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Roll No. ....

OPEN BOOK EXAMINATION

Time allowed : 3 hours ***Maximum marks : 100***

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

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

1. **Read the following case study and answer the questions given at the end :**

When the General Agreement on Tariffs and Trade (GATT) was first signed, the textile and apparel industries were too controversial to be included within its scope. Employment in these industries was still high in Europe and the United States, and developed countries feared significant unemployment if protective measures were not continued against new producers from developing economies. As a result, textile trade was negotiated bilaterally and governed for 20 years by the rules of a separate international agreement, the Multifibre Arrangement (MFA), which allowed for the emergence of an international quota system regulating world trade in textiles and clothing.

Despite these protectionist measures, employment in these industries continued to decline in the developed world as manufacturers closed facilities or relocated production in lower-cost countries. And textile and apparel quotas were not immune from politics. After the terrorist attacks of September 11, 2001, on New York and Washington, DC, Pakistan was recruited to the US. war on terror. The country was extended US$143 million in new textile quotas by the United States, and the European Union increased Pakistan's quota by 15 percent.

The MFA was later replaced by the WTO Agreement on Textiles and Clothing, which set out a transitional process for the ultimate removal of these quotas by January 1, 2005. Tariffs would remain. These were generally higher in developing countries, ranging from 5 to 30 percent in Malaysia (depending on the category), 13 to 35 percent in Mexico, and up to 44 percent in Turkey. Among developed countries, tariffs were highest in Australia, Canada, and the United States, where they ranged between 0 and 15 percent.

The end of quotas was expected to create big winners and losers. For example, sources at the WTO estimated that India's share of US. clothing imports would rise from 4 percent before to 15 percent after the lifting of quotas, and China's share of imports would rise from 16 percent before to 50 percent after the lifting of quotas. China was also expected to see a large increase in its position in the European Union. Estimates put that share at 29 percent of total imports the first year quotas were lifted, threatening currently strong regional producers such as Turkey. In fact, many expected China to attain a 50 percent share of world market within only a few years.

China's textile and apparel industries had several advantages over those in other developing countries. Chinese labor was often cheaper and usually more productive, which was a particular advantage in the labor-intensive apparel industry. Huge factories attained substantial economies of scale, and China provided a good transportation infrastructure with especially quick turnaround times for ships in Chinese ports. Locally produced inputs such as cotton also helped keep cost low. Productive Chinese textile mills provided cheap cloth to Chinese garment manufacturers. In addition, opponents accused China of unfairly gaining advantage by pegging its currency too low and not allowing it to revalue based on market demand. China was also notorious for massive software pirating, including software used in the textile and apparel industries, resulting in savings from the avoidance of paying royalties on the intellectual property of others. Critics argued that many Chinese manufacturers were government owned and thereby received unfair subsidization.

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However, others were less sure about the ability of China to attain and sustain its projected gains in market share. Besides the possibility that its currency could be revalued, the Chinese economy showed signs of overheating and the government might decide to tighten credit to textile mills. As many foreign clothing manufacturers moved production to China, prices for materials and labor could increase. Already, clothing factories in China’s more developed coastal cities were experiencing difficulty in recruiting new labor. As China’s rural incomes rose, fewer Chinese migrated to its cities. Many international producers—as well as global buyers—were considering the risk (both political and economic) of relying too heavily on a single source such as China. Also, the large increases in market share predicted for China were based on actual experience in Australia, where quotas had been removed several years earlier. But some analysts believed that supplier countries near to major markets could partially defend their positions if they focused on “replenishment” products-fashion-oriented products whose buyers (such as Wal-Mart) were sensitive to a supplier's ability to fill reorders very quickly and reliably.

Still, China presented a very real threat to the textile and apparel industries in most other countries. One report projected Mexico’s share of the U.S. market to fall from 10 percent to only 3 percent, and the market share for the rest of the Americas to fall from 16 percent to 5 percent. U.S. manufacturers would suffer both directly and indirectly, as many U.S. firms supplied inputs to apparel manufactures in Latin American and the Caribbean. Also of concern was whether bilateral trade agreements between the United States and Latin American countries would allow Latin American clothing manufacturers to use Chinese textiles in clothing exports that received lower tariff rates from the United States. Even if the use of Chinese textiles were to be prohibited or penalized many believed that Chinese textiles could be smuggled easily into Mexico or Central America due to lax customs procedures. Therefore, enforcing such a rule would be difficult.

The lifting of textile and apparel quotas threatened the economies of developing countries more than it did those of the United States or Europe. Cambodia, for example, expected its economic growth rate to be halved by expected losses in its garment sector. A system originally designed to protect jobs in Europe and the United States had become the vehicle by which many countries in the developing world could receive guaranteed, if limited access to these developed markets. For example, if Wal-Mart sought to source a large amount of T-shirts, its preferred supplier in China might not be able to deliver the full amount due to a U.S. quota on T-shirts from China. Wal-Mart could be forced to seek additional suppliers in other developing countries, even if the output from those manufacturers was more costly and of lower quality than that of the preferred Chinese supplier.

But guaranteed market access for less-efficient developing countries was now disappearing. In response, a coalition consisting of U.S. manufacturers and those from twenty-four developing countries convened a Summit on Fair Trade in Brussels and issued a communiqué warning the WTO that thirty million jobs were at risk in the developing world with the passing of the Multifibre Arrangement. Not everyone was sympathetic. The executive director of the U.S. Association of Importers of Textiles and Apparel, sent a letter to the trade representatives at Brussels scoffing, “There is no ‘crisis’ other than the one created by those who did not prepare or who are unwilling to compete without the crutch of protection.”

One of the early promoters of the summit was Mauritius, a tiny island state located off the coast of East Africa. Its population was largely ethnic Indians, many bilingual in French and English. A stable, business-friendly government had offered tax incentives to export-oriented industries, and large amounts of foreign investment in clothing manufacture had poured into the country. The garment industry grew to employ one in five working Mauritians, producing products for such global brands as Calvin Klein and Gap. As a result, the median household income of the country had doubled in 10 years to US$4,560, making it one of the highest-income countries in Africa. However, the entry of China into the world market had already resulted in the closing of garment factories on the island, and unemployment had risen from 3 percent to 10 percent.

Bangladesh, a mostly Muslim country of 140 million, was another case in point. Its garment industry employed half the country's industrial workforce and supplied 80 percent of its hard-currency earnings, Bangladesh was one of the poorest countries in Asia and had been designated the most corrupt country in the world by watchdog organization Transparency International. Political tension was pervasive, and Muslim fundamentalist parties were expanding their control in parliament. Some rural areas had become essentially ungovernable harbors of militant Islamic extremists who were opposed to the neighboring governments of India and Myanmar.

Bangladesh ranked low in basic infrastructure such as transportation and communications, and delays and strikes at its ports often forced garment exporters to employ expensive air-cargo space in order to meet order deadlines. While its garment workers earned less than half of what Chinese garment workers earned, its garment factories had never attained the economies of a scale found in China. Unlike China, its apparel industry had no homegrown source of cotton and remained dependent on imported fabrics. Nonetheless, under the MFA Bangladesh had become a major supplier of apparel to both the United States and Europe.

Now experts estimated that over half of the jobs in the Bangladesh apparel industry would disappear. In addition, fifteen million jobs in related industries would be lost as well. As in Mauritius, factory closings had already begun. The burden of this unemployment would fall on both men and women, as over half the workers in the industry were female. An earlier increase in female employment (attributed to the garment industry) had resulted in improvements in women's lives, such as increased enrollments in primary education. Also, studies had linked a decline in domestic violence against women in developing countries with a woman's ability to earn cash outside the home.

As the end of textile and apparel quotas approached, both the EU and the United States prepared to apply temporary restrictions on certain Chinese imports that would threaten their own manufacturers. The ability to employ such temporary restrictions had been previously negotiated as part of the agreement for China to join the WTO. However, just two weeks before quotas were due to be lifted, China announced that it would impose export duties on its garment industry. The duties would be levied by item rather than by value and would amount to somewhere between 2.4 and 6 cents per piece. Some industry observers predicted that the duties would be painful to Chinese producers without being crippling. Others believed that the impact would be negligible. Nonetheless, Chinese officials insisted that the export tariffs represented a serious attempt to limit the Chinese threat to other developing countries, such as Cambodia and Bangladesh.

Questions :

(*a*) What factors contribute to a country's success as an apparel exporter ?

(*10 marks*)

(*b*) Which theory best explains a nation's success in this industry post MFA-the theory of comparative advantage or the theory of competitive advantage ? Explain.

(*10 marks*)

(*c*) What actions would you suggest for textile and garment producers in Mexico and Turkey ?

(*10 marks*)

(*d*) Why do you think the Chinese government has imposed export tariffs on its industry ?

(*10 marks*)

(*e*) Is there hope for Mauritius and Bangladesh in the global economy ? What advice would you give these countries ?

(*10 marks*)

2. (*a*) What factors should international business managers consider in determining the economic and cultural risk with countries ?

(*b*) Why government is promoting Special Economic Zone (SEZ) and why do you think SEZ is a better model to increase India's export in comparison to EPZ and FTZ ?

(*c*) Why some countries accepted the globalization and why some countries rejected globalization or embraced it only tepidly ?

(*d*) Analyze the taxation issues and ethical issues with multinational corporations.

(*e*) Most of the time India's trade balance is negative. How you will explain the India's foreign trade using international trade theories ?

(*f*) Explain the functioning of WTO with the help of WTO structure.

(*5 marks each*)

3. If a large fertilizer company seeking your advice for warehouse management then what type of warehouse would you suggest to the company and why you will advise the company to invest money on IT for warehouse management ?

(*5 marks*)

4. An Indian automobile company made joint venture with a European company for technology transfer to manufacture automobile in India and after running successfully for 15 years in India now both the company wants to terminate their joint venture. Explain how the company can terminate the joint venture.

(*5 marks*)

5. If the companies are making strategic alliances for market development, knowledge transfer and growth strategy for entering new market then why strategic alliance failed due to lack of trust, clash of culture and lack of coordination between management teams.

(*5 marks*)

6. India is firmly committed to the principle of free and fair trade among nations which is the very foundation of the multilateral trade order established by WTO. Discuss.

(*5 marks*)

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