

## Issues Before Cancun

V L Rao\*

### Introduction

In some quarters there is apprehension whether the fifth Ministerial Conference in Cancun in September 2003 would prove successful. The main reasons for this include:

- i. There are too many issues requiring attention;
- ii. Many of the issues showed poor progress so far; and
- iii. The concerns of the developing countries have not been given adequate attention.

In April 2003, the Director General of WTO <sup>1</sup> warned against the risk of overloading the Cancun agenda. He said that some key issues will be discussed at Cancun, viz.:

- The Singapore issues (viz. transparency in government procurement, trade facilitation, multi-lateral rules on investment, and competition policy)
- Modalities on all market access negotiations
- Development issues that include TRIPS and Public Health, special & differential treatment, and implementation issues.

In this paper we discuss the issues before Cancun and draw some conclusions.

### The WTO Road Map

From 1948 to 1995 (the years in which the GATT and WTO respectively were established), and through the Singapore Ministerial Conference in 1996 to the launching of Doha Development Agenda in 2001, the road has become crowded as more and more issues were added to the negotiations.

Two points are noteworthy:

- i. While the path got crowded, implementation was slow to the dissatisfaction of the participating countries. If the deadlines agreed at Doha were met, there would be much less pressure on the Cancun Meeting. The most notable example of missed deadlines is the 31 March 2003 deadline for establishing 'modalities' in the agricultural negotiations.
- ii. Hoekman pointed out that the trade policy market is a barter market, where market access commitments are exchanged on a reciprocal basis - exchanging apples for oranges.<sup>2</sup> For example, tariff reductions by one member on one product are exchanged for foreign market access commitments regarding another product. Therefore it is no wonder that operating in the trade policy market is so difficult. The major task now is to find a suitable medium of exchange to make the market more efficient.

### Developing Countries' Position

Twenty six developing countries, including India, presented a joint communiqué to the informal meeting of the Trade Negotiations Committee on June 10, 2003.<sup>3</sup> The communiqué touched upon the process as well as the key areas of negotiations. The communiqué states that the following elements enabled success at Doha and are still essential to bring the negotiations to a fruitful conclusion.

**Development Dimension:** Development concerns of the developing countries need to be central to the negotiations.

**Balance:** As agreed in Doha, balance has to be sought across the entire understanding, without trying to isolate specific sectors.

\* Professor of International Economics, GITAM Institute of Foreign Trade, Visakhapatnam.

**Transparent Process:** All members should participate in the decision making process to bring the Doha Development Agenda to a successful conclusion.

The communiqué has emphasized several issues which include the following:

- Resolving of implementation-related issues and concerns
- Special and differential treatment to the developing countries
- Concrete results on the development issues
- Trade-related assistance and capacity building in developing countries, in particular least developed countries
- Reduction or elimination of export subsidies and domestic support to agriculture in the developed countries
- Establishment of modalities that include the interests of the developing countries.

### India's Views

India has participated in and convened meetings preparatory to the Cancun Meeting. India's views on the Doha Work Programme and the agenda for Cancun are being expressed in different fora. For example, in the informal meeting of WTO trade ministers in June 2003 in Egypt, India cautioned on Singapore issues stating that the structure and content of these issues are still unclear, and hence, has reservations about entering into negotiations of any kind without a full understanding of the nature and structure of the agreement that would result from such negotiations. Elaborating on this, the statement said that it is not clear whether the scope and definition of investment is confined to foreign direct investment that contributes to trade or whether it includes portfolio investment and other short-term capital flows.<sup>4</sup>

### Conclusions

Clearly the agenda at Cancun needs to focus on select issues having particular reference to the development concerns of the developing countries. It is to be seen how the WTO would balance the conflicting interests

of the developing and the developed countries, as we approach the Ministerial Meeting in September 2003.

To put an end to continued speculation on the possibility of extending the deadline for the Doha round, efforts should be made before and during the Cancun Meeting to arrive at a consensus to stick to the December 2004 deadline.

### Notes

<sup>1</sup> In his speech to the International Monetary and Financial Committee ([www.wto.org](http://www.wto.org) >wto news)

<sup>2</sup> Hoekman, Bernard, "The WTO: Functions and Basic Principles," in B. Hoekman, et al. eds., *Development, Trade, and the WTO: A Handbook* (World Bank, 2002. [www.econ.worldbank.org](http://www.econ.worldbank.org)).

<sup>3</sup> "The Doha Agenda: Towards Cancun" ([www.southcentre.org](http://www.southcentre.org)>info>southbulletin)

<sup>4</sup> Government of India, Press Information Bureau, Press releases, 23 June 2003 (<http://pib.nic.in>).

*"The need to reach a balanced final agreement to the Doha Development Agenda has become vastly more urgent given the current atmosphere of political and economic uncertainty. Progress under the Doha Development Agenda will signal a global commitment to reinvigorate a slowing world economy, and, importantly, will underscore the primacy of international cooperation as the basis for finding solutions to the world's common concerns."*

- WTO Annual Report 2003  
([www.wto.org](http://www.wto.org))

# Foreign Exchange Rates and Purchasing Power Parity

By CV Ratnababu\*

## 1. Introduction

The exchange rate of a currency is defined as the rate at which the currency of one country is exchanged for the currency of another country. For example we can buy US dollars (USD) by paying Indian rupees at the rate of Rs.47.67 per each USD subject to satisfaction of the Exchange Control Regulations.

The foreign exchange rates of the Indian Rupee (INR) vis-à-vis USD, Euro etc. are market driven with Reserve Bank of India guiding the movements of the currency. In the short-run the exchange rates are dependent primarily on demand and supply factors concerning each currency, the macroeconomic news, the central banks exchange rate policies, domestic monetary policies, international capital flows etc.

However, in the long run, it is widely acknowledged that the exchange rates of the currencies are driven by "Purchasing Power Parity" or in short PPP. To illustrate the concept, let the price of a good imported from the US and expressed in Indian rupees be denoted as P (INR). Let the price of the good in USD vs P (\$). Then  $P(\text{INR}) = e P(\$)$  where exchange rate  $e = \text{INR}/\text{USD}$ . From this it can be seen that 'e' =  $P(\text{INR})/P(\$)$ . This shows that the exchange rate is equal to the ratio of prices which is the PPP. In other words, if PPP holds, then percentage change in the exchange rate must equal the inflation rate differentials between the two countries.

## 2. The PPP Theory

According to the theory of the PPP the equilibrium rate of exchange between two currencies is determined by the ratio of their purchasing powers. This means that the exchange rate between two countries should equal the ratio of the two countries' price

levels of fixed baskets of goods and services. Accordingly, the unit of local currency should have the same purchasing power abroad as given by the exchange rate.

### 3.1 The Absolute and Relative Versions of the PPP

The above mentioned example is the absolute version where one can arbitrage goods and services market whereas in the relative version of the PPP we will also consider the inflation rates between the countries into account. For example, if the inflation rate in India is 4% and in Britain 1% the value of the British Pound has to increase to equalise the prices in both the countries. In other words, as per the PPP, the currencies with high rates of inflation should depreciate relative to the currencies with lower rates of inflation.

### 3.2 The Law of One Price(LOP)

The absolute version of the PPP is based on the Law of One Price (LOP), according to which the arbitrage opportunities arising out of the price differentials of similar goods in different countries will bring about the equilibrium which leads to the PPP.

### 3.3 Some Caveats

There are four caveats to the PPP and they are :

1. In case if the transportation logistics and management costs are significant, the PPP hypothesis may not work.
2. There has to be free movement of goods and services for the PPP theory to be valid. In the event of trade barriers and high tariffs the PPP does not give the real picture.
3. The law of one price applies only to the tradable goods. In case of non-tradable goods that cannot be exported nor traded, the law does not hold good.

\* The author is an officer in a public sector bank, Visakhapatnam. The views in this paper are entirely those of the author and do not necessarily reflect those of the bank.

4. In case of differences in tastes and preferences of consumers in the different countries, the PPP may not be applicable.

For instance, suppose the price of a video camera in USA is US\$ 30 and in India it is sold at Rs. 1500. If the exchange rate is Rs.50 per one USD, then price in USA and India are said to be the same. However, if the exchange rate is Rs.45 the LOP will come into play. There will be more import demand for cameras from India and the price tends to increase. Simultaneously, the decreasing supply of cameras in USA may lead to increase in the price so that the new equilibrium price will be such that there will be no arbitrage opportunities available. The only difference between the LOP and the PPP is that the LOP is applied for the individual goods and services, whereas the PPP is applicable to the economy as a whole.

#### 4.1 Exchange Rate determination and the PPP

Profit seeking individuals buy goods in the cheaper markets and sell them at higher price elsewhere to make profit. However, as per the PPP the long run prices of goods will be adjusted and the LOP will prevail. Adding twist to the above rule is the exchange rate determination. In the above example, more cameras are imported to India as the price of camera is Rs.1500 and the exporter from USA can carry US \$ 33.33 considering for a movement that there are no transaction costs. Where as a camera is sold for in USA at US \$ 30.00 only thereby he is making an extra profit of US \$ 3.33. However more imports into India will put pressure on INR/ USD rate as there is greater demand for USD. This will lead to new equilibrium price of INR/ USD. In short, changes in the demand for and supply of goods and services as per the theory of LOP will be reflected in the exchange price of the two currencies.

#### 4.2 The NEER and the REER

Nominal effective exchange rate (NEER) is the actual rate at which one can buy and sell a currency in the foreign exchange market. The real effective exchange rate is the nominal effective

exchange rate adjusted for changes in the relative purchasing power of each currency since some base period. Generally, the difference between the NEER and REER over a period of time is the difference in the inflation rates of the two countries.

#### 5. Traded and non-traded goods and PPP

It is generally accepted that in the high income group of countries, labour productivity is very high and therefore the cost of labour there compared to that in the low income group of countries is low. This difference will be reflected in the prices of non-tradable items like housing and services which cannot be exported. In the process, there arises a wide gap between the prices of those goods and services between the high income and the low income groups of countries. In poorer countries, labour intensive services are relatively cheaper when compared to those in the rich nations, but the PPP theory does not apply to these services as they are basically non-tradables.

#### 6. Empirical evidence on the PPP Theory

**6.1 The Short – run :** Several research studies emphatically established that in the short-run there is very little evidence to suggest that the PPP prevails. This is because of several factors affecting the exchange rate movements. For example, increase in the oil prices will be reflected almost instantaneously in a country's import bill depending on the quantum of oil imported to meet their requirements. In fact, the exchange rate movements will reflect the movements in the (general) purchasing power of all the goods and services and not necessarily in the PPP value alone. Secondly, if the basket of goods under consideration include non-tradable items, then the PPP may not hold good, particularly in the poor nations in comparison to the rich nations.

#### 6.2 The Long - run

It has been shown empirically that, in the long run, the PPP holds good as the adjustment of prices takes place in the respective goods and services markets. In the words of Gustav Cassel

“given a normal freedom of trade between two countries A and B, a rate of exchange will establish itself between them and this rate will, smaller fluctuations apart, remain unaltered as no alteration in the purchasing power of either currency is made and no special hindrances are imposed upon the trade.” He further added that there will be a new PPP. If there is any change in the inflation rates of both the countries, the exchange rate is adjusted to reflect the new PPP.

### 6.3 The Productivity bias and PPP

In the long run exchange rate is determined by several factors like changes in relative prices of tradable and non-tradable commodities, growth of economy, current account balances, deficit financing etc. In addition, as per the Balassa-Samuelson effect, the productivity growth of the economy is also a key factor. Therefore, productivity growth, terms of trade, government expenditures, current account balance etc. all will have a bearing on the exchange rate determination in the long-run.

In the fast growing economies, the productivity growth in the traded goods sector will be high and this will result in the real exchange rate appreciation vis-à-vis the slow growing economies. Several studies have shown the evidence that the superiority of the consumer price index over the wholesale price index, for measuring the productivity bias, has been confirmed.

### 6.4 The PPP in the Indian context

A recent study by Renu Kohli hypothesized about the mean reversion behaviour of the REER. Empirical evidence on the INR/USD after the Indian currency was made current-account convertible has indicated that the responses of the REER to NEER and to the short term disturbances as part of the macro-economic adjustment process confirms the mean reversion behaviour.

The study further revealed that the real exchange rate of the INR to USD as base currency exhibited a greater tendency to display mean-reversion than vis-à-vis other currencies in the long-run. In this context it was conjectured that it may be worthwhile to explore the Balassa-Samuelson effect of the productivity growth

as a key economic factor influencing the REER, in the verification of the PPP theory

## 7. The valuation of the GNP Per Capita

As per the World Development Report, the World Bank shows that GNP per capita income of India in 1992 was USD 310 whereas according to the PPP the per capita income was USD 1210. As per the PPP, the per capita GNP is almost 4 times that of the actual per capita income. Similar differences of per capita income were minimal in case of developed countries such as Japan, Germany, USA, UK, and Australia. The table below reports these differences :

**Table : Two Valuations Of GNP Per Capita**  
(G N P/capita, 1992)

Country	Method 1:	Method 2:
actual rates in USD		PPP rates exchange rates in INTL Dollars.
Japan	28190	20160
USA	23120	23240
Germany	23030	20610
UK	17790	16730
Australia	17260	17350
China	470	1910
India	310	1210

Source : World Bank, World Development Report 1994, p. 162, p. 220

As per the above example, the value of the currency of a country can be calculated in two different ways - 1. from the actual nominal exchange rates and 2. from the PPP rates. The difference between the actual rate and the PPP rate is minimal in the case of the developed nations, whereas there is a wide gap in case of the developing countries such as India. The above example shows the fact that the PPP holds in the long run for the developed countries whereas it has limitations, in applicability particularly, when it comes to the developing nations. The nominal effective exchange rate in case of developing countries is generally an inappropriate indicator of the PPP rate.

## 8. The limitations of the PPP

1. According to the theory of the PPP, there is a direct relation between the purchasing power of a currency and the exchange rate of the currency. However, tariffs play a vital role in creating a wedge between the NEER and the PPP. If the tariffs of a country are low, then there will be greater demand for imports, from that country and more demand for the foreign currency of that country. The demand and supply factors will equilibrate and bring about the equilibrium rate. If the tariffs are higher, then there will be a different equilibrium exchange rate. Therefore, tariffs play a vital role in the exchange rate equilibration.
2. Heckscher and others were dissatisfied with the PPP theory. They said that, the theory cannot be applied as valid simply by considering the general price movements alone in each country. The local transportation costs and non-tradable items may cause the PPP theory to deviate from the relative prices. Therefore, they argued that "the conception that the exchanges represent relative price levels, or what is the same thing, that the monetary unit of a country has the same purchasing power both within the country and outside it is correct only upon the never existing assumption that all goods and services can be transferred from one country to another without cost. In this case, the agreement between the prices of different countries is even greater than that which is covered by the conception of the identical purchasing power of a monetary unit, for not only average price levels but also for the price of each particular commodity or service will then be same in both countries if computed on the basis of exchanges"
3. For most goods and services the quality varies from country to country. In fact, most goods and services bought in one country may not be of much use in another country.
4. There may not be any effect on the exchange rate even if there are free movements of goods that are used for domestic purposes.

5. The theory of the PPP almost ignores the demand for and supply of foreign exchange arising out of invisible services like insurance, shipping and transfers by way of remittances and donations which of course have a bearing on the foreign exchange market.
6. The foreign exchange markets are closely monitored and regulated by the Central Banks of the countries. Central banks intervene when they feel the nominal exchange rates in their opinion are going out of kilter. Such interventions, in turn, cause the equilibrium price determined by the demand and supply for a currency to further deviate from the PPP rate.

## 9. Concluding Remarks

Notwithstanding the criticism, the theory of purchasing power parity tells us the important fact about the relative changes in the purchasing power of the currency of a country. Deviations from the PPP have been ubiquitous and unmet. This may be reflection of a slow adjustment to equilibrium. Despite the short run deviations in foreign exchange rates from the PPP rates, in the long run, the PPP theory finds good support.

## References :

- Alan.C.Shapiro, *Multinational Financial Management* Prentice-hall of India, 2001.
- M.C.Vaish & Sudama Singh, *International Economics* Oxford & IBH publishing, 2001.
- Gernot Kohler, *Structure of Global Economy*, school of computing and information management, Sheridan college Canada, 1999.
- Miguel.D.Ramirez and Shahryar Khan, "A Configuration analysis of purchasing power parity" *International Advances in Economic Research*, Volume 5.
- Renu Kohli, *Real exchange rate stationary in managed floats : Evidence from India*, working paper no:93 October 2002.

# International Marketing: Effective Negotiations with Buyers

Kallianpur Rajesh\*

## 1. Introduction

Negotiating with buyers is the most difficult part in international marketing. A successful executive should have this important tool always honed up. All the hard work done for product development, setting distribution channels, R&D and Marketing would come to naught if the ultimate phase of negotiations is not managed effectively. This paper provides tips for managing effectively the various stages of negotiations.

## 2. Pre-Negotiation Stage

- Do your basic homework properly

Basic preparation before negotiating is the key for success. Preparation involves gathering information about the company and its strategies. An executive should thoroughly have all the facts in his head. You can't convince your buyer until and unless you are sure. Knowledge of the following is essential.

- i. Product, its features, specialty, and usage.
  - ii. How is your product special, creative and appealing?
  - iii. Costs involved in the development of the product.
  - iv. Pricing strategy, terms and conditions associated therein.
  - v. Payment terms, shipping formalities and documentation.
- Learn about the country - its rules and regulations

The importing country's rules and regulations are very important to know before you negotiate with

the buyer. Usually the buyer thinks that you will be unaware of the laws of his country and hence he will try to outwit you in negotiations, especially in the pricing terms. So, be prepared to put yourself in his shoes.

- i. Customs duties in the importing country and any other add on duties

Ex: Nepal has a curious duty structure. It levies customs duty, special duty, additional duty and other duties on its imports. Thus if you are aware of only the basic customs duty and are unaware of other duties, then your buyer will outsmart you.

- ii. Legal requirements

Ex: if you are exporting your products to Middle East, then please know that your shipper should give in writing that the ship has never touched any port of Israel. This is important while negotiating with the buyer as you can effectively decide on the convenient shipping lines he wants, and thus avoid any embarrassment in the future.

- iii. Technical requirements associated with your product

Certain countries would like the product samples to be tested in their own facilities. So, know the details for your products. Also, jot down the costs associated for testing, transportation of samples to the authorities etc. All these costs are built into the price and thus need to be explained to the buyer while negotiating.

- iv. Trade associations and regional groupings

---

\* The author is an International Marketing Executive with a leading exporter. He presently heads the branch in the United States. The views expressed in this paper are purely those of the author and do not represent in any way the organizational opinions and views. The views expressed are without prejudice and means no offence to anybody. The author is not eligible for any liability arising therein.

Know the trade associations, regional groupings etc, as this will help you in negotiating with the buyer regarding the territory he wants to cover.

Ex: in case you export to Ethiopia, but you want to penetrate the market of Sudan. It is very difficult, firstly, because Sudan is landlocked and secondly, it is highly unstable and risky to travel there. But, the possibility of your existing buyer servicing that market is higher, as he can freely enter that country (if he is an Ethiopian in this case) and he also pays lower preferential duty to transport the goods to Sudan than you may do. You have an opportunity to access otherwise difficult markets and at low costs too.

- Analyse the competition

Competitor analysis is the key for creating and sustaining brands and is the key issue during negotiations. The buyer is well aware of the competitors in his market and will try to exploit this in negotiations. Try to do the following:

- When you travel into a country just get into the market and visit the retail and wholesale shops. See visually which of your competitor's products are present in the shelf. Shelf-analysis is a must for good research. Thus you are now aware of your competitor's presence.
- Talk to the wholesalers and retailers about the margins for your products and those of your competitors'. Recording these margins will help in negotiating the price.
- Talk to consumers, their feedback will give critical insights into the product usage and brand loyalty.

Tell the buyer the market realities. He may argue. But, markets never lie.

- Build relationship with the buyer

Build rapport with your buyer and develop a relationship. This is very important for good negotiations. The buyer will place good orders only if he feels comfortable with you.

Know the following details:

- The buyer and his personal history, his family, his business interests and long-term ambitions.
- Make a note of his birthday or some days, which he cherishes and try sending greetings or gifts (make sure you send him the gifts he likes-not those you like). Many buyers are usually rich and humble. They appreciate gifts which hold some value, not necessarily monetary.
- Make sure you invite him for dinner or lunch whenever or wherever you happen to meet him. Business lunches and dinners are the places that provide for informal discussions and many successful deals are finalized over the table.
- Be humble yourself, but not so much that the buyer starts to dominate you.

### 3. Just Before Negotiation

- Be punctual and on time. Even if the buyer is late, it is okay. He is the boss and you have to get your work done.

Ex: buyers in Middle East are extremely late for negotiations (2-3 hours also), while those in South East Asia and Europe are very punctual.

- Plan your travel plan to reach the negotiation venue in advance and provide scope for back ups.
- Ex: in Malaysia, Singapore and U.S. there are severe traffic jams starting from 8:00 am in the morning during weekdays. It may take you one and a half hours to reach a place during peak hours while it takes thirty minutes otherwise.
- Get all your reports, data, market information, buyers previous purchase details, etc. You may need them during negotiations.
- Always carry CDs of your company and products with you. In case multimedia facilities are available, you can use them effectively.
- Know the culture of the land, and learn few words in that language. Like good morning, how are you, thank you etc. buyers will feel happy.

#### 4. During Negotiations

- i. Be to the point. Don't beat around the bush.
- ii. If you don't know or do not have any information. Then say you don't have it and you will get back later. Don't ever misguide or commit anything wrong.
- iii. Have time sense. Present your case effectively in 15-20 minutes. After the first twenty minutes, the buyers tend to relax, lose interest and stop listening.
- iv. Preferably carry negotiations in the mornings. Avoid mid day or post-lunch discussions.
- v. Convey that the higher ups in your organization have passed on their regards to the buyer. Remember, the buyer is related to your organization, not only you.

#### 5. Negotiating behaviours in different regions

##### AFRICA

- Usually time consuming. Buyers arrive very late and negotiation may go on for 3-4 days.
- Very much price sensitive. Usually not quality conscious.
- They negotiate very hard on credit terms.
- Very aggressive and extreme usage of body language.

##### ASIA AND SOUTH EAST ASIA

Buyers are

- Time conscious and get in with good basic work.
- They are mostly mild mannered and extremely courteous, and sensitive to culture. Avoid topics on politics if you do not have good knowledge of the country's history since many issues are grounded in the past.
- Usually the discussions are finished in 2 days and a deal is struck.
- Show respect at each and every stage and be humble. Try to minimize body talk.

##### MIDDLE EAST

- Not particular about time. Usually turn up very late for negotiations.
- Very hard negotiators.
- Price is the clinching issue.
- Always use effective competitor knowledge for bargaining.
- Usually negotiate for 3-4 days before striking a deal.
- After negotiating, it is always preferable to make minutes and get it signed with the buyer. If it is an order, get it signed immediately. Usually the buyers in this region have business interests in many products. Hence they tend to forget the next day what they have discussed with you the earlier day.

#### 4. USA & EUROPE

- Very time conscious.
- To the point and more emphasis on quality and service.
- Get your points very clear and adhere as discussed. Any variation will make them switch away from you.
- Usually deals are stuck in 1 day if proper homework is done. - Do not use excess body language.
- Thank the other person whenever he has done anything. However small it may be. The Europeans appreciate it.
- Don't get emotional at any stage. Or don't talk emotive. The Europeans never mix business with emotions.
- Use multimedia whenever required, as it will add to the impact.

*Never start negotiations as soon as you land. Start and close negotiations at the fag end of your trip. Get all your information right and then strike. Relationship building and constant communication will pave way for successful negotiations in the long run.*

## Value Added Tax (VAT)\*

### (1) What is Value Added Tax (VAT)

- (a) VAT is a multi-stage tax with set-off for tax paid on business-related purchases at the preceding stage.
- (b) It is collected in installments at each transaction in the chain, from production to distribution for final consumption.
- (c) It does not have cascading effect due to offsetting of tax paid at the stage from the tax payable at the next stage. This is generally referred to as “input tax credit” (ITC).
- (d) On account of ITC, it actually becomes a tax on consumption. The final and total burden of the tax is fully and exclusively borne by domestic consumer of goods (and services). Hence, the producer’s decision on production process is not influenced by factors other than those relating to production efficiency.
- (e) No VAT is charged on goods exported whereas credit is given for tax paid on inputs for exports, so as to prevent “export of domestic taxes” and improve competitiveness of the domestic industry in the global markets. This is referred to as “zero rating”, as against “exemption” when only the tax “output” is nil.

### (2) Reasons for Growing Popularity of VAT

- (a) Simple tax structure.
- (b) Reduces evasion of tax.
- (c) Neutrality of tax with respect to behavior of consumer (relative prices are not affected) and of producer (production technique not affected).
- (d) Efficient resource allocation.
- (e) Credit for tax on inputs for a value addition process.

### (3) Advantages of VAT over other Forms of Sales Tax

- (a) It has flexibility to generate large and buoyant revenues.
- (b) It could be designed to be revenue neutral for the State.
- (c) Eliminates cascading and hence no tax-induced distortion in favour or against vertical integration.
- (d) Tends to decrease incentive for evasion, as tax does not concentrate the impact at any given level.

\*States miss June deadline for implementing VAT

PTI [SUNDAY, JUNE 01, 2003 09:58:15 AM]

The contentious Value-added Tax (VAT) missed the June one deadline with the Centre deciding to come up with a “new roadmap” in consultation with political parties and Empowered Committee of state finance ministers.

The states, which had earlier prepared to implement VAT from June 1, could not do so as Finance Minister Jaswant Singh opposed a “patchwork” implementation without all states fully prepared for it.

Confirming this, a top official of VAT panel said: “None of the 11 states have implemented VAT from June. The new deadline is yet to be fixed.”

Although the government announced on May 15 that a new roadmap for VAT was now required, the official said “the Centre has not yet made it clear who would draw it up.”

The Centre intends to consult the main political parties and the VAT panel for coming up with the new progressive tax system, whose introduction was deferred more than three times since 2001.

In its last meeting in Delhi, the committee’s chairman and West Bengal Finance Minister Asim Dasgupta had asserted that 11 states were ready to introduce the new tax regime provided they get the Presidential nod to their respective VAT Bills in time.

The 11 states, accounting for two-thirds of the country’s trade and industry, are - Andhra Pradesh, Maharashtra, West Bengal, Gujarat, Karnataka, Madhya Pradesh, Kerala, Assam, Meghalaya, Tamil Nadu and Haryana.

Although the panel expressed hope that VAT could be implemented along with the 4.0 per cent Central Sales Tax, most of the states failed to get their Bills approved in time.

- (e) Tax burden is transparent.
- (f) Zero rating of tax on exports is easy.
- (g) No loss of revenue due to enlargement of tax base. Lower tax rates could result in realization of the same revenue.

## **STEPS TAKEN BY GOVERNMENT OF INDIA TO FACILITATE IMPLEMENTATION OF VAT BY STATES**

### **(1) Common VAT Law**

Under the existing Constitutional provisions, Domestic Trade Tax (Sales Tax) is a State subject. However, the Union Government has been coordinating and facilitating the process of transition from the sales tax to the VAT system in the following manner: -

- (a) An Empowered Committee of State Finance Ministers has been constituted to monitor and decide upon the road map and policy guidelines for introduction and implementation of VAT.
- (b) A draft of a Model VAT Law was prepared and circulated among the States for their use while drafting their respective State VAT legislations. This was done so that VAT legislations of all States and UTs could have common provisions in respect of important matters and a simple VAT law with maximum convergence could be adopted and implemented.

### **(2) Reforms in Central Sales Tax**

- (a) It is widely recognised that the existence/continuance of Central Sales Tax (CST) is an impediment to the introduction of destination-based Value Added Tax (VAT) at the State level in India. Besides bringing in origin-based element to the commodity taxation system, the CST segments the country's commodity market into several tariff zones, creates allocative distortion by impeding internal trade and causes significant inter-State tax exportation and transfer of resources from poorer to richer regions of the country. Thus, from the viewpoint of both growth acceleration and promotion of inter-regional equity it is necessary to phase out the CST.

- (b) Several States and most national-level Associations of Industry, Commerce and Trade have repeatedly urged that the only way to achieve a destination-based VAT system in the States is to phase out the CST, with proper mechanisms and safeguards to monitor inter-State transactions. However, some States are apprehensive about the loss of revenue by this rationalisation measure and have requested provision of Central compensation for the loss of revenue.
- (c) The Ministry of Finance and Company Affairs had recently entrusted a study to Dr. M. Govinda Rao, Director, Institute of Social and Economic Change, Bangalore to address the relevant issues on CST phase-out and reform. The report submitted by Dr. Rao has been circulated amongst the States for information.
- (d) In his Budget Speech of 28 February 2003, the Union Finance Minister has announced the decision to bring down the rate of CST to 2% during 2003-04 with effect from a date to be notified. It has also been stated that the Government of India will compensate the States for loss of revenue from this reduction of the CST. This will be done only after arriving at a consensus with the Empowered Committee.
- (e) States have also been requested, simultaneously, to design and implement a suitable information technology based system for reliable monitoring and tracking of inter-State sales.

### **(3) Widening of Tax Base of States**

The States have also requested that their tax base should be widened in the following manner:-

#### **(a) Powers to tax services**

- (1) "Services" constitute 48.5% approximately of India's Gross Domestic Product (GDP). This is also the fastest growing sector of the economy. In view of the importance of "services" in the economy, there is need to include it as a specific item of taxation in the Constitution.
- (2) At present, "tax on services" does not find specific mention in the Constitution. The Central Gov-

- ernment introduced tax on services in the Union Budget 1994-95, taking recourse to the residuary powers vested in it under Entry 97 in the Union List of the Seventh Schedule of the Constitution. Currently, the Union Government is levying and collecting service tax on 51 services. The revenue realised from this tax forms part of the “divisible pool” and is shared between the Union Government and State Governments in accordance with the provisions of Article 270 of the Constitution, i.e., as per recommendations of the respective Finance Commissions.
- (3) States have unanimously decided to introduce a Value Added Tax (VAT) system, in lieu of the existing sales tax system on commodities, from 01 April 2003. In this context and to also widen their tax-base, States have requested that they should be allowed to directly collect tax on services. This request, supported by two Expert Committees and a Committee of Officers of the Central and State Governments appointed by the Central Government, is based primarily on the following grounds:
    - (4) There are services which, by their very nature and geographical dispersion, are more amenable to optimum exploitation by the State Governments as compared with the Union Government; and
      - (i) eventually, VAT on commodities would have to be integrated with VAT on services because services constitute an important input in the value addition chain.
    - (5) Taking note of the request of the States, the Union Cabinet has recently approved a proposal to amend the Constitution by -
      - (i) inserting a new entry (no. 92C - Taxes on services) in the Union List, Seventh Schedule of the Constitution to give the Union Government the power to levy taxes on services as a specific item of taxation;
      - (ii) introducing a new Article (Article 268A) in the Constitution to enable the Union Government to levy the said tax and both the Union and the State Governments to collect and appropriate the proceeds of the tax in accordance with a (new) law to be enacted by the Parliament; and
      - (iii) including, as a consequential measure, Article 268A among the Articles excluded from the purview of operation of Article 270.
    - (6) The proposed Constitutional amendment, introduced in the Parliament during the Budget Session 2003, will enable -
      - (i) levy of tax on services as a specific entry by the Union Government;
      - (ii) collection and appropriation of the proceeds of this tax by the Union Government as well as the State Governments, i.e., without the revenue from the tax on services becoming a part of the divisible pool under Article 270; and
      - (iii) enabling the State Governments to fully exploit the potential of tax on services in order to enhance their financial resources.
    - (7) A Working Group, comprising representatives of Central Government (Ministry of Finance and Company Affairs) and some selected State Governments was constituted by the Central Government to prepare the draft of a new legislation to govern tax on services, as envisaged in clause (2) of the proposed new Article 268A. The Working Group has submitted a draft legislation which is under examination in the Ministry of Finance and Company Affairs. On completion of this examination, the draft legislation on tax on services would be forwarded to the Empowered Committee of State Finance Ministers on VAT for detailed consideration, comments and suggestions for changes, if any, consistent with the proposed Constitutional amendment. The Central Government would like the process to be completed as expeditiously as possible, with the active collaboration of the States, so as to be able to introduce the new legislation after the proposed Constitutional amendment comes into effect and VAT is introduced by the States and Union Territories.

**(b) Powers to tax sugar, textile and tobacco**

- (1) The scheme of levy of an Additional Duty of Excise, in lieu of sales tax, on sugar, tobacco and textiles was implemented through the Additional Duties of Excise (Goods of Special Importance) Act, 1957 in pursuance of the decision of the National Development Council in December 1956. The net proceeds of additional duties of excise (ADE) are distributed among the States in accordance with the principles of distribution recommended by the successive Finance Commissions from time to time. After the deletion of Article 272 of the Constitution of India [Constitution (Eightieth) Amendment Act, 2000], the proceeds of ADE have become a part of the Central taxes/duties levied by the Union and shared between the Union and the States under Article 270.
- (2) In the Conference of State Chief Ministers and Finance Ministers held on 05 July 2001, States requested that they be authorised by the Government of India to tax ADE items. It was accordingly decided at this Conference that the issue of levying VAT on these goods would be examined by the Government of India.
- (3) The Empowered Committee of State Finance Ministers was later requested to send a proposal for amendment to the ADE Act for empowering States to levy sales tax/VAT on sugar, textiles and tobacco. The Department of Revenue has examined the suggestions of the Empowered Committee and the following course of action has been proposed to empower States to levy VAT on sugar, textiles and tobacco:
  - (i) The ADE Act would be suitably amended to empower States to levy VAT on sugar, textiles and tobacco, with a ceiling of 4%, without affecting the existing levy of additional duties of excise by the Central Government thereon so that the States' share of revenue from this duty is not reduced. (vide decision in paragraph 3(iv) of the minutes of the meeting dated 17.01.03 held by the Union Finance Minister- Annexure (IX).

- (ii) The amendment would be introduced in the Budget Session of the Parliament as part of the Finance Bill.
  - (iii) The present arrangement on devolution of Central taxes/duties, based on the recommendations of the Eleventh Finance Commission, comes to an end by the end of the financial year 2004-05. Repeal of the Additional Duties of Excise (Goods of Special Importance) Act, 1957 after 2004-05 can be examined when the validity of the Presidential order based on the recommendations of the Eleventh Finance Commission would come to an end. The Twelfth Finance Commission can consider the methodology of tax sharing with States depending upon the experience gained by the States in levying VAT on these three commodities.
  - (4) The Empowered Committee has decided to levy (a uniform) 4% VAT on these commodities.
  - (5) Necessary amendment in the ADE Act has been included in the Finance Bill, 2003.
- (c) Package of compensation by Government of India for possible loss of revenue in the initial stages of introduction of VAT and phasing out of CST**
- (1) In the Conference of Chief Ministers held on 16th November, 1999, the States agreed to move over to a Valued Added Tax (VAT) regime as a progressive step towards commodity-tax rationalization. In the said Conference, it was also decided that the Government of India (GOI) would compensate the States if they lose revenue in the initial period on introduction of VAT. In the subsequent Conference of State Chief Ministers held on 22nd June, 2000, it was agreed that any loss of revenue consequent to reduction in the rate of Central Sales Tax would be fully compensated by the Centre. In the Chief Ministers' Conference held on 5th July 2001, apprehension that introduction of VAT might lead to revenue loss to the States in the initial period was reiterated. Hence it was decided as follows: -

*“A Committee of State Finance Secretaries and Finance Ministry officials would develop clear and measurable criteria for judging revenue loss, if any, due to introduction of VAT and would recommend the manner of compensation as well as the extent/quantum”.*

- (2) The Committee of Officers submitted their report to the Government of India. The report of the Committee of officers was considered in the Ministry of Finance and Company Affairs and, subsequently, the Union Cabinet authorized the Minister for Finance and Company Affairs to take a decision on the compensation formula.
- (3) Subsequently, in a meeting with the State Finance Ministers held on 17th January, 2003, the Union Finance & Company Affairs Minister announced that the Government of India would compensate the revenue loss of the States, if any, upon introduction of VAT @ 100% in the first year (2003-04); 75% in the second year (2004-05) and 50% in the third year (2005-06).
- (4) The parameters of the formula for assessing revenue loss on account of introduction of VAT, as recommended by the Committee of Officers, have been accepted by the Empowered Committee. Formal Government orders are being issued. Budget provision of Rs.700 crore has been proposed during 2003-04 for , this purpose.

#### **PRESENT STATUS**

- (1) The commodities under VAT system will be taxed @ 0%, 1%,4% and (floor rate of) 20% (without ITC). The commodities which are not covered under these rates will be taxed at the general rate of 12.5%. Most of the essential commodities or raw material will be under the exempted category or taxed @4%. The rates and the lists of commodities subject to each rate have been decided by the Empowered Committee.
- (2) In order to switch over to VAT regime w.e.f. April, 2003, Value Added Tax Bills from all the States/Union Territories except Arunachal Pradesh, Himachal Pradesh and Delhi have been

received in the Department of Revenue (DoR) through the Ministry of Home Affairs ‘. (MHA) for according necessary administrative approval for introduction of the Bill in their respective State Legislature. Necessary clearance of these Bills has been given by the DoR as well as the MHA. [The Presidential assent on the VAT Bill of the Government of Madhya Pradesh has been given]. The State Government of Kerala has since forwarded the Bill (after its passing by the State Legislature) to the MHA for getting necessary Presidential assent.

- (3) For assisting VAT implementation by the States, a publicity and awareness campaign for trade, industry and consumers has also been launched by the Government of India. It is being done through the print and the audio-visual media.

#### **CONCLUSION**

- (1) The rapid adoption of the Value Added Tax system by countries around the world is probably the most important tax development of the 20th Century. The Value Added Tax today is a key source of Government revenue in over 123 countries covering four billion people (70% of the world population) and raises roughly one-quarter of all Government revenues.
- (2) The requirement in India to go in for tax reforms in consumption taxes in the States is mainly due to the world economic situation today. As India gets more integrated into the world economy, it faces a tradeoff between the benefits of integration and the costs of adjusting fiscal autonomy. The domestic tax structure has to adapt, adjust and react to the changing fiscal environment of the developed and developing nations in a situation of increasing globalization.
- (3) Accordingly, the attempt by the States in India to introduce a Value Added Tax is a fiscal necessity and a VAT system, as nearly uniform as possible, has to be adopted by the States to facilitate development of a common market across the country. This reform is being brought about in the following manner:-

- (a) Convert sales taxes into VAT by moving over to a multi-stage system of sales taxation with rebate for tax on all purchases at each preceding stage with only minimal exceptions.
  - (b) Allow input tax credits for all raw materials and parts, consumables, goods for resale, and production machinery and equipment.
  - (c) Extend the tax base to include all goods sold or leased with minimal exceptions, and, eventually, also services which are integral to the sale of goods. The base should also include services which are predominantly of a consumption nature and can be taxed conveniently by the States.
  - (d) Replace the existing structure of multiple tax rates with two or three specific and reasonable rates, uniformly applicable throughout all States and Union Territories, along with a harmonized system of nomenclature of commodities.
  - (e) Remove the exemptions except for a basic threshold limit and a very limited number of items and also withdraw other concessions like tax holiday.
  - (f) Zero-rate exports out of the country and, eventually, also inter-State sales and consignment transfers to registered traders with suitable safeguards against misuse.
  - (g) Tax inter-State sales to non-registered persons as local sales.
  - (h) Modernize tax administration, computerise operations and the information system and simplify forms and procedures.
  - (i) Compensate States by way of Central grants for revenue loss, if any, on account of introduction of VAT and phase-out of CST over the initial period of three years while also making available to the States additional sources of revenue like tax on services and VAT on sugar, textile and tobacco.
  - (j) Awareness campaign by the Central and State Governments to allay apprehensions of various sections of the society regarding impact of VAT.
- (4) It is expected that with simultaneous introduction of VAT with commitment by the States and its stabilization over a period of three years, a transparent, simple and a modern commodity tax system will develop in the Indian federation, giving rise to a common market which will be advantageous to the industry, trade, consumers and the State/UT Governments.

*Source: Note for Standing Committee of Parliament on Finance for Meeting on Value Added Tax(VAT)*

## Service Tax in India

### Services

'Services' constitute a very heterogeneous spectrum of economic activities. Over a period of time, the definition of 'service' has also undergone change. In olden days, it was difficult to separate 'services' from the service provider and recipient. People were crucial to the definition of service. Today services cover wide range of activities such as management, banking, insurance, hospitality, administration, communication, entertainment, wholesale distribution and retailing including Research & Development activities. Service sector is now occupying the center stage of the economy so much so that in the contemporary world, devel-

opment of service sector has become synonymous with the advancement of the economy.

### Share of Services in GDP

The share of services sector in the real GDP in India has surpassed that of agriculture and industry at a relatively faster pace as compared to other industrialized nations. Service sector has become the main contributor to the GDP not merely in developed economies like U.S.A., Japan & U.K. but also in developing economies like China, Indonesia, Pakistan & Brazil.

### Need for Service Tax

In any Welfare State, it is the prime responsibility of the Government to fulfill the increasing developmental needs of the country and its people by way of public expenditure. India being a developing economy is striving to fulfill the obligations of a Welfare State within its limited resources. The Government's primary sources of revenue are direct and indirect taxes. Central Excise Duty on the goods manufactured/produced in India and Customs Duties on imported goods constitute the two major sources of indirect taxes in India. But revenue receipts from Customs & Excise are on the decline due to WTO commitments and rationalization of commodity duties.

It is also well known that services constitute a larger proportion of the consumption of the rich rather than of the poor as the demand for services is income-elastic.

Depending on the socio-economic compulsions, each country evolved a taxation system on services adopting either a comprehensive approach or a selective approach. While most of the developed countries tax all the services with very few and limited exemptions, some of the developing countries tax select services only. Hitherto, India has adopted a selective approach to taxation of services.

### Introduction of Service Tax in India

Dr. Manmohan Singh, the then Union Finance Minister, in his Budget speech for the year 1994-95 introduced the new concept of Service Tax and stated that "There is no sound reason for exempting services from taxation, therefore, I propose to make a modest effort in this direction by imposing a tax on services of telephones, non-life insurance and stock brokers."

Service Tax had been levied on the recommendations made in early 1990's by the Tax Reforms Committee headed by Dr. Raja Chelliah. The Committee pointed out that the indirect taxes at the Central level should be broadly neutral in relation to production and consumption of goods and should, in course of time cover commodities and services. The Committee felt that we should move towards full-fledged Value Added Tax (VAT) system covering services and commodities. Service tax must be a part of VAT at the central level. It was envisaged that as the central excise duties on goods would get gradually transformed into a value added tax at the manufacturing level, service tax would

get woven into that system. Therefore, a tax could be levied on services that enter into the productive process. The Committee emphasized the importance of moving towards VAT, for making the system of indirect taxation broadly revenue neutral in relation to production and consumption and widening the tax base by covering exempted commodities. It is felt that VAT mechanism would mitigate the burden of service tax and take care of the cascading effect on the ultimate customers. The Committee also recommended charging of tax on services such as advertising, insurance, share broking and telecom etc. to begin with on the pattern of advanced economies. The basic objective of Service Tax is broadening the tax base, augmentation of revenue and larger participation of citizens in the economic development of the nation.

Bringing services under taxation is not simple as the services are intangible and are provided by large groups of organized as well as unorganized service providers including retailers who are scattered across the country. Further, there are several services, which are of intermediate nature. The low level of education of service providers also poses difficulties to both-tax administration and assesseees.

As stated earlier, service tax was introduced in India for the first time in 1994. Chapter V of the Finance Act, 1994 (32 of 1994) (Sections 64 to 96) deals with imposition of Service Tax inter alia on-

- a) Service rendered by the telegraph authorities to the subscribers in relation to telephone connections;
- b) Service provided by the insurer to the policyholder in relation to general insurance business; and
- c) Service provided by a stockbroker.

The Finance Acts of 1996, 1997, 1998, 2001 and 2002 added more services to tax net by way of amendments to Finance Act, 1994. At present total number of services on which Service Tax is levied has gone upto 51 despite withdrawal of certain Services from the tax net or grant of exemptions (Goods Transport Operators, Outdoor Caterers, Pandal and Shamiana Contractors, and Mechanized Slaughter Houses). The Finance Act'2002 provides for levy of service tax on 10 more services, w.e.f., 16.08.2002.

(Source: [www.servicetax.gov.in/servicetax/overview/ovw\\_pt-1.htm-9k-15](http://www.servicetax.gov.in/servicetax/overview/ovw_pt-1.htm-9k-15) Jun 2003)

## Land of the Rising Rupee?

Bhanoji Rao\*

The official exchange rate (ER) was 4.76 rupees per dollar for a long while after independence. In 1966, when the rupee was devalued, it was changed to 7.5 and stayed in the range of 7.5 – 9.5 through 1982. The period since 1970 saw different types of pegging of the rupee. It was pegged to the dollar initially, then to sterling for a while and finally to a basket of currencies since September 1975. Those were also the times when there was a flourishing black market ready to provide dollars to those who had rupees to pay over and above the official rate. The black market in dollars and pounds also had its complementary activities such as smuggling and corruption. The flourishing black market and the considerable premium one had to pay in order to get dollars and pounds implied just the simple economic truth that the demand for dollars was in excess of supply. An inefficient importer (a sub-optimal state enterprise, for instance) might be getting help by obtaining dollars at a cheap rate, while an efficient exporter got less rupees for every dollar he earned.

The ER (pegged to a basket of currencies) depreciated gradually in the 1980s, largely due to the concerns of the then policy makers to ensure that trade deficits do not get out of hand, exporters are not penalized and importers not unduly subsidized. ER moved to a little over 10 in 1983, weakening every year and reaching 17.5 in 1990. The mid-1991 moves to rescue the troubled economy included a sharp adjustment of the ER, which weakened to 22.6 in 1991 and the subsequent liberal exchange rate regime simply meant the further continuous weakening: close to 26 in 1992, between 31 – 32.5 in 1993-95, weakening all the way to 48.6 in 2002.

In both 2001 and 2002, many analysts were thinking that the rupee would hit 50 anytime, given the bleak industry sector performance, inevitable instability of coalition politics, likely saturation in software exports and the preoccupation of most major economies with security considerations.

The current year (January 2) started with an ER of 48, and at half-year time, strengthened to a little over 46. For the first time ever, the rupee had strengthened as if it has challenged its destiny of freely falling. Two reasons come to the fore for the totally unwarranted behaviour of the rupee. First, the dollar weakened and the strength of the rupee was a mere reflection of that. Second, we have carefully and diligently built foreign currency reserves of \$ 80 billion. Our management of the reserves too is seen to be conservative and our ER policy is nowhere near full convertibility – not yet. There is thus some genuine strengthening of the rupee.

Already some exporters are getting upset, but most understand that the days of ER depreciation for boosting exports are over. It is now a different ball game: over and above the purely resource based exports, exporting is a matter of innovation and productivity.

Will the rupee go on rising? The answer is an emphatic no, for the short and medium terms. If we assume that the country will soon embark on a new growth phase with an even more liberalised import regime under WTO, repay some high cost debt and redeem the NRI deposits that are due, etc., there will be a lot more ER stability and perhaps some marginal depreciation of the rupee. It is not yet the case of a rising rupee.

The trend for the long term is less certain. If indeed India does emerge as an economic power, it could join the ranks of countries with a strong currency.

A strong and stable rupee has advantages. It would imply that we needed to pay less rupees when we service our external debts or when we buy capital equipment. It would also induce foreign investors to be more confident about the worth of their profits in terms of their home currencies. It would help improve the performance of domestic industries and services by challenging them to compete with those of the rest of the world, promote all round innovation, lead to the evolution of world class companies and the growth of Indian MNCs.

\* The author, an economist and an academic, worked with the National University of Singapore and the World Bank. He can be contacted at [bhanoji@vsnl.net](mailto:bhanoji@vsnl.net)

National University of Singapore and the World Bank. He can be

## The Doha Agenda: Towards Cancun

*With the fifth WTO Ministerial meeting fast approaching, a group of 26 developing countries have presented a joint communication (TN/C/W/13) this month on moving the stalled trade negotiations in the WTO forward. Their concerns, voiced in the informal meeting of the Trade Negotiations Committee on 10 June, touch upon the process as much as the key substantive areas of negotiations. Among the countries that were part of this group were: Argentina, Bolivia, Botswana, Brazil, Chile, China, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Gabon, Guatemala, Honduras, India, Malaysia, Mexico, Morocco, Nicaragua, Pakistan, Paraguay, Peru, Thailand, Uruguay, Venezuela and Zimbabwe.*

1. The Doha Declaration stakes out a comprehensive work program aimed at further strengthening the multilateral trading system. At this stage of the process, it is important to recall some of the elements that enabled success at Doha and are still essential to bring our negotiation to a fruitful conclusion:
  - The centrality of the development dimension to the Doha package: Development concerns cut through all areas of the multilateral trading system, and they are at the heart of the work program. We need to make sure that the commitments we all made at Doha do indeed help in better integrating developing countries into the multilateral trading system and into the benefits accruing from it.
  - The delicate overall balance of the package: In Doha, we agreed on a single undertaking that has the potential to provide gains for all Members. Balance has to be sought across the entire undertaking, without trying to isolate specific sectors.
  - To agree on the scope of the single undertaking, all Members made commitments; we all need to abide by them, without attempts to dilute or re-interpret any one, if we want a final package that is generally acceptable and brings benefits to all our peoples.
- The importance of a transparent process: In order to bring the Doha Development Agenda to a successful conclusion that further strengthens the multilateral trading system, it is essential that all Members participate in the decision making process.
2. The following summarizes the key actions that, in our judgement, have to be taken at this stage in order to keep and enhance the momentum of our work, with a view to the 5<sup>th</sup> Ministerial Conference in Cancún.
3. It is essential to resolve implementation-related issues and concerns and the strengthening of special and differential treatment before Cancún, instead of calling into question the basic principles underlying them. Concrete results on the development issues will bolster confidence in the process and thus have a positive impact on work in other areas of the negotiation.
4. We underscore the critical importance of trade-related technical assistance and capacity building in addressing the constraints of developing countries, in particular least developed countries.
5. Given its importance for developing countries and the need for significant results, agriculture cannot be a self-contained package. This was acknowledged in the single undertaking agreed in Doha, and was indeed one of the main reasons for the launch of a broad negotiating round.
6. Reform of agricultural trade is of central importance for many developing countries.
  - There is a strong commonality on the need to substantially reduce or eliminate export subsidies and domestic support, including tighter criteria for the green box.
  - It is equally important to discuss how to deal with market access questions in a way that guards the legitimate concerns of developing countries.

7. We expect the establishment of modalities by Cancún, which should include the interests of all developing countries. This has to be an essential ingredient of the negotiation and its outcome.
8. We expect the establishment of modalities by Cancún, which should include the interests of all developing countries.
9. Less than full reciprocity should be a central element of the approach to be agreed.
10. Additional emphasis has to be put on eliminating non-tariff barriers.
11. Progress to date has been moderate. There is need to increase the number of requests and offers and, as a matter of priority, to resolve the horizontal issues.
12. The pace of work in this field could be boosted by positive results in other areas of the negotiation.
13. The rules negotiation is a crucial element of the Doha package. Work should proceed in tandem with that of other areas of the negotiation. Results in this matter will have a positive impact on the effectiveness of the market access improvements agreed in the respective negotiating bodies.
14. In spite of intensive discussions, a large number of differences still exists on many of the subjects identified for clarification in the Doha Declaration. In several areas, there is need for further analysis.
15. Progress varies significantly across the four Singapore issues. Each issue should be treated separately.
16. Any modalities to be decided, by explicit consensus, in Cancún would need to provide certainty on the structure and precise content of negotiations.
17. The end result of the exercise needs to strengthen the WTO dispute settlement mechanism's role of guaranteeing the balance between Members' rights and obligations, with particular emphasis on the needs of developing countries.
18. For many developing countries, one of the most important achievements of the 4<sup>th</sup> Ministerial Conference in Doha was the Declaration on the TRIPS agreement and public health. This Declaration, which is separate from the work program agreed at Doha, has huge humanitarian implications and a significant impact on how the WTO is perceived by public opinion.
19. The implementation of the last outstanding part of the Declaration on the TRIPS agreement and public health, paragraph 6, needs to be solved before Cancun. We urge all Members to reach a consensus on this issue, an important measure to build trust among Members.

(Source: <http://www.southcentre.org/info/southbulletin/bulletin59/bulletin59-03.htm>)

## GIFT News

### Workshop on Exports

A three day Workshop on Exports was jointly organized by GIFT, Federation of AP Chambers of Commerce and Industry, Hyderabad, German Confederation of Small Industries (SDH), Bangalore and Vizagapatnam Chamber of Commerce and Industry (VCCI) on 21-23 April 2003. The workshop was inaugurated by Hon' Minister for Major Industries, Sri K Vidyadhara Rao. Sri O P Goenka, Vice-President, FAPCCI, Sri S C Chowdhary, Customs Commissioner, Dr. M V V S Murthi, MP (Lok Sabha) and President GITAM and Sri Sudarsana Swamy, Vice-President, VCCI participated in the inaugural session.

**GITAM INSTITUTE OF FOREIGN TRADE**  
**MANAGEMENT AND ENTREPRENEURIAL DEVELOPMENT**  
**AUGUST TO SEPTEMBER PROGRAMMES**

No.	Title	Venue	Dates	Director/Coordinator	Collaboration
1	Public Sector Restructuring	Visakhapatnam	4-5 August	M A Hakeem C S V Ratnam	
2	Agenda for Cancun – Indian Perspective	Visakhapatnam	6 August	V L Rao V Ramachandraiah	
3	Global Rules for Trade – Voluntary Instruments for Securing Workers' Rights	Hyderabad	7-8 August	C S V Ratnam	IIRA and FES
4	International Marketing Management	Hyderabad	11-12 August	Madhavi Ganju	PHD Chamber of Commerce Industry, New Delhi & KAF, Hyderabad University & JNTU, Hyderabad.
5	Competing Globally: Successful Experiences of Public Sector	Hyderabad	25-26 September	M A Hakeem C S V Ratnam	
6	Working Capital Management	Visakhapatnam	15-18 October	V K Kumar	Sponsored by SIDBI*
7	Trade Facilitation Workshop	Visakhapatnam	23 September	S Lalitha R R Thakur	
8	Supply Chain and Logistics Management	Bhubaneshwar	29-30 September	G Somayajulu R Venkateswarlu	PHDCCI - KAF

**Editorial Committee****Editor in Chief**

CS Venkata Ratnam

**Editor**

MV Lakshmi

**Members**

AD Madhavi

R.Venkateswarlu

**Support Staff**

Rasheeda Sultana

Ch.Uma Devi

N.Pradeep Kumar

GIFT brings out this quarterly publication GLOBAL VISTAS to provide analytical articles and commentaries on issues relating to international trade developments, and WTO and related trade issues. We at Global Vistas invite contributions with a word limit of 2000 words from academics, trade and industry that are of contemporary relevance.

GIFT is an offshoot of Gandhi Institute of Technology and Management (GITAM) located in the port city of Visakhapatnam on the east coast of the country, a city that hosts several large industrial organizations – Visakhapatnam Port Trust, RINL, LG Polymers, HPCL, Marine Products Export Development Authority (MPEDA), Visakhapatnam Special Economic Zone (VSEZ), Office of the Joint Director General of Foreign Trade (JDGFT) and Customs Authorities. Established in 1997 in academic collaboration with the Indian Institute of Foreign Trade, Ministry of Commerce & Industry, Government of India, GIFT offers a two year Masters in International Business (MIB), the flagship programme of the Institute. An integrated business school with teaching, training, consulting and research as the four pillars of its activity base, GIFT has serviced a host of organizations related to foreign trade like APEDA, SIDBI, FAPCCI, Tobacco Board, Horticulture Board, CONCOR, various chambers of commerce, SMEs and prospective entrepreneurs in the fields of export marketing, export finance, foreign exchange risk management, commodity futures; logistics and supply chain management, entrepreneurship development; and WTO agreements and implications for business. The Centre for Entrepreneurship is a new initiative of the Institute. As part of its social responsibility, GIFT has taken up sponsored research and brought out the Visakhapatnam Development Report 2003.

*Contributors may contact*

The Editor, Global Vistas  
 GITAM Institute of Foreign Trade  
 Gandhinagar Campus, Rushikonda  
 Visakhapatnam 530 045  
 Ph : 2790505, Telefax : 2790036  
 Email: [mvlakshmi@gift-india.org](mailto:mvlakshmi@gift-india.org)



**GIFT**  
GITAM INSTITUTE OF  
FOREIGN TRADE

# Workshop On INTERNATIONAL MARKETING MANAGEMENT

**GITAM Institute of Foreign Trade  
In association with**

University Of Hyderabad, Jawaharlal Nehru Technological University,  
PHDCCI-KAF Cooperation and Konrad Adenauer Stiftung

## OBJECTIVE

Internationalization has become a chief engine for growth and competitiveness for corporate organizations as well as SMEs. The workshop familiarizes the participants with identification of marketing opportunities and developing marketing strategies to effectively serve the overseas customers.

- Differences between domestic and international marketing, motives for internationalization
- Evaluation of markets – assessment of market opportunities
- Market selection, clustering and prioritization, Modes of Entry
- Medium term export strategy 2002-2007 – India's Focus Products and Markets
- International Marketing Research - Information sources and data collection methods
- Product strategy - Adapting / developing products for overseas Markets
- Pricing and negotiations
- Promoting the products in the overseas markets and Brand Building
- Preparation for participation in Trade Fairs
- Distribution – identification of agents, drawing up agency contract

## HOW TO REGISTER

Send your nominations along with registration fee drawn in favour of *GITAM Institute of Foreign Trade* payable at *Visakhapatnam*

Email : [giftedp@gift-india.org](mailto:giftedp@gift-india.org)

## FOR WHOM

The workshop is for practicing and prospective professionals engaged in International Business.

Dates	Venue	Fee	Last date for nominations
August 11-12, 2003	Hotel Green Park, Hyderabad	Rs. 4000/- Non-Residential	August4, 2003

Fee for SMEs and Academicians: Rs.1500 and for Students Rs.1000