

PGDM (IB) 2017-19
International Trade & Investment
IB -104

Trimester – I, End-Term Examination, September 2017

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

SECTION A

Note: Attempt any 3 questions

1. Explain with the help of Theory of Absolute Advantage how trade is beneficial for countries that have absolute advantage in producing any item.
2. Discuss the following schemes of Foreign Trade Policy (2015-20)
 - a. Duty Drawback
 - b. Merchandise Exports from India Scheme (MEIS)
 - c. Deemed Exports
3. "Knowing ITC(HS) code and CIF value is important for determining custom duty levied on imported goods in India" Explain. Also discuss the various components of custom duty levied on goods imported to India.
4. Discuss various types of risks associated while dealing in foreign exchange. What strategies should be followed to mitigate these risks?
5. Discuss in brief the challenges faced by Indian Leather industry and steps taken by Indian Government to promote export of leather goods from India.

3X5 = 15 Marks

SECTION B

Note: Attempt any 2 questions

1.
 - a. Discuss the characteristics, functions and types of transactions in foreign exchange markets.

5 Marks

b. New York Bank
USD/JPY 110.25/111.10
USD/AUD 1.6520/1.6530
Sydney Bank
AUD/JPY 68.30/69.00
Is there an Arbitrage opportunity?

2.5 marks

c. EUR/JPY spot: 124.55 / 124.65
1 month swap: 230 / 220
What will be the forward rate?

2.5 marks

2. "With the implementation of GST, India's trade cost structure with major importers in the world is expected to drop by 2-3 percentage points every year in the first 3 years". In light of above statement discuss in detail the impact of GST on Indian exports and imports.
3. Discuss in detail the characteristics of Indian Gems and Jewelry Sector, major export markets, challenges faced and steps taken by the government for improving the export performance of the sector. What do you think should be the strategy for future growth?

2X10=20 Marks

SECTION C

Note: Case study is compulsory

15 Marks

Escorts Agri-Machinery (Tractors) Business in Africa

Introduction

Rajiv Kumar, Head of Exports, Escorts' Agri-Business Division was as usual in his office till late in the evening after a busy day of events. However it was a special day in his career at Escorts. It was also in many ways extraordinary for the Exports department of Escorts Agri-Business division. Escorts had become recipient of a very prestigious award for 'Best Exports' in a specific category from Engineering Export Promotion Council (EEPC), India. Rajiv was exalted. Escorts' Agri-Business division had done exceptionally well in exports in the financial year 2010-11 recording an increase of 25% revenue in comparison to previous year. Total exports from Escorts stood at Rs 1850 million.

Expansion in Africa

When Rajiv took charge of Exports division in 2004-05 bulk of the export of tractors was directed to the USA followed by Poland. Rajiv was aware that there was a huge

opportunity for Escorts in Africa. Many countries in Africa were doing well on economic front and governments in Africa were taking keen interest to develop self sufficiency in agricultural sector. Rajiv also knew that most of the land in Africa was very fertile that was suitable for farming and this was also attracting investors from different parts of the world to start farming by way of getting huge tracts of land on lease. He decided to venture into this new territory in big way, but then he was also aware that penetrating Africa market would not be easy.

The next question to which Rajiv had to find answer was the mode of entry into the African market. He conducted series of meetings with managers in his division and made field visit to many African countries. The two options that appeared feasible to him were either to start its own venture into Africa by way of exports or start its assembly line. However, due to relatively low experience of African market and higher political risk, it was decided to enter into the market by way of export.

After conducting research of the African market, Rajiv found that there were two segments that appeared quite distinct.

1. Retail Sales:

Entry into this segment was possible by way of appointing a dealer in each of the countries where it wanted to enter. However this was also difficult as chances of default in Africa were very high. In order to safeguard its interest, the company had to take a very tough decision of not exporting tractors on credit. Rajiv recalls that he made it a rule. While appointing a dealer, due care was taken to check his credibility.

2. Institutional Sales:

Rajiv on his visit to many countries found that the governments of many African countries was running self sufficiency program for food security. Under this program they purchased tractors from reputed companies and sold them to farmers. For example Ghanaian Government purchased 1,000 tractors every year which it sold to farmers at 50 % down payment and rest to be paid back as loan.

In another situation, Lines of Credit (LOC) created opportunity for Escorts. In fresh agreement with Tanzania in March 2012, EXIM Bank provided LOC worth \$36.5 million for long term (10-20 years) in various sectors including machines and equipments. Government of Tanzania taking advantage of LOC sells tractors at 20 per cent down payment to its farmers. This created opportunity for Escorts to sell its tractor. Under the

arrangement Escorts was able to sell about 2000 tractors in Tanzania through Government of Tanzania(40 mil USD) and this being World's largest single deal for tractors that included about 2000 tractors and various implements, irrigation pumps and power tillers.

After Sale Service and Availability of Spare Parts

Since tractors are mechanical products so after sale services and availability of spare parts is very critical. Escorts at its training institute in Bangalore impart training to technicians under "Train the Trainer" program for 15 days. These technicians then are sent to places where the tractors are sold and in turn the training is provided to the users.

Rajiv also understands that not only the tractors but also there are huge market for spare parts. Based on usage a properly designed document has been provided to the user which tells them about the replacement of spare parts after a certain time period. Based on the requirements these spare parts are shipped to different places. Rajiv also ensures that there is no delay in sending these spare parts.

Rajiv decided to continue retail sales on slow pace and thought that their presence in the market in long run will going to give them substantial results. He decided however to crack the institutional sale market. He started meeting government officials in different countries and started attending seminars and conferences in India and Africa which also gave him an opportunity to build relationship with government officials of these countries. Rajiv familiarized with the system under which African governments gave contracts for supplying tractors. In most of the cases it was by way of tenders that contract was awarded. He also started understanding the Public Procurement Regulatory Act of countries in Africa which governed the procurement by Governments of these countries. He also started understanding the working of Tender Evaluation Committees which were evaluating tenders on different parameters.

Trade Operations

Escort tractors are manufactured in Escort factories located in Faridabad in the state of Haryana. Faridabad, a small town in 1947 earned its reputation because of Escorts. All around one could see small units coming up to support Escort in supplies of parts and sub-assemblies. It is ranked today the second largest city of the state. Haryana is a land locked state and final shipment takes place from JNPT Port of Mumbai. Escorts has

taken permission where factory stuffing of goods is allowed and it is not required to take the goods to Inland Container Depot (ICD) for stuffing. The goods from the factory are moved by rail to port at Mumbai. This involves huge cost in transportation. These tractors are shipped in Semi Knocked Down (SKD) form so that one container can carry more number of tractors.

The worries before Rajiv

The Export Award has brought honor to Escorts and direct recognition to Rajiv who has engineered the award for his company. The recognition has also brought new challenges. Sustainability needs growth and Rajiv must discover new ways to grow. Although Rajiv has been successful in increasing the exports of the company by 50% in 2010-11 but at the same time he also sees problems ahead. The African market is not behaving consistently, many countries like Madagascar, Sudan, Nigeria, Ethiopia and Algeria where exports have been fluctuating. There is no steady market demand. The competition is intense: it is not only from all the five major tractor manufacturers based in India, but also from erstwhile Soviet bloc countries. African population cannot afford to pay the high costs. How should he reduce the cost in general and of supply chain in particular? Rajiv is worried as the cost of transportation has become quite significant. Rajiv is also worried about how to expand the retail market in Africa.

Questions

- a. Develop strategy for Escorts to expand in Africa
- b. What recommendations would you like to make to Escorts to reduce costs in Africa?
- c. What strategy would you adopt in Africa to increase and stabilize
 - i. Institutional Sales
 - ii. Retail Sales