Unit-4 International Economic Zones and Foreign Trade

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World Trade Organization (WTO) – Evolution and Functions

Introduction

World Trade Organization CNTO) is an international organization which makes rules for trade between countries, it is a platform where countries negotiate, formulate trade agreements, ratify them and abide by its provisions. The purpose is to promote trade, which is free, fair. transparent and smooth.
World Trade organization offers a forum for negotiating trade agreements. The purpose is to reduce hindrances in foreign trade and ensure a level playing field for member countries WTO firmly believes that smooth and fair trade will contribute to economic development for all members. The legal forum of the WTO offers an institutional framework for implementation of agreement provisions and monitoring of agreements. Several times disputes arise duo to difference in interpretation of provisions of WTO. The Wit also acts as a platform to settle such disputes At present there are 16 multilateral agreements, which all WTO members have ratified. There are also two plurilateral agreements which mean that only some WTO member countries are parties.

Evolution of WTO

International trade had been severely affected during the World War periods. Even after the wars ended, economies were devastated and trade was very slow. It was during this time that a need to set up a body to promote trade arid monitor It was felt Proposals to font a body were tabled at the Bretton Woods Conference. However. no such organization was established. At this time, few countries voluntarily came forward and signed trading agreements. So instead of a full-fledged trade organization, a provisional series of agreements. General Agreement on Tariff and Trade (GATT) was established in 1947. GATT were a series of agreements signed between contracting countries. Unfortunately. GATT could not achieve its objectives due to a variety of reasons. GATT was provisional and an adhoc body with no legal status. k had no institutional standing. This led to issues such as non-enforcement of its provisions. Dispute resolution was slow and tedious. Moreover, its rules were applicable only to trade in goods. Its provisions were not suitable and could not be applied to trade in services.

By 1980s. trade in services had increased. Cross border services delivery was a complex activity and required a whole host of new rules. By that time, intellectual Property Rights and its usage became important for firms. Countries wanted to protect it and set standards for its usage. Therefore, a new organization to replace GATT was required. It was during the Uruguay Round of GATT negotiations Ç1986 1994) that these needs were explicitly discussed It was on i January 1.995 that World Trade Organization was formally established, The WTO was backed by its founding member nations by signing what known as the 'Marrakesh Declaration' bringing the WTO into effect The affirmation that such as organization would increase world trade. international investments, employment and economic growth was felt strongly. We can therefore state that the WTO is a successor to the General Agreement on Tariff and Trade (GATT). The WTO has trade related provisions for goods. services and intellectual property Ail member countries of the VITO have to necessarily abide by all the provisions of the Uruguay round of talks.

Functions of the WTO

All functions of the WTO are carried forward by member nations and their Governments through negotiations. These are coordinated by a Secretariat at Geneva, Switzerland. The activities and functions of the WTO can be summed up as follows:

1. Reduction of Trade Obstacles: Activities of the WTO are aimed to eliminate obstacles that can potentially restrict trade, Countries are advised to negotiate the reduction of import tariffs, non -tariff barriers. WTO facilitates the negotiation of trade rules that govern the conduct of foreign trade between member countries.

2. Set Trade Standards: One of the main functions of WTO is setting standards for trade such as subsidies product standards, anti -dumping laws and so on.

3. Administer and Monitor Agreement Application : WTO administers and monitors application of provisions of agreements relating to trade in goods. services and intellectual property rights.

4. Review of Trade Policies: WTO monitors and reviews trade policies of countries. This is done to maintain transparency in trade agreements and ensure all provisions of agreements are being duly implemented.

5. Dispute Resolution: Difference in interpretations of agreement results in disputes between trading countries. Work of the WTO includes settlement of these disputes through negotiations and coming to a settlement

6. Training and Capacity Building: Training and building capacity of Government officials in developing country relating t, foreign trade matters is carded out regularly by WTO.

7. Research, Publication and Outreach: WTO collects enormous trade related data and conducts research. Research studies are published and trade data disseminated to all member countries. This brings in transparency in trade matters. ¡t also helps educate people at large regarding the WTOs mission and activities.

Regional Trading Agreements, India and Trade Agreements, Regional Integration.

Regional integrations play an important role in the growth and development of its member countries. Regional integrations are groups of countries that come together, have common rules and norms and work to fulfil common objectives. There are various forms of regional integrations including North American Free Trading Agreement (NAFTAI and South Asian Association br Regional Cooperation (SAA.RC) among others. Regional integrations are essentially agreements signed between two or more countries in a region, that allow reduction or complete elimination of tariff and non-tariff barriers in the movement of goods. services, Labour and capital. Members of the regional integration cooperate as the ease in trade or other common objectives benefits them.

Regional Trading Agreements and India

Over the years. several trading agreements have emerged providing benefits to its member countries. A whole host of agreements from preferential trading agreements to economic unions have been formed. ranging from small trading blocs to as large as European Union. This section discusses few major trading agreement between countries.

I. European Union

The European Union is a supranational organization of European countries. It came into existence when 27 countries of the European regions ratified the Maastricht Treaty in 1993. Post the World Wars. it was left that forming e regional integration or a grouping would not only improve commercial relations in the region but also ensure that wars and conflicts between European countries ere averted future. Europe had a history of wars within its counties and therefore a regional integration had been considered as an antidote for future wars.

It was then that two major commercial and vade related groupings were formed between France, Germany, Italy. Netherlands, Belgium and Luxembourg in the 1950s. They were the following:

(a) European Coal and Steel Community

(b) European Economic Community

Over the years. the need was felt to include other nations and also extend the benefits derived from the two above groupings to other areas of public policy, trade among others This is when, after much deliberation and thought, the idea of European Union was mooted.

II. North American Free Trade Agreement (NAFTA)

North American Free Trade Agreement (NAFTA) came into effect Wi 1994. It is one of the world's largest free trade areas Its members include United States of America. Canada end Mexico. It works towards economic growth and rising prosperity in its member countries. NAFTA has demonstrated that free trade can increase wealth, bring in competition end deliver benefits to farmers, workers. manufacturers and consumers. 5inçe its inception. NAFTA has systematically eliminated most tariff and non-tariff barriers in the movement of goods and services. It has also allowed for freer investment amongst its members.

NAFTA is a comprehensive free trade agreement k clearly sets rules for commercial trade and investment) activity between the three members. It comprises of 22 chapters spread across eight sections. This agreement includes rules for market access for goods. protection for foreign investment, protection of intellectual property, access for government procurement easier travel for business and leisure travellers, rules of origin including commitment for labour and environment protection. NAFTA has several institutions that ensure that all countries interpret the agreement's provisions arid implement them in action and spirit.

III. South Asian Association for Regional Cooperation (SAARC)
The South Asian Association for Regional Cooperation came into effect in 1985. The intent was to create a regional cooperative framework. It initially had seven members namely Bangladesh Bhutan. India. Nepal. Maldives, Pakistan and Sri Lanka. Afghanistan joined in 2007. Hence SAARC now has eight members. SAARC has nine Observers nations). which include China Republic of Korea, European Union, Iran, USA Myanmar. Australia. Japan and Mauritius It is headquartered in Kathmandu. Nepal.
SAARC has some guiding principles for its orderly functioning. They include the principle of individual sovereignty (no member interferes in the internal matters of others). political independence. complementing bilateral and multilateral agreements (not replace them) decisions to be taken by consensus and avoid all bilateral issues as part of SAARC deliberations.

Global Sourcing – Introduction, Concept, Challenges Advantages (Indian Context)

Introduction
As global demand increases for more and improved quality goods and services. competition among suppliers for goods and services has intensified. Firms compete amongst themselves to grab market shares Globalization forces firms to compete not only with domestic firms but also foreign firms which operate in a country. For survival, firms must

Global Sourcing: Concept
The need for firms to achieve cost efficiency forces them to procure (or source) raw material intermediate goods from market beyond their geographical boundary This is known as global sourcing. The objective of global sourcing is to explore all possibilities to achieve lower labour cost, cheap raw materials. enjoy tax Incentives or low trade tariffs.

International businesses need to take into consideration that ignoring the idea of sourcing from other countries can be cost inefficient and often devastating for competiveness At the same time challenges of global sourcing can be immense.

Walmart, one of the biggest supermarket chains globally sources some of its products. It firstly. identifies products that can be used throughout the world, Secondly.. Walmart determines which best-in-class suppliers can supply quality products at a low cost and can be efficient at development of new products and replenishments in walmart stares worldwide.

Advantages of Global Sourcing

Benefits derived from global sourcing can be understood from the perspective of the buyer and the global supplier.

1. Low Cost of Production: Most profit seeking firms move their labour intensive stages of production to developing countries which have comparatively cheap Labour. This lowers the cost of production significantly. if big firms want to expand their production and sales, global sourcing and shifting production base is inevitable.

2. Superior Quality Products: Global sourcing provides firms the opportunity t, shift production Or obtain raw materials from countries which are good at that product. They may have the requisite skills the needed natural resources design technology or skills, It allows firms to harness the advantage of comparative cost for a particular stage of production.

3. Less Reliance on a Single Supplier: the presence of multiple global suppliers for a particular product or service ensures that firms do not rely on a single supplier.

4. Learning curve for Firms: As international businesses identify global suppliers they integrate with the global market This allows them to learn how to run businesses, identify a network of global suppliers and how to compete with rival firms.

5. Utilization of Production Capacity: Several firms which have smaller capacities, ran make use of global sourcing by outsourcing the production to 2-3 different locations in developing countries around the world. This way production capacities in developing countries can be effectively utilized.

6. Integration in Global Supply chain: Firms in developing countries by getting outsourced orders can effectively integrate in global supply chains. This allows then to benefit from world economic growth.

Challenges of Global Sourcing
Global sourcing has its set of advantages- But it also comes with its share of challenges and risks. Some of them are discussed below:

1. Poor Quality Products: Global sourcing Is usually spread across 2-3 firms in off shore locations in the absence of adequate monitoring of manufacturing process and communication, quality of products can sometimes deteriorate. Resolving issues might become time consuming.

2. Issues of Intellectual Property Rights: One of the biggest risks of producing abroad i illegal use of Intellectual Property Rights. Since manufacturing firm may be located thousands of miles away. keeping a check can be a challenge.

3. Monitoring of Cost not possible: Since the cost of production is managed and controlled by manufacturer. Arms located in developed countries may have to incur heavy monitoring costs to ensure that production is going as pa schedule.

4. Long Supply chairs: if the supply chain is long, sourcing can get affected due to transportation disruptions, global pandemics, policy changes, labour unrest etc. This will affect all the parties ¡n the supply chain.

5. Manufacturer priority may change: Firms have to always risk that a manufacturer may be supplying to more than one firm. in which case. his priorities of serving the other firm may change.

Global Sourcing and India: Opportunities and Challenges
Over the years. India has emerged as a hub for global outsourcing. The Indian industry dynamics has developed significantly and offers a mature global sourcing destination to the world.
Offshoring in India a process where global companies outsource complete production or a stage of production t India is now common practice. k was way back in 1985. when the first foreign company, Texas Instrument an American firm, established its operations in Bangalore. In early 1990s. several global IT companies also began its India operations. Since then, India’s outsourcing and offshoring industry has developed, evolved and matured to offer a wide range of options. India offers services in information Technology. Knowledge Process Outsourcing. Business Process Outsourcing. Financial services. engineering services and Research & Development to name a few. in fact. India’s dominance in sourcing of n’ and BPO services by global companies is well established.

Why Is India a Preferred Sourcing Destination: Advantages India Offers
There are a variety of reasons why India is a preferred destination for global outsourcing. Some of them are stated below

1. Talent Pool: India offers a wide talent pool, It stands out in the number and size of engineers doctors, semi-skilled, lawyers, chartered accountants and a large English-speaking work force.

2. Low Cost of Production: Considering the low wage structure ¡n India, relatively cheap land and other resource global companies are able to manufacture goods and services at a low cost. This brings ¡n cost efficiency in production.

3. Sociability : India has enormous room for development of infrastructure. It also has unutilized capacity. This allows companies to easily scale up their production.

4. Automation and Standardization: Indian services sector and medium scale manufacturing is highly automated and process driven, This brings in standardization in manufacture and delivery. Global companies seek offshoring in countries which can provide standardization.

5. Productivity is high: Labour and capital productivity is relatively high in India. Therefore, despite infrastructural inadequacies, global companies still prefer India for off shoring their activities.

6. Delivery excellence: It is also documented that operational efficiency is good In India. The delivery models used are also innovative. As a result Indian firms are able to deliver quality goods and services in a time bound manner.

7. Value: Indian firms believe in bringing value to their clients abroad and come up with creative solutions for a win-win situation.

8. Flexibility: Indian firms are known to be flexible. They adapt to changing dynamics. policy and cost structures relatively better than their foreign counterparts. This makes India a more attractive global outsourcing destination.

Global Outsourcing in India: Challenges Ahead
Though India is an outsourcing hub of the world both for goods and services the volume of global outsourcing falls short of its potential. Though challenges are faced for manufacturing of both goods and services, issues for manufacturing of goods are more than those faced for outsourcing of services.

1. Data Security and Privacy Regulation : Data security arid privacy are foundations of the services sector. In the past. there have been several cases where Indian firms have sold data ta third party. This is illegal and unethical This instills trust deficit not only for the firm indulging in this practice. but in the complete services ecosystem. In fact, the number of data thefts and cybercrimes have increased significantly in India in recent times.

2. Infrastructure Inadequacy: India suffers inadequate infrastructure. This creates obstacles for firms to reach their full potential.

3. IPR Issues: Protection of Intellectual Property Rights has not been very strict in India, This dissuades global firms to produce in India as a large chunk of incomes for firms comes from intellectual property.

4. Archaic Labour laws: Labour laws in India are not only archaic but also inflexible. It is believed that labour laws are more labour centric and involve a high cost of hiring and firing. Several labour laws overlap each other while some of them contradict one another. This makes labour hiring very expensive. This is one of the main reasons why some foreign companies hesitate to invest in labour intensive industries in India. despite low wages.

5. Enforcement of Contracts: India ranks low in the ease of enforcing contracts as per World Bank report of Doing Business in India. The judicial system is slow in resolving commercial disputes.

6. Land Acquisition : Difficult Land is a state subject in India. Moreover, land acquisition draws both social and political temper. Therefore, acquiring large tracks of land is a challenge.

7. Gradual Increase in Production : Coat Maturity of outsourcing industry a conducive ecosystem has gradually given way to higher costs of production owing to resource constraints.

8. Constant Scrutiny: Captive firms are under strict constant scrutiny from their parent firms. Indian firms must deliver diligently and work constantly under pressure and threat of losing their business.

9. Impact of Global Crisis: Global outsourcing integrates Indian firms in the global supply chains. Intense integration however exposes Indian firms to risks associated to global crisis. Crisis in countries where global firms are located will affect captive Indian firms.

Composition and Direction of India’s Foreign Trade since 2000.

Composition of India’s Trade
Composition of trade of any country shows the goods and services that are imported and exported. k is good indicator of the level of economic development of a country. Generally. less developed countries with a lower level of economic development tend to export maw material, primary agricultural goods whereas developed countries which are at a high level of economic development export machinery, technology and finished products.
A study of a composition of a country’s international trade speaks volumes of their level of infrastructure, economic development and development pattern.
Post the independence in 1917. India’s foreign trade has evolved from exporting of primary goods and importing heavy machinery and technology, to exporting services and automated goods and import of need-based technology and crude oil.

Direction of India’s Trade
Direction of trade of any country shows which countries are traded with. In other words where are the goods and services being imported from and which are the countries to which goods and services are exported. Diversification of trade directionality is preferred as It provides a broad base to trade with. It also Insulates a country from potential crisis in a particular trading partner if trade gets disrupted. Should need arise, trade can be diverted to other countries.

Case Studies in International Business with reference to Indian Economy

Case studies in International Business are actual examples of how companies have dealt with real business challenges in marketing their goods and services, with finances, human resource management strategic management and ethical issues. Real examples showcase a true scenario that engages the audience to think how they could solve real life problems had they been part of the management of the company.

The short case studies n international business with reference to the Indian economy are within the following areas:

> International Marketing
> International Finance
> International Human Resource Management
> International Strategic Management
> Ethics in International Business

The Case studies have been adapted from real life corporate problems faced by international businesses in India.