of domestic production and against foreign trade.

As import substitution is the key element of the inward oriented strategy, it is often described as the import substitution industrialization strategy.

Trade Strategy of India

In the four decades since the commencement of planned development in 1951, India followed a strong inward-oriented policy.

The inward-oriented strategy has had very adverse effects on India's export performance and economic development.

Period of Export Pessimism

The export pessimism and the resultant indifference to export development in the earlier plans resulted in the neglect of several sectors with tremendous export potential like textiles, fisheries etc.

Further, even after recognizing the export potential of many products, the failure of effectively harness the potential has been more conspicuous than achievements in several cases.

Era of Export Promotion and Import Restriction

The period of about three decades, 1961-91, extending from the beginning of the Third Five Year Plan to the eve of the Eighth Plan is characterized by import restriction and the adoption of a number of measures for export promotion.

The early part of this period, particularly, also witnessed vigorous import substitution efforts.

Although there was some liberalization of the imports since the mid 1980s, imports were, in general, highly restricted.

Many of the import liberalization measures were for export promotion.

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Elements of Trade Policy and Strategy Pursued in India

Two Important Elements of Trade Policy and Strategy pursued in India have been:
(i) import substitution, and (ii) export promotion.
The trade strategy of nation has impact not only on the volume and composition of foreign trade, but also on the pattern of investment and direction of development, entrepreneurial and business behaviour, consumption pattern, etc. Since the commencement of planned development, India followed a strong inward-oriented policy.

Import Substitution:

Import substitution industrialisation (ISI) is a trade and economic policy that advocates replacing foreign imports, with domestic production. ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialised products.

Import substitution implies indigenous production of raw materials, intermediate goods and final consumer and capital goods. Import substitution was the major plank of India's foreign trade policy during the early-years of economic planning.

Later, however, it was realised that large imports of capital goods and equipment would help the country build up domestic production capacity and help meet the domestic requirements. The presumption was in-built in the Mahalanobis strategy of heavy- industry-led growth. A further assumption of the strategy was that once the production capacity within the country was built up, it would be possible to give up imports to a large extent.

The progress of import substitution in the country was quite satisfactory. For instance, in the sphere of consumer goods we acquired the capacity to produce exportable surplus in which we are competing effectively in the international markets. Likewise, indigenous production of capital goods also expanded fast with the country gradually becoming self-sufficient in their production too.

But all this does not mean that the country's requirements of imports have decreased or show signs of falling. On the contrary, India's imports have been mounting.

The approach of 'import and adapt', continuously fell short of global advancement in technology. More importantly, imports keep our industry on its toes in terms of price, quality and technology. Hence, our policies and efforts should be geared to develop ways and means with which to finance the rising needs of imports in the country.

Export Promotion:

The terms 'export promotion', 'outward-orientation', and 'export-led growth' have all been used interchangeably to descry be the policies adopted in the successful developing countries. Import substitution and export promotion are not competitive, but each requires a different set of policies to be pursued. Three distinct phases can be seen in India's approaches and policy towards exports.

i. The early phase, which lasted up to about 1972-73, was one of extreme export pessimism with a fear that exports are subject to low growth in demand, high fluctuations in prices and lead to economic dependency.

ii. The second phase began in 1973 after the first oil crisis and lasted for about ten years. In this phase, although-it was not explicitly stated, it was recognised that policies of import substitution by themselves could not bring about viability in India's BOP.

iii. In the third and more recent phase, exports are being seen as an integral part of industrial and development-policy. The anti- export bias of the policy has paved way for pro-export policy.

The policy has emphasised technological upgradation, increase in the size of plants, freer imports and domestic and international competition for the entire industrial sector as being essential for export promotion.

The 'import substitution' strategy of industrialisation relied on encouraging domestic production to cater to the domestic market. This was sought to be realised by high tariffs and a high degree of protection granted to the domestic industry. The major drawback of this strategy was that it led to an inefficient and high cost industrial structure, which also adversely affected the prospects for export growth.

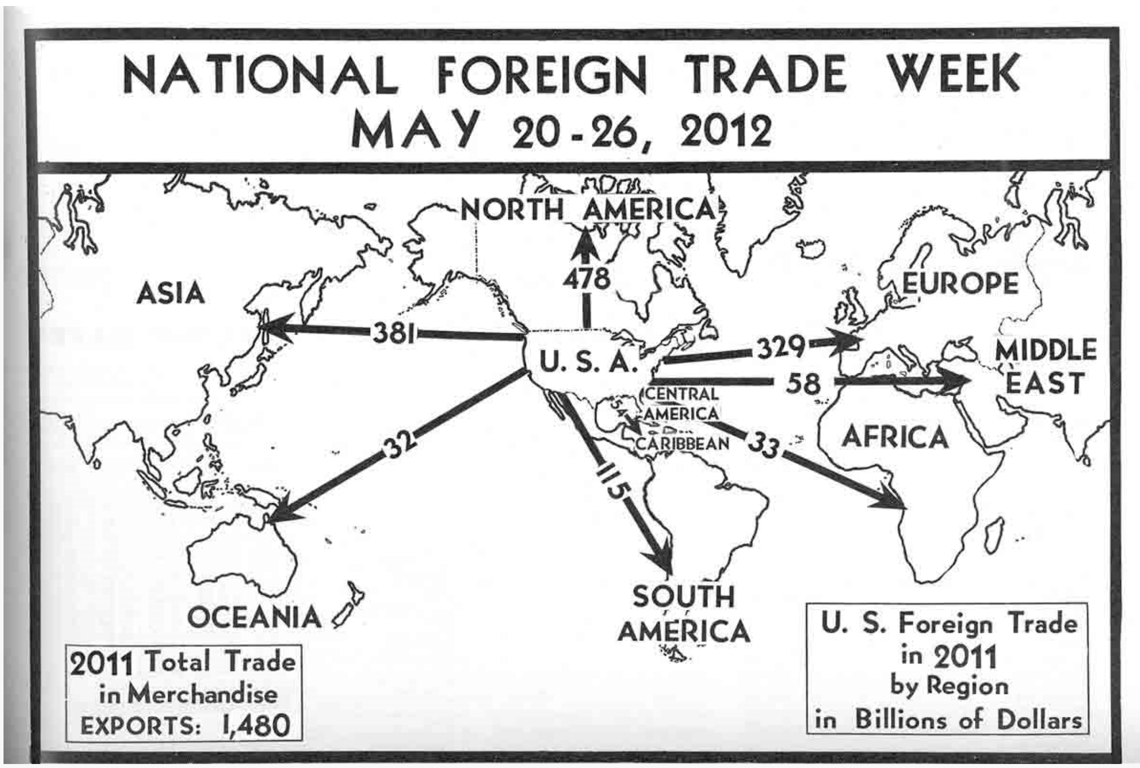
Thus, it worked as a 'bias' against exports. The argument for import liberalisation rests on the need to reduce the protection granted to the domestic industry for domestic production, thereby reducing the 'bias' against exports.

Foreign Trade Policy

The Meaning and Definition of Foreign Trade or International Trade!

Foreign trade is exchange

of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.



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All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".
According to Anatol Marad, "International trade is a trade between nations".
According to Eugeworth, "International trade means trade between nations".
Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade.

The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of 'export trade' and 'import trade'. Export involves sale of goods and services to other countries. Import consists of purchases from other countries.

International or Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into. outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation.

To make India a quality producer and exporter of goods and services, apart from projecting such image, an important Act – Exports (Quality control & inspection) Act, 1963 has been in vogue. Developmental pace of foreign trade is dependent on the Export-Import Policy adopted by the country too. Even the EXIM Policy 2002-2007 lays its stress to simplify procedures, sharply, to further reduce transaction costs.

Foreign Trade Policy for International Business:

The foreign trade policy in India is formulated and implemented mainly by the Ministry of Commerce and Industry, but also in consultation with other concerned ministries, such as Finance, Agriculture, and Textiles, and the Reserve Bank of India (RBI). The Directorate General of Foreign Trade (DGFT) under the Department of Commerce is responsible for the execution of the foreign trade policy.

The Directorate General of Anti-Dumping and Allied Duties was constituted in April 1998 to carry out investigations and to recommend levels of anti-dumping duty.

The responsibilities of the Ministry of Finance include setting import duties and other border and internal taxes, surveying the working of customs, assisting and advising on implementation of the WTO Customs Valuation Agreement, and undertaking investigations to impose safeguard measures.

The Ministry of Agriculture designs the National Agriculture Policy, which is aimed at ensuring an adequate supply of essential food at ‘reasonable’ prices, securing a reasonable standard of living for farmers and agricultural workers, developing agriculture and rural infrastructure, and helping the sector face the challenges arising out of globalization in a WTO-compatible manner.

The Ministry of Agriculture and the Ministry of Commerce formulate India’s proposals for WTO negotiations on agriculture. The Ministry of Textiles is in charge of promoting exports of textiles, and of managing quotas maintained by importing countries. The RBI manages the exchange rate policy and also regulates interest rates, for instance, for pre- and post-shipment export credit.

The export-import (exim) policy was earlier formulated under Import and Export (Control) Act, 1947 which came into existence on 25 March 1947. Initially the Act was for three-year duration but was extended till 31 March 1977 for varying periods. Thereafter, it was extended for an indefinite period.

In 1992, the Import and Export (Control) Act, 1947 was replaced by the Foreign Trade (Development and Regulation) Act, whereby the Chief Controller of Exports and Imports was designated as Director General of Foreign Trade.

Till 1985, the exim policy for each financial year used to be announced by means of public notice in the Gazette of India. In order to ensure continuity in operations and provide stability to the external sector the exim policy was first announced for a three-year duration during 1985-88.

The objective of formulating long-term policy was to reduce unpredictability in the external trade regime with minimum changes of exceptional nature during the validity of the policy. However, the frequency of unabated changes has necessitated issuance of revised annual policies.

The five year Exim Policy (2002-07) launched co-terminus with the tenth five year plan up to 31 March 2007, was terminated mid-length and replaced with the Foreign Trade Policy with effect from 1 April 2004 for a period of five years to remain in force up to 31 March 2009.

The foreign trade policy outlines a country's export promotion measures, policies, and procedures related to foreign trade.

India's foreign trade policy is built around the following two objectives:

i. To double India's share in global merchandise trade within the next five years

ii. To act as an effective instrument of economic growth by giving a thrust to employment generation

In order to achieve these objectives, the strategies adopted are:

i. Unshackling of controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of India's businessmen, industrialists, and traders.

ii. Simplifying procedures and bringing down transaction costs

iii. Neutralizing incidence of all levies and duties on inputs used in export products, based on the fundamental principle that duties and levies should not be exported

iv. Facilitating development of India as a global hub for manufacturing, trading, and services

v. Identifying and nurturing special focus areas so as to generate additional employment opportunities

vi. Facilitating technological and infrastructural up gradation of Indian economy, especially through import of capital goods and equipment leading to increase in value addition, productivity, and quality

vii. Strengthening role of Indian embassies in export

The foreign trade policy is published in four volumes as given here.

1. Foreign Trade Policy:

Contains provisions and schemes related to exports and imports.

2. Handbook of Procedures Volume I:

Contains export-import procedures to be followed by all concerned, such as an exporter or an importer, authorizing, or any competent authority.

3. Handbook of Procedures Volume II (Schedule of DEPB Rates):

Contains input-output norms used for working out the proportion of various inputs used/required in manufacture of resultant products so as to determine the advance authorization entitlement and Duty Entitlement Pass Book (DEPB) rates.

4. ITC (HS) Classification of Export and Import Items:

Serves as a comprehensive reference manual for finding out exportability or importability of products with reference to the current foreign trade policy.

2. Export Prohibitions and Restrictions for International Business:

Under the foreign trade policy, export prohibitions are maintained for environmental, food security, marketing, pricing and domestic supply reasons, and to comply with international treaties.

Restrictions on exports on account of security concern through multilateral agreements are contained in the Special Chemicals, Organisms, Materials, and Equipment's and Technologies (SCOMET) list. Export restrictions are GATT- compatible and permitted under Articles XIX and XX (Security Exceptions).

Since the SCOMET list is a negative list, licensing procedure is based on the presumption of denial.

The SCOMET list is an aggregated outcome of the country's commitments to international efforts towards non-proliferation and the combined elements of multilateral arrangements, such as the Chemical Weapons Conventions (CWC) and the Biological and Toxins Weapons Convention (BTWC) and unilateral controls that a country exercises on dual use of goods and technologies, including nuclear materials and technologies.

Exports from India are free except in case where these are regulated by the provisions of foreign trade policy or any other law in force.

Under the current Foreign Trade policy, export of wild animals, exotic birds, tallow, wood products, beef and offal of cows, oxen and calves, undersized rock lobsters and sand lobsters, sandalwood products, certain species of sea shells, peacock tail feathers, including the handicrafts and other articles using them, manufactured articles and shavings from shed antlers of deer, human skeletons, certain endangered species of wild orchid and plants are prohibited.

In addition to these export prohibitions, India also issues ad hoc prohibitions on exports of sensitive products, for example, export prohibitions have also been issued for wheat, pulses, and sugar. Export of restricted items is permitted only after obtaining authorization from DGFT.

The export licensing requirements have been reduced considerably and the remaining restrictions on exports are essentially maintained for food safety and security reasons. The list of items restricted for exports include cattle, horses, camel, seaweed, and chemical fertilizers.

Onions may be exported through designated state-trading enterprises, without quantitative ceiling, subject to conditions of quality laid out by the National Agricultural Co-operative Marketing Federation of India Ltd (NAFED) from time to time.

In addition, quantitative ceilings are notified by the DGFT for sandalwood oil and sandalwood chips, recommended by the Ministry of Environment and Forests to conserve natural resources.

All the quotas are allocated by the DGFT. Quotas for wheat and wheat products, grain and flour of barley, maize, bajra, ragi and jowar, butter, non-basmati rice and lentils, gram, and beans and flour made from them were removed in March 2002.

Trade with the Democratic People's Republic of Korea is prohibited. Additionally, export and import of arms and related material to and from Iraq is prohibited. Trade of all sorts of goods and technology related to nuclear facilities and its development to Iran is also prohibited. However, the earlier restrictions on exports to Libya, Fiji, and Iraq have now been lifted.

Export taxes:

Presently there is no tax on exports from India with the exception of tanned and un-tanned hide, skins and leathers, except for manufacturers of leathers, ranging from 10 per cent to 20 per cent of freight on board (f.o.b.) value.

However, in order to curb rapid price rise in the domestic markets and to discourage exports, an export duty of 15 per cent on semi-finished steel products, 5 per cent on galvanized sheets, and Rs 8,000 per ton on basmati rice was imposed in April 2008.

An export cess applied to various products including coffee, spices, tobacco and other agricultural commodities has been repealed by the Cess Laws (Repealing and Amending) Act, 2005, enacted in 2006.

3. Import Prohibitions and Restrictions for International Business:

The Indian government is authorized to maintain import prohibitions and restrictions under section 11 of the Customs Act, 1962, which allows the central government to prohibit imports and exports of certain goods either absolutely or subject to conditions by notifications in the Official Gazette.

The DGFT may adopt and enforce any restrictive measure in the trade policy through a notification necessary for;

i. Protection of public morals

ii. Protection of human, animal, or plant life or health

iii. Protection of patents, trademarks, and copyrights and the prevention of deceptive practices

iv. Prevention of use of prison labour

v. Protection of national treasures of artistic, historic, or archaeological value

vi. Conservation of exhaustible natural resources

vii. Protection of trade of fissionable material or material from which they are derived

viii. Prevention of traffic in arms, ammunitions, and implements of war

Trade policies subsequent to 31 March 2001, provide free importability status of goods unless prohibited or restricted which can be freely imported by any person.

This has been a reversal of the previous policies' 'Open General License (OGL)' status of the freely imported items which also needed permission from the licensing authorities who had discretion to modify, circumscribe, or deny permission on the grounds of regulating imports.

Import prohibitions may be made for a number of reasons, such as national security, public order, morality, prevention of smuggling, conservation of foreign exchange, and safeguarding balance of payment.

Presently, only a few items are prohibited for imports as under:

i. Tallow, fat and/or oils, rendered or untendered of any animal origin

ii. Animal rennet

iii. Wild animals including their parts and products and Ivory

iv. Beef and products containing beef in any form

v. Natural sponges

vi. Fish waste

vii. Domestic and wild birds, live pig; meat and meat products from avian species and pig; products from animal and bird origin intended for animal feed, agriculture, and industrial use

viii. Specified avian animal products from countries reporting the outbreak of highly pathogenic influenza

In view of integration of India's trade policy with the WTO, India was under obligation to remove import restrictions. However, India maintained import licensing measures under GATT article 18b for balance of payment reasons. As a result of consultation under WTO, India agreed and implemented the phasing out of remaining restrictions by 1 April 2001.

Presently, the import restrictions are maintained only on a limited number of products for reasons of health, security, and public morals. These include firearms and ammunitions, certain medicines and drugs, poppy seeds, some products for preservation of wild life and environment.

Besides, India's sanitary and phytosanitary laws require authorization for import of seeds for sowing and for agriculture and processed food products. The policy also restricts import of second-hand motor vehicles more than three years old due to environmental reasons. The restricted items can only be imported subject to certain conditions stipulated in the foreign trade policy.

4. Policy Measures for Trade Promotion for International Business:

A large number of measures taken to promote trade under the foreign trade policy include various schemes for duty-free and concessional imports for export production, schemes and incentives to augment export production, and other export promotion measures to facilitate marketing.

Schemes for duty-free and concessional imports:

In order to reduce or remove the anti-export bias inherent in the system of indirect taxation and to encourage exports, several schemes have been evolved allowing exporters to benefit from tariff exemptions, especially on imported inputs. Such schemes include drawbacks for customs duty paid and exemptions from payment of import duty.

The government has estimated revenue forgone from these schemes at Rs. 537.7 billion in 2006-07, up from provisional figures of Rs 375.9 billion for the previous year; the largest shares are accounted for the Advance Authorization Scheme (32.8%) and the EOU/EHTP/STP Scheme (25.4%). In order to facilitate readers' understanding, schemes for duty free and concessional imports have been summarized in Table 9.1.

Table 9.1 Schemes for duty-free and concessional imports

Scheme	Eligibility	Concessions	Performance requirements
Export Promotion Capital Goods (EPCG)	Manufacturer exporters with or without supporting manufacturers/vendors; merchant exporters tied to supporting manufacturers and service providers.	3% duty on imports of capital goods, spares, tools and consumables, existing plant and machinery imported/to be imported under the scheme.	Export obligation of eight times the duty saved on capital goods imported to be met over eight years (six times over 12 year for agri units, and six times over eight years for SSI units provided that, for SSIs, the c.i.f. value of the imported goods does not exceed Rs 2.5 million and the total investment in plants and machinery does not exceed the SSI limit.)[a]
Duty exemption schemes			
Advance authorization (previously advance licence)	Manufacturer exporter or merchant exporter tied up with the manufacturer subject to actual user condition even after fulfillment of export obligation.	Zero duty on imports of inputs for export production. Duty-free import of spare parts required for the manufacture of the finished products may also be permitted up to 10% of the c.i.f. value of authorization.	Export obligation of positive value addition (except for certain products such as gems and jewellery, tea, etc.) and export of goods within 24 months from the date of issuance of the authorization.
Duty-free import authorization	Manufacturer exporter or merchant exporter tied up with the manufacturer subject to actual user condition until export obligation is fulfilled.	Zero duty on imports of inputs including fuel, energy, etc. that are consumed or utilized in the course of exports production.	Export obligation with minimum value addition of 20% (except for certain items such as gems and jewellery, tea, etc.) and export of goods within 24 months from the date of issuance of the authorization.
Duty remission scheme			
Duty-Free Replenishment Certificate (DFRC)		Scheme phased out from 1 May 2006.	
Duty Entitlement Passbook Scheme (DEPB)	Merchant exporter or manufacturer exporter entitled to duty-free import (basic customs duty component only) of inputs used in the manufacture of goods. This is a post-export scheme and the certificate is freely transferable.	Neutralization of the incidence of basic customs duty on the import content of the export product by way of grant of duty credit against the export product.	Duty reimbursed as a percentage of exports as notified separately for different products in the DEPB Schedule.
Deemed exports	Goods manufactured in India and supplied: against advance authorization/DFIA to EOUs, STPs, EHTPs or BTPs; EPCG licence holders; projects financed by multilateral or bilateral agencies; projects notified by the Ministry of Finance; power projects and refineries; projects funded by UN agencies; nuclear power projects through competitive bidding; and the supply of marinefreight container by 100% EOUs provided they are exported within six months or a period permitted by customs.	*Pre-export Duty Neutralization Schemes*: Duty Free import of inputs under Advance Authorization Scheme in addition, exemptions from excise duty by way of Central Excise exemption notification. *Post Export Duty Neutralization Schemes*: Customs/Excise duty neutralization by way of refund under deemed export drawback scheme, Terminal Excise Duty Refund Scheme etc.	Export obligation in terms of quantity and specified value added required. For post-export neutraization scheme, the duty component refunded is as per the actual exports and/or the notified rate schedule.

Export promotion capital goods scheme:

In order to strengthen the export production base, the Export Promotion Capital Goods Scheme (EPCG) was introduced in 1990 so as to enable import of capital goods at concessional rate of duty subject to an appropriate export obligation accepted by the exporter.

The scheme aimed to reduce the incidence of high capital cost on export prices so as to make exports competitive in the international markets by way of reduced import duty on capital goods.

Initially, import of new capital goods up to a maximum c.i.f. value of Rs 100 million were permitted at concessional rate of customs duty of 25 per cent. The general rate of customs duty was very high when the scheme was introduced.

As the customs duties on capital goods were reduced, the import duty under EPCG scheme also reduced gradually. In 1992, import duty on capital goods was lowered to 15 per cent with export obligation of four times to be fulfilled in five years which was further lowered to 10 per cent in 1997 and 5 per cent in 2000.

Under the foreign trade policy 2004-09, the EPCG scheme allows import of capital goods for pre-production, production, post-production, including semi-knocked down (SKD) or completely knocked down (CKD) conditions and computer software systems at 5 per cent customs duty subject to an export obligation equivalent to eight times the duty saved on capital goods imported under the scheme.

However, the customs duty has further been reduced to 3 per cent from 1 April 2008. The new foreign trade policy has dispensed with the block-wise fulfilment on export obligation, simplifying the scheme. The export obligation is to be fulfilled over a specified period of eight years from the date of issuance of the authorization.

However, for EPCG authorizations for a duty-saved-value of Rs 1 billion or more, the same export obligation is to be fulfilled over a period of 12 years.

In case of agro units, and units in cottage or tiny sector, import of capital goods at 3 per cent custom duty shall be allowed subject to fulfilment of export obligation equivalent to six times the duty saved on capital goods imported in 12 years from authorization issue-date whereas the export obligation equivalent to six times of duty saved on capital goods in eight years is required for SSI units.

Besides, agro units in the Agriculture Export Zones and units under the rehabilitation package are eligible for a longer export obligation period of 12 years. The export obligation is over and above the average level of exports achieved by EPCG authorization holder in the preceding three licensing years for same or similar products.

The export obligation must be fulfilled by the export of goods being manufactured or produced by the use of the capital goods imported under the scheme.

Manufacturing obligations under the scheme are, in addition to any other export obligation undertaken by the importer except the export obligation for the same product under advance authorization, DFRC, DEPB, or Drawback scheme.

Manufacturing exporters with or without supporting manufacturers or vendors, merchant exporters tied to supporting manufacturers, and service providers are eligible for import of capital goods under the scheme. Capital goods, including spares, jigs, fixtures, dies, and moulds can be imported under the scheme.

Besides, components of such capital goods for assembly or manufacture of capital goods and spares of existing plant and machinery can also be imported under the scheme. Import of capital goods is subject to the actual user condition till the export obligation is fulfilled.

For import of capital goods under the scheme for c.i.f. value up to Rs. 500 million, authorization is granted by the Regional Authority (RA) while for c.i.f. value above Rs. 500 million, application may be made directly to the DGFT headquarters with a copy endorsed to the concerned RA.

Benefits:

i. For firms with export markets, the scheme provides an opportunity to import capital goods at a concessional rate of import duty and substantial reduction in initial costs. Alternatively, a firm can opt for an export oriented unit (EOU) and import capital goods duty free.

ii. EPCG scheme is considered superior to EOUs as there are no liabilities for customs duties after fulfillment of export obligation whereas in case of EOUs, it is only deferment of import duties. However, customs duties are to be paid upon de-bonding at the depreciated value.

iii. Unlike EOUs, there are no restrictions on the quantum of domestic sales in case of imports under EPCG.

Limitations:

i. In case of failure to fulfill the export obligation, an exporter has to pay the customs duties saved in proportion of unfulfilled portion of export obligations along with interest as prescribed by the customs authority.

Duty exemption schemes:

Duty exemption schemes enable duty-free import of inputs required for export production. Under the duty exemption scheme, an advance authorization is used as discussed below.

Advance authorization:

An advance authorization is issued to allow duty-free import of physical inputs incorporated in export products after making normal allowance in wastage. In addition, consumables, such as fuel, oil, energy, catalysts, etc., are also allowed under the scheme. Advance authorization can be issued for

Physical exports (including exports to SEZs):

Advance authorization issued to manufacturer exporters or merchant exporters tied to supporting manufacturer(s) for import of inputs required for export production.

Intermediate supplies:

Advance authorization issued for intermediate supplies to a manufacturer exporter for the import of inputs required for the manufacture of goods for supply to the ultimate exporter/deemed exporter holding another advance authorization.

Deemed exports:

Advance authorization is also issued for deemed exports. Advance authorization is issued for duty-free import of inputs, subject to actual user conditions and advance authorizations (other than advanced authorization for deemed exports) are exempted from payment of basic customs duty, additional customs duty, anti-dumping duty, and safeguard duty, if any.

Advance authorization for deemed exports are exempted from only basic customs duty and additional customs duty. However, in case of supplies to EOUs/SEZs/EHTHs/STPs under advance authorizations, anti- dumping duty, and safeguard duty is also exempted.

Input output and value addition norms Input output norms are description of inputs which are required for production of particular products. The compiled Standard Input Output Norms (SION) is published in volume II of the Handbook of Procedures. These SION are used for determination of proportion of various inputs which are physically used and consumed for export production and the packaging material.

The value addition is calculated as:
VA = A – b / B x 100

Where,

VA – is value addition

A – is the f.o.b. (free on board) value of the exports realized/f.o.r. (free on rail) value of supply received.

B – is the c.i.f. (cost, insurance, and freight) value of the imported inputs covered by the authorization, plus any other imported materials used on which the benefit of duty drawback is being claimed.

In SION, a duty-free authorization is required to maintain minimum value addition of 33 per cent. However, minimum value addition condition is not applicable on authorizations issued under the Advance Authorisation Scheme as in such cases; the condition imposed is of positive value addition which means a positive value addition.

Thus, even 1 per cent value addition is sufficient. Exports for which payments are not received in freely convertible currency are subject to value addition of 33 per cent or the percentage of value addition indicated in SION norms, whichever is higher.

In case of advance authorization for deemed export, value addition to be maintained should be positive and not 33 per cent (Appendix 32 of Handbook) as which is applicable only for exports to Rupee Payment Area (RPA) and is in no way linked to deemed exports.

The period for fulfillment of export obligations under advance authorization commences from the date of issue of the authorization. The export obligation is to be fulfilled within a period of 24 months.

In the case of supplies under advance authorization for deemed exports/advance authorization to the projects/turnkey projects in India or abroad where the export obligation must be fulfilled during the contracted duration of execution of the project.

Benefits and limitations of advance authorization:

Since advance authorization provides duty free import of inputs and consumables for export production in advance, it is useful when large quantities of standard raw material are required for production. As the import under advance authorization is allowed on actual-user condition, hence the authorization or materials imported against it are not transferable even after discharge of export obligation.

Merchant exporters are not eligible for advance authorisation scheme but can avail benefits under Duty Free Import Authorization (DFIA), or Duty Entitlement Pass Book (DEPB), or Duty Drawback.

Duty Free Import Authorization Scheme:

The scheme, launched on 1 May 2006 replaced the Duty Free Replenishment Certificate (DFRC) Scheme. Under the scheme, duty free import of inputs, including fuel, oil, energy sources, and catalysts is allowed for production of export products subject to manufacturer exporters or merchant exporters tied up with the manufacturer for the import of inputs used in the manufacture of exports.

It offers exemptions in respect of custom duty, additional duty, education cess, and anti-dumping or safeguard duties in force for inputs used in exports. Duty-free imports of mandatory spares are also allowed up to a maximum of 10 per cent of import value, which must be exported with the manufactured product.

The imported items or the authorization are subject to actual user conditions until the export obligation is fulfilled. The main difference between the DFIA and the Advance Authorization Scheme seems to be that the advance authorization scheme requires positive value added in exports and the DFIA requires minimum value added of 20 per cent.

Duty remission schemes:

Duty remission schemes enable post-export replenishment of duty on inputs used for export production under various schemes, such as DEPB scheme, duty drawback, incentives for deemed exports, and the gems and jewellery sector.

Duty Entitlement Passbook Scheme:

Under the DEPB, grant of customs duty credit against the export product is provided on its import content. The scheme was introduced in 1997 wherein actual imports going into the export products were calculated on a case-by-case basis under actual user conditions.

Under the DEPB scheme, merchant or manufacturer exporters are entitled to duty-free import (basic customs duty component only) of inputs used in manufacture of goods, as a specified percentage of f.o.b. value of exports made in freely convertible currency.

The scheme allows naturalization of the incidence of basic customs duty on inputs used for export production. The holder of DEPB also has an option to pay additional customs duty, if any, in cash. The DEPB is valid for a period of 12 months from the date of its issuance.

It is also valid up to the last date of its month of expiry. The transfer of DEPB is subject to import at the specified port in DEPB or for the port from which exports have been made.

Benefits and limitations of DEPB:

DEPB is a fully transferable instrument which can be availed by manufacturers as well as merchant exporters. The credit rates under DEPB are generally better than drawback since these rates are worked out to neutralize the incidence of customs duty by assuming the inputs as imported.

Moreover, special additional duty (SAD) is not levied on the duty paid through DEPB, which has made it more attractive. The DEPB authorizations as well as the goods imported against it are freely transferable.

DEPB rates are fixed only for those items for which standard input output norms exist, while export under DEPB is allowed only when DEPB rates for those items exist. Therefore, export of items for which DEPB rates are not declared cannot avail the benefit of DEPB.

Further, DEPB is available against physical exports only and not against deemed exports. However, under the current foreign trade policy, DEPB has been made available on exports to Special Economic Zones (SEZs), which are treated as physical exports and not deemed exports.

Promotional measures for deemed exports:

Transactions in which goods supplied do not leave the country and payments for such supplies is received either in domestic currency (i.e. Indian rupees) or in free foreign exchange, are termed as deemed exports.

Under the foreign trade policy, the following categories of supplies of goods manufactured in India are considered ‘deemed exports’:

i. Supply of goods against advance authorization/duty-free import authorization (DFIA)

ii. Supply of capital goods to holders of authorization under the EPCG Scheme

iii. Supply of goods to EOUs, STPs, EHTPs, or BTPs

iv. Supply of goods to projects financed by multilateral or bilateral agencies under specified conditions of the Ministry of Finance

v. Supply to projects funded by UN agencies

vi. Supply of goods to nuclear power projects through competitive bidding

vii. Supply of goods to power projects or refineries under specified conditions

viii. Supply of goods to any project or purpose where import of such goods at zero import duty is permitted by the Ministry of Finance

ix. Supply of 'stores' on board of foreign going vessels/aircrafts subject to conditions specified Standard Input-Output Norms (SION).

Manufacture and supply of goods qualifying as deemed exports are eligible for a number of benefits, including:

i. Supply of goods against advance authorization or DFIA

ii. Deemed export drawback

iii. Exemption from terminal excise duty where supplies are made against International Competitive Bidding (ICB). In other cases, refund of terminal excise duty is given.

Duty drawback:

Duty drawback is admissible under Customs Act 1962 for re-exports of goods on which import duty has paid (section 7) and for imported material used in the manufacture of exports (section 75). Duty drawback is defined as the rebate of duty chargeable on any imported or excisable material used in the manufacture of goods exported from India.

The drawback consists of two components:

i. The 'customs allocation', which includes the basic customs duty rate and the special additional duty

ii. The 'central excise allocation', which includes the additional duty and the excise duty on locally produced inputs

Drawback rates are drawn up annually and released soon after the annual budget is introduced in Parliament. The rates are based on parameters, including the prevailing prices of inputs, standard input-output norms published by the DGFT, share of imports in total inputs, and the applied rates of duty; in most cases, the drawback is less than 100 per cent of the import duty paid.

Although the rates are based on a mixed classification, they are fully aligned with the HS nomenclature at the HS 4-digit level. The rates are expressed as a percentage of the f.o.b. value of exports. The drawback rates are fixed, either for any class of products manufactured, known as all industry rates, or for a product manufactured by a particular manufacturer, known as brand rates.

All industry rates:

These are published in the form of notification by the government every year and are normally valid for one year. All industry rates are calculated on the basis of broad averages of consumption of inputs, duties and taxes paid quantity of wastages and f.o.b. prices of export products.

The rates are either on quantity basis (e.g., per kg. or per tonne) or on ad valorem basis, for example, percentage of f.o.b. value. These rates are reviewed and revised periodically, taking into account variation in consumption pattern of inputs and duties offered thereon. It is estimated that all industry rates neutralize around 70-80 per cent of the total duty paid on the inputs for export production.

Brand rate/special brand rates:

If all industry rates are unavailable or if it is felt that duty drawback provides inadequate compensation for import duty paid on inputs, the exporter may request for the establishment of 'special brand rates'. The special brand rates are envisaged to neutralize up to 90-95 per cent of total tax paid on inputs.

However, while the all-industry rates are based on average rates of consumption of inputs and rates of duty paid, the special brand rate scheme is product- and exporter- specific, requiring the detailed submission of proof of duty payments by the exporter.

Drawback is available on the following items:

i. Materials and components used in the process of manufacture

ii. Irrecoverable wastage which arises in the manufacturing process

iii. Material used for packing the finished export products

iv. Finished products

Drawback is also allowed on good originally imported into India and exported within two years from payment of import duty under section 74 of Customs Act 1962. For goods exported without being used, 98 per cent of the import duty is refunded; for goods exported after use, the percentage of duty refunded varies depending on the period between import and export of the product.

The rates range from 85 per cent of import duty for goods that remain in the country for up to six months, to 30 per cent for goods that remain in the country for between 30 and 36 months.

Drawback under this provision is not allowed for apparel, tea chests, exposed cinematographic films passed by the Board of Film Censors in India, unexposed photographic films, paper and plates, and x-ray films, and for cars that have been used for over four years. Drawback is admissible, irrespective of the mode of exports.

The rate of drawback is notified by the Directorate of Drawback under the Ministry of Finance, generally three months after the budget is introduced in Parliament. Duty drawback is an incentive widely used around the world with the objective to provide a level playing field to the country's exporters so as to exclude export production from the incidence of import duty and other indirect taxation.

The duty drawback system has worked quite well in India, except for operational constraints faced by the exporters in getting drawback reimbursements.

Schemes for concessional imports for gems and jewellery:

The gems and jewellery sector accounts for about 14 per cent of India's total exports. This sector is characterized by import of goods in rough or raw form of diamonds and semi-precious stones and gold and silver for value addition and conversion to finished products.

Thus, this sector largely comprises export of services as a result of necessary skills and infrastructure available in India. The summary of sector-specific schemes for concessional imports in Table 9.2 indicates the government's concern to nurture and promote exports from the gems and jewellery sector.

Table 9.2 Schemes of concessional imports for gems and jewellery exports

Scheme	Eligibility	Concessions	Performance requirements
Replenishment authorization	Exporters of gems and jewellery	Post-export authorization for duty-free import of inputs such as precious stones, semi-precious and synthetic, and pearls and empty jewellery boxes up to 5% of the overall import value authorized.	Quantity of duty-free inputs allowed as per the entitlement and value addition notified in the Handbook.
Schemes for duty-free procurement of precious metal etc.	Manufacturers of jewellery for export; inputs are based on the actual user conditions	Duty-free purchase of precious metal inputs from nominated agencies (primarily banks) authorized by the Reserve Bank of India, MMTC Ltd., STC Ltd, Handicraft and Handloom Export Corporation, PEC. Certain Categories of exporters are also allowed to import directly.	Export obligation subject to minimum value added ranging from 2% to 6.5% depending on the products and the wastage norms as notified in the Handbook.
Advance authorization for import/ procurement for precious metal, mountings etc.	Manufacturers of jewellery for export; inputs are based on the actual user conditions	Duty-free import of gold of fineness of not less than 0.995 and mountings, sockets, frames, and findings of 8 carats and above; silver of fineness not less than 0.995 and mountings, sockets, frames, and findings containing over 50% silver by weight; and plaatinum of fineness not less than 0.900 and mountings, sockets, frames, and findings containing more than 50% platinum by weight.	All products using duty-free inputs to be exported subject to minimum value added ranging from 2% to 6.5%, depending on the products and the wastage norms as notified in the Handbook.
Diamond imprest authorization	Exporters of cut and polished diamonds who hold Status Certificate as stipulated in the Foreign Trade Policy	Duty-free import of cut and polished diamonds including semi-processed diamonds, cut and broken diamonds. The entitlement is 5% of the export performance of the preceding year of cut and polished diamonds.	The imported inputs must be exported within six months of import with minimum value added of 10%.

Schemes to Augment Export Production for International Business:

Development of export-related infrastructure and enclaves providing an environment conducive for export production is crucial to sustain export growth. The government has always supported creation and strengthening of enclaves for export production so as to 'immunize' the firms engaged in export production from constraints, such as infrastructural and administrative, from the rest of the economy.

Schemes to augment export production are summarized in Table 9.3. These schemes attempt to reduce the burden of import duty and indirect taxation on capital goods and consumables and reduce operational hassles.

Table 9.3 Schemes to augment export production

Scheme	Eligibility	Concessions	Performance requirements
Export-Oriented Units (EOUs), Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs)	EOUs, or units set up in the EHTPs, STPs or BTPs that undertake to export their entire production of goods and services (except permissible sales in domestic tariff area (DTA)). Trading units are not covered.	Duty-free imports of all types of goods, including new and second-hand capital goods, provided these are not prohibited for import including from the DTA or bonded warehouses.	All products and services to be exported, with some exceptions.
Special Economic Zones (SEZs)	Units based in the special economic zones.	Duty-free imports of all types of goods. Imports from DTA treated as deemed exports. These units also benefit from tax holidays under the Income Tax Act.	Units based in SEZs have to be net foreign exchange earners, failing which punitive action can be taken. Performance is also evaluated on the basis of additional employment, investment, and infrastructure generation.
Free-Trade and Warehousing Zones		As above	As above
Agricultural Export Zones (AEZs)	Exporters of products in the agriculture and allied sectors that are based in the AEZs.	As for EPCG	

Export oriented units, electronic hardware technology parks, software technology parks, and bio-technology parks:

A number of schemes were introduced for units engaged in export production of goods and services such as Export Oriented Units (EOUs), Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs), and Bio-Technology Parks (BTPs).

The schemes cover units engaged in manufacture of goods primarily for exports including repair, re-making, reconditioning, re-engineering, and rendering of services, but excludes trading units as discussed below.

Export Oriented Units:

The scheme was introduced under recommendations of Prakash Tondon Committee, in early 1981. It is complementary to EPZ scheme. As the FTZ/EPZ scheme introduced in early sixties had limitations of locational restrictions, a large number of exporters could not be attracted to set up their units.

The Export Oriented Units (EOU) scheme adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial peace, and the need for a larger area of land for the project.

The chemicals and pharmaceuticals sectors with exports worth US$2800.5 million accounted for 18.1 per cent of total exports from EOUs in 2006-07 followed by engineering goods with US$2422.7 million (15.7%), gems and jewellery with US$1979.44 million (12.8%), textiles and garments with US$1651.15 million (10.7%), computer software with US$993.67 million (6.4%), electronics hardware with US$76731 million (5.0%), foods, agro and forest products with US$761.57 million (4.9%), plastics, rubber, and synthetics with US$411.63 million (2.7%), and leather & sports goods with US$320.93 million (2.1%) as shown in Fig. 9.1.

The export from EOUs increased significantly from US$748 million in 1992-93 to US$15,201 million in 2006-07 and thereafter rose rapidly to US$35194 million in 2007-08.

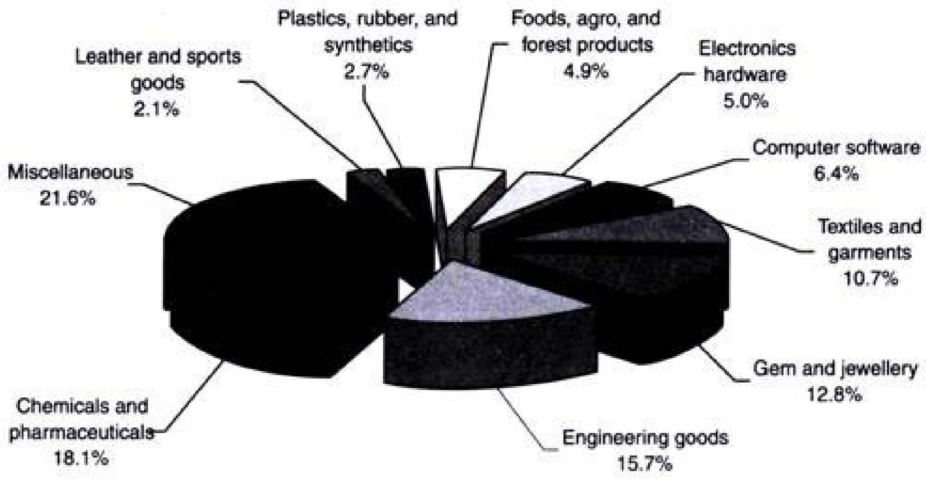

Fig. 9.1 Sectorwise exports of EOUs

Software Technology Parks/Electronic Hardware Technology Parks:

In order to facilitate export-oriented production of computer software and hardware, units can be set up under the Software Technology Parks (STPs) and Electronic Hardware Technology Parks (EHTPs) schemes, respectively. Both these schemes are monitored by the Ministry of Information Technology.

A software technology park may be set up by the central government, state government, public or private sector undertaking, or a combination thereof.

Under the STP scheme, a software development unit can be set up for the purpose of software development, data entry and conversion, data processing, data analysis and control data management, or call centre services for exports. The major STPs have been set up at Pune, Bangalore, Bhubaneswar, Hyderabad, Thiruvananthapuram, Gandhinagar, and Noida.

Under the EHTP scheme, a unit can be set up for the purpose of manufacture and development of electronic hardware and/or software in an integrated manner. For exports, the policy provisions for STP/EHTP are substantially the same as applicable to units under EOU scheme.

However, in view of the sector-specific requirements, the following provisions have specifically been made:

i. STP/EHTP units are allowed Domestic Tariff Area (DTA) sales through data communication/telecommunication links.

ii. STP units are allowed telematics infrastructural equipment for creating a central facility for software exports without payment of duty.

Bio-Technology Parks:

In order to promote bio-technology exports, the DGFT notifies Bio-Technology Parks (BTPs) on the recommendation of the Department of Biotechnology. The approval for units in BTP and other necessary approvals are granted by the Department of Biotechnology.

Benefits:

The major benefits enjoyed by EOUs/STPs/EHTPs/BTPs are given below:

i. The EOU scheme is complementary to the SEZ scheme, providing the choice of locating the unit anywhere in India unlike in case of the SEZ scheme.

ii. EOUs are required to be only net positive foreign exchange (NFE) earners and the condition of export performance has been done away with effect from 1 April 2004. The positive NFE is to be achieved over a period of five years from the date of commencement of business or commercial production.

The value of goods imported by EOUs is allowed to be amortized uniformly over 10 years. Earlier EOUs were allowed to sell in the domestic markets up to 50 per cent of f.o.b. value of exports. Sales beyond this limit were made on payment of full duty. On the other hand, clearance from SEZ to DTA was allowed only at full rate of duty.

iii. Eligible for concession from payment of income tax for profit earners.

iv. Foreign direct investment in EOUs is allowed up to 100 per cent for manufacturing activities.

v. Exempt from central excise duty in procurement of capital goods, raw materials, consumables, spares, etc.

vi. No authorizations are required for import or domestic procurement.

vii. Exemption of customs duty on import of capital goods, raw materials, consumables, spares, etc.

viii. Entitled for duty-free supply of furnace oil.

ix. Exempted even from anti-dumping duties.

x. Reimbursement of Central Sales Tax (CST) paid on domestic purchases.

xi. Complete freedom to sub-contract part of the production and production process in the domestic area.

xii. Supplies can be made to other EOUs/SEZs/EHTPs/STPs/BTPs unit without payment of duty and such supplies are counted towards fulfilment of export performance.

xiii. Supplies from domestic area to EOU are allowed deemed export benefits.

xiv. Procurement of duty-free inputs for supply of manufactured goods to advance license holders is allowed.

xv. Exempted from industrial licensing for manufacture of items reserved for the small-scale industrial sector.

Limitations:

i. Duty drawback or DEPB credit is not allowed on exports affected by EOUs.

ii. Duty concession on import of capital goods is deferred only till the period for which the unit is working under the EOU scheme.

iii. With substantial liberalization and rationalization of the EPCG scheme and lesser quantum of export obligation, no liability with respect to duty exemption on capital goods after completion of export obligation and no restriction on sale in DTA, the attractiveness of the EOU scheme have declined. However, capital intensive units also targeting domestic markets, the EOU scheme still remains viable and attractive.

Assistance to states for developing export infrastructure and other allied activities:

In order to involve states in export promotion efforts by providing assistance to state governments for creating infrastructure for development and growth of exports, the Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE) scheme was launched in April 2000 as a comprehensive scheme.

Under the scheme, assistance is given for setting up new export promotion parks and zones and complementary infrastructure, such as road links to ports, container depots, and power supply. The scheme provides an outlay for development of export infrastructure which is distributed to the states according to pre-defined criteria.

The earlier Export Promotion Industrial Parks (EPIP), Export Processing Zones (EPZ), and Critical Infrastructure Balance (CIB) schemes have been merged with this new scheme. The scheme for Export Development Fund (EDF) for the North East and Sikkim (implemented since 2000) has also been merged with this scheme.

After this merger, on-going projects under the earlier schemes are funded by the states from the resources provided under this scheme. Infrastructure-development activities can also be funded from the scheme provided such activities have overwhelming export content and their linkage with exports is fully established.

Allocation of funds in ASIDE:

The outlay of the scheme has two components, as described here.

State component:

On the basis of the approved criteria, 80 per cent of the funds have been earmarked for allocation to the states, as listed below:

i. Creating new Export Promotion Industrial Parks (EPIPs)/Zones (including SEZs/Agri-Export Zones (AEZs) and augmenting facilities in the existing ones

ii. Setting up of electronic and other related infrastructure in export enclaves

iii. Equity participation in infrastructure projects including the setting up of SEZs

iv. Meeting requirements of capital outlay of EPIPs/EPZs/SEZs

v. Developing complementary infrastructure, such as roads connecting the production centres with the ports, setting up Inland Container Depots, and Container Freight Stations

vi. Stabilizing power supply through additional transformers

vii. Developing minor ports and jetties of a particular specification to serve export

viii. Assistance for setting up common effluent-treatment facilities

ix. Projects of national and regional importance

x. Activities permitted as per Export Development Fund (EDF) in relation to North East and Sikkim.

Central component:

The balances 20 per cent, and amounts equivalent to the un-utilized portion of the funds allocated to the states in the past year(s), if any, are retained at the central level for meeting the requirements of inter-state projects, capital outlays of EPZs, and activities relating to promotion of exports from the north eastern region.

It can also be used for any other activity considered important by the central government from the regional or the national perspective.

Modus operandi for ASIDE:

The state component is allocated to states in two tranches of 50 per cent each. The inter-se allocation of the first trench of 50 per cent to the states is made on the basis of export performance. This is calculated on the basis of the share of the state in the total exports.

The second trench of the remaining 50 per cent is allocated inter-se on the basis of the share of the states in the average of the growth rate of exports over the previous year. The allocations are based on the exports of physical goods alone and the export of services is not to be taken into account.

A minimum of 10 per cent of the scheme outlay is reserved for expenditure in the North Eastern Region (NER) and Sikkim. The funding of EDF for NER and Sikkim is made out of this earmarked outlay and the balance amount is distributed inter-se among the states on the basis of the laid-down export performance criteria.

The export performance and growth of exports from states is assessed on the basis of the information available from the office of the Director General of Commercial Intelligence & Statistics (DGCI&S). The office of the DGCI&S compiles the state- wise data of exports from the shipping bills submitted by the exporter.

The states are required to set-up a State Level Export Promotion Committee (SLEPC) headed by the Chief Secretary of the state and consisting of the Secretaries of concerned departments at the state level, and a representative of the States Cell of the Department of Commerce (DoC), the Joint Director General of Foreign Trade posted in that state/region, and the Development Commissioners of the SEZs/EPZs in the state.

SLEPC scrutinizes and approves specific projects and oversees the implementation of the scheme. The funds are disbursed directly to a nodal agency nominated by the state government where these are maintained under a separate head in the accounts of the nodal agency.

Critical infrastructure balance scheme:

During 1996-97, the Government of India launched the Critical Infrastructure Balance (CIB) scheme, with an objective of balancing capital investments for relieving bottlenecks in infrastructure for export production and conveyance. Under the scheme, the proposals from state governments are considered for removing bottlenecks related to infrastructure at ports, roads, airports, export centres, etc.

In addition, the scheme also covers investments that are in the nature of exigency and emergency and which could not be foreseen as part of initial plan scheme proposals of the Ministry of Commerce.

The scheme had conceptually been a good beginning for involving states in removing infrastructural bottlenecks in the states and a number of states have been benefited by improving the infrastructure. Presently, this scheme has also been merged with ASIDE.

Inland container depots and container freight stations:

A large part of India is land-locked and a number of states are at a disadvantageous position with no seaport. For these states, accessible transport to the seaports is one of the major concerns and multimodal transport is a very effective solution to these logistics bottlenecks.

The first Inland Container Depot (ICD) in India was set up at Bangalore in August 1981. Initially, the Container Corporation of India had been involved in establishing and managing ICDs and Container Freight Stations (CFSs), mainly based on rail transport. Subsequently, ICDs and CFSs were established and managed by the Central Warehousing Corporation and some state corporations.

There has been a major boost to containerized transportation of export cargo, with the enactment of the Multimodal Transportation of Goods Act, 1993. An inter-ministerial committee functioning in the Ministry of Commerce provides Single Window Clearance to the proposal for setting up of ICDs/CFSs.

The central government has formulated a revised scheme for allowing the private sector to participate in setting up ICDs and CFSs across the country. The scheme of involving state governments in establishing and managing ICDs and CFSs has not only led to increased involvement of the state governments, but also helped them to generate some revenue along with infrastructure development.

Presently, this scheme has also been merged with ASIDE.

Export promotion industrial park scheme:

With a view to involve the state governments in creation of infrastructural facilities for export oriented production, the central government introduced Export Promotion Industrial Park (EPIP) scheme in August 1995. The scheme was merged with ASIDE from 1 April 2002.

The scheme provided that 75 per cent of the capital expenditure incurred towards creation of such facilities, ordinarily limited to Rs 100 million in each case, is met from a central grant to the state governments.

In addition, a maintenance grant equivalent to 2 per cent of export turnover of each unit established therein is also given to state governments for a period of five years from the date of commercial production of that unit. The EPIPs are essentially industrial parks housing export-oriented units, which are expected to export at least 25 per cent of their total production.

The EPIP scheme has been one of its kinds wherein the central government provides financial support to create infrastructure for export production. The basic infrastructure thus created could serve as a model for creating a planned export-oriented infrastructure in the states.

In most states, not much has been done under the scheme except for developing an infrastructure similar to any other industrial park. Exporters who have purchased land or put up their plants anxiously await the creation of additional facilities in these EPIPs as compared to other industrial areas.

Therefore, it is crucial to provide superior infrastructure in the EPIPs with a focus on exports for achieving the objectives of the scheme. This scheme has also been merged with ASIDE.

Free trade zones and export processing zones:

In order to develop infrastructure for export production at internationally competitive prices and environment, the concept of free trade zone (FTZ) was conceived. Subsequently, such zones were set-up in various parts of the country as export processing zones (EPZs).

The FTZs or EPZs, set up as special enclaves, separated from the Domestic Tariff Areas (DTA) by fiscal barriers, are intended to provide an internationally competitive duty-free environment for export production, at low costs which enables the products of FTZs/EPZs to be competitive, both quality-wise and in terms of price, in the international market.

The FTZs/EPZs aim at attracting foreign capital and technology to increase exports in particular and to contribute to economic development in general.

India's first FTZ was set up at Kandla (Gujarat) in 1965, followed by Santacruz (Mumbai) in 1973. Subsequently, EPZs were set up at Falta (West Bengal), Noida (UP), Cochin (Kerala), Chennai (Tamil Nadu), and Visakhapatnam (Andhra Pradesh). The Santacruz Electronics Export Processing Zone deals exclusively with export of electronics and gem and jewellery items whereas the other zones are multi-product zones.

The incentives provided for investing in EPZs include income tax relief and tax holidays, exemption from customs duty for industrial inputs and export licenses, single window approval process, exemption from payment of excise duty, for inputs from domestic tariff area (DTA).

The performance of EPZs in India has largely been very dismal. On the other hand, their performance in other Asian countries, such as South Korea, Malaysia, Taiwan, the Philippines, China, and Sri Lanka has been very impressive.

A thorough understanding should be developed of the various issues associated with the EPZs so as to effectively evaluate options for investment in these enclaves. The Kaul Committee set up by the government to evaluate the performance of the Kandla Free Trade Zone (KAFTZ), the Tandon Committee, and the Abid Hussain Committee have expressed their dissatisfaction over the poor performance of EPZs.

The Kaul Committee felt that the KAFTZ had not been able to take off due to several handicaps and disadvantages.

It observed that the facilities available to the entrepreneurs were far behind those obtainable in the more advanced regions of India. The need for more permissiveness and less procedural constraints, and a clear enunciation by the Government of India in its attitude to EPZs was recommended.

The Tandon Committee observed the problems of the KAFTZ and Santacruz Electronic Export Processing Zone as follows:

i. Investors, especially the small ones, were hardly satisfied with the performance of the EPZs and often felt that EPZs did not offer the attraction they had initially perceived, or investors had undercapitalized the project, or had not carried out their groundwork.

ii. Foreign investors often compare the zone with those in other parts of the world and find that Indian zones do not offer enough attraction.

iii. Both Indian and foreign investors face administrative and procedural constraints and an absence of the freedom that is a sine qua non for a free zone.

iv. Administrative problems, such as lack of ’emotional’ adjustment to the permissiveness that is demanded by a free zone, is missing from the planned and controlled environment under Indian bureaucratic system.

Realizing the plethora of procedures and multiplicity of systems which discouraged entrepreneurs in the FTZs, the Abid Hussain Committee observed that;

(a) It is essential to create a fully empowered statutory authority for controlling all matters relating to all FTZs, which would, in effect, provide a single window clearance, without any reference to concurrence from other departments.

(b) The choice of industries to be located in FTZs should be a matter of careful consideration, because these zones should constitute a window to the world for acquisition of sophisticated technologies which are not readily available in the domestic tariff areas and also serve as a means to impart higher skills and expertise to workers and managers.

With the reduction of import tariffs during recent years in the post-WTO era, the significance and viability of these EPZs would mainly depend upon the quality of services and infrastructure provided in the EPZs as compared to units outside EPZs.

Private/joint sector EPZs:

The government has also permitted development of EPZs by the private, state, or joint sector since May 1994. These will work to the same regime as the EPZs, but can be developed and managed either privately, by the state governments or by private parties in collaboration with the state government or their agencies.

The private investors could be Indian individuals, non resident Indians (NRIs), and Indian and foreign companies. The viability of such a scheme largely depends upon the initiatives taken and conducive environment provided by the state governments.

SPECIAL ECONOMIC ZONES:

With a view to provide an internationally competitive and hassle-free trade environment for export production, a scheme on special economic zone (SEZ) has been introduced in the Exim policy in April 2000. A SEZ is a designated duty-free enclave to be treated as foreign territory for trade operations and duties and tariffs. Units for manufacture of goods and rendering of services may be set up in SEZs.

Besides, offshore banking units may also be set up in SEZs. All the import/export operations of the SEZ units are on self-certification basis. A unit in a SEZ should be a net foreign exchange earner but it is not subjected to any pre-determined value addition or minimum export performance requirements.

However, sales made by SEZ units in the DTA are subjected to payment of full customs duty and import policy in force. As per the present foreign trade policy, SEZs may be set up in the public, private, or joint sector or by the state governments.

The distinguishing features of the SEZ policy are given below:

i. The zones are to be setup by the private or public sector or by the state government in association with the private sector. The private sector can also develop infrastructure facilities in the existing SEZs.

ii. State governments have a lead role in the setting up of SEZs.

iii. An attempt is being made to develop a framework for creating special windows under existing rules and regulations of the central government and state governments for SEZ.

At the time of the conceptualization of the scheme, it was envisaged that the existing EPZs would be converted into SEZs. Subsequently, all the EPZs were converted into SEZs. The role of the states in developing SEZs has significantly increased as this scheme has been merged with ASIDE.

The multi-product SEZs can be set up by the government or private entities over a minimum contiguous area of 1000 hectares or at least 200 hectares in select states. The SEZs are self-contained economic parks providing advance infrastructure. All units operating in the SEZs are offered simplified customs, other administrative procedures, and basic facilities, such as electricity, water, etc.

Although SEZs are required to be net foreign exchange earners, there are no minimum export requirements in contrast to EPZs and EOUs.

In addition to the tax incentives already provided to the EPZs and EOUs, investors in SEZs are eligible for other incentives, such as exemption from service tax and minimum alternate tax, up to 100 per cent FDI in most activities, and a relaxation of certain requirements, including environmental impact assessment, labour laws, and residence requirements for foreign managing directors of the companies.

Similar to the EPZs, each SEZ is governed by a Development Commissioner. For establishing a unit in an SEZ, an application has to be made to the Development Commissioner of the SEZ along with supporting documents.

The decision to the applicant must be provided by the approval committee within 15 days of the receipt of the application whereas for applications requiring license, approval must be given within 45 days by the SEZ's Board of Approval in the Ministry of Commerce and Industry.

The exports from EPZs/SEZs grew significantly from US$474 million in 1992-93 to US$7629 million in 2006-07 and thereafter increased rapidly to US$16492 million in 2007-08, as shown in Fig. 9.2.

All the seven SEZs under the central government are multi-product zones. Noida SEZ is the largest SEZ with physical exports worth Rs 168.43 billion, followed by SEEPZ (Rs 112.65 billion), Cochin (Rs 44.71 billion), MEPZ (Rs 30.46 billion), Kandla (Rs 18.82 billion), Falta (Rs 10.26 billion), and Visakhapatnam (Rs 7.41 billion) in 2007-08.

Among the SEZs under the state governments/private sector, the Surat SEZ, which is a multi-product zone, had physical exports worth Rs 122.94 billion followed by Nokia, the electronic hardware zone (Rs 62.30 billion); Manikanchan, gems and jewellery (Rs 17.75 billion); Mahindra, IT and ITeS (Rs 763 billion); Mahindra, auto-ancillary (Rs 4.16 billion), Wipro, IT, and ITeS (Rs 3.66 billion); Indore, multiproduct (Rs 3.38 billion); Jaipur, gems and jewellery (Rs 2.96 billion); Manindra, textiles (Rs 2.68 billion), Jodhpur, handicrafts (Rs 300 million), and Surat Apparel Park (Rs 60 million) in 2007-08.

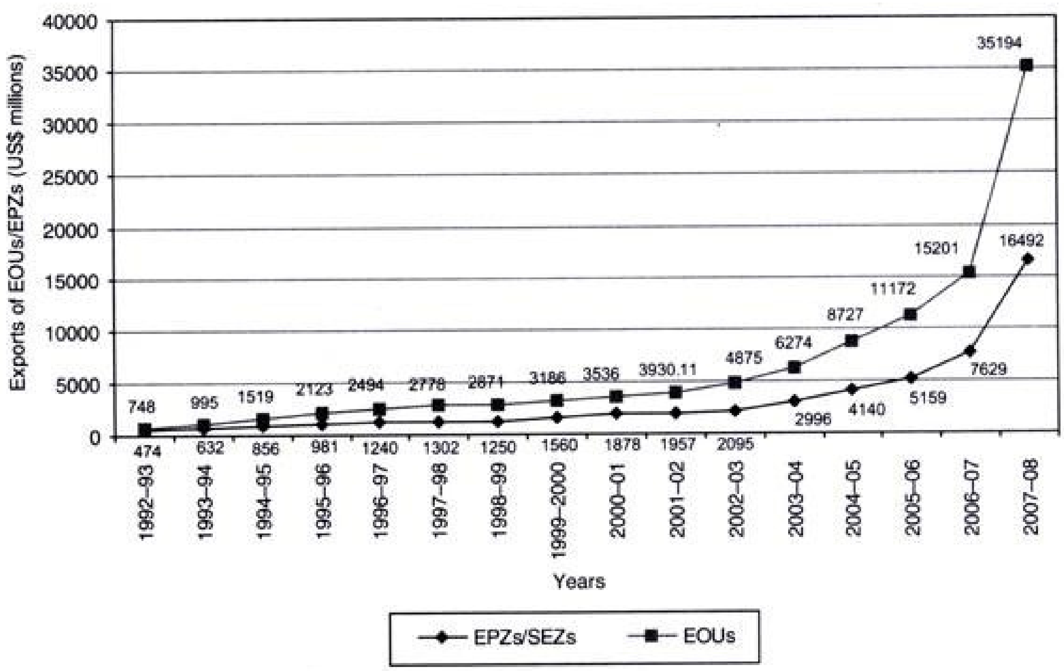

Fig. 9.2 Export performance of EOUs and EPZs/SEZs

Conceptually, the scheme appears very sound for promoting export oriented production. The scheme has significantly reduced the shortcomings of the earlier EPZ/SEZ scheme and provides greater flexibility. However, the effectiveness of SEZs largely depends upon reducing operational hassles.

There has been a considerable debate over the effectiveness of SEZs in generating additional investment and employment. Besides, SEZs have also witnessed protests, sometimes violent, from farmers over land-acquisition issues that have significant socioeconomic implications.

Agri-export zones:

The concept of the Agri-Export Zones (AEZs) was floated with a view to promote agricultural exports from India and providing remunerative returns to the farming community in a sustained manner.

State governments are required to identify AEZs and also evolve a comprehensive package of services provided by all state government agencies, state agriculture universities and all institutions and agencies of the union government for intensive delivery in these zones.

The emphasis in all the AEZs is on convergence. Thus, the objective is to utilize the on-going schemes of various central and state government agencies in a coordinated manner to cover the entire value chain from farmer to consumer.

The corporate sector with proven credentials are also encouraged to sponsor new AEZs or take over already notified AEZs or part of such zones for boosting agri-exports from the zones. Exporters under AEZs are also eligible for import of inputs, including fertilizers, pesticides, insecticides, and packaging material under advance authorization, DFIA, and DEPB schemes.

Additionally, they may also avail the status of export houses or trading houses if the stipulated export performance is achieved.

Services, which are expected to be managed and coordinated by state governments/ corporate sector and include provision of pre/post harvest treatment and operations, plant protection, processing, packaging, storage and related research and development, etc.

The Agricultural and Processed Food Products Export Development Authority (APEDA), the nodal agency for promoting setting up of AEZs, is expected to supplement efforts of State Governments for facilitating such exports. A web-based monitoring system has also been evolved to pursue more than 120 activities in each agri-export zone.

The scheme has notified about 60 agri-export zones in 20 states for a wide range of agro products, as given in Table 9.4. However, the concept of AEZ could hardly take off as 54 out of 60 approved AEZs reportedly failed to meet the targeted level of exports or attracted envisaged investment.

Table 9.4 India's agri-export zones*

States	AEZ Projects
West Bengal	Pineapple, lychee, potatoes, mango, vegetables, Darjeeling tea
Karnataka	Gherkins, rose, onion, flowers, vanilla
Uttaranchal	Lychee, flowers, Basmati rice, medicinal and aromatic plants
Punjab	Vegetables, potatoes, Basmati rice
Uttar Pradesh	Potatoes, mangoes, vegetables, and Basmati rice
Maharashtra	Grape and grape-wine, mango (Alphonso), Kesar mango, flowers, onions, pomegranate, banana, oranges
Andhra Pradesh	Mango pulp and fresh vegetables, mango and grapes, gherkins, chilli
Jammu & Kashmir	Apple, walnuts
Tripura	Organic pineapple
Madhya Pradesh	Potatoes, onion, garlic, seed spices, wheat (Durham), lentil and grams, oranges
Tamil Nadu	Flowers, mangoes, cashew-nut
Bihar	Lychee, vegetables, and honey
Gujarat	Mango and vegetables, value-added onion, sesame seeds
Sikkim	Flowers (orchids) and cherry pepper, ginger
Himanchal Pradesh	Apples
Orissa	Ginger and turmeric
Jharkhand	Vegetables
Kerala	Horticulture products, medicinal plant
Assam	Fresh and processed ginger
Rajasthan	Coriander, cumin

Other Export Promotion Measures for International Business:

In addition to the tariff concessions and exemptions, the trade policy provides a wide range of export promotion measures (Table 9.5), such as marketing assistance for export promotion, incentives to promote services exports, development of industrial clusters for export potential, promoting export generating employment in rural and semi-urban areas, and giving recognition to established exporters.

Table 9.5 Other export promotion measures

Scheme	Eligibility	Concessions	Performance requirements
Served from India scheme	All service providers listed in Appendix 10 of the *Handbook* with total foreign exchange earnings of at least Rs 1 million in the preceding financial year.	Duty-free imports of all goods including capital goods, office equipment, and consumables (except motor vehicles) up to 10% of the value of foreign exchange earnings of the previous financial year (up to 5% for hotels of one star and above).	
Focus market and focus product scheme	Exports to notified countries under the Focus Market scheme and notified products to all countries under the Focus Product scheme.	Duty-free imports of up to 2.5% of the f.o.b. value of exports for each licensing year, beginning 1 April 2006. For the Focus Product Scheme, only 50% of export turnover counted for benefits.	
Special agriculture and village industry scheme (*Vishesh Krishi and Gram Udyong Yojana*)	Exporters of fruits, vegetables, flowers, minor forest products, dairy, poultry and their value addd products and *Gram Udyog* Products.	Duty-free imports equivalent to 5% of the f.o.b. value of exports (3.5% if the exporter has benefited from duty-free imports of agriculture under any other concessional entry scheme).	Additional customs duty equivalent to excise duty to be adjusted as CENVAT credit or duty drawback according to Department of Revenue rules.
Export and trading houses	Merchant and manufacturer exporters, service providers, EOUs, units located in SEZs, AEZs, EHTPs, STPs and BTPs that meet certain prescribed export performance.	Authorization and Customs clearances for both imports and exports on self-declarance basis, fixation of Input-Output norms on priority within 60 days, exemption from compulsory negotiation of documents through banks, 100 percent retention of foreign exchange in EEFC account, enhancement in normal repatriation period from 180 days to 360 days and exemption from furnishing of BG in schemes under FTP.	Prescribed requirements for export performance ranging from Rs 200 million to Rs 100 billion during the current and previous three years.

Marketing assistance for export promotion:

The market assistance schemes under the foreign trade policy facilitate market promotion activities.

The Market Development Assistance (MDA) scheme supports efforts by the Export Promotion Councils (EPCs) in their export promotion activities whereas the Market Access Initiative (MAI) scheme provides assistance for research on potential export markets as well as incentives to improve quality, infrastructure, etc., related to agriculture through commodity boards and councils.

Market Development Assistance:

In order to facilitate exporters to explore the overseas markets and to promote their exports, the MDA scheme of the Department of Commerce provides assistance for participation in export promotion seminars, trade fairs, and buyer-seller meets in India and abroad. Assistance is available to exporters with annual export turnover up to Rs. 150 million under specified conditions, as given below.

i. To assist exporters for export promotion activities abroad

ii. To assist EPCs to undertake promotional activities

iii. To assist approved organization/trade bodies for carrying out non-recurring innovative activities for export promotion

iv. To assist focus export promotion programmes in specific regions abroad, such as Focus LAC (Latin American Countries), Focus Africa, Focus CIS, and Focus ASEAN programmes

v. For other essential activities related with marketing promotion efforts abroad

Financial assistance with travel grant is available to exporters traveling to Latin America, Africa, CIS region, ASEAN countries, Australia, and New Zealand. In other areas, financial assistance without travel grant is available. The scheme is implemented by EPCs and other export-promotion bodies, Industry and Trade Associations (ITAs) on a regular basis every year.

Market Access Initiative:

In order to supplement the MDA scheme and facilitate promotional efforts on a sustained basis, MAI scheme was launched in 2001-02. The scheme is formulated on focus product-focus country approach to evolve specific strategy for specific market and specific product through market studies or survey.

Under the scheme, financial assistance is provided:

i. To identify the priorities of research relevant to the Department of Commerce and to sponsor research studies consistent with the priorities

ii. To carry out studies for evolving WTO compatible strategy

iii. To support EPCs/trade promotion organizations in undertaking market studies/ survey for evolving proper strategies

iv. To support marketing projects abroad based on focus product-focus country approach

Under marketing projects, activities funded are:

i. Market studies

ii. Setting up of showrooms and warehouses

iii. Sales promotion campaigns o International departmental stores

iv. Publicity campaign

v. Participation in international trade fairs

vi. Brand promotion

vii. Registration charges for pharmaceuticals

viii. Testing charges for engineering goods

Each of these export promotion activities can receive financial assistance from government ranging from 25 per cent to 100 per cent of total cost depending upon activity and implementing agency.

Under the scheme, financial assistance is provided to export/trade promotion organizations, national level institutions, research institutions, universities, laboratories and exporters for enhancement of exports through accessing new markets or through increasing the share in the existing markets.

However, the assistance to individual exporters is available only for testing charges of engineering products abroad and registration charges of pharmaceuticals, bio-technology, and agro-chemicals. The proposals for assistance are examined by an empowered committee under the chairmanship of the Commerce Secretary for a particular product and a particular market.

The MAI scheme provides an excellent opportunity, especially for public and private sector export promotion organizations to finance their marketing activities for the thrust products in the pre-identified markets.

The scheme could not make the anticipated headway, mainly due to limited initiatives by the state and central government organizations, which had been the targeted principal beneficiaries and also because of non-awareness among them due to poor marketing of the scheme.

Served from India scheme:

In order to promote export of services from India, Served from India Scheme (SFIS) was introduced in 2004. All service providers are entitled to duty credit scrip equivalent to 10 per cent of free foreign exchange earned during the preceding year. However, hotels of one-star and above are entitled to duty credit scrip equivalent to 5 per cent.

The scheme allows for import of any capital goods, including spares, office and professional equipment, office furniture and consumables; that are otherwise freely importable under the trade policy relating to any service-sector business of applicant. Import entitlement/goods imported under the scheme are non-transferable and subject to actual user condition.

Further, all services rendered abroad and charged on exports from India also exempted from service tax from April 2007.

Towns of export excellence:

The scheme aims at recognizing towns that have come up as industrial clusters with considerable exports so as to maximize their potential. The scheme notifies select towns producing worth Rs 10 billion as Towns of Export Excellence (TEE) whereas the threshold limit in the handloom, handicraft, agriculture, and fisheries sector is Rs 2.5 billion.

The TEE notified include Tirupur for hosiery, Ludhiana for woollen knitwear, Panipat for woollen blanket, Kanoor, Karur, and Madurai for handlooms, AEKK (Aroor, Ezhupunna, Kodanthuruthu and Kuthiathodu) for seafood, Jodhpur for handicrafts, Kekhra for handlooms, Dewas for pharmaceuticals, Alleppey for coir products, and Kollam for cashew products.

Recognized associations of units in the town of export excellence are allowed to access funds under the MAI scheme for creating focused technological services. Common service providers in these areas are also entitled for EPCG scheme. However, such areas will receive priority for assistance under the ASIDE scheme.

Vishesh Krishi and Gram Udyog Yojana (special agriculture and village industry scheme):

In order to promote employment generation in rural and semi-urban areas (Exhibit 9.1), Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme) was launched. Subsequently, the scheme was expanded and renamed as Vishesh Krishi and Gram Udyog Yojana (Special Agriculture and Village Industry Scheme).

The scheme aims to promote the agricultural produce, minor forest produce, village industries' products, and forest-based products. Under the scheme, duty credit scrip equivalent to 5 per cent of f.o.b. value of exports is provided so as to compensate the high transport costs.

However, duty credit scrip equivalent to 3.5 per cent of the f.o.b. value of exports is allowed if the exporter has benefited from duty-free imports of agriculture under any other concessional entry scheme.

Focus market scheme:

In order to enhance India's export competitiveness to select strategic markets, the Focus Market Scheme (EMS) was introduced on 1 April 2006. This scheme aims to offset high freight cost and other externalities by allowing duty credit scrip equivalent to 2.5 per cent of f.o.b. value of exports to each licensing year to select countries.

The scheme notifies 73 countries as focus markets as on 1 April 2007 from Latin America, Africa, and CIS. Ten additional countries have also been included from 1 April 2008. Although the impact of the scheme remains to be evaluated, it appears to be too ambitious.

By notifying a large number of countries as focus markets, there remains the concern of losing the very focus of the FMS. However, the scheme may help in broadening the destination profile of India's exports.

Exhibit 9.1 Employment generation through exports

International trade can be an effective instrument for generating employment. In the export sector, the total employment generation in 2004–05 was 16 million, 9 million direct, and 7 million indirect, against a total export of US$80 billion. India's exports are estimated to grow to US$165 billion in 2009–10 resulting in total employment of 37 million. In the export sector, the maximum employment was in agricultural products (6.2 million) followed by mineral products (1.7 million), textile and textile articles (1.7 million), and prepared foodstuff and beverages (1.6 million) in 2004–05. While export has recorded robust growth in recent years, the corresponding growth of export of labour-intensive goods has slowed down. Between 1995 and 2003, while labour-intensive exports (rice, tea, spices, horticulture and floriculture products, processed foods, textiles, gems and jewellery, handicrafts, sports goods) grew by 7.2 per cent per year, the growth of resource-intensive exports (iron ore), medium-technology-intensive exports (manufactures of metals, primary and semi-finished iron and steel, manmade yarns, petroleum products) and knowledge-intensive exports (chemicals, drugs and pharma, plastics and linoleum, machinery, transport equipment and electronic goods) were of the order of 12 per cent, 19 per cent, and 14 per cent, respectively. India's relatively small share of global exports of labour-intensive goods relative to China reveals a huge potential for employment generation through exports.

Thus, certain industrial products, such as fish and leather products, stationery items, fireworks, sports goods, handloom, and handicraft items have potential to generate considerable employment per unit of investment compared to other products. Therefore, schemes aimed at promoting their exports are likely to give a thrust to their manufacturing leading to increased employment. In April 2006, the Focus Product Scheme was formulated to provide incentives for export of products that have high employment potential in rural and semi-urban areas. Besides, *Vishesh Krishi and Gram Udyog Yojana* also contribute to employment generation.

Focus product scheme:

In order to provide incentives for export of select products that have high employment potential in rural and urban areas, the Focus Product Scheme (EPS) was introduced on 1 April 2006.

The scheme notifies a number of products from product categories such as value added leather products and leather footwear, handicrafts items, handloom products, value added fish and coir products, and some additional focus products.

It aims to offset the inherent infrastructure bottlenecks and other associated costs involved in marketing of such products. The scheme allows duty credit scrip equivalent to 1.25 per cent of f.o.b. value of exports of each licensing year for notified products.

The scrip and the items imported against both the FMSs and FPSs are freely transferable. The duty credit may also be used for import of inputs or goods, including capital goods, provided the same is freely importable. Exporters have the option to avail the benefits in respect of the same exported product/s under only one of the three schemes, i.e., FMS, FPS, or Special Agriculture and Village Industry Schemes.

High tech products export promotion scheme:

In order to promote exports of high-tech products from India, the High Tech Products Export Promotion Scheme was launched on 1 April 2007. It provides duty credit scrip equivalent to 10 per cent of incremental growth in exports of notified products subject to a ceiling of Rs. 150 million for each firm. From 1 April 2008, IT hardware sector has also been included under this scheme.

Export/trading houses:

The objective of the scheme of export and trading houses is to give recognition to the established exporters and large export houses to build up the marketing infrastructure and expertise required for export promotion.

The registered exporters having a record of export performance over a number of years are granted the status of export/trading houses or Star Trading Houses subject to the fulfillment of minimum annual average export performance in terms of f.o.b. value or net foreign exchange earnings on physical exports or services prescribed in the foreign trade policy.

Category	Average FOB/FOR value* *in Rupees*
Export House** (EH)	200 million
Star Export House (SEH)	1 billion
Trading House (TH)	5 billion
Star Trading House (STH)	25 billion
Premier Trading House (PTH)	100 billion

Besides, the following categories of exporters, both merchant as well as manufacturer, are eligible to get double weight age:

i. Exporters in the small scale industry, tiny, and cottage sector

ii. Units registered with KVICs, KVIBs

iii. Units located in North Eastern States, Sikkim, and Jammu and Kashmir

iv. For exports of handloom, handicrafts, hand-knotted, or silk carpets

v. For exports to Latin America, CIS, or Sub-Saharan Africa

vi. Units with ISO 9000 series, ISO 14000 series, WHO GMP, HACCP, SEICMM Level-II and above status

vii. Exports of services and agro products

The exporters who have been granted the status of export house/trading house are entitled to a number of benefits under the foreign trade policy, including:

i. Authorization and customs clearances for both import and export on self declaration basis

ii. Fixation of input/output norms on priority within 60 days

iii. Exemption from compulsory negotiation of documents through banks. The remittance, however, would continue to be received through banking channels.

iv. 100 per cent retention of foreign exchange in EEFC account

v. Enhancement in normal repatriation period from 180 days to 360 days

vi. Exemption from furnishing bank guarantee in schemes under the foreign trade policy

The export and trading houses scheme allow registered exporters certain additional benefits available to them under the policy.

Export Incentives in India

What are Export Incentives?

Export incentives are provided to exporters as an acknowledgement for bringing in foreign exchange, and to compensate for the infrastructural obstacles and costs that they face. India's Foreign Trade Policy (FTP) 2015-2020 highlights various export incentives made available by the government through the Directorate General of Foreign Trade (DGFT), as updated till mid-2019.

How Export Incentives work in India?

The government collects less tax for the exported goods, to increase the competitiveness in the global market. The incentives provided, ensure higher reach of the local product and the growth of the Indian Export Businesses.

But the incentives are provided keeping in mind the availability of the particular product/material. These incentives are changed and modified according to the scarcity and abundance of the product.

Types of Export Incentives

These incentives include the exports from India scheme, duty exemption/remission scheme, and export promotion capital goods scheme. Let's take a closer look at them:

Exports from India scheme:

Merchandise Exports from India Scheme (MEIS) & Service Exports from India Scheme (SEIS)

- This export incentive scheme can be subdivided into the merchandise and services sector.
- Under MEIS, the export of notified goods to notified markets is rewarded on realised FOB value of exports in free foreign exchange or on FOB value of exports as given in the shipping bills in freely convertible foreign exchange, whichever is lower.
- MEIS rewards are available on the export of goods through courier or international post on consignments of FOB value of up to Rs. 5 lakh.
- Under SEIS, service providers of eligible services are entitled to duty credit scrips at notified rates on the net foreign exchange earned. Free foreign exchange remittance received through international credit cards and other instruments are also taken into account while computing the value of exports.

Here are some incentives commonly available under MEIS and SEIS:

- Under the export incentives, exporters will be able to file their pending claims from FTP 2009-14 during the FTP 2015-20 regimes. This is known in FTP parlance as a 'transitional arrangement'.
- Under the CENVAT credit/drawback rules, any additional duty or central excise duty paid in cash or through duty credit scrips will be adjusted as CENVAT credit or duty drawback. On the other hand, basic customs duty paid is adjusted as duty drawback.
- Exporters can utilise duty credit scrips on the payment of duty in case of import of capital goods under lease financing.
- MEIS rewards can be claimed either by the supporting manufacturer, along with a disclaimer by the entity realising the foreign exchange, or by the entity realising foreign exchange from overseas itself.
- **Duty credit scrip** is rewards offered under both MEIS and SEIS. These can be utilized to pay basic customs duty, additional customs duty, and central excise duties paid on domestic procurement. It can be utilised for payment of customs duties in case of Export Obligation (EO) defaults for authorisation, payment of composition fee and application fee under FTP, and for payment of value shortfall in EO.
- Status holder recognition is conferred on the basis of export performance, with export houses being rated from one to five stars. Status holders are eligible for various additional privileges. Double weightage is given to the following IEC holders in export performance calculation for granting status:
    - Micro, Small, and Medium Enterprises (MSMEs)
    - Manufacturing units with ISO/BIS certification
    - Units located in J&K and the north-eastern states
    - Units located in agri export zones

Duty exemption/remission schemes

These allow duty-free import of inputs for export production, and include the following duty exemption schemes:

Advance Authorisation Scheme

Advance authorization_ allows duty-free import of inputs that get physically incorporated into the export product. This may include oil, fuel, and catalysts. The value addition of the inputs is measured as per standard input-output norms, based on which the exemption is provided.

Advance License for Annual Requirement

It is issued on the basis of annual requirement of an exporter for physical exports, intermediate supplies or deemed exports. Advance License for annual requirement is entitled only for One to Five Star Export Houses.

Duty-free import authorisation

Duty-free import authorisation allows duty-free import of inputs on the basic customs duty portion of duty. Additional customs/excise duties will be adjusted as CENVAT credit.

Duty drawback scheme

Duty Drawback Scheme aims to provide a refund to exporters on the customs and excise duties paid on inputs and raw materials or services for use in the production of export products. The re-export of the imported goods should happen within a stipulated time to be eligible for the drawback. The drawback is reversed if the sale proceeds are not received within a stipulated time.

RoSCTL

Rebate on state and central taxes and levies (RoSCTL) offers benefits to made-up articles and garment exporters in the form of duty credit scrips. It was devised in the wake of complaints from the US to the WTO about India's export incentive schemes. This scheme will eventually be made available beyond the textile industry.

Export promotion capital goods scheme

Zero duty EPCG scheme

Export Promotion Capital Goods Scheme (EPCG) facilitates the import of capital goods to India to improve the country's production quality and competitiveness. Import of capital goods is allowed at the pre-production, production, and post-production stages at zero customs duty. These too are exempt from integrated goods and services tax (IGST) and compensation cess.

EOU/EHTP/STP/BTP Schemes

Additionally, the FTP 2015-20 also extends export benefits to the production of goods and services made in Export-Oriented Units (EOUs), Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs), and Bio-Technology Parks (BTPs).

Other Export Benefits in India

- Towns of Export Excellence
- Gold Card Scheme
- Export of Goods under Bond
- Market Access Initiative (MAI) Scheme
- Marketing Development Assistance (MDA) Scheme
- Status Holder Scheme

Export Product Assistance/ Facilities

The various export assistance or promotion measures are undertaken through a number of organisations existing both at the Centre and State level.

Export assistance includes facilities for efficient export production and marketing.

1) Export Production Assistance:

Export production assistance is available right from the stage of acquiring land and building, procuring plant machinery, equipments, components, spares, technical guidance/training, to giving finance and credit in time at comparatively cheaper rate. Export production assistance includes following facilities provided to enhance the assistance:

i) Infrastructural Facilities:

Besides providing land and building to exporting units, Special Economic Zones, Technology Parks, Export Promotion Parks, Industrial Estates, etc., have been set-up in various parts of the country.

There are 8 Special Economic Zones at Kandla (Gujarat), Santa Cruz (Maharashtra), Falta (West Bengal), Noida (U.P.), Cochin (Kerala), Chennai (Tamil Nadu), Surat (Gujarat), and Visakhapatnam (Andhra Pradesh) which arc functional at present (Sept '03). Whereas all the Zones, except Seepz, are multi-product Zones, the Seepz at Santa Cruz in Bombay is exclusively for Electronics and Gem and Jewellery items. Private Bonded Warehouses for Exports are also allowed to be set-up in DTA (Domestic Tariff Area) for procurement of goods from domestic manufacturers without payment of duty. Such applies are considered as physical export, provided payment for the same is made in foreign exchange.

Government has also recently permitted development of Special Economic Zones by Private/State or Joint Sector. Export Promotion Industrial Parks Scheme has been introduced with a view to involving State Government in providing infrastructural facilities for export-oriented production.

Technology Park for Electronic Hardware and Software development for export have also been set-up, mostly on the lines of SEZs providing same facilities for production and export.

ii) Manufacture-in-Bond:

Manufacture-in-bond facility is available both in the excise as well as customer regulations. Whereas rule 13 of the Central Excise Rules relates to Excise Regulations, Section 65 of the Customs Act provides facilities of manufacture in bond.

iii) Machinery and Equipments:

Besides making available machinery and equipments on lease, there is a special facility to import CG (Capital Goods) at 5% duty under EPCG, i.e., Export Promotion Capital Goods Scheme.

iv) Production Inputs:

Raw-materials, components, spares, consumables, etc., whether indigenous or imported, can be obtained for export production under various schemes. Imported inputs for use in export products are importable duty free under the Duty Exemption/Remission Scheme, popularly known as Advance Licensing Scheme, Duty Free Replenishment Certificate (DFRC), and Duty Entitlement Passbook (DEPB) Scheme, although there are several other schemes covered there under. Still another scheme known as duty free import entitlement scheme has been introduced for status holder exporters including service providers.

Goods (including CG) are also allowed to be imported without an import license or Customs Clearance Permit (CCP) for jobbing, repairing, servicing, etc., against bond, surety/security. Such goods are to be re-exported with specified minimum value addition. There are special for export of gold/silver jewellery and articles as also for specified sectors like pharmaceuticals, readymade garments other than leather garments, electronics/writing instruments, and engineering goods.

v) Technology Upgradation:

Besides allowing duty free import of technical samples/prototypes and trade samples upto specified value, simplified approval mechanism has been introduced for foreign technology agreements. Foreign exchange is also released liberally for foreign visits and testing abroad of indigenous raw materials. National Laboratories, National Test House, etc., provide technical guidance for export production. The Pilot Test House offer special technical support facilities to the industry. SISIs and Regional Testing Laboratories also provide technical support.

vi) Packing Credit:

It is also known as pre-shipment credit. It is available even if there is no export other in hand. It consists of cash credits and overdraft facilities, and given at a concessional rate of interest.

Pre-shipment credit is also available in foreign currency under the PCFC Scheme. It is applicable to both the domestic and imported inputs for export goods.

vii) Back-to-Back Letter of Credit (L/C):

An inland Back-to-Back Letter of Credit Scheme has been instituted which makes sub- suppliers of raw-materials, samples, etc., to exporter, eligible for export packing credit on the basis of export order or L/C in the name of the export order holder.

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