PGDM, 2020-22

Global Business Environment

DM-302

Trimester – III End-Term Examination: April 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the Answer Sheet. All other instructions on the question paper / notifications should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered	3*10	30
B	Compulsory Case Study with minimum of 2 questions	2*10	20
			50

Section A

CILO1

1a. Why should a country with absolute cost advantage in all products should go for bilateral trade agreement with another country with cost disadvantage and still expect a win-win situation for the both?

Or

1b. In many regional trade agreements today, negotiations go beyond tariffs to cover multiple policy areas that affect trade and investment in goods and services, including behind-the-border regulations such as competition policy, government procurement rules, and intellectual property rights. Elucidate the various classification of regional economic integration citing example of each type.

CILO2

2a. How and why the principles of “Nationality” and “Territory” are respected by the comity of nations in the background of different countries practicing individual sets of rules and regulations?

Or

2b. Protectionist policies have been implemented by many countries despite the fact that virtually all mainstream economists agree that the world economy generally benefits from free trade. Elucidate the case for government intervention and throw some light on the various instruments of protectionist trade policies.

CILO3

3a. Given the global economic scenario in present times and the near future, it would be in India's interest to dispassionately review its position on RCEP and carry out structural reforms that will help India to mitigate some of the repercussions arising from the RCEP. Throughout the RCEP negotiations, several sections of the Indian industry have raised concerns over India signing the deal. Throw some light on the same

Or

3b. How do you assess a country of your choice prior to concluding business relations with that country? You may substantiate your views with a select country [Group project].

Section B [Case Study]

India's $500-billion FDI milestone: Are there devils in the detail?

India's $500 billion Foreign Direct Investment (FDI) equity inflows milestone arrived theatrically at a time when good news is rather slim. It took us no less than two decades to get here, but the 13% growth in FDI during April-September at the peak of Covid-19 and despite 2020 being a crazy year, deserves one long boast. India's Foreign Direct Investment (FDI) saw a significant jump in November 2020. FDI data released by the Commerce Ministry shows that total FDI in the month of November 2020 grew by a whopping 81 per cent to USD 10.15 billion against USD 5.6 billion in November 2019. FDI equity has also jumped to USD 8.5 billion as against USD 2.8 billion in November 2019, registering a growth of 70 per cent. India has attracted total FDI inflow of USD 58.37 billion during April to November 2020. It is the highest ever for the first eight months of a financial year (F.Y.) and 22 per cent higher as compared to the first eight months of 2019-20 (USD 47.67 billion). FDI equity inflow received during F.Y. 2020-21 (April to November 2020) is USD 43.85 billion. It is also the highest ever for the first eight months of a financial year and 37% more compared to the first eight months of 2019-20 (USD 32.11 billion), the data revealed.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows alone jumped from $23 billion in 2000 to $500 billion now. The government, which took a victory lap, maintains that there's a growing interest among overseas investors and that India will be the most attractive emerging market in 2021. But the details on the dashboard begs the question whether the foreign investor momentum is all it's cracked up to be? That's because of the $40-billion FDI during April-September, $10.2 billion came from one single source -- the Reliance Jio-Facebook deal. Besides, Reliance Retail too brought in a bonus $1-2 billion, but such big-ticket deals aren't commonplace. Will India remain right in the wheelhouse depends on the extent of the economic slowdown, the government's willingness to spend and reform and the subsequent pace of recovery. Even assuming $100 billion FDI comes in the next two years, it translates to a mere Rs 8 lakh crore or a tiny proportion of the Rs 110 lakh crore needed as an investment for a $5 trillion economy, or Rs 375 lakh crore of GDP, according to Care Ratings. It means, higher FDI is a pre-requisite as it's a major non-debt financial resource and comes via four broad components -- equity (through automatic route or by approvals), equity capital flows into unincorporated bodies, reinvested earnings and other capital.

Notwithstanding the slowdown in FY20, FDI inflows touched $73 billion, registering a high-teens 18% growth. A year before, in 2019, India was among the world's largest FDI recipient countries and as FDI inflows jumped to $51 billion, our global ranking improved from 12th slot to under-10. But it hasn't been a smooth ride all the while. Growth in FDI inflows fell to 8% in FY17 and slid further to 1.2% in FY18 only to recover marginally to 1.7% in FY19. In fact, during troubling times such as FY10, FY11 and FY13 when the global economy was reeling under the financial crisis, FDI inflows took a severe knock contracting by 10%, 0.8% and 26% respectively.

In line with the trend, as Covid-19 wreaked havoc globally, FDI in Q1 of FY21 plunged by 60% to $6.5 billion. India's performance was worse than the global projections by the UN Conference on Trade and Development (UNCTAD). Things only took a turn for the better thanks to the underlying belief of investors in the strength and resilience of our economy.

But even as FDI inflows began to look up, Foreign Portfolio Investors (FPIs) offloaded $14 billion from the Indian bond market so far in 2020. That's the largest amount sold in a single year to date. Still, analysts won't worry much as FPIs invest in financial assets of a foreign country and heavy outflows are likely to be viewed less favorably than a fall in FDI as the former can be sold off quickly to make money. 96.47% FDI inflows in the last five years have gone to just six cities namely Mumbai, New Delhi, Bangalore, Chennai, Ahmedabad, and Hyderabad.

Meanwhile, a draft paper for presentation at the 13th All India China Studies Conference (AICC) to be held next month notes that India hasn't been able to realize its potential as an FDI destination over the last three decades despite successive liberalization of sectoral caps and projecting the attractiveness of its domestic market. For instance, India only managed to attract $49 billion FDI in 2019 despite a 16% increase from 2018 compared with $75 billion received by Brazil.

It also cites the uneven concentration of FDI across the country with a staggering 96.47% FDI inflows in the last five years going into just six cities namely Mumbai, New Delhi, Bangalore, Chennai, Ahmedabad, and Hyderabad. Ditto with sector allocations with the services sector getting a meatier chunk followed by computer software and hardware, trading and real estate sectors collectively accounting for almost 40% FDI.

Case questions

Q1(CILO2) What are the factors in India’s FDI boom? How likely is it to continue? (10)

Q2(CILO3) FDI is a major driver of economic growth and an important source of non-debt finance for the economic development of India. Do you agree? Give reasons. (10)