FTAs and JAPAN

By Kimma Fukunari*

- **The Full-Scale Proliferation of FTAs**

The forging of free trade agreements (FTAs) has finally been initiated in East Asia, which, in this respect, had been lagging far behind Europe and Central and South America. Japan completed its first FTA (Japan-Singapore Economic Partnership Agreement: JSEPA) in January 2002 (effective November 2002). The negotiations with Mexico stagnated for a while before an agreement was finally reached in March 2004. Negotiations with South Korea commenced in December 2003, and the concept of an East Asian Community was brought forth at a special Japan Association of Southeast Asian Nations (ASEAN) commemorative summit. In addition, negotiations were started with the governments of Thailand, the Philippines and Malaysia in January and February 2004. China, Thailand and Singapore have also begun taking proactive steps toward the conclusion of FTAs. The trade policy map of East Asia is being radically redrawn.

Following World War II, Europe provided a model for regional economic integration. But at present, most FTAs being established in areas around the world are vastly different from the European Union (EU) model.

The political agenda tools associated with "Free Trade Areas," as defined by the General Agreement on Tariffs and Trade (GATT), are more easily wielded by government decision makers, compared to the free trade endorsed by the World Trade Organization (WTO) or "customs unions" such as the EU. The first advantage of free Trade Areas is speed. Provided the participating countries can come to an agreement, they can be concluded without delay. This feature is in contrast with WTO round negotiations, which take time and effort. The second advantage is scope. As long as Free Trade Areas do not violate the provisions of the GATT and WTO agendas, they can include a wide range of content. Sequential flexibility is the third advantage. Unlike customs unions, countries participating in Free Trade Areas need not standardize their tariffs with respect to those countries not included in the agreements. Accordingly, even if a country already has an existing trade agreement with one country, a second agreement with another country would not necessitate modifications to the first agreement, and the new Free Trade Area can be created on an entirely different time schedule.

Of course, there is a price to be paid for this type of convenience. Free Trade Areas differ from multilateral liberalization and are discriminatory. And, unlike customs unions, the rule of origin is made ever more complex (known as the "spaghetti bowl" phenomenon; more on that later) with the increase in Free Trade Areas. These come into play and translate into costs. But because they are easily employed, regional integration in many parts of the world, with the exception of the EU, has taken the form of Free Trade Areas.

- **Motivation to Finalize FTAs**

Unlike the past European model, many FTAs established after 1990 pair developed countries with developing countries. Moreover, in many agreements, it is the developing country that bears a heavier burden of duties. At a glance, this arrangement appears unilateral, so why then do developing countries aggressively seek FTAs?

The main reason, until now, was securing access to the markets of developed countries. But unlike

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the era of pre-World War II block economies, the abolition of tariffs by developed countries is rather advanced under GATT Round negotiations. Trade barriers vital to developing countries against agricultural goods, textile products and the like undoubtedly remain, and relaxing and abolishing them is also important. However, this eradication carries the likely possibility that the effects will be only static, and a dramatic effect on the growth track of developing countries cannot be anticipated.

What developing countries are seeking, above all, is direct investment from developed countries. If the FTA can facilitate inward direct investment, a tremendous dynamic economic effect can be achieved. For example, let's say the forging of an FTA results in annual inward direct investment growth of just 2% of a developing country's GDP. If we were to consider the direct investment simply as capital inflow and assume an incremental capital output ratio (ICOR) of 4, the economic growth rate of that developing country could be accelerated by 0.5% annually. Of course, whether direct investment impedes or triggers domestic investment is a subject of ongoing debate. However, if we were to think of direct investment as the key to obtaining technology management know-how and access to foreign markets all at once, we could expect a substantial dynamic economic effect in excess of the estimate presented above.

When FTAs are formed with complexities akin to a finely knotted net, it is believed that non-participants will pay dearly as a result of their exclusion. In this case, it is not the changed flow of goods, but rather the modified patterns of direct investment that the important. At present, developing countries are engaged in competition to be geographically superior so they can invite direct investment. Establishing many FTAs and becoming an FTA hub enhances a country's chances of gaining direct investment. Developing countries perceive a sense of urgency and are hastily trying to conclude FTAs in an effort to avoid being left behind in the surge toward globalization.

Whenever a developed country is left out of economic integration, there arises the threat that processes ranging from production through distribution will be transferred overseas and a domestic hollowing effect will result. The formation of FTAs to aid companies' international expansion while retaining what should remain in the country is what developed countries should consider in the way of FTA strategies.

- **Dimensions and Development Strategies of the East Asian Economy**

As far as integration is concerned, East Asia is lagging in terms of a political agenda, but as far as integration of the actual economy is concerned, it is, in fact, advanced. It is especially notable with regard to the post 1990 building of international production and distribution networks.

Production and distribution networks span many industries, but the machine industry, including the general, electrical, transportation and precision machineries, is foremost. Nowadays, machinery constitutes over half of all products exported from East Asian countries, and machine parts and intermediate goods make up approximately one-third. The production and distribution networks of East Asia are unprecedented in terms of economic value in the countries of their respective areas, participation by countries of varying income levels and sophistication of transactions, both within companies and between companies. Similar networks exist between the United States and Mexico, as well as among Germany, the Czech Republic and Hungary, but neither of these networks is of the same scale as the networks of East Asia.

The establishment of international production and distribution networks is playing a role in forming the concept of "East Asia" as an economic integration unit. The economic integration of the ASEAN Plus Three is being furthered without the explicit coordination of the countries within the area. However, the ultimate goal of integrating the overall area is implicitly understood by all of the area's countries. This is particularly gratifying in light of East Asia's historical background. Since the Asian currency crisis, the United States has also become tolerant of activities on the part of East Asia to promote integration.

In general, the motivation for developing countries to conclude FTAs is, above all, the prospect of direct investment, but East Asian developing countries have been particularly aggressive in their response to direct investment. The key task will be to revise development strategies in order to make direct investment more effective by linking it to economic development.

The countries of East Asia have adopted dual-track development strategies to concurrently cultivate their import-substitution industries and export-oriented industries. Since the late 1980s, East Asian countries have focused on export-oriented industries to reduce the service-link costs associated with dispersal locations, and have promoted the accumulation of industry. But now the protection costs involved with import-substitution industries have become widely recognized. Furthermore, the countries of Southeast Asia, which are competing for geographic desirability with China, need to boost the advantages distinguishing their locations in the interest of attracting direct investment.

One issue is the reorganization of import-substitution industries. Although import substitution, which includes trade protection, has been attempted in the automobile, electrical appliance, and iron and steel sectors with additional aid in the form of foreign capital, efforts will be made to rearrange industries across borders to take advantage of the tariff abolishment prompted by FTAs.

The other issue is the intensified activation of international production and distribution networks. Here, the abolition of tariffs is insufficient. There is a need to insert dedicated East Asian agenda items, such as trade and investment facilitation, institutional building and conflict resolution, into the FTA.

- **Impact on the Japanese Economy**

The forging of an East Asian FTA is likely to have a profound impact on the Japanese economy.

Throughout the past 40 years, East Asia has continued to be one of the world's growth centers. A decrease in Japan's potential growth rate may be inevitable given the country's already high level of income, but Japan must also create a vital economic society, while tapping into East Asia's dynamic energy. The improvement of East Asia's business environment is imperative for this reason.

FTAs establish mutual rights and obligations on the basis of international agreements, and are substantially more binding than the Organization for Economic Cooperation and Development (OECD) and Asia-Pacific Economic Cooperation (APEC)-grounded agreements. Moreover, it is possible to insert various features besides the abolition of tariffs and even to have a commitment to changes in the domestic policy of a partner country. As a developed country, Japan must recognize its role in the strict discipline of the economic and social policies of East Asian countries.

The JSEPA concluded with Singapore covers a considerably wide scope of topics, and when establishing FTAs with other Southeast Asian countries, further enhancement of its contents will be necessary. Though the FTAs recently forged by the United States with Singapore and Chile can also serve as references, additional contents that reflect the characteristics of the East Asian economy are needed.

Specifically, over and above the free trade in goods and services, FTAs should emulate the JSEPA by including investment agreements to assure transparency in investment-related policies, and the principle of non-discrimination. Fundamental principles must be enforced, even if exceptions are allowed with respect to equal national treatment prior to investment and certain performance requirements.

System building for both certification in various standards and intellectual property rights, which were deficient in the JSEPA, should be included by all means. This is absolutely essential in light of the possibility of future FTA negotiations with China. In some cases, cooperation aimed at capacity building for the purpose of enforcement will be necessary.

Additionally, although it may not be possible to incorporate all the items into the FTA mainframe, issues pertaining to trade and investment facilitation can be remedied, and systems of resolution can be included for problems arising between companies and nations.

Unlike other developing areas, local companies are undergoing rapid growth in East Asia. This trend is particularly discernible in China. Providing international public property, namely a favorable business environment, while the technical superiority of Japanese companies is clearly evident, should be highly profitable for companies both within and outside of the area. It should also result in improved welfare for the people of East Asia.

- **Opening of the Japanese Market**

It is said that agricultural problems are hurdles that must be overcome in order for Japan to establish FTAs. This problem should be divided into three parts for the purpose of discussion.

The first issue is whether a multilateral policy discipline can be fulfilled. Article XXIV of GATT and the "Understanding on the Interpretation of Article XXIV of GATT 1994," stipulate that tariffs and other restrictive trade laws that apply to "substantially all the trade" in free trade areas and customs unions, should be abolished within a "reasonable length of time (10 years),". The precise definition of "substantially all the trade" does not exist. However, if we were to conform to EU documents, over 90% of all trade would have to be completely free of restrictions, and the creation of specific areas that are exempt from liberalization would be prohibited.

This 90% rule alone would not be very difficult to adhere to, but for an FTA with Thailand, the negotiations are expected to be problematic, as Japan's agricultural, forest and fishery product import ratios exceed 20%. However, the same import ratios with respect to South Korea, the Philippines and Malaysia are roughly 10%, and several of the products are subject to low tariff rates. Liberalization of those products through political resolve should suffice.

The second topic is whether a counterpart nation can be satisfied with the concessions extended by Japan and negotiations can reach completion. Additionally, whether those terms will be a contentious point in negotiations in other areas is an issue. Because the countries of East Asia are eagerly seeking an FTA with Japan, the talks are not likely to be stalled, as was the case with the Mexico. However, there are concerns over how effectively Japan can obtain concessions without exposing its weaknesses.

The third topic is Japan's ability to aggressively promote its own interests and establish an FTA benefiting its domestic structural reform. The ratio of Japan's agriculture, forestry and fisheries industries to GDP has decreased by just over 1%, so agricultural problems have already ceased to be a major issue in view of the overall national economy. However, exceedingly high trade barriers on certain products and the subsequent long-term burden they place on the national economy are by no means desirable. The essential issue that should precede any discussion on the subject of compensation is the presentation of a lucid reform plan.

The Philippines and Thailand are requesting the acceptance of nurses, care persons and masseurs. At present, WTO disciplines do not address the subject of transferring human beings, but the second and third points described above almost directly apply. Considering the income disparities between East Asian countries, the liberalization of labor movements as in Europe is out of the question for the time being. But accepting foreign labor, with certain limitations on types of businesses and lengths of stay, is worthy of deliberation. Acceptance of foreign labor is also likely to have a positive and encouraging effect on domestic structural reform.

- **Japan's Tasks**

It is not an overstatement to say that the basic design of the East Asian FTA has been assigned to Japan.

The first thing that needs to be done is to take the lead in promoting high quality FTAs. The quality referred to here demands a high degree of liberalization as well as a wide scope. The ASEAN Free Trade Area (AFTA) and the China-ASEAN FTA are pacts binding developing countries, and because they are objects of "enabled clause," a high level of liberalizing disciplines cannot be expected. The scope must be, for the most part, limited to trade in goods. Japan will take the lead as far as the East Asia FTA's contents are concerned.

Secondly, in the interest of achieving uncomplicated integration of the overall area in the future, the contents should be conscientiously conceived when bilateral FTAs are forged with various countries. The road map leading to an FTA encompassing the overall area has not yet been drawn, but an agreement consisting of a commonly shared format and contents is desirable to the furthest possible extent.

In principle, custom unions, in which member countries standardize their trade barriers with respect to all regions outside the area, can abolish borderlines between the countries within the area and allow for the free transfer of goods. However, in the case of Free Trade Areas, certifications of origin are requisite at all times, even when multiple network FTAs are established, in order to prevent external products from entering through countries with relatively low barriers. If differing rules of origin are applied to each respective bilateral FTA, an extremely complicated system will administer the trading of goods within the area, and ultimately, there is even the risk that goods will not be able to move freely. This effect is referred to as the "spaghetti bowl" phenomenon. To avoid this, a system for the certification of origins, such as one that incorporates changes in tariff classification and added-value standards, should be integrated wherever possible, and the development of a system for issuing simple certificates of origin is needed. In addition, because generally high trade barriers against the countries outside the area are responsible for these issues, it is important to sustain efforts to achieve multi-based liberalization, as well as integration that are externally accessible.

Thirdly, in order to realize the most thorough integration possible, Japan should not pursue trade policy independently, but rather, should enhance coordination with other areas of policy, including security, international finance and currency exchange, energy and the environment, and economic cooperation. The reorganization of economic cooperation with East Asia is a particularly urgent task. Support for South Asia and sub-Saharan Africa, and economic cooperation with East Asia, are vastly different in terms of both character and purpose. Economic cooperation with East Asia must be reorganized with the promotion of economic integration as a primary objective, and without regard for the link between income level and concessionarities. Drastic reorganization focusing on the advancement of local small and medium-sized enterprises, capacity building for the integration, and consideration for countries whose entry into ASEAN was delayed, will be necessary.

In terms of economic cooperation in East Asia, the next few years will be crucial. ■

Country Risk Management : Some Conceptual Issues

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1.1 Introduction

The most significant challenge for most of the countries will be survival: survival of people, the environment and states. Though some countries have recorded meaningful and sustainable economic growth, the major obstruction is in the flow of investments – both domestic and foreign. Risk, real or perceived, is a major deterrent for investment by any country. Natural disasters, socio – political risk, country – specific economic risk, bad governance etc. are some examples of various risk factors obstructing investments. The growth, development, and future survival will be greatly influenced by risks attached to business in international market.

The nature and extent of risk varies from country to country. Measurement of this risk and its management has been a real challenge for cross-country investments. Though with the advent of information technology with the corresponding flow of information among countries, the challenge of measurement (of risk) has been considerably reduced; its management has remained a challenge.

This paper attempts a review of literature, sources of risk, types of investment and nature of risk and different methodologies to measure it. In addition, the study reveals some of the existing country risk management methods, both qualitative as well as quantitative approaches.

Risk is defined as a performance variance whether it impacts the firm positively or negatively. In literature, dealing with the risk of doing business abroad, the two terms most frequently encountered are 'country risk' and 'political risk'. Political risk is the oldest terminology and appears mostly in academic articles. 'Political risk' can result in gains as well as losses. The probability of occurrence of political events that will change the prospects for profitability of a given investment may be termed as 'country risk'. Thus the notion of risk has different meanings and may be understood either as a performance variance or just as the likelihood of a negative outcome that reduces the initially expected return. It is more appealing to follow a downside risk approach as opposed to a total risk perspective. Indeed, while investors try to minimize their downside risk exposure, they want to maximize the upside risk sensibility. Miller (1992) retains the concept of risk as performance variance while the concept of downside risk was discussed by Markowitz (1959). Nawrocki (1999) reviews the literature and presented the advantages of downside risk approach in lieu of total risk. Recently, Reuer and Leiblein (2000) and Estrada (2000) have emphasized the usefulness of the downside risk approach for studying emerging markets and international ventures. Since all international business transactions involve some degree of risk, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography and currencies. Country Risk Analysis (CRA) attempts to identify the potential for these risks to decrease the expected return of a cross-border investment.

1.2 Sources of Risk

Two types of approaches were seen in the literature. The first one only focuses on the governmental or sovereign interference with business operations while the second refers to the environmental instability and its impact on business conditions.

1.3 Types of Investment

Meldrum (2000) analyzed the impact of various sources of risk based on four different investment types: direct investment/private sector, short term financial/private sector, short term loan to government and long term loan to government. However, the focus was on a selected category of investment (i) foreign direct investment (FDI), (ii) commercial bank loans and (iii) portfolio investment (PI).

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We can also analyze the country risk on historical perspective. Research in the field of country risk was driven by different crises: the ‘political risk’ in the 1960s and 1970s, ‘debt crises’ in the 1980s and ‘financial crises’ in the 1990s. While the literature in the 1960s and 1970s was mainly based on qualitative studies aimed at analyzing political risk. Nevertheless, the work in 1980s and 1990s was more of quantitative in nature. In recent years, several authors tried to advocate an integrated methodology combining both qualitative and quantitative tools.

1.4 Classification of Country Risk

Country risk may occur due to natural disasters, socio-political risks that include social risk, government policy risk, political risk and country – specific economic risk.

2. Country Risk Assessment Methodologies

The Qualitative Risk Assessment and Quantitative Risk Assessment are two techniques that are commonly discussed which are used to analyze risk. Qualitative risk assessment attempts to evaluate risk based upon relative risk levels evaluated in a subjective sense. Quantitative risk assessment attempts to assign values to individual risks and to mathematically combine them in a way that demonstrates their relative or absolute effects. These effects can be generic numbers that only have bearing on each other or they can be converted into costs or time deficits. This section briefly outlines and discusses about both the approaches.

2.1 The Qualitative Approach

Qualitative analysis refers to the evaluation of the economic, financial and socio-political fundamentals that can affect investment return prospects in a foreign country. It also aims at tackling the structures of a country’s development process, to shed light on the underlying strengths and weaknesses. Generally, a robust qualitative approach leads to comprehensive country risk reports that tackle the following six elements:

(i) The social and welfare dimension of the development strategy

Growth is a precondition for self-sustaining development as well as for enlarging people’s choices. Annual GDP evolution captures only a portion of a country’s long-term development prospects. Hence, development means economic growth coupled with those conditions that make it self-sustaining. These conditions include democratic legitimacy, robust and stable institutions, and efficient public affairs management. Politics and policies thus matter for social and economic development. Access to education, nutrition and health services, political and cultural freedom that all combine to produce decent standards of living. These criteria constitute key, basic components of country risk. Indeed there is a close correlation between human development indicators, as measured by UNDP, and country risk.

The World Bank attempts to encapsulate development prospects into four socio-economic indicators for a given country and compares them with the average of a regional group of countries. These indicators comprise life expectancy, access to safe water, per capita GNP, and primary education enrollment. Life expectancy is a good illustration of the overall quality of a country’s enabling environment for sustainable development. It also illustrates the government’s commitment to the adoption of a basic human needs strategy.

(ii) Macroeconomic fundamentals

The second element in the qualitative analysis deals with macroeconomic fundamentals as key explanatory variables behind growth success versus financial crises. This approach aims at taking into account most, if not all, the variables that feed or hinder the economic development process including institutional reforms, budget and monetary policy, capital accumulation, resource gap financing, trade openness, financial intermediation, balance of payments sustainability etc. The most important challenge is the country’s capacity to preserve sustainable growth. Excessive growth, be it of spending, debt, money supply, GDP, investment, or domestic credit, will create bubbles and costly imbalances that will require adjustments. Growth crises can stem from endogenous or exogenous influences that will affect each of these variables. The qualitative or structural approach deals with the relationships between the domestic economy and the international environment as a source of strength and/or weakness for the country’s growth. Growth has long been considered as a byproduct of a combination of factors including domestic and external resources, solid infrastructure, adaptive and efficient institutions, and the central guidance role of the in an otherwise decentralized market economy. Regarding the pace of economic development, a consensus emerged in the international community that capital inflows should rise to make medium-term programs of adjustment with growth feasible in emerging countries (World Bank, 1986). Foreign capital, both public and private, can speed up the transition from developing to advanced economies. Globalization in financial and trade relations brings new risks of destabilizing speculation and capital flow volatility that stem from the spillover and regional contamination threats. The first generation crisis is that analyzed by the Bretton Woods institutions, focusing on fiscal imbalances in the form of government budget deficits, which cause the loss of international reserves until governments are unable or willing to defend fixed exchange rates. The balance of payments deficit is itself the byproduct of an expansionary monetary policy that generates domestic inflation in a context of overvalued exchange rate policy. Second generation models focus on the domestic impact of high real interest rates as a policy tool to defend the exchange rate parity in a context of speculative attack and falling reserves. Market perception and portfolio shifts are key variables behind reserve levels and exchange rate depreciation. This model is relevant to analyzing the “1995 Mexican crisis” as well as the “1988 Russian crisis”.

(iii) External indebtedness evolution, structure and burden

Economic theory suggests that external debt is a temporary phenomenon the supplements domestic savings, bridges the resources-investment gap and speeds up the growth process towards the take-off stage of sustaining development (Bouchet, 1987). Reality, however, shows that countries do not grow smoothly out of external indebtedness. Two different theoretical approaches underlie attempts to predict the risk of default. One approach regards default as arising out of an unintended deterioration in the borrowing country’s capacity to service its debt while the second views the rescheduling of a country’s external debt as a rational choice made by the borrower based on assessment of the costs and benefits of rescheduling or defaulting. The default is considered as a function of the unsustainability of a given level of external debt, because of either short-term illiquidity or long-term insolvency reflected in liquidity problems. Therefore, a number of key economic variables could serve as indicators of future liquidity and solvency problems, including export growth rates, current account balance, real exchange rate, as well as various liquidity and solvency indicators. Williamson (2002) argues that a heavy debt burden is not a sufficient trigger to a debt crisis when a country’s fundamentals are strong enough to service the debt depending on the market’s psychology. Otherwise, the negative market’s perception will generate a self-fulfilling crisis. The markets’ choice between focusing on the good versus the bad debt equilibrium is influenced by a range of variables including the political situation, the policy makers’ credibility, the independent status of the central bank, the support of IFI, etc. In order to obtain solvency indicators, we measure (i) the external debt relative to macroeconomic indicators such as GDP, (ii) the real weight of the debt through its net present value, (iii) debt flows versus debt stocks and (iv) the volume and stability of net flows and net transfers. One should tackle the debt’s structure in order to assess the impact of the financial conditions of capital flows upon the debt servicing capacity. The analysis of the debt composition, regarding creditors, debtors, floating/fixed rate, currency, maturity, will illustrate the quality and sustainability of the county’s market access.

(iv) Domestic financial system situation

Some basic flaws in the region’s domestic financial sectors, including directed credit and administrated interest rates; the lack of international standards in regulation, accounting, and operating policies; poor and non-transparent supervision; lack of medium or long-term local currency debt markets; and the scarcity of adequate equity in both the financial and corporate sectors, may lead to crisis. This debacle led to a new round of protracted crises and painful macroeconomic adjustment coupled with strict financial and corporate sectors reforms. The emergence of new financial instruments along with innovative institutional development has been striking in the banking system of most emerging market countries in the past 15 years. To facilitate the development of financial institutions, restrictions on lenders were eliminated, and innovative ways of doing business were adopted. Financial deregulation and liberalization were attempted in parallel. Technological change helped the volume of private international capital flows to grow at unprecedented rates (World Bank, 1988). To avoid a financial crisis, lending institutions must fulfill their natural duty of scrutinizing their clients. This process of collecting information is even more necessary in emerging markets.

(v) Growth, Crisis and Governance

Whereas country risk analysts focused on debt ratios and growth rate indicators in the 1980s, a consensus is emerging to place governance at the heart of the development process. Corporate and sovereign governance get the headline in academic articles. World Bank and IMF macroeconomic conditionality incorporates governance criteria to determine eligibility access to official financing. Public sector institutional reform is at the heart of good governance. To get market access and show robust creditworthiness to rating agencies, emerging market countries must demonstrate that they adhere to high transparency and governance standards. One key aspect of the investment climate is the assessment of political stability as well as transparency and efficiency of the legal and judiciary system. Governance includes issues such as transparency, sound and efficient administration, government accountability for the use of public funds, rule of law and social inclusion. The concept of corruption can be used as a useful alternate to observe, measure and compare the perception of governance across time and across countries. Corruption refers to the abuse of public power for private benefits. Regular surveys of international investors' perception of corruption can shed light on the intensity of corruption while providing a comparative picture across time and across countries.

(vi) Evaluation of political stability

The qualitative approach to risk considers political risk as a byproduct of an imbalanced development process. Contrary to the analysis of the components of economic growth or the stability of domestic financial system, hard data are not available in political risk analysis. Therefore, a solid theory will help develop a systematic view of factors driving political risk and link them to the risk management strategy. Different approaches to political risk include (i) grand tour approach that relies on the field company intelligence, (ii) relying on seasoned experts coming from the academic, intelligence and diplomatic networks, (iii) checklist technique, (iv) the Delphi technique based on expert surveys, (v) political risk modeling and (vi) power base or prince model involves identifying key sources of power and centers of influence, both informal and official.

2.2 The Quantitative Approach

The quantitative approach is just a refinement or a separation of a qualitative approach. It breaks down the qualitative issues into smaller factors that can have quantities ascribed to them. Some quantitative techniques that are used to analyze risk are (i) discriminant analysis, (ii) logit and probit models, (iii) regression analysis and model building and (iv) Monte Carlo simulations.

(i) Discriminant Analysis

Discriminant analysis is a statistical tool that makes it possible to classify an observation into one of several a priori groupings. This technique can be used to predict firm bankruptcy. In the case of political/country risk analysis, the idea is to classify countries according to whether or not they are likely to default, expropriate or do something else perceived as unfavourable for investment.

(ii) Logit and Probit Models

These models make it possible to model dichotomous variables, that is, variables that take a value of 1 or 0. These types of models are adapted to many types of political risk, which often have either/or outcomes: for example, either the country defaults or it does not, either the country expropriates or it does not. These models use a methodology that involves drawing up a list of variables that the theory or practice suggests might have an influence on the phenomenon in question and testing whether they enter the model as significant explanatory variables.

(iii) Regression Analysis and Model Building

The procedure mentioned in logit/probit models can also be applied in other regression models. The alternative approach to this *ad hoc*, empirical approach is to develop a theoretical model and then test its ability to explain the phenomenon in question. As an example of model building for regression, one can consider the monetary approach to the balance of payments.

(iv) Monte Carlo Simulations

Monte Carlo simulation is a well-known technique that is used in many economic and financial applications. Where political risk is concerned, it is often employed for capital budgeting. Monte Carlo simulation is a sampling procedure that uses a table of random numbers to generate the probability distribution and risk estimates. The whole process involves three steps: (i) Identifying the relevant variables and their interdependencies and feed them to computer, (ii) the probabilities for forecast errors must be drawn up for each variable and (iii) calculate the resulting cash flows for each period and record them. After a large number of simulations, accurate estimates of the probability distributions of the project's cash flows are obtained.

3. Conclusions

Risk is a multifaceted challenge. Assessing risk, be it economic or political, requires a thorough understanding of the development process. The later is much more than GDP growth or even GDP per capita growth. It is built on macroeconomic stability, quality of governance, flexible institutions, societal capacity to advance technological capability and evolving government and corporate organizational structures. Country risk is not to be reduced to straight national government interference. Instead, it must take into account the full range of discontinuity sources that stem from the political power structure as well as the institutional organization that enhances or hinders the development process. The more open a country, the more diversified and market-driven its economic system, but also the more prone it is to importing external shocks that result from the global environment's spill over effects.

Though country ratings provide a quick comparative tool for assessing country risk, the pitfalls are too large to ignore the merits of the qualitative, structural, approach to development. A global, integrated, approach has the merit of gathering a broad range of expertise including economists, political scientists, diplomats, statisticians and development experts. This unique combination of expertise enforces the consideration of development as a multifaceted process of social and economic change.

To be sustainable, the development process needs adaptive structures and institutions. The risk analyst looks for the institutional and structural rigidities that raise the country's vulnerability to internal and external upheavals. The qualitative and quantitative approaches to country risk are not exclusive from each other. Common sense suggests relying on an integrated analysis that combines ratings and scoring, econometric correlations, and an analysis of the underlying multiple components of a country's development.

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Indian Pharmaceutical Industry : A post 2005 Scenario

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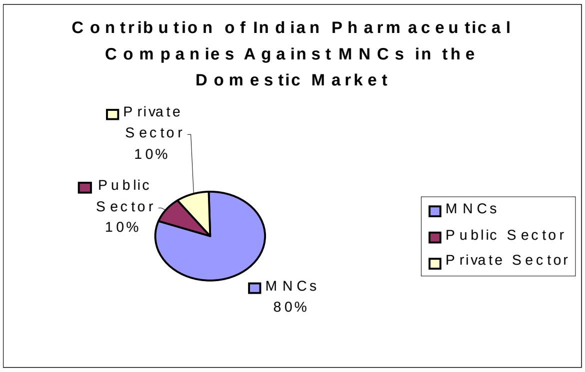
Indian PI and the IPR Regime

The Indian Pharmaceutical Industry is a successful, high technology based industry that has witnessed consistent growth over past several years and holds a great potential for future too. At the time of independence, the total market for the pharmaceutical industry was Rs.10 crores and the industry was primarily dominated by the MNCs. As one of the earlier initiatives, the Hindustan Antibiotics Limited (HAL) was set up in collaboration with WHO and UNICEF and Indian Drugs and Pharmaceuticals Limited (IDPL) got established with the help from Soviet Union with the objective of manufacturing pencilin. With the entry of these public sector units in production of the essential drugs, a new thrust and strength was built up in the private sector of the Indian pharmaceutical industry.

The government during 1970 took initiative to build up a coordinated approach involving Indian Patent Act (IPA) 1970, Drug Price Control (DPC) orders and Foreign Exchange and Regulation Act (FERA) which provided good boost to the industry's growth. Consequently, a drastic reduction in the market share of MNCs was witnessed from 80% in 1970 to 48% in 1982. On the other hand, an increasing trend in the share of the domestic private sector share could be noticed, its share increasing from 10% to 50% in 1970 and 66% in 1991[1]



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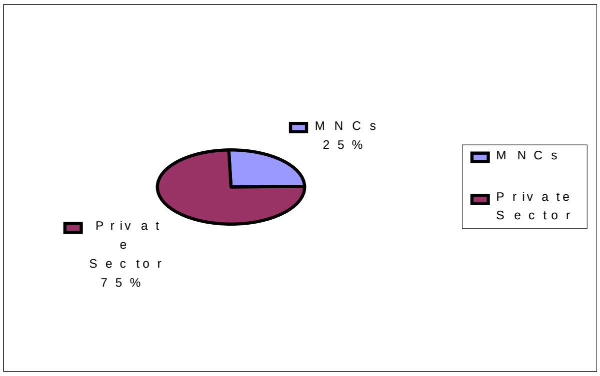

Under the new Industrial licensing policy the quantitative restrictions were lifted, and the pharmaceutical industry is free to export. As a matter of fact, today, pharmaceutical industry exports comes only next to software industry exports from India. A major proportion of revenue generation of the top pharmaceutical companies is from exports and a steady increase in this is expected, particularly after 2005.

The WTO Agreement and the inclusion of Intellectual property rights (IPRs) brought about significant changes in the pharmaceutical industry. The Paris Convention of 1983 left the countries concerned to decide the terms of patent, the duration of patent etc., This gave a wider scope of choice to the countries either to go for process or product patent. The 1970-1990 phase is considered to be significantly important for pharma industries as the Indian Patent Act 1970 gave protection only for process manufacturing.

The Highlights :

- Product patents to be allowed in all fields of technology without exception
- Uniform duration of 20 years for patents in pharmaceuticals, food products and agro chemical

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Paper presented at the international seminar on 'WTO and Implications for South Asia" during March 27-28 2004 at SAARC Center, Andhra University.

- Compulsory licensing to be given by the government on merits of each case. Compulsory licensing to be granted without the authorization of the patent holder besides those that have already been set forth.
- No discrimination between exported and domestic product.
- For process patent the burden of proof will rest with the party that infringes.

WTO & TRIPS

India a signatory to WTO has amended in the year 2002 laws and provided for product patents in pharmaceutical sector. Mention must be made here that this transition is to be completed by 2005. The exclusive marketing rights (EMR) and the mail box provision have been provided to suit the transitional requirements. The moot point now is how these changes would affect Indian Pharmaceutical industries and what is the preparedness of the pharmaceutical companies to meet the upcoming challenges.

There are two divergent views expressed on the effects of the new regime. The first emphasizes that it would lead to monopoly status and adversely affect the growth rate and that the twenty year period of patent protection would restrict the technology development in the country. The domestic not so big industries would vanish due to increased competition from the giant MNCs. Once the product regime comes, the cost of the drugs will make the drugs inaccessible for common man. The other side of the arguments is that it gives a greater edge to Indian pharma companies to improve quality and intensive research and development.

The key provisions of the TRIPS Agreement when read in the light of objectives and principles set forth in Article 7 and 8, clearly establish that the protection and enforcement under IPRs do not exist in vacuum. They are supposed to benefit society as a whole and not mere protection of private rights.

Article 6 of the TRIPS agreement is extremely relevant for members, especially developing countries, and particularly the least developed and smaller economies among them. Article 6 provides that Members are free to incorporate the principle of international exhaustion of rights in national legislation. Consequently, any member can determine the extent to which the principle of exhaustion of rights is applied in its own jurisdiction, without breaching any obligation under the TRIPS Agreement.

Article 7 is particularly relevant to ensure that the provisions of TRIPS do not conflict with health policies, the promotion of technological invention and transfer and dissemination of technology. Also the mutual advantage of producers and users of technological knowledge social and economic welfare and balance of rights and obligations are maintained. [2]

Article 8 of the TRIPS affirms that the members may adopt measures to protect public health, where the owners of the patented pharmaceutical products may be abusing their exclusive rights by selling or offering for sale drugs at prices beyond reasonable margins of profit, thereby preventing adequate access to medication by the general public. Another situation would be when the owners of patented pharmaceutical product do not offer their product in sufficient amounts to meet the demands of the market. The TRIPS agreement provides the safeguards like parallel imports, compulsory licensing.

Most relevant provisions of the TRIPS agreement with respect to compulsory licenses are article 31, 7, 8 & 40 and an integrated approach to the provisions allow scope for the members to ensure that the regulatory policies can be exercised by governments to promote public health policies.

Article 31 of TRIPS agreement defines the grounds upon which to issue compulsory licenses, however, it has kept open the procedural requirements to be followed by members. Members are free to determine the grounds upon which the compulsory licenses can be granted.

The post patent regime of 2005 is a matter of great curiosity and concerns for many as how the Indian pharma Industry can face this new shift of process to product patenting, taking advantage of the safeguards (parallel imports, compulsory licensing) as mentioned in the Indian patent act of 1970 and as amended in 2002.

Key Strengths:

The low cost of manufacturing coupled with large pool of English speaking scientists are major sources of strength of Indian pharma industries. The bulk drug production and expertise in process capabilities to produce drugs that are still patented are the positive aspects. The patented drugs are being produced within a short period of time**,** for example in case of Ranitidine and Ciprofloxacin, there were about 3250 producers in India in 1996 while the patent Regime was still on. The most successful strategy would be to produce or develop indigenous version and make a close substitute to the original one. The other example could be Viagra (Sidenafil citrate) introduced by Pfizer. It took 13 years and huge amounts of investment to prefect this product. In India there are 6 branches available and surprisingly out of 30 raw materials used 26 are available in India. [3]

Certain drawbacks:

Relatively low level of research and development and lack of funding from sources other than the parent firm is a set back in Indian scenario. The process patent which made drugs affordable with low cost, however, had an indirect impact on the research and development areas. The Research, Development and Trials takes enormous time, while the process of reverse engineering made the product available with less cost in faster manner. The quality of drugs is a major issues in the global markets. For example, in case of Ciprofloxacin, an antibiotic where more than 70 firms were engaged in its production, two were able to export to USA, since only they could meet the necessary regulatory standards in US.

The Preparedness of the Indian Companies:

The development in the last years do reflect positively the preparedness of the Indian companies like Ranbaxy, Cipla, Wockhardt and Dr. Reddy who have already taken initiatives in NDDS (New Drug Delivery Systems) [4]. American home product, Pharmacia and Upjohn, Bristol Mayor Squibb and Glaxo-Wellcome are some of the global companies who have selected India as their out sourcing base. Ranbaxy, Lupin labs and Nicholas Peramel are the first few Indian companies to obtained these contracts. MNCs have started looking at India for research and development collaboration with Pfizer already taking lead in setting up a few member team to assess the possible collaboration and development in India. Besides, these above collaborations the in-built mechanism in TRIPS agreement under para 6 provision of the Doha declaration regarding the compulsory license is an added advantage and an opportunity to Indian Pharmaceutical industry. The most recent development of CIPLA receiving orders under the above provisions from Malaysia for exports for four specified Anti retroviral (HIV / AIDS) formulation is a convincing beginning in this regard. This deal under compulsory licensing empowers Cipla to sell these medicines under fixed ceiling prices to Govt. of Malaysia, for exclusive supply to government hospitals for two years. Compensation to patent holder as per the deal will be paid within two months from the date of import.

Outsourcing:

The outsourcing of clinical trail segment in order to cut short the cost price is an opportunity for Indian pharma Industries. The cost of conducting the trails is comparatively low in India. It is mentioned, that in India the contract research organizations takes about \$ 3000, whereas it costs about \$ 5000 per patient in USA. The global market is growing at 6% - 7% per year and is expected at around \$ 480 billion by 2005 and is further projected at \$ 680 billion. by 2010. In generics for the next ten years, about \$ 80 billion worth of drugs are patented and this too opens a greater opportunity for producing off patented drugs.

Boost for generics:

WHO and UNICEF recognize that the generic pharmaceutical industry has a vital role to play in producing safe and effective medicines at low cost to improve health and life saving drugs. For essential drugs a basic generic legislation, ensuring fast track registration is very essential**.** Major Indian companies are looking for enormous production facilities in US as this country accounts for nearly 50% of the world market. The US generic market is very large and already Dr. Reddy, Ranbaxy and Cipla have received the US – FDA for generic marketing. Brazil is aggressively promoting generic drugs to increase the availability of drugs to suit the requirement of 17 crore population. However, only 50% of total population has access to pharmaceutical and only can afford to buy prescribed drugs. Indian companies including Ranbaxy, Cadila Pharmaceuticals, Aurobindo Pharmaceuticals and Lupin are interested in Brazil as it is a gate way to other Latin American countries. The success of an Indian company bagging the first ever order in the world under the compulsory licensing is a confirmation to the optimism shown by Indian pharma Industry.

To conclude, the options available for Indian pharma industry are:-

- To compete with the MNCs by producing their own inventions
- To produce under license
- To make drugs that are free from patents

The success of implementing these options would depend on:

- The strategic approach to global markets of the companies
- Strong R & D and enhancing of the skills in product development
- Competitive pricing
- Diversification of research options in Bio-pharmaceuticals and intensive research in biotechnology
- Good infrastructure facilities in pharma and chemical engineering areas
- High competitive work force to meet the demands of the global market

The strength of Indian Industry should be utilized by adopting various strategies, the new initiatives in R&D, outsourcing clinical trials, acquiring the compulsory licenses and collaborating with MNCs in both manufacturing and marketing would be a step forward to meet the post 2005 scenario.

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"The historic Agreement on TRIPS and Public Health was a clear demonstration of the ability of the WTO members to find compromise ways forward on difficult issues".

- WTO Annual Report 2004

Shrimp Farming and Exports to Japan : Quality Issues - A Report

S. Srilalitha[1]

1. Shrimp farming and exports of India

Commercial shrimp farming has been actively encouraged in India since the beginning of the 1990s. Shrimp aqua culture has provided tremendous opportunity for economic and social up-liftment of rural communities in the coastal areas of India. Over a hundred thousand farmers are engaged in aquaculture; about 90% belong to the small and marginal category.

According to industry estimates, shrimps account for about 60 per cent of India's seafood exports estimated at Rs 6,000 crore. USA has emerged as the single largest market for Indian marine products during 2002-03 relegating Japan to the second position. The share of USA was 13.21% in quantity and 29.81% in value thus registering an export growth of 25.82% and 44.30% in volume and value respectively. Over 2001 – 02 the Share of exports to Japan was 11.75% in volume and 22.30% in value. There was a decrease in the exports to Japan to the tune of 15.39% and 15.70% in quantity and value terms in 2002-2003.

India has been one of the important shrimp supplying countries to Japan. However, there has been a drastic decrease in shrimp import from India for the past several years. (50,411 Tons in 1998 and only 22,743 tons by October 2003).

From a No.1 rank in shrimp exports India's rank has slided to No.3 in 2002-03 with Indonesia and Vietnam in No.1 and No.2 ranks respectively. Till 2000-01, more than 50 per cent of the Indian shrimp was exported to Japanese shores.

In the light of the reduction in the purchase of shrimp by Japan in recent months, Marine Products Exports Development Authority (MPEDA) has constituted a study group with experts on traceability in the fishery sector and to work in close co-operation with the seafood trade authority in India. As a result the research and analysis work of traceability is given to Japan Fish Trade Association (JFTA) to conduct a study with a view to understanding the reasons for the decreasing trend of shrimp exports from India.

2. The current situation of shrimp industry in Japan

Mass supply of cultured shrimp is changing the import pattern. Also, the sluggish trend of shrimp import is caused by low shrimp consumption. Especially, in the year – 2003, household consumption in Japan has drastically decreased. Factors like changes in distribution channel, packaging style and new trade practice are dictating the terms of business in Japan.

The import of value added shrimp products has increased drastically. Frozen block shrimp is still in great demand in Japan. Shrimp of head-on, head less occupies major sales along with fast moving tray pack sales in super markets of Japan. However, it is true that sale of processed shrimp has increased and well in demand for institutional use. The demand for varieties of processed shrimp such as tray pack, Sushi and bread-battered items are gradually increasing in Japanese market. Indian exporters are receving better price from new markets – USA and European Union which is another reason for Japan to loose its imports share.

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[1] Ms. S. Srilalitha is an Assistant Professor, GITAM Institute of Foreign Trade, Visakhapatnam. The author participated as a resource person in the workshop along with two Japanese representatives of Japan Fish Trade Association, Tokyo, Japan.

The Workshop was Organized by Marine Products Export Development Authority (MPEDA), Japan Fish Trade Association (JFTA), Fisheries Dept. Andhra Pradesh, Seafood Exporters Association, Andhra Pradesh, a Bheemavaram, from 15th to 18th December 2003.

Vanami culture in the world is increasing and expected to touch 400,000 M/t this year (2003). The Vanami culture is gradually changing the supply position of the world and becoming the substitute product for black tiger for its low price. Vanami production is in operation under intensive culture in China on a large scale. This aquaculture pond can easily cause environmental deterioration with chances of disease breakout. However, so far, Vanami production is only for 31/40 (small size) size down and issues of quality on the front of disease is still unsolved. Therefore, the big and middle size shrimp market is still mainly for cultured black tiger shrimp. And that fact makes the black tiger shrimp exporting countries to get an important place in Japan's frozen shrimp imports.

3. Role of JFTA and MPEDA in tracing quality issues in India

The Japanese Fish Traders' Association (JFTA) has sought the Marine Products Export Development Authority **(MPEDA)** approval to include Indian shrimp in its traceability study on imported fishery products. The JFTA took active participation in this project by submitting its own unique project proposal. According to the JFTA it would be possible to carry forward such study for the next five years also under the funding of Ministry of Agriculture, Forestry and Fisheries.

Since imported seafood is also included in this project study, the association proposed to include Indian shrimp as a major item to be included in the proposal to Japan. After conducting the study, if Indian shrimp can be categorised as a model product following good trace-ability practice, it will be highly beneficial for both Japanese importers and Indian exporters. The project is aimed to address the issue related to muddy/moldy smell in Black Tiger shrimp from Bheemavaram. Accurate analysis and precise identification of sources were given top priority by the representatives of Japan Frozen foods inspection corporation, Japan.

Environmental reason of Muddy Moldy smell

The temperature is 20- 30 C on usual case, if the level of PH is more than 9 the ratio of smell raising can be up to 80%. The deposits of blue-green algae on the surface of the soil of the pond, and being picked / eaten by prawn when under fed is a serious reason to catch the muddy moldy smell. The two agents that produce algae are Goesmin and Methylisoborneol. It is noted that increased production of "Blue – green Algae" is during the summer season with temperature high in the environment. According to the analysis by Japan Frozen Foods Inspection Corporation it is mostly found in the low salinity water shrimp only.

4. Analysis and solutions

4.1 Low salinity:

Shrimp culture in India (Andhra Pradesh) is in two types of waters, 1. Brackish water (salt water), 2. Sweet water.

The shrimp cultured in sweet water is grown under low salinity conditions. Low salinity also leads to muddy smell.

4.2 Pond management:

Pond soil is to be treated after every harvesting schedule. A huge deposit of waste material, foreign particles, feed and other chemicals in the bottom of the pond is an ideal situation for blue-green algae to grow.

4.3 Testing the soil and changing the water :

Analysts suggest testing of the soil on weekly basis for detection of blue green algae agents and to change the water if the pond water is smelling.

4.4 Use of Bag net for catching the shrimp:

Cast net is totally banned for catching the shrimp for harvesting. The use of cast net will frighten the prawn in the water and it will go down into the soil to hide and in the process it will eat the mud in the bottom of the pond.

4.5 Regularly feeding the Prawn:

It is suggested to feed the prawn with out fail till the end of the harvest schedule. Prawn may pick / eat the mud of the pond bottom in the occurrence of underfeeding, which in turn may give muddy smell.

4.6 Hand picked prawns:

The prawns picked by hand from the bottom of the pond should be packed separately, because they might have eaten mud from the bottom that lead to muddy moldy smell.

5. The problems faced by shrimp dealers in Japan:

5.1 Muddy moldy smell: Smell can easily be traced from the boiled prawn and while eating also. Therefore, the detection cases of the smell are mainly coming from consumers of Indian shrimp as "customer's claim". One of the major sales style in Japan is tray packing or "Tokashi – Uri". The frozen block is melted and sold directly to the consumers, in which case the smell is detected immediately. Therefore, once muddy – moldy smell is detected from the tray pack packaging or "Tokashi-uri", it is an obligation for supplier of this detected product to call back and pay penalty to the supermarket chains for losing their brand image and sales. Besides the loss of business, more serious concern is to lose credibility among the Japanese consumers.

5.2 Detection of Antibiotic: One of the most important issues that Japanese importers are forced to take very cautious attitude is presence of antibiotic. The usage of all anti-biotic is banned in Japan. Now Indian black tiger is in the category of monitoring fixed by Government of Japan for checking the antibiotic residue. Once antibiotic is detected, it is impossible to sell in Japan.

5.3 Other Issues: Besides muddy – moldy smell, presence of antibiotic, mixing of grade/sizes and foreign particles in the frozen block are the major concerns of processors / wholesale circles in Japan.

6. Conclusion:

It should be noted that muddy moldy smell is not the only reason for the loss of the market share of Indian black tiger shrimp in Japan. On account of muddy-moldy problem, all the other negative elements in doing business with India in the past surfaced and lead to bad publicity to cause a total loss of black tiger market share in Japan. Muddy moldy problem had been solved by Thailand; it should be solved in India even if it takes time. Food additives, anti-biotic, compulsory indication of the origin of production, traceability etc., are the major issues of Japanese shrimp market. These issues should be addressed carefully and if we fail to understand the intensity of these problems, market share can easily be lost in Japan.

Incase of other countries (Vietnam, China and Indonesia), ship back terms are secured in terms and conditions of the contracts when muddy moldy smell or antibiotic is detected. Therefore, Japanese importers demand the same condition of ship-back terms from Indian industry also. There is also another demand from Japanese importers to incorporate a guaranty clause that the product is free from antibiotic and muddy moldy smell in the purchase order and Letter of credit as a matter of practice while importing from India.

MPEDA is trying to help the farmers to detect muddy moldy smell at every stage of culture, advertising the principles of good pond management, processing and packing methods to make the product free from muddy moldy smell. The hope is that in near future Indian shrimp recovers from the loss and regains its market share by solving muddy moldy smell and other problems. ▪

Learning From Each Other: Eastern and Western Management Thoughts and Practices A Report

M.V. Lakshmi*

The Two Day Seminar on Learning From Each Other: Eastern and Western Management Thoughts and Practices organised by GITAM Institute of Foreign Trade, Visakhapatnam, during 1-2 Feb 2004, provided exposure from the ancient to modern thoughts on management in the sessions on Culture, Religion and Management, Learning from Each Other – Industry practices and experiences and cross cultural transferability of management thoughts and practices. The panelists focused on the need to identify thoughts and practices of the East and the West; what can be learnt that could bring synergy to management and the need to develop inward-outward-and forward looking strategies to achieve organizational excellence. The notion that "East is East and West is West" is no longer valid in the era of globalization.

On the evolving contours of Indian management the panelists saw a new phenomena - the rise of the local along with globalization and the change from the kingdom state to the nation state to the corporate state. There is a need to a change from the survival of the fittest to elimination of the rest to the arrival of the best to lead the rest; from CEO to Corporate Rishi and Re-Seeing things in the new perspective. The speakers also emphasised the need to move from cultural colonialism.

On Religion, Culture and Management the speakers felt that there is a lot to learn from the Bible, Quran and the Indian scriptures and imbibe corporate culture. Prof. Christopher Legett of University of South Australia speaking on Christianity and management said that Christianity as a religious faith showed how the earlier experience of Christianity may have had a shaping role on the newer experience of the management of work. In particular, he said that the ascetism of the Protestant expression of Christianity, as posited by Max Weber provided the necessary discipline, values and attitudes to enable the management of work in modern, complex organizations.

Prof. Siraj Hussain, Vice Chancellor, Jamia Hamdard said that Quran is a primary revelation in which god speaks and when you judge between people then you judge with justice. Islam is a religion of services. People are taught more of ethics than philosophy. Muslims are taught by the Quran that God in diverse ages of the Universe gave revelations of His Will to several prophets and it is incumbent on every believer to believe in every word of it. As human reason is insufficient to guide man to the knowledge of Truth, God has from time to time sent his servants, the prophets and the apostles to guide and teach. The concept of usury in the Quran, said, Prof. Siraj Hussain comes in very useful in the conduct of business and charging very high interest rates or profiteering could be unethical.

Dr. Siva Subramanian, Vice Chancellor, Bharathiar University said that Thirukkural offers learning in management and that the Indian analytical mind has a vast potential.

Earlier, Shri M.Gopalakrishna, Chairman, APSFC provided an overview of the Seminar theme. Emphasizing on the need to learn and update from the ancient scriptures he spoke on the need to develop an inward looking, outward looking, onward looking and forward looking approach and moving from transactional to transformational to transcendental management. He said the essence of the ancient scriptures is trust, truth and transparency and the Confucian ethic of kingly outside and saintly within is applicable to the CEO of today, a leader should take an opportunity out of difficulty. All ancient scriptures talk of tolerance of culture.Tacit learning is important and excellence for the sake of excellence is the approach to excellence in management. The notion that "West is West and East is East" is no longer valid in today's context of globalization he said.

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The purpose of all religions is to stabilize society. There is oneness in the divine names of Allah, Vishnu and Narayana. That which is done with faith dedication, sincerity, objectivity and knowledge both internal and external is the real formula of success. The GITA which says that devotion to duty, without attachment or desire for the rewards has shown the way of life for all men and this offers an excellent lessen to todays managers. It contains the quintessence of Indian thought on the ideals of human existence and putting society above the self, all essential lessons for corporate managers.

Prof.CP Bhatta, IIM Kolkata said that Ramarajya is based on the principles of peace, order, security, and justice, virtue, goodness, and all round welfare of the public. Rajya dharma in his time was based on the belief that just as the mother earth gives equal support to all living beings, a king should give support to all without any discrimination. Rama was invariably guided primarily by the criteria of benefit to others even if it resulted in some cost to self. Ashoka's vision was to achieve the material and spiritual welfare of the whole world. He believed that all religions should reside everywhere, for all of them desire self-control and purity of heart. Reflecting on Ashoka's relevance to management, Prof Bhatta quoted the vision of Ashoka 'My only intention is that the people beyond the borders of my country live without fear of me, that they may trust me and that I give them *happiness*, not *sorrow*.' This is more relevant now than any time in the future as evidence by the feel good factor that the new peace initiatives by India and Pakistan has generated.

Prof Bhatta summed up the five essential features of leadership based on five essential factors of life thus: earth denoting emotional stability, water signifying purity and sanctity, fire characterizing energy and power, air connoting change and movement and space for creativity and innovation.

Prof. Subhash Sharma, Director IIPM, in his presentation on Kautilya's Arthasastra said that it has many lessons to offer on project management, accountability and governance and cited his popular work Western Windows and Eastern Doors and the new concept of the Corporate Rishi. In the happiness of the people, lies the happiness of the King. The King Severe with the Rod, becomes a source of terror to beings. The king mild with the Rod is despised. The King just with the Rod is honoured. For the Rod, used after full consideration endows the subject with spiritual goods, material well being and pleasure of senses. Used unjustly, whether in passion or anger or in contempt, it enrages even forest anchorites and wandering ascetics, how much then the householders? If not used at all, it gives rise to the law of the fishes. For the stronger swallows the weak in the absence of the wielder of the Rod. Protected by him, he prevails.(Administration of) the Rod, (when) rooted in self-discipline, brings security and well-being to living beings. Success is threefold: attainable by power of counsel, by power of might, by power of individual drive. A blend of the Values of the East and Reasoning from the West could bring synergy to organizational thinking, culture and performance and the CEO as a role model from CEO to Corporate Rishi, wealth creation with values being the new corporate veda.

Purity in public life and harmony in domestic life is the essence of all religions. While there is no doubt that the ancient scriptures written at a particular time of history are relevant today they need a new interpretation in the current context.

Other panelists/experts who spoke are Dr.TV Sairam Chief Commissioner, Customs and Central Excise, Visakhapatnam, Prof.K.Ramakrishna Rao, former Vice Chancellor Andhra University, Dr.Rajen Gupta, MDI Gurgaon, Prof.B.R.Virmani, Chairman, Cord-M, Mr.Rajan Johree, OD & People Practice a management consultant from Kuala Lumpur, Malaysia, Mr.B.Sudhakar, General Manager-HR&IR, LG Polymers, Prof.V.Subhrahmanya Sastry and Ms.Lalitha from GIFT.

The Seminar was co-sponsored by Association of Indian Management Schools, National HRD Network, International Management Institute, National Thermal Power Corporation, GlaxoSmithkline and Rashitraya Ispat Nigam Limited and co-directed by Dr. C S Venkata Ratnam and Dr M V Lakshmi of GITAM Institute of Foreign Trade. ◘

GIFT News

- A Two Day Seminar on *Learning from Each Other – Eastern and Western Management Thoughts and Practices* was organized during 1st – 2nd 2004 in association with AIMS, National HRD Network, International Management Institute, National Thermal Power Corporation, Glaxo Smithline and Rashtriya Ispat Nigam Limited.

- A Five Day National Workshop on *Industrial Relations Teaching and Research* in association with Indian Industrial Relations Association, Association of Indian Management Schools, International Management Institute, CMS GITAM, NHRD, NIPM Visakhapatnam Chapter, NTPC, Glaxo Smithline and Rashtriya Ispat Nigam Ltd.

- A Two Day International Seminar on *WTO and its implications for SAARC Region* organized in association with SAARC Centre, Andhra University and Research and Information System (RIS) for Non-aligned and other countries in the Andhra University SAARC Centre on 27-28 March 2004.

- Dr.Nagesh Kumar, Director General RIS, New Delhi delivered the 3rd GIFT Public Lecture on *"Foreign Direct Investment & Economic Development"* at Hotel Taj Residency, Visakhapatnam on 27th March, 2004.

- *Exporters Meet* in association with Federation of Indian Export Organisations: Southern Region, Chennai on 25th March 2004 at Hyderabad. Shri A.Sakthivel, Chairman FIEO (SR); Shri A.Balachandran, Director General FIEO; Shri M.Rafeeque Ahmed, President FIEO; Shri L.Mansingh, IAS, Director General of Foreign Trade; Prof.CS Venkata Ratnam, Shri SC Choudary, Commissioner of Customs (Visakhapatnam Zone); Shri R.J.Vaidyanathan, General Manager-Credit, Andhra Bank, Shri Sudhir Sanghi, President, Association of Export Oriented Units (AP). ◘

"The WTO is the unique forum for multilateral trade negotiations. At times of global economic uncertainty and instability, the multilateral trading system has faced many challenges and setbacks. But the system has always been the safe haven to which its ever growing and diverse membership returns, because the WTO - like the GATT before it - has been extraordinarily successful in preserving peaceful trading relations between nations, and generating the necessary conditions for economic growth."

- DG Supachai Panitchpakdi, 25 May 2004, Geneva, at WTO Public Symposium "Multilateralism at a crossroads"

IN THIS ISSUE

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.

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GITAM INSTITUTE OF FOREIGN TRADE

MANAGEMENT DEVELOPMENT PROGRAMMES
Calendar
(July 2004 – Dec 2004)

Sl.No.	Title	Dates	Venue	Programme Director
1	Globalization, Trade Union Challenges and Labour Management Cooperation	12-14 July 2004	Visakhapatnam	CS Venkata Ratnam
2	Commodity Futures	5-6 Aug 2004	New Delhi	Ganti Subrahmanyam & M P Vithal
3	International Marketing Management	17-18 Aug 2004	New Delhi	B Bhattacharyya
4	Supply Chain and Logistics Management	2-3 Sept 2004	Hyderabad	S Ranganathan and R Venkateswarlu
5	Export Risk Management	29-30 September 2004	Visakhapatnam	MVSK Rao and V K Kumar
6	International Marketing Management	5-6 Oct 2004	Bhubaneshwar	G. Somayajulu
7	Agri Export Management	28-29 Oct 2004	Visakhapatnam	R R Thakur
8	Export Competitiveness and Risk Management	2-3 Nov 2004	Cochin	S Lalitha
9	Working Capital Management	23-24 Dec 2004	Hyderabad	VKKumar and MVSK Rao
10	WTO Round Up – Round table with Economic Counselors	16 Dec 2004	New Delhi	CS Venkata Ratnam and VL Rao

For details about our Diplomas in Export Import Management, Logistics and Supply Chain Management and Pharmaceutical Marketing through distance mode, visit our website at www.gift-india.org

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