

PGDM (IB), Batch 2015-17
International Trade and Investment
IB-104
Trimester-I, End-Term Examination, September, 2015

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 Comparative Advantage how trade is beneficial for countries that do not have absolute advantage in producing any item.
2. Discuss the following schemes of Foreign Trade Policy (2015-20)
 - a. Advance Authorisation
 - b. Merchandize Export Incentive Scheme (MEIS)
 - c. EPCG Scheme
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. Recently Chinese currency Yuan has been devalued. Using suitable theories and examples explain how will it impact India's International Trade?
5. What is Balance of Payment? Explain various components of BOP and bring forward the recent issues related to it.

3X5 = 15 Marks

SECTION B

Note: Attempt any 2 questions

1. "New Foreign Trade Policy (2015-20) aims at making India a significant participant in world trade by 2020, promote diversification of export basket, gain global competitiveness, expand markets and better integration with major regions" In light of above statement discuss the major changes brought about in the new policy in terms of new schemes, ease of doing business and benefits for

EOUs. Do you think these are sufficient to meet the challenges that Indian exports are facing?

2. "With the implementation of various industrial developmental programmes as well as export promotional activities; and keeping in view industry's inherent strengths, industry compliance to international environmental standards, the Indian leather industry aims to augment the production and thereby enhance export." In light of above statement discuss the recent export performance of Leather sector, profile of major leather clusters, challenges faced by the sector and measures taken by government to support the sector.
3. Since 2011-12 export of Gems and Jewelry Sector has been continuously decreasing. Discuss the factors responsible for decline in exports and steps taken by the government. What do you think should be the strategy for future growth?

2X10=20 Marks

SECTION C

Note: Case study is compulsory

15 Marks

GOC Fashion Private Limited- Challenges in International and Retail Expansion

Saurabh Kathuria sitting in his office was happy to see his company's performance for the year ending 2013. The revenue for the financial year had grown by 15 per cent. He was happy to see that his decision of entering into domestic retail market along with exports had started showing results. The domestic sale was 48 per cent of total sales. He reminisced that four years ago in 2009 when he joined his father's garment export manufacturing firm, GOC, specializing in women garments, things looked grim. Financial health of the company was bad; its turnover had fallen from Rs. 333 million in 2005-2006 to Rs.143 million in 2010-2011. To understand company's current problems and decide on future course of action, soon after Saurabh took charge of the company in 2009, he called a meeting of the key personnel of his company. He also wanted to devise strategies to improve the performance in different export markets.

Challenges faced by the company

During the meeting with Saurabh the managers mentioned reasons for declining sales. Vijay the head of marketing was concerned most about the rise of external competition, "*It is becoming next to impossible to compete with the likes of Bangladesh*" was his opinion

Rise of external competition

First decade of 21st century saw the rise of new Asian giants in the apparel export industry. Until then China had enjoyed a large market share. During this period China's hold over the US and the EU markets started loosening; India was widely seen as the alternative destination for procuring garments by world market. But in the high-margin global export market for apparels, India started facing tough competition from competitors in Vietnam, Indonesia and Bangladesh. Due to low labour cost and availability of raw material for textile manufacturing, these countries were able to sell products at very competitive prices. Today India is seen as a supplier of intermediate products to other successful garment exporting countries.

The Global economy slowdown

Another factor that contributed significantly to problems of GOC was decline in the price of apparel in the world market. During the period 2008-09 prices decreased by almost 5-6 per cent for Indian Textiles in world market. This decline was primarily due to the slowdown in the economies of large importing countries in the West. The Western Europe which was a larger importer than the US was undergoing more serious problems. The US and the EU market have a major share of around 60 per cent in India's total textile exports. In the times of recession due to the Euro crisis¹ many countries such as Cyprus, Greece, Italy and Ireland faced severe economic crisis, due to which the exports of GOC were impacted negatively.

The problem of GOC was further accentuated as it was manufacturing and selling high value garments and this segment faced severest impact of recession. The consumers had started to move to the lower end segments in which countries like Bangladesh and Vietnam enjoyed cost competitiveness.

Rising prices of raw material and increase in wages

Pooja, Production In-charge at GOC mentioned,

"There was steep rise in the labour wages; the real wages in India has risen by 13 per cent during 2001-11. In last 5 years the labour and energy cost for GOC had grown at CAGR of 12 per cent and 5 per cent respectively. The case was the same for raw material prices and thus to offer products at the same price as Bangladesh, Vietnam where labour rates were almost one fourth that of India became nightmarish. Steep increase in the prices of synthetic and cotton yarn had hit GOC exports harder. Cotton prices had gone up by 20 per cent in last one month from Rs 48,000 per candy to Rs 56,000 per candy".

The buyer's market

Priya, another old employee of GOC said, "As our cost was increasing so I approached one of the UK based buyer, Fa-fusion to raise prices, they told us very clearly to manage the cost on our

own and not slip it to them otherwise they had alternate options. Something as low as 10 cents also becomes a bargaining matter for these retail global buyers, the buying price of T-shirts that are sold for \$50-\$60 in showrooms is only \$6-\$7 for these big brands"

Richa also added "With the rise of competition the bargain from the importers have started gaining more ground, the buyers have started haggling for amount as low as 2 cents and if their demand is not fulfilled, they will stop giving orders, take it or leave it has become the order of the world apparel market."

Priya further mentioned "Along with these whimsical demands we are also required to keep up with the stringent quality compliance of these brands. We can't make profits anymore."

Soon after the meeting got over Saurabh went into deep thoughts. Somewhere in his mind he was sure, the business could revive from local sales. He knew he had a very uphill task to perform but he was determined to revive the company. He gradually started taking steps for reviving the company

Measures taken by Saurabh

Expansion into newer markets

Saurabh after conducting preliminary research found that besides the US and the EU, there were opportunity in other countries as well. South American countries, Australia, Russia, Brazil, Japan, and Middle-East countries were becoming keen to source from India.

Saurabh after identifying opportunities that existed in different newer markets finally decided to target Middle East countries. Though there were other potential markets as well but the company decided to venture into new markets one by one.

Technology Up gradation

GOC till now has not considered investing in acquiring new technology, spending funds on technology was not its priority, but Saurabh knew that the gains in future could offset the cost incurred in acquiring technology. He brought in several new innovations relating to information technology (IT).

Quality control measures

Saurabh noticed that there was a steep increase in defective garments (Exhibit 10). He knew that to get credibility among the buyers it is very important that their orders are met without any quality defect. He says, "In these competitive times even correct positioning of the hand tag is important." Saurabh held meeting with the managers of manufacturing and quality control department and identified main causes of garment defect and discussed the systems to be followed to minimize the defects.

Saurabh introduced reforms in quality control system; firstly instead of one final inspection towards the end rejecting the garment wholly, he initiated quality check at every stage. A simple improvement like cleaning of workplace and keeping the floor tidy helped a lot in reduction of defective garments. For reducing the quality related defects various quality compliance agreements were signed with the big retail chains.

Saurabh knew that bringing changes in the process to improve the quality and reduce defects is a continuous process, e.g., GOC has shifted to woven, knitted garments along with other fabrics such as viscose and poly viscose which were earlier imported from China.

Growing Domestic Market

Saurabh identified an opportunity in domestic market. The demand for ladies garments was on a rise. The rising demand for readymade garments in tier-II and tier-III cities was a major driver of demand for Indian garment industry. The most important segment was youth and working women. With the proliferation of Information Technology (IT) and Business Processing Outsourcing (BPO) units in India, women have become financially independent and have high discretionary power to spend their incomes on lifestyle enhancements, including the purchase of branded garments.

Revival of Global Market

Late 2012 started seeing a revival phase for the garment sector, there was a gradual revival of the US and the European markets. Depreciation of Indian Rupee provided cost competitiveness to the garment sector. Due to government's focus on diversification of Indian exports through foreign trade policy, and incentives provided under schemes like 'Focus Market Scheme', Indian garment sector started to explore new markets like, Asia, Africa, and Latin America and Common Wealth of Independent States (CIS) countries. This was also the time when US had removed its GSP² from Bangladesh over non compliance issues related to labour laws and security in its factories and this saw some garment business being diverted to India.

Designing Strategies for Domestic Market

Saurabh once commented, *"For the modern Indian woman fashion is a term synonymous with confidence, it just doesn't mean emulating what others are wearing but a sense of coming of age. These are the new age working woman who wish to make a style statement wherever they go, at the moment there is high penetration of tradition wear but the western wear is also slowly gaining ground."*

Launch of the retail brand 'Kaxiaa'

Retailing doesn't mean straight away going to the market with your product, planning becomes a key ingredient at this stage. Saurabh carefully studied the domestic market which was new for the

company, the existing players, and the price range that was being offered. Market was segmented on the basis of gender, income and geography.

The first step was to decide the name of the brand, "*We wanted a name which would sound modern and fashionable*". The brand Kaxiaa was launched in October 2013, the time when the festivities in India were at peak and people buy new clothes.

Way Forward

Saurabh is happy to see success of GOC; he had been able to bring it from a loss making firm to an organization with revenue growth of 20 per cent. But he knew that this was just a beginning, there was lot to be done to take the company forward, till then there was no presence of GOC garments in physical retail outlet. He was thinking of strategy for collaborating with any one of the multi brand retail outlets like Shoppers Stop, Pantaloons, Kapsons and Life Style. He was now in process of identifying the cities and location of stores in 15 small cities.

Saurabh knew that expansion into the retail market will give GOC natural thrust which is needed for growth. He is also worried about exports, which has not picked up as expected. He is looking at newer international markets for expansion; there were visible signs of revival in key markets of the US and the Europe. He also understands that real challenge in garment business is to meet the growing demand for better collections. Fashion trends presently were changing very fast and product life cycle was getting shorter. There were new brands entering the market everyday and existing players were also adding new products to their range. Saurabh was still undecided, whether he should concentrate on domestic retailing or take deeper plunges into the export market?

Questions

- Q1. Do a SWOT analysis for Indian Textile and Garment Industry
- Q2. What are the challenges before GOC in export and domestic retail market?
- Q3. What should be the strategies of GOC to enter new export markets/ expand its existing markets?