OPEN BOOK EXAMINATION **NEW SYLLABUS**

345

Roll No.…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 8*

NOTE : *Answer* ***ALL*** *Questions.*

1. Capitalising on world trade

The twentieth century was full of economic, social and political revolutions. Never before had history witnessed such disparities in the economic development of nations. Within decades, the image of the world changed rapidly and radically in the early part of the twentieth century. The United States of America (USA) pushed Great Britain and France aside, emerging as the leading economic power. Later on, Germany came to dominate Europe and retained its position on and off until 1945. During the same period, mineral-rich USSR made serious efforts to become a strong economic power. Later in the 1950s and 1960s, the USA and USSR dominated the world. In 1960s and 1970s, Japan made its historic comeback, forcing the western powers to make way for her in the world's markets. In recent years, the two Asian giants – India and China are making their bid to become economic leaders in the twenty-first century.

Over the past three decades, China has emerged as an extreme example of the East Asian model of economic development. It emphasises upon a rapid rate of capital accumulation, drawing of under-utilised labour out of agriculture and the rapid upgrade of technologies to those available in more developed economies.

In the immediate aftermath of the global financial crisis, China was congratulated for the speed and magnitude of its economic stimulus, and many believed that it had emerged from the global downturn unscathed. China's accession of the WTO in 2001 has led to the introduction of more favourable FDI measures. With further liberalisation in the services sector, its investment environment was further enhanced.

On the other hand, the Indian economy had been suffering from low levels of investment, trade and growth. India's savings and investment rates were lower than those in the pre-crisis levels. India's manufacturing growth had been sluggish, affecting millions of young Indians entering the job market every year. Policy flip-flops and lack of reforms had also added to the unfavourable investment and business climate.

However, recently, Chinese economic growth has slowed and the continued weakness of the global economy has made it difficult to maintain the reliance on exports as a primary driver of growth. Further, the Chinese market ran up with unprecedented participation by the locals.

The China crisis has opened up new challenges for the Indian economy. The Indian economy requires FDI to fill the gap between domestic savings and investment and to boost productivity and investment-led growth. Although Indian FDI policy has been progressive, inflows have been far lower than expected and lag behind those of competitors like China.

How should India react to this global shift in trade realities ? The good news is that India's economic growth at 7.2 per cent came in higher than China's in the April-June quarter of 2015. Index of Industrial Production (IIP) rose by 9.8 per cent in October, raising the average growth during April-October, 2015 to 5.8 per cent, compared to 2.2 per cent in 2014-15. Commercial vehicle sales, a leading economic indicator, have picked up since July, 2015 and passenger car sales have followed suit. Excise collections during April-October, 2015 have shot up by 34 per cent over last year and direct tax collections by 15 per cent, providing assurance on fiscal balance.

Inflationary pressures remain muted, with the WPI still in negative territory at – 3.2 per cent for April to November and CPI at 5.4 per cent in October and 4.7 per cent for past seven months, well within the RBI's target of 6 per cent by March, 2016. The report of the Boston Consulting Group (BCG) – Confederation of Indian Industry (CII) 14th Manufacturing Summit, ended on 21st September, 2015, shows that India's manufacturing growth outlook is strong due to the new government's 'Make in India' initiatives. The Indian economy under experts watch seems to be on the move, steadily but surely.

The Indian government has taken an excellent move immediately to grab the opportunity by calling an urgent meeting with industrialists, bankers and economists recently. The government has sent the right signal to the world that 'it means business'.

The world, particularly, the USA, has been the centre of attraction for both India and China since long. Its major strength is its unique combination of exceptional innovation capacity,

 Contd ....

larger control of world's resources and sophisticated businesses. Both countries want to grab the USA for each other's economic benefits. But the question is, how will India succeed ? To get the answer, economic ties between India, USA and China need to be highlighted here.

US – China trade relationship

US – China economic ties have expanded substantially over the past three decades. In 2014, total bilateral trade (exports *plus* imports) reached $592 billion. China is currently the second-largest USA trading partner (after Canada), the third-largest US export market (after Canada and Mexico), and the largest source of US imports. According to the US – China Business Council, China was a $350 billion market (2013) for US firms.

Despite growing commercial ties, bilateral economic relationship has become increasingly complex and often fraught with tension. Major areas of concern expressed by US policy-makers and stakeholders include China's relatively poor record of intellectual property rights (IPRs) enforcement and alleged widespread cyber economic espionage against US firms by Chinese government entities; mixed record on implementing its World Trade Organisation (WTO) obligations; extensive use of industrial policies (such as financial support of state-owned firms, trade and investment barriers, and on transfer of technology) in order to promote the development of industries favoured by the government and protect them from foreign competition. The recently signed Trans-Pacific Partnership (TPP), a mega regional trade agreement hammered out by a group of 12 Pacific Rim nations led by the US, aims at side-stepping China.

China – India trade relationship

Trade and economic relationship has seen rapid progress in the last fifteen years where two countries have set a target of $100 billion by 2015 for bilateral trade. China's projected exports to India have reached over $55 billion.

However, despite the growth, the Sino-Indian relations will remain competitive. Both will attempt to acquire the power and status which will be suitable to their populations, geographical locations, their country's size, and so on. Furthermore, the emergence of both the States as great powers and economic giants in the twenty-first century is likely to result in significant new geo-political alignments. Both will try to enhance their presence in different parts of Asia and Africa. Moreover, the new economic prosperity and military strength of both the States will create new tensions as both will try to register their authority in different parts of the world, especially in South Asia, South-East Asia and Central Asia. At the strategic level, India will continue to expand the strength, scope and reach of its naval capabilities.

US – India trade relationship

US – India relationship is leaping forward. US investments in India have soared from a total of \$7.7 billion in 2004 to \$28 billion till the year 2014. Currently, the US is India's second-biggest trading partner, just a whisker behind the UAE. It accounts for 12 per cent of India's trade against the UAE's 12.1 per cent. On the other hand, Indian investment in the US has grown from over \$300 million to \$9 billion. Bilateral trade in goods and services has crossed the \$105 billion threshold, five times of what it was just a dozen years ago. At the 11th Indo–US Economic Summit, new initiatives were taken to reach the \$500 billion goal in the years to come.

There are some key factors that attract US to India. Firstly, India, the largest secular democracy in the world, is home to 1.21 billion people (*i.e.*, about 17.4% of the world's population). Secondly, in terms of economics, India accounts for 2.5% of world GDP in US dollar terms and 5.5 per cent in purchasing power parity (PPP) terms. Thirdly, it has a middle class that is, by some counts, larger than the entire US population. It presents a huge market, an economy driven by internal consumption rather than exports. Fourthly, the projected economic growth is at 7 per cent *plus*. Fifthly, US is now the largest supplier of military hardware to India, replacing Russia. Lastly, labour force is cheaper in comparison to that in China.

What further puts off the US about India is its complex regulatory system and slow legal architecture. Further, India's new model bilateral investment promotion and protection agreement (BIPA), which is used as a reference for all treaty negotiations, states that international arbitration will follow only after all legal remedies have been exhausted in the domestic legal courts. It also makes it clear that international arbitration courts cannot re-examine any legal issue settled by the Indian courts. But, the US wants arbitration to be settled only in an international court as it considers the Indian legal system as time consuming, which fails to resolve differences.

The US has also objected to another clause in India's model BIPA, which states that any treaty shall not apply to 'government procurement, subsidies and grants'. This has been done to prevent foreign companies from taking part in Indian government procurement meant for the small scale sector, as well as from gaining benefits of grants and subsidies meant specifically for certain categories of Indian firms.

India's move

Several initiatives have been taken by the Government of India recently to improve the country's business environment, unveiling several campaigns (such as Make in India to boost manufacturing; Skill India to equip Indians with vocational skills and Digital India). Few important initiatives are :

1. *Infrastructure* : Increased outlays, on both the roads and gross budgetary support to railways, by ₹10,031 crore and ₹10,050 crore respectively. The government intends to establish a National Investment and Infrastructure Fund (NIIF) for infrastructure and Atal Innovation Mission (AIM) for innovation promotion platform.

2. *eBiz* : This portal is a single-window system on the web for firms to navigate the documentation-related formalities of setting-up and managing a business in India. This will reduce the complexity and multiplicity of paperwork, as that is one of the major causes of 'red tape' in India.

3. *Labour laws* : Few recent amendments to labour laws are expected to allow companies to hire more employees without having to fulfill weightily labour law requirements, as it is proposed that companies with 10-40 employees will now be exempt from provisions under labour laws.

4. *Taxation* : A direct tax regime in the shape of GST has been proposed. Deferment of GAAR with its grand-fathering provisions, reduction of corporate tax from 30 per cent to 25 per cent over the next four years and proposals to rationalise tax structure send out a positive message that India is all for stable and predictable tax regime.

What is reflecting ?

The good news is that FDI inflows have been continually increasing and also include big-ticket announcements. Experts who are closely watching the Indian economy since long are of the opinion on the indications of economic growth that 'India is shining in the world'. The year 2012 saw FDI inflows of ₹1.2 trillion, which went upto ₹1.3 trillion in 2013 and then to ₹1.75 trillion in 2014. During 2015, FDI is expected to be ₹2.4 trillion. The awfully delayed $7.6 billion TAPI gas pipeline agreement was signed in December, 2015.

Based on the above, answer the following questions —

(a) Explain various forms of FDI. Why are USA trade negotiators insisting India on 'free trade agreement' ? Does the bilateral investment promotion and protection agreement (BIPA) model of India act as a protectionist measure in international trade ? Justify your answer giving reasons.

(10 marks)

(b) Discuss the direction of India-China trade. Do you think that the two giants of the developing world will move positively in the future ? Justify giving reasons.

(10 marks)

(c) "The Government of India has sent the right signal to the world that it means business." Critically evaluate the government initiatives in this regard.

(10 marks)

(d) China's accession to WTO was the major event at the Doha Ministerial Conference at the turn of the century. Critically discuss the pros and cons of this accession for China.

(10 marks)

(e) How can it be claimed that 'India is shining' in the global front ? Explain what attracts USA to India *vis-a-vis* China.

(10 marks)

2. (a) Siemens' association with India goes back to 1867, when it played a key role in laying 11,000 Kms. long Indo-European telegraph line from London to Kolkata. Since then, it has been contributing in many ways in the country's growth story. Now it is looking at playing an active role in the government's 'smart city' project. Indicate few opportunities and threats that the company should consider.

(5 marks)

(b) Comment on the recent ban on entry of several generic drugs manufactured by Indian pharmaceutical companies into the US market. What ethical issues may be involved in similar other cases ?

(5 marks)

(c) You are the Company Secretary of Pavi Exports Ltd. The company was recently incorporated and has just started its operations in India. Mention in brief the process of registration of export operations to be followed by the company.

(5 marks)

(d) "The TRIPS agreement runs counter to the neo-liberal arguments in favour of competition." Is this a fair assessment ? Justify your answer giving reasons.

(5 marks)

(e) Birju, entrepreneur, a traditional handloom manufacturer of Varanasi, is desirous of international expansion. The entrepreneur has little knowledge of international markets. Which mode of entry should be adopted by him ? Give reasons.

(5 marks)

(f) "The Indian industry must be able to show that dumped imports are causing or are threatening to cause material injury to the Indian domestic industry." Discuss by highlighting two major areas.

(5 marks)

3. What would be the best transportation mode for the following :

(a) Frozen vegetables

(b) High volume compact bio-medical equipment

Give reasons in support of your answer.

(5 marks)

4. In view of the problems associated with developing countries like India, critically evaluate various trade policy options and their suitability in promoting economic growth.

(5 marks)

5. You are the Company Secretary of Shine Ltd., which is planning to enter into a joint venture with Glamour Ltd. (based in Singapore) for marketing and selling a new product launched by your company.

Advise your company on the principal matters which should be dealt with comprehensively while negotiating the joint venture agreement.

(5 marks)

6. The trends in business world indicate that strategic alliances have not always yielded desired results. Mention the risks and problems that need to be analysed to pave way for the success of strategic alliances.

(5 marks)

————0————