GIFT
GITAM INSTITUTE OF FOREIGN TRADE

GLOBAL VISTAS

VOLUME-5 (1)
APR - JUN 2006

World Trade Trends and Developments

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.

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India-Poland: Agreement on Economic Cooperation

With the recent signing of an Agreement on Economic Cooperation, India and Poland envisage to expand and develop bilateral economic relations in all areas and sectors of the economies, based on mutual benefit. Indo-Polish relations are deep rooted and have traditionally been close and friendly, characterized by understanding and cooperation. Despite fundamental changes in trade relations with the CIS region in the past decade, Poland has retained its status as India's largest trading partner in East Europe, after Russia. And now as a member of the European Union, Poland can truly act as a gateway to Eastern Europe.

Though India's two-way trade with Poland amounts to less than US $ 600 million, it is growing at the rate of 43%. India's merchandise exports had crossed US $ 100 billion this year and FIIs had invested more than US $ 12 billion last year, and more than US $ 8 billion came in as foreign direct investment (FDI). Since 1995, there has been a gradual increase in bilateral trade and in 2003, trade reached the highest level since 1990.

Since the systemic change in Poland in 1989-90, the country has made significant progress towards democracy and market economy. While attempting to integrate itself, politically and economically, with Western Europe, Poland has carved out a distinctive role for itself as a bridge between East and West Europe. With the accomplishment of its twin objectives of membership in NATO and EU, Poland now seeks to reinvigorate its relations with the other parts of the world. India is a priority country now, in Poland's economic lens.

Interestingly, educational links between India and Poland predate the political relations as also the independence of both countries. There is a strong tradition of Indological studies in Poland, with Polish scholars having translated Sanskrit classics into Polish as early as in the 19th Century. There are roads in Warsaw named after Mahatma Gandhi, Rabindra Nath Tagore, Jawaharlal Nehru and Indira Gandhi. There is also a bust of Mahatma Gandhi in the central library of the Warsaw University. The current Cultural Exchange Programme for 2005-07, signed in March 2005 was followed by the "Incredible India" event organized in April 2005.

Poland's assurance to liberalise its visa regime for Indian businesses is a step towards strengthening trade and economic cooperation between the two countries. The potential for India Poland Relations needs to be tapped. The Federation of Indian Chambers of Commerce & Industry (FICCI) and the Polish Chamber of Commerce have also signed a Joint Business Council Agreement in Warsaw to encourage contacts between commercial organisations and private enterprises between the two countries.

Now, it's time that the "warm political relations have an equally large economic content" as the Commerce minister Kamal Nath stated. And as Wozniak, Polish Economy Minister hopes the two countries should see " a new impulse" in their economic relations.

- The Editor

Do Necessary Conditions Exist for the SAFTA?

Gordhan K. Saini[1]

The proliferation of Regional Trading Agreements (RTAs) in different regions of the world has been a significant development over the last two decades. The South Asian region is also not an exception. Seven South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) formed the South Asian Association of Regional Cooperation (SAARC) in 1985 as a first step toward the regional cooperation. After a decade's existence, the South Asian Preferential Trading Agreement (SAPTA) was launched by the SAARC in 1995 as the second step. The signing of, a framework agreement on South Asian Free Trade Area (SAFTA) in January 2004 during the 12th SAARC Summit, held at Islamabad, can be treated as the third step of South Asian economic integration. Members have agreed that SAPTA would begin the transformation into SAFTA by the beginning of 2006, with full implementation completed between 2009 and 2013.

There is a large body of literature available on RTAs in Europe, North America, South America and South East Asia. However, the literature on the South Asian regional grouping is limited. While there are many quantitative studies on RTAs in other parts of the world, similar studies on SAARC (or SAPTA and SAFTA) are very limited. There are a number of possible reasons. *First*, many trade analysts have not paid much attention to this region until recently since it is not important in terms of global trade, investment and growth. *Second*, data on trade and other variables related to countries in this region are sparse. *Third*, the volume and value of illegal trade are very high in the region and published data do not reflect the real picture of the trade structure in the region. *Finally*, non-tariff barriers on trade are very important in this region compared to many other regions in the world, while the recognition and quantification of non-tariff barriers are difficult. Despite these constraints, there are several empirical and analytical studies that have generated a debate on the future prospects of SAFTA. Further, even within the limited literature on South Asian economic integration, there are some controversies that whether SAFTA will be a successful RTA in the region like other RTAs such as EU, NAFTA, MERCOSUR, ASEAN etc. The existing literature raises some questions such as: Do necessary conditions exist for a successful RTA in South Asia? Will SAFTA create gains for its members or not? Why the progress of South Asian regional and economic integration is so slow as compared to other RTAs? Whether the south Asian countries possess the fundamental conditions necessary for a successful RTA? The main objective of this paper is to address these questions and to assess whether South Asian countries possess certain necessary conditions (suggested by literature) for a successful RTA.

Some of the necessary pre-conditions for a successful RTA, highlighted in the literature are (a) geographical proximity; (b) high pre-RTA tariffs; (c) high level of intra-regional trade; (d) the existence of trade complementarity; and (e) differences in economic structure based on competitiveness and (f) less political tensions among member countries. These fundamental conditions can serve as a laboratory test to analyze the potentiality of forming a RTA within a particular region.

(a) Geographical Proximity and Natural Trading Partner Concept

It is argued that countries in relative geographical proximity tend to trade more with each other than with more distant countries owing to lower transport and communications costs (Deardorff and Stern, 1994). Wonnacott and Lutz (1989) also refer to transport costs, suggesting that geographical proximity between countries tends to increase trade between them and reduce trade diversion. Following the natural trading bloc argument, as suggested in Krugman (1991) and supported by others (Frankel and Wei, 1995; Frankel, 1997), geographical proximity does promote trade. In support of the natural trading partner concept, empirical

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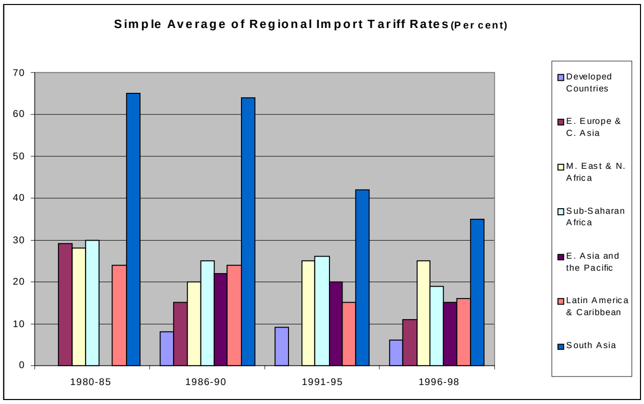
works argue that the proximity is in general an important determinant of bilateral trade around the world. However, some economists such as Bhagwathi (1993) and Panagariya (1995) have some opposition about this argument. The example they have cited against the argument is the trade between India and Pakistan. South Asian trade behaves against the natural trading partner argument. Although India and Pakistan are neighbours, historically trade between two countries has been low. The estimates of Frankel and Wei (1995) indicates that trade between India and Pakistan is 70 per cent lower than two otherwise identical economies. Supporters of natural trading partner concept argue that historical political differences have reduced trade between India and Pakistan and that this is an exceptional case. In conclusion, despite the difference regarding their general attitude toward the natural trading partner argument, all these studies do recognize that the geographical proximity is not in favour of creating a SAFTA.

(b) High Pre-FTA Tariffs

South Asian countries have long maintained high tariff rates and other protection measures despite their recent efforts to liberalize trade. In the three large countries in the region Bangladesh, India and Pakistan, tariffs are still higher than Southeast Asian countries. This point has been well illustrated by Panagariya (1999) who provides a comparison of tariff of the countries in this region with countries in the South East Asian region and shows that average tariffs are still high in South Asian countries than East Asian countries. Although the average nominal tariff rate has declined in the South Asian region due to trade liberalisation attempts over the last two decades, it is still higher than that in other regions in the world (Bandara and McGillivray, 1998). This disparity is due to the initial higher tariff rates in South Asia and the continuous tariff cuts in other regions in the world. However, the average for South Asia is still higher compared with other regions in the world. These views show that high pre-FTA tariffs as a pre-condition for forming a PTA does indeed exist in South Asia. The graph shows the simple average regional import tariff rates all over the world.



(c) Level of Intra-Regional Trade

Despite difficulties in obtaining reliable data on South Asian intra-regional trade, mainly because of illegal cross-border trade, available published trade data indicate that the level of intra-regional trade in South Asia is very nominal. Compared to the high level of intra-regional trade in other regions in the world, the low level of South Asian intra-regional trade is not an encouraging sign for the regional integration. The estimate shows that South Asia has the lowest intra-regional exports share in the world. The situation of total South Asian intra-regional trade is also not much different and the data reflects the same pattern. While the share of intra-regional trade in South Asia’s total trade has declined from 3.5 per cent to 2.4 between 1970 and 1990, it has shown moderate rise from 2.4 per cent in 1990 to 4.6 in 1999 (as per Direction of Trade Statistics of IMF). But still, the share of intra-regional trade in South Asia is the lowest as compared with other RTAs around the world such as EU, NAFTA etc. The other important trend is India’s growing trade surplus with other SAARC countries. India is the biggest country in the region and its exports to other SAARC countries (except Pakistan) have continuously increased. While the share of India’s exports to the region in its total exports has increased from 3.9 per cent in 1970 to 5.5 per cent in 1999, its import share from the region has declined from 1.4 per cent to 0.9 per cent during the same period.

Table - 1 provides a review of intra-regional trade between 1981 and 1998 at an aggregate level. The overall (official) intra-regional trade as a share of total trade has remained below 5 percent throughout this period. Bhutan and Nepal trade disproportionately with the region, with shares of regional trade as high as 71 percent and 33 percent, respectively, in 1998. Due to the landlocked nature of these two countries, trade takes place primarily with India. While Nepal has made some efforts to reduce its trade dependence on India, Bhutan remains strongly dependent on India as both a supply source and export destination. For Bangladesh and Sri Lanka, regional trade accounted for approximately 12.4 percent and 8.2 percent of their total trade, respectively, in 1998. For Pakistan, intra-regional trade is relatively insignificant, accounting for a modest 3.6 percent of its total trade in 1998. However, Pakistan has increased its share of regional trade since it implemented reforms, increasing from 2.7 percent in 1990. For India, intra-regional trade is even less significant, accounting for a low 3.2 percent of its total trade in 1998. Intra-regional trade patterns in South Asia suggest that all members increased their relative importance in the region toward the late 1990s. Although the relative importance of the region increased in more or less the same ratios for Bangladesh, Nepal, Pakistan, and Sri Lanka, the increases are based more on imports from the region rather than exports (see table 1). The share of intra-regional imports of Bangladesh increased from 7 percent in 1990 to 17.7 percent in 1998. Nepal increased its intra-regional imports from 4.0 percent to 31.7 percent, Sri Lanka from 7.0 percent to 12.9 percent, and Pakistan from 1.6 percent to 2.4 percent during the same period. However, the relative importance of intra-regional exports has been decreasing for both Bangladesh (from 3.1 percent to 2.7 percent) and Sri Lanka (from 3.7 percent to 2.4 percent) during the corresponding period and remains marginal for Pakistan.

Table 1: Intra-regional Trade as a Share of Total Trade

	Intra-regional Imports				**Intra-regional Exports**				**Total Intra-regional Trade**			
	1981	**1990**	**1995**	**1998**	**1981**	**1990**	**1995**	**1998**	**1981**	**1990**	**1995**	**1998**
India	1.3	0.4	0.6	1.1	2.9	2.7	5.1	5.6	1.8	1.4	2.7	3.2
Pakistan	1.9	1.6	1.5	2.4	5.5	4.0	3.2	4.9	3.1	2.7	2.2	3.6
Bangladesh	4.7	7.0	17.7	17.5	7.9	3.1	2.3	2.7	5.4	5.8	12.7	12.4
Sri Lanka	5.2	7.0	11.4	12.9	8.8	3.7	2.7	2.4	6.5	5.6	7.5	8.2
Nepal	N/A	13.4	17.5	31.7	63.8	7.7	9.2	36.2	47.4	11.9	15.0	32.8
Maldives	6	7.4	4.5	7.7	22.3	13.8	22.5	16.6	9.4	9.2	6.7	9.4
Bhutan	N/A	10.9	57.5	59.9	N/A	9.6	87.9	81.9	N/A	9.7	73.5	71.8
South Asia	**2.4**	**2.0**	**3.8**	**4.3**	**4.8**	**3.1**	**4.3**	**7.3**	**3.2**	**2.4**	**4.1**	**4.9**
MERCOSUR	N/A	14.5	18.1	N/A	8.9	8.9	20.5	N/A	10.7	14.0	21.3	23.0
Andean Community	N/A	6.4	12.6	12.0	N/A	4.1	11.8	11.9	N/A	7.9	12.3	11.4
ASEAN	13.2	14.6	16.9	20.9	17.2	18.2	23.4	19.8	15.2	16.3	20.0	20.3
EU (15)	57.3	65.9	62.4	61.8	52.9	63.2	61.0	59.4	55.0	64.5	61.7	60.6

Source: IMF Direction of Trade Statistics

Thus, the low level of intra-regional and preferential trade should be a major concern for countries and certainly, is not a good sign to achieve the full potentialities of a FTA in South Asian region. In conclusion, the very low level intra-regional trade, as clear from the official statistics, is not favourable for the gains of a RTA to be realized within the region.

(d) Trade Complementarity

Trade complementarity is also yet another important pre-condition that plays an import role in the success of a RTA. The substantial empirical literature refers to the existence of complementarity rather than competitive trade as a pre-condition needed to enhance the probability of a net trade-creating, rather than net trade-diverting, regional trade arrangement. The statistical measures such as the *complementarity index* argue that the higher the observed values of the index between partners, the more likely is it that a proposed regional trade agreement will succeed (Michaely, 1996). Furthermore, Trade complementarity indices developed by Drysdale (1969) can be used to check the existence of trade complementarity in South Asia. If the calculated value of the complementarity index based on bilateral trade flow is greater than one, then there exists trade complementarity between two countries. Kemal (2000) have estimated the complementarity indices for all five leading South Asian countries using time series trade data and found that there is a lack of strong trade complementarity in the bilateral trade structures of South Asia. Therefore the lack of trade complementarities also raised the questions on the future prospects of SAFTA.

(e) Differences in Competitiveness of the Countries

Countries with different comparative advantage profiles, in principle, have more opportunities to trade with each other compared with those with similar comparative advantage profiles. The prospects of increasing regional trade depends more on the existence of product complementarities and export efficiencies (defined by comparative advantage) and other characteristics such as the degree of concentration and diversification of trade profiles amongst the regional partners. The main problem related to South Asian economic integration is that countries in the region are producing and trading similar commodities. To identify different country's competitiveness among different commodity groups, the Export Revealed Comparative Advantage indices (XRCA) have been estimated by two recent studies for commodities at the three-digit level using recent UN trade data (Samaratunga, 1999 and Kemal, 2000). These indices show the comparative advantage in terms of the share of a particular industry in a country's total exports relative to the industry's share in total world exports. The results of these two studies indicate that countries in South Asia have an almost identical pattern of comparative advantage in a relatively narrow band of commodities and these countries do not have comparative advantages in a wide range of capital goods and advanced manufactured products. The lack of trade complementarity in bilateral trade flow and the similarity of the pattern of comparative advantage in the region have been the main constraints for the growth of intra-regional trade (Kemal, 2000). Nihal Pitigala (2005) in his recent study summarized that the region has shown a mutual dependency in basic foods and agricultural products, although they are not fully liberalized. A narrow group of products which are mostly made up of agriculture and raw material for manufacture, on which most countries display comparative advantage has made inroads in regional trade. Countries have to develop comparative advantages in the different commodities especially in the products which they are trading with non-members to make the SAFTA successful in its real sense.

(f) Political Harmony in the Region

Many analysts believe that the political tension between two large countries in the region (i.e., India and Pakistan) is a main constraint to the regional integration. The nuclear tests conducted by India and Pakistan, the Kargil war and the political change in Pakistan are major obstacles for regional cooperation. SAARC failed to hold a previously scheduled summit in November 1999 because relations between India and Pakistan worsened in the wake of their "tit-for-tat" nuclear tests and the military takeover in Pakistan. Pakistan has also not given its word on the opening land routes of Wagah and Karachi for carrying the trade with India. Trade with Pakistan will not normalize if it does not allow items to be traded through the land routes of Wagah and Karachi. Pakistan allows import of only onions, potatoes, garlic, animals, *halal* meat, vaccines, medicines for cancer and AIDS, and sugar through land route and rest of the items are to be routed through third countries such as UAE, which complicates procedures and increases freight costs. Conditions are not much different with Sri Lanka and Nepal when the *LITTE* issue and cross border illegal trade comes into notice respectively. Unless SAARC countries are able to develop cordial political relations it would be very hard to achieve the real gains from SAFTA.

Conclusion

After assessing the different pre-conditions required for a successful RTA and the capacities of SAARC countries in satisfying these conditions, it can be concluded that in present situation South Asian countries do hardly satisfy most of the pre-conditions and the deadline proposed in the way of achieving economic integration in the region seems to be unrealistic. To realize the objectives stated in the SAARC charter these countries are required to learn from the examples such as NAFTA, EU, MERCOSUR, ASEAN and they need to built upon a strong foundations (as discussed) for the successful regional trade agreement, leaving aside their controversial bilateral issue and this is also a must requirement of the global economy in the era of trade liberalization.

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Passenger Car Market of China: A Study on Current Scenario and Future Trends

Saikat Banerjee[1]

Abstract

For successful business venture a firm should have all possible knowledge about its country of operation. Success of long-range planning completely depends on proper knowledge of environment. In today's global market, China is a highly considered market to get into. Huge opportunities in terms of market growth rate, product acceptance, rising per capita income and a burgeoning middle class, stimulate opportunity seekers in business world worldwide. to test their luck in this country. Furthermore the growing amount of disposable income and changing trend towards materialistic gain make this market very attractive as a launch pad for luxury goods. Car is one such example. In this paper an attempt is made to analyse present passenger car market of China. Changing consumer behavior and competitive landscape have also been studied to offer future entrants a possible idea about the passenger car industry of the country.

Key Words: Automotive Industry, Passenger Car Sales, Consumer Insight, Competitive Landscape

Introduction

Industry environment is the first responding parameter where a marketer can feel the pulse of change. Success of long-range planning completely depends on proper knowledge of environment. To create a successful future a continuous selectivity of performing factors and synergistic effect is required (Prahlad, 1990). Rapid change has to be addressed directly in the area of improving operational effectiveness (Porter, 1991). Due to rapid increase of global economy concept, one can witness present regime as one of the opportunities and challenges for the firms. It will be an age of vulnerable boundaries among businesses. The environmental scanners have noticed that organizations are now operating in more complex environments than ever before (Van de Ven and Joyce, 1981). Obvious results are high uncertainty and risk because of complexity in decision-making.

For successful business venture a firm should have all possible knowledge about its country of operation. In today's economy India and China are two upcoming giants. Huge opportunities in terms of market growth rate, product acceptance, rising per capita income and burgeoning middle class stimulate opportunity seekers in business world, worldwide to test their luck in these two countries. Furthermore growing amount of disposable income and changing trend towards materialistic gain make these two markets an attractive launching pad for luxuries commodities. Car is one such example in this bandwagon. Over the years an increasing sales figure of passenger cars motivates analyst to paint a rosy picture of this industry. In this backdrop the aim of this paper is to provide a bird's eye view of passenger car market of China to facilitate future entrants to chart their entry road map bump free.

China: An Overview

Beijing, the capital of China, administrates 22 provinces; five autonomous regions comprise minority people (Inner Mongolia, Guangxi Zhuang, Ningxia Hui, Xinjiang Uygur and Tibet) and four municipalities with provincial status (Beijing, Shanghai, Tianjin and Chongqing). The major advantage of enjoying provincial status is that other than enjoying greater economic,

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political and administrative freedom, they can approve foreign-invested projects worth up to US$ 30 million independently. Cities like Dalian, Guangzhou, Harbin, Ningbo, Qingdao, Shenyang, Wuhan and Xi'an are in the economic status of deputy province-level and enjoy a higher degree of economic freedom. Two special administrative regions (SARs), Hong Kong and Macau are also there but these two enjoy economic and political autonomy for their operation. In terms of economic growth, this country is facing a peculiar imbalance between coastal provinces and inland provinces. Coastal provinces made use of economic reforms as it was directed manly through port. Percolation was not that much impressive towards inland provinces and a clear division in terms of standard of living is visible.

The government of China is well aware about the scenario of the country and now much focus is on encouraging FDIs to develop central and western China. A close look of Table 1 depicts a clear picture about the current scenario and future trends of the country.

Table 1: China: At a glance:

PPP per capita (US$)	4,350
Population 2003 (million)	1,289
Population 2025 (million)	1,455
Population 2050 (million)	1,395
% age <15 in 2003	22
% age 15-64 in 2003	71
% age 65+ in 2003	7
% age <15 in 2050	16
% age 15-64 in 2050	54
% age 65+ in 2050	30
Availability of financing	medium
Cost of financing	low/medium
Consumer price inflation	low
Consumer confidence	medium
Discretionary income	low
Access to goods/services	medium
Business confidence	high
Import growth potential	high

Source: Market Statistical Analysis, 2004.

Present population figure is of 1289 million in 2003 and the projection by 2025 is 1,455 million and in the year 2050 country is expecting a downward trend in its population figure (1,395 million). Major encouraging fact is growing young and middle age population. They are always a target for any marketer. This is the chunk which creates enough confidence in the mind of the marketers about their business growth. In 2003, the country has 71% population within the age bracket of 15-64. Current percentage of older generation is 7% but as the projection for 2050 of this segment is of 30%, there is a huge scope of marketer to draw strategy to lure these senior citizens. Furthermore, the table predicts a high import growth potential and it is highly encouraging information to any cross-border player. Business confidence is growing, price inflation is within the tolerance range, consumers are confident about business offers, financing opportunities are increasing in all presenting an optimistic view about the potentiality of business growth in this country.

2. China's Automotive Industry

In recent past China's automotive industry has witnessed a clear sign of progress with an increasing product sales year on year. It is about to take the position of the second-largest car market in Asia and is able to throw a shudder into the spine of Japan, the clear number one auto manufacturing country till date. It has a basket full of automobile industry which consists of complete vehicles and parts manufacturing, manufacturing of complete motorcycles and parts. Again, automobile repair, motor vehicle assembly and automobile refitting are also in its menu list. Pre 1978 era of Chinese automobile industry witnessed small steps towards a bright future. In 1956, FAW (First Automotive Works Corp.) started its operation with Soviet designed medium trucks. First JV was initiated by Beijing Jeep Co in May 1983, followed by Shanghai VW, FAW-VW and so on. Mid 80's was a major landmark towards abolishment of individual motor car purchase restriction. In 1994, government promulgated industrial policy for automotive industry and a stable and rapid growth witnessed in last ten years. China's current auto production capacity is 5.5 million units in a year. Near about 1.89 million people are engaged in this industry. Total asset of auto industry is 108.8 bn USD.

Box 1: China:_Auto Industry Development Policy: Major Highlights

Objectives

- To firmly follow the principle of letting the market play its role of allocating resources and leaving macro-level control to the government, create a fair and unified market environment, improve legal management system for the auto industry.
- Create a favorable using environment for autos, nurture a healthy auto consumption market, protect customers' rights and propel private auto consumption.
- Automakers will be encouraged to improve R&D and technical innovation capacities, to pro-actively develop products with their own Intellectual Property Rights (IPR) and practice branding strategies.
- Promote the auto industry's restructuring and reorganization; increase enterprises' economy of scale and the industry's concentration rate, and avoid the repetitive constructions characterized as scattered, disordered and low-level.

Development planning

- Mid and long-term industrial development plans and development plans for large auto groups. The National Development & Reform Commission (hereinafter referred to as NDRC, formerly as SDPC) is responsible for formulating the mid and long-term industrial development plans and submitting the plans for approval by the State Council
- AG an auto group with features as unified planning, self-developed products, independent product trademarks/brands and integrated distribution/service system management, in the same time whose total domestic market share or whose group sales revenue of complete vehicles accounts for over 15% of that of the whole industry, is qualified as Large Auto Group and should formulate its group development plans and submit directly to NDRC for investigation and approval.

Technical policies

- Before to 2010, average fuel consumption of new passenger vehicles should be decreased by minimum 15% compared to 2003.
- The state supports the R&D of new fuels for vehicle use as alcohol fuel, natural gas, mixed fuel and hydrogen fuel, encourages automakers to produce vehicles powered by new fuels.

Restructuring

- Establish the withdrawal system for automakers and motorcycle manufacturers. Any manufacturer (including bodybuilder) who fails to maintain normal operations (including bodybuilders) will be put on a special bulletin. Manufacturers of this kind are not allowed to transfer their production qualifications to non-automakers, non-motorcycle manufacturers or individuals.

Entry management

- Formulate the *Regulation on Management of Road Power-driven Vehicles.* The manufacture entry conditions should include the requirements for R&D capacity, the capacity of the production facilities, the consistency in production as well as the quality control capability, and the capability of providing distribution/service etc.

Trademarks & brands

- Starting from 2005, all domestically produced complete vehicles and assemblies should bear manufacturers' registered trademarks.
- They should actively develop products with own IPRs.

Product development state report for R&D

- The state supports manufacturers of auto, motorcycle and parts to set up R&D institutions to form independent R&D and product innovation capabilities.

Distribution network:

- Starting from 2005, passenger vehicles produced by automakers are requested to practice brand distribution and service.

Legal action for non-compliance

- Legal punishment will be invoked if the following activities occur: selling vehicles banned by the state or vehicles whose terminations of production have been announced; selling vehicles with phony manufacturers' names, addresses or quality certificates.

After the entry into WTO in December 2001, auto industry of China witnessed a paradigm shift from a state capital monopolized industry to a fiercely competitive market based industry. Major changes witnessed in three broad areas: the principle of trade liberalization, the anti-subsidy principle, and the Agreement on Investment Measures Related to Trade. Before 2001, China's weighted average tariff rate for automotive products was 55%, including 70-80% for car, 45-65% for passenger vehicles and 30-50% for freight vehicles. As per the commitment of China, the tariff rate for cars and passenger vehicles will be lowered to 25% by July 2006. The average tariff rate for auto parts will be reduced from the current 25% to about 10% by July 1, 2006. After considering WTO guidelines, China announced a new 'Auto Industry Development Policy'**.** Box 1 and Box 2 explain some of the major highlights of China Auto Policy.

From box 1, we may identify major objective behind this 'Auto Industry Development Policy'. It will allow market to play its role of allocating resources and leaving macro-level control to the government by creating a favourable business environment. Developing products with their own Intellectual Property Rights (IPR) and branding is another major focus area. In its development plan, focus is on separate set of plan for mid and long-term groups and for large auto groups. A drive towards decreasing rate of fuel consumption is in agenda with a target of 15% cut compared to 2003. Protecting trademarks and brands is a prime area of concern.

Box 2: China: Auto Industry Development Policy: Investment & Import Management

Investment Management

- Two approaches will be adopted to reform the governmental management system on auto investment project: the Filing Management and the Ratification Management.
- *Investment projects subject to Filing Management are:*
- ▪ Projects funded by existing manufacturers of auto, farming vehicle and auto engine to increase production capacity and variety of the current category of products, including establishment of new manufacturing enterprise(s) without independent legal person status on different location(s)
- ▪ Projects funded to produce motorcycle and motorcycle engines
- ▪ Projects funded to produce parts of auto, farming vehicle and motorcycle
- *Investment projects subject to the Ratification Management are:*
- ▪ Projects funded to establish new auto, farming vehicle or engine manufacturing enterprises, including existing automakers' establishment of new manufacturing enterprises of independent legal person status.
- ▪ Projects funded by existing automakers to produce complete vehicles of other categories
- *Newly-invested projects should meet the following conditions:*
- For investment projects of cross-category complete vehicle production, total investment (including original fixed assets and intangible assets) should be no less than RMB 1.5 billion, asset/liability ratio lower than 50% and bank credit rated AAA;
- Cross-category passenger vehicle manufacturers should prove to be capable of batch-producing autos; accumulated after-tax profit exceeds RMB1 billion for the last 3 years (with tax certificates); asset/liability ratio lower than 50% and bank credit rated AAA
- For a newly-built auto manufacturing project, total investment should be no less than RMB2 billion, of which self-owned capital should be no less than RMB800 million; a product R&D institution should be established with investment no less than RMB500 million.
- Production scale requirements for the newly-built investment projects are: for passenger vehicles equipped with 4-cylinder engines, no less than 50,000 units per year; for passenger vehicles equipped with 6-cylinder engines, no less than 30,000 units per year.

Import management

- The state supports automakers to strengthen their localization capabilities of auto products to promote technological advancement of the parts manufacturers and the development of the auto manufacturing.
- The automakers, who use imported parts with complete vehicle characteristics to produce vehicles, should report to the MOFCOM, General Administration of Customs and NDRC strictly by the facts and all imported parts for related models should be declared in the local customs offices, in order to facilitate the effective management by relevant authorities.
- Identification of complete vehicle characteristics consists of: engine assembly, body (including cab) assembly, transmission assembly, drive axle assembly, non-drive axle assembly, frame assembly, steering system and braking system.
- The state designates the four coastal ports: Dalian New Port, Tianjin New Port, Shanghai Port, Huangpu Ports; two land ports: Manzhouli and Huanggang as well as the Xinjiang Alashankou port (for vehicles imported from the CIS countries and only to be used within the Xinjiang Uygur Autonomous Region), as import ports for imported of complete vehicles.

Developing own IPRs and compulsory bearing of manufacturers' registered trademarks in all domestically produced complete vehicles and assemblies from 2005 onwards are major milestones towards this direction.

Box 2 is focused on Investment & Import Management policies of the country. These are the areas which provide hints about government's attitude towards cross-border players.

It shows that the country is in a mood to follow different approaches to manage auto investment project: the Filing Management and the Ratification Management. For existing manufacturers, they will follow the Filing Management system wherein for any establishment of new manufacturing enterprises of independent legal person status and Projects funded by existing automakers to produce complete vehicles of other categories the Ratification Management system will be referred. Newly invested projects have their investment guidelines. For cross-category complete vehicle production, total investment should be no less than RMB1.5 billion, asset/liability ratio lower than 50% and bank credit rated AAA. Other major guidelines include, a product R&D institution should be established with investment no less than RMB500 million and production scale requirements for the newly-built investment projects are: for passenger vehicles equipped with 4-cylinder engines, no less than 50,000 units per year; for passenger vehicles equipped with 6-cylinder engines, no less than 30,000 units per year. Under 'Import Management' headings, the State prefers development of localized expertise. The definition of complete vehicle characteristics consists of: engine assembly, body (including cab) assembly, transmission assembly, drive axle assembly, non-drive axle assembly, frame assembly, steering system and braking system. Dalian New Port, Tianjin New Port, Shanghai Port, Huangpu Ports; two land ports: Manzhouli and Huanggang as well as the Xinjiang Alashankou port (for vehicles imported from the CIS countries and only to be used within the Xinjiang Uygur Autonomous Region) are earmarked as import ports for imported complete vehicles.

3. Changing Consumer Behavior

Gone are the days of Communist manifesto, consumers in China are ready to welcome market economy. Government is there to initiate market economy in a cautious way but they are unable to resist the wind of change for fear of losing overall political control. Present government is trying to keep a right balance between popular sentiment and the rule of law. Coastal provinces are the first to get the benefit of economic development based on market economy. Consumer spending is highest here and a rapidly increasing middle class is roaring to grab all benefits of globalization. Last year average per capita retail sales in coastal urban markets already exceeded RMB 10,000 (US$1,208). Inland provinces are far behind and are trying to catch the pace of growth quickly. There are remarkable and visible changes in the mindset of consumers. Increase in income raises lifestyle expectations. Aspiration level is high. The young generation is open to any new concept and ideas. People are much more inclined towards education. Achievement through knowledge and arrangement of own welfare provisions are rule of the game.

Higher income leads to higher need identification. Big-ticket purchases are very much visible in the priority list. Asking for loan is no longer a taboo. Government is there to encourage this trend. They are forcing the country's state-run banks to provide major loans for individual customers. NBFCs are allowed to operate in this field. More consumers are now able to get loans to buy a car, and this in turn is expanding the overall size of the market. In earlier decades, the government was to set prices and issued price guidelines for domestic cars according to monopoly production and institutional purchasing. This practice is at stake. Due to WTO commitment, Chinese government is gradually widening the price fixing limits given to car makers.

Auto market is dominated by private purchases. In 1990, private-in-use accounted for only 14.88 %, by 2003 it crossed over 50.33%. This trend is still growing. Small car is in huge demand. Upcoming middle income group which consists of white color professionals are in a great need for compact or minicar. With their high disposable income and only child in their family, they can now afford a car that is spacious enough to offer space to their family member. Pre-owned car segment is also growing. Car culture completes the circle with 'car-club', 'car-books', automotive magazines and journals, website for car owners, departmental stores full of car cosmetics, demand for in -car entertainment systems and so on. Rich section is much more extravagant. They are ready to spend, like big cars to satisfy their ego and status. It is small but it is growing. As economy persists to grow, so will the numbers.

4. Market Scenario

Growing per capita income, loosening of close State controlled administration, cross-cultural integration, rising aspiration level are some of the major factors behind the highly visible growth of China passenger car industry. Cars are now much sought after article in families purchasing list and a positive trend towards private household ownership gives it a momentum of growth. Due to increasing disposable income and availability of choices a larger chunk of population is in a mood to be a proud owner of car. As a result, China's car sales saw significant growth over the years.

Current Sales and Forecasts

Table 2 and Table 3 present a time series sales figure of passenger cars in China. Year 1994 shows a sale figure of 0.2448 million units of car. From there, it showed a continuous growth.

Table 2: China Passenger Car Market: Over the years

Year	Sales (million units)	RMB/ Unit Average Price	Sales(% value Share)	Annual Growth Rate (%)	Total Industry Revenue (RMB Million
1994	0.2448	31,398	10.88	-	29,137
1995	0.3211	39,277	11.13	26.05	33,143
1996	0.3772	44,015	10.67	13.00	40,208
1997	0.4742	52,421	10.74	20.06	42,684
1998	0.5083	56,632	9.82	12.04	46,220
1999	0.5808	75,270	10.54	38.00	62,926
2000	0.6127	79,066	10.94	20.68	75,935
2001	0.7172	76,136	11.05	22.96	93,373
2002	1.1218	57,403	11.13	18.68	110,811

Source: Access Asia

After China's entry into WTO in 2001, the growth was tremendous. In 2002 it touched 1.12 million marks and in 2003 (see Table 3) and in 2004 sales touched 1.98 million and 2.25 million respectively. Industry projection is that it will grow by 17-20 % by the end of year 2005. An interesting trend is towards mid-range and economy cars. Demand for medium and high-grade cars is not very much encouraging, as the increasing number of households are in favor of more mid-range and economy cars, which will become the leading products in the market (see Table 3).

Table 3: China's Car Market Share under different prices (%)

Year	Car Sales	<US$ 12000	US$ 12000-18000	US$ 18000-24000	>US$ 24000
2003	1.9770 million	24	34	13	29
2004	2.2478 million	38	29	11	22

Source: Cygnus: China Industry Monitor, 2005

We can see that percentage share of economy range car (<US$12000) has captured 38 % market share of total passenger car sale in comparison to its 24% market share of total passenger car sale in the year 2003. So, for small car manufacturers, this market shows clear growth opportunities. Though it will affect their profitability but volume is always a good motivator. In age old days of Communist utilitarianism, for most vehicle consumers, style and comfort was in back seat and strive for utility was more. Due to growing rich section of people as a result of market economy and their aspiration for status, taste for the exotic is very much visible. It cultivates a ground for high end luxury cars also. China's passenger car sales in first half of the 2005 show an interesting trend (see Table 4).

Table 4: Auto Production and Sales by Type in June, 2005 (In Units)

Type	Production			Sales		
	June	Accumu-	Change lated	June %	Accumu- lated	Change %
Total	498,062	2,815,152	5.15	517,041	2,792,376	9.35
▪Domestic Made	456,028	2,641,748	5.21	475,763	2,619,744	8.43
▪CKD	42,034	173,404	4.26	41,278	172,632	25.4
Passenger Car	367,306	1,851,713	3.28	375,472	1,843,024	10.55
▪Diesel Fueled	4,431	23,894	54.57	3,934	21,537	63.18
▪Gasoline Fueled	362,875	1,827,665	2.83	371,538	1,821,328	10.12
▪Car	264,397	1,255,385	2.04	258,611	1,227,984	9.29
▪MPV	14,491	75,581	29.51	15,684	74,407	39.11
▪SUV	16,604	81,192	-12.72	17,306	82,663	-5.76
▪Others	71,814	439,555	6.91	83,871	457,970	13.83

Source: China Auto, 2005

In total sales, car accumulates 1,227,984 unit sales with a 9.29 percent change in sales figure. Gasoline fueled cars are in high demand with a sale of 1,821,328 unit. There is a negative growth in SUV (Sports Utility Vehicles) segment. MPV (Multi Purpose Vehicles) segment is maintaining a stable growth pattern.

Table 5: Passenger Car Sales (By Type of Ownership):

Year	Volume (%)			% of Annual Growth		
	Private house holds	Taxi Compa- nies	Company/ Institutional Fleets	Private house holds	Taxi Compa- nies	Company/ Institutional Fleets
1994	11.9	18.7	69.4	-	-	-
1995	15.2	21.2	63.6	67.5	48.7	20.2
1996	18.4	23.7	57.9	42.2	31.3	6.9
1997	21.1	22.2	56.7	44.2	17.8	23.1
1998	23.8	20.8	55.4	20.9	0.4	4.7
1999	30.4	27.3	42.3	45.9	50.0	-12.8
2000	35.5	30.8	33.7	23.2	19.0	-16.0
2001	40.6	34.3	25.1	33.9	30.3	-12.8
2002	51.4	32.1	16.5	98.8	46.9	3.2

Source: Access Asia on Trade and Government Statistics

A closer look towards car sales figure by type of ownership gives a more transparent and vivid picture about the core development areas of business (see Table 5). Chinese passenger car market is segmented under three broad categories: Private households, Taxi Companies, Company/ Institutional Fleets.

From 1994 onwards, growth is with private households segment. It started with a growth of 67.5% growth rate and in 2002 it touched the figure of 98.8% growth rate with lots of ups and downs in between. The introduction of car loans and car insurance concept in China is a major landmark behind this extraordinary growth of households market. Reduction in tariffs on imported cars and lowering price of brands due to increasing degree of competition in the market are some other influencing factors. Growth of ‘taxi companies’ as a segment is more or less stable over the years. It 1995 it had a 48.7% growth rate and in 2002 it was near about 46.9 % range. Drastic changes can be witnessed in “Company/ Institutional Fleets’ segment. With a minus growth rate over the years it has reached a mark of 3.2% growth in the year 2002. Changing administrative culture of China, lowering purchase by government department are some of the reasons behind the gradual decline of this segment.

To identify future potential of any market, a clear knowledge about future growth opportunities is almost crucial. Table 6 is a presentation in this direction. This table shows future trend of China passenger car industry.

Table 6: China Passenger Car Market: Future Forecast

Year	Forecast Sales (million units)	Forecast Sales (RMB Million- Constant 2002 prices)	Forecast Sales (% value Share)	Forecast Sales (% Volume Share)	Forecast Annual Growth Rate (%)
2005	3.0895	164519	36.48	18.31	24.61
2006	3.6997	197951	38.93	20.63	19.75
2007	4.3099	231383	40.91	22.69	16.49
2008	4.9201	264815	42.53	24.53	14.16

Source: Access Asia

In 2005, projected annual growth is 24.61% with a forecasted sale of 3.09 million. 2006 projection is in favour of 19.75% and in 2008 it shows a forecast of 14.16 %. Industry analysts are optimistic to cross this forecasted target. Due to huge population, this country is still a high potential market. As the socio-political changes are in nascent stage, accurate forecasting is not possible. Again, as individual purchase is major force behind the growth of passenger car market; the level of demand is likely to increase in passage of time. Future growth trend will largely depend on the attempt of government to make the purchase easier to the consumers.

5. Competitive Landscape of China Passenger Car Market

The market is now open to foreign companies with some conditions (as discussed under 'auto development policy of China'). Changing competitive dynamics compel domestic players to revisit their plans to make it both contemporary and competitive. The market has witnessed the operation of good amount of foreign players. The entry strategy is either via imports route or it is through local manufacturing joint ventures route. Table 7 is a presentation to show_competitive scenario of China auto market. In China, there are four major divisions of car on the basis of its capacity.

These divisions are: 2.5L-4L, 1.6L-2.5L, 1L-1.6L and less than 1L. All major categories are popular in Chinese passenger car market. Market moves by seven broad categories: Minicar, Subcompact, Sedan, Full-Size Sedan, Luxury, SUV, and MPV. Other than domestic players, China's passenger car market is largely dominated by Korean and Japanese players. Market is more crowded in minicar and subcompact segment. Domestic players are very much prominent in this segment. Major foreign player in mini and compact car segment is Suzuki of Japan. Major brands in this category are Alto, Flyer, Geely, Pride, and Skylark. Honda-Japan has a presence with 'Accord' in full-size sedan category with a joint venture with Guangzhou Automobile Group Corporation of China. Other major brands are Passat, Red Flag. Under sub-compact category brand are from domestic and global players. This segment is represented by Charade, Eagle, Palio, Polo, Sail, Aveo and Swift.

Table 7: Major Players in China Passenger Car Market:

Category	Company-Model Scenario
Minicar	➢ Chang'an Suzuki—Alto ➢ Qin Chuan—Flyer ➢ Zhejiang Geely—Geely ➢ Jiangsu Kia—Pride ➢ Guizhou Skylark—Skylark
Subcompact	➢ TAIC—Charade, Charade2000 ➢ NAW—Eagle, Palio ➢ SVW—Polo ➢ SGM—Sail, Aveo ➢ Chang'an Suzuki—Swift
Sedan	➢ SVW—Santana/Santana2000 ➢ FAW-VW—Jetta, Bora ➢ DFM-Citroen—Citreon ZX ➢ SAIC—Chery ➢ Shenlong Auto—Fengshen
Full-Size Sedan	➢ SVW—Passat ➢ FAW—Red Flag ➢ Guangzbon Honda—Accord
Luxury	➢ FAW-VW—Audi A6 ➢ SGM—Buick Century
SUV	➢ Chang Feng Group—Pajero ➢ Beijing Jeep—Cherokee
MPV	➢ SGM—GL8 ➢ DFM-Citroen—Picasso ➢ Guangzbon Honda—Odyessy ➢ Hainan Mazda—Premacy ➢ Jianghui Auto—Refine ➢ DFM—Future

Source: Access Asia

Luxury car market is dominated by Audi brand. It is promoted through the JV between Volkswagen and the First Automotive Works Corp. They managed to sell 64,018 vehicles in China in 2004. Recently DaimlerChrysler has made a plan to float Mercedes-Benz sedans through its JV with Beijing Automotive Industry Holding Corp. BMW is another player to try its luck with their 3 and 5 series sedans through its JV with Brilliance China Auto. From the table we can see that there is an increase in the number of players in passenger car market. Mushrooming brands in different segments, both from domestic and global players, place a wide variety of choices in front of the consumers. A continuous demand for higher liters of car like 1.6L- 2.5L develop a scope for import for the time being. It is expected that domestic players will learn the tricks of the trade quickly. Once domestic manufacturers overcome their technological deficiency in comparison to their imported counterparts, scope of import will decline further. Cars over 3 liters have all along been dominated by imports over the past two decades and this trend is likely to continue because 'brand image' is an important criterion for decision making to the consumers of this particular category. In Table 8 the past figure of passenger car imports and exports by China over the years is presented.

Table 8: China's Import-Export of Passenger Car

Year	Export (Trade Value$,000)	Import (Trade Value$,000)
2000	30745.22	761509.312
2001	36123.308	1265572.352
2002	47807.56	2608890.368
2003	114131.424	4444491.776
2004	317099.699	4601894.126

Source: Compiled from UN COMTRADE DATABASE-CMT

In 2000 the percentage of value was 8.96% and it showed a continuous growth after that. In 2001 it touched double digit growth and in 2003 it occupied 21.98% value share. In value term, import was 761509.312 ($,000) in 2000 and export was 30745.22($,000) . In 2004, import figure touched 4601894.126 ($,000) and export crossed 317099.699 ($,000) limit. As import opportunities are increasing over the years, marketers should offer customized car to Chinese consumers those cater to their need and their particular living conditions. One major problem to the domestic market in China is the inferior grade of auto parts and components. Purely imported cars are not facing this problem. But they are unable to match the competitive price of the market as offered by domestic players. For future players this should be the major area of concern to ensure success in the market.

Conclusion

The domestic industry in China still has to go a long way to match its performance with their counterparts in rest of the developed world's car industry. Major flaws are quantity focused production technology, no-benchmarked supply of automotive parts, non-serious approach towards marketing, and sales and service networks. Chinese government is highly enthusiastic to transform automobile industry as a major pillar of economic development. The above analysis shows scope is the enormous for passenger car industry. In future forecast, passenger car is a vital source of earning. A high demand of small car motivates many global players to start their venture in China. As government policy is much more favorable in comparison to the previous decades, ambitious marketers should make use of this opportunity. Environment performance, safety performance, comfort and convenience are some of the areas to focus for further improvement. As consumers are much more demanding, offering high value added benefits to consumers is a major weapon to achieve competitive advantage. To create and retain a set of loyal customers, these areas should be seriously addressed in Chinese passenger car market.

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Gaining Competitive Edge In The Market Select Business Practices

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1. Introduction

Globalization, liberalization and privatization, together with rapid strides made by Information Technology, have brought in their wake intense competition in every field of activity. To be able to face the competition and come out successful, a high sense of professionalism is called for. Professionalism is about conforming to the technical and ethical standards of work. It is about setting high standards, showing self-belief, making the most of opportunities and sharing the rewards of success. For any company to succeed, the following are essential:

i. Strategic planning
ii. Supply chain management
iii. Building a sound company culture
iv. Adopting marketing approach.
v. Overall development of its employees
vi. Effective knowledge management
vii. Increasing productivity
viii. Increasing satisfied customers

An attempt has been made in the succeeding paragraphs to present some thoughts on the above issues.

2.i. Strategic Planning

Choosing the right path for business enables a company to capitalize on its unique mix of assets and capabilities that will give it sustainable competitive edge in the market. The questions to be asked while defining a strategy are: What are we going to do in our business? What new opportunities will we pursue? What will we need to accomplish in order to achieve the above? While analyzing the situation and drawing up a strategy for development, the following should be kept in view:

- Identify the external factors that affect the business
- Determine aspirations of market segments catered to in the core business
- Assess competition (its strengths and weaknesses)
- Study the latest trends in technology/regulatory changes/supplier updates etc.
- Examine your strengths and weaknesses
- Evaluate new opportunities (business environment, customer requirements etc.)
- Decide whether to take an unexplored opportunity or the larger path mostly used.

2.ii. Supply Chain Management (SCM)

SCM is about the management of connected activities involved in the relationship between manufacturers, their customers and their suppliers. It goes into improving the way a company finds the raw components it needs to make a product or service, manufactures that product or service and delivers it to customers. The basic components of SCM are: Plan (Strategy), Source, Make, Deliver, Return (handling returned products and servicing those with problems)

2.iii. Building A Sound Company Culture

The success of any company relies on sound business philosophies shared at all levels of the organization. It requires mastering the basics of a sound company culture.

These basic building blocks of a corporate ideology are integrity, leadership, dedication, and service. With them as a foundation, a firm’s culture can develop positively at all levels, affecting image, growth, and general business practices. Without firmly implanted values, a firm cannot fully develop the corporate culture that will ensure growth. Developing positive, service-oriented corporate ideologies enables firms to grow from small companies into larger, more successful entities. It takes thoughtful planning and a carefully conceived corporate culture that grows as the business grows.

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Integrity is the keystone. Without it, there is no trust. When co-workers trust you, they want to work with you. When clients trust you, they want to do business with you. A high level of trust often leads to a low exit rate and a high percentage of long-term employees, which in turn makes for good morale. Trust will also bring in additional projects from valued clients.

Leadership is a value that all members of a firm should develop. Active participation in technical organizations, engineering associations, and community affairs can help reveal and develop leadership potential. Making presentations at technical meetings, publishing papers, and coaching co-workers can help develop leadership qualities.

Dedication is the value that means always giving more than what people expect. The result is a happy client and your extra effort is a cost-effective marketing tool. Following the same practice in your office creates a solid team effort, and that in turn creates a richer, more rewarding work environment.

Service, the fourth core value is not a goal. It is a primary "deliverable". Whether you are working in the office, making a public presentation, or conducting a job-interview, always strive to deliver first-class service.

Instilling and practicing these four basic corporate values will create an observable corporate culture. Projecting that corporate image is accomplished through marketing. Ideally, marketing works best when 90% of it is active and 10% is passive. Active marketing involves hands-on contact - shaking hands, meeting with potential clients, maintaining personal contact with existing clients, making presentations, and being involved in technical organizations. Passive marketing, on the other hand, consists of direct-mail efforts, brochures, pamphlets, advertising, web pages, and other literature. It can introduce your firm to a client, attract interest, and build your company profile. Though invaluable, such hands-off methods rarely close a deal.

When it comes to communicating your corporate image, try some new ideas. You might be surprised at the results. A new idea may not always work, but if you don't try something new, you are sure to fail. You can learn a lot from what does not work -sometimes more than from what does.

Quality is not accidental; it develops as the result of a positive attitude. While quality control procedures are reliable tools for helping to ensure a quality product, nothing can replace an attitude that is positive about quality right from the start.

Hire individuals who embrace your philosophy, those you believe will fit comfortably in the corporate culture you are trying to create. When hiring, consider these traits in this order: positive attitude; character and honesty; initiative; teamwork; and technical ability. A person with a positive attitude is more likely to learn what needs to be learnt. However, someone who possesses technical ability without the positive attitude might never develop a positive approach towards work. That is why; technical ability is put at the last.

There are three main considerations for maintaining good working relationships with clients: communication, communication and, of course, communication. Stay in close touch with your clients. If something goes wrong on a project, the best way to stay out of hot water is by having nurtured a good client relationship. Communication is a two-way process - half of it involves listening. Listen to your clients and to your employees. If someone offers an idea, give it serious consideration. If someone else suggests the same idea, give it very serious consideration.

Another key element to setting up a corporate culture is determining who reports to whom. Sometimes the best business structure is the least structure; sometimes too much structure stifles initiative, fresh ideas, and growth. There should be a team focus on the project and on the client.

Make sure everyone within the firm knows and understands your business philosophy. Assemble your staff and explain in detail. Put down your thoughts in writing and give everyone a copy. Explain the philosophy to the new employees as soon as they join. Success depends on the actions each of us takes everyday and how we exhibit quality, integrity, leadership, and dedication.

2.iv. Adopting Marketing Approach

In today's world of cut-throat competition, marketing approach is needed in all dealings, whether they are pertaining to marketing or not. Such an approach will help in effective functioning in every field. Marketing is not limited to putting up hoardings. It is a search for excellence, to give and serve the best. Marketing is a dialogue and not a monologue. We have to be flexible enough to offer what the customer wants. The customer looks for regularity of service, empathy, reliability, faith and trust: all this can be accomplished only through relationship marketing (with customer oriented approach). Product forms must alter to meet changing consumer needs.

2.v. Overall Development of Employees

For achieving success in any mission, knowledge in that particular field and management is no doubt an essential pre-requisite but the factor that will contribute largely to success is overall development of the personality and getting the best out of a team. By rejuvenating themselves at physical, mental and spiritual levels simultaneously, people can enrich their individual lives and also bring about lasting change in their attitudes, whether in the work place or in the family set-up. This brings about an overall well being in human life and goes a long way in fulfillment of one's ambition.

The most important P for success of any organization is its people. Strategies for its people's satisfaction are:

(a) optimizing response time
(b) an open door approach to tackling issues
(c) pro-active HR practices and
(d) meeting people's aspirations while keeping in mind the corporate interest

2.vi. Effective Knowledge Management

The Nineties has seen the emergence of 'network in the computer' paradigm. With evolution of 'Digital Nervous System' and other technologies, knowledge management is receiving attention because of the competitive pressures that are forcing firms to explore all technologies to make their organizations work smarter. Modern day imperatives of 'getting it right the first time' and achieving quality level leave very little room for experimentation and approximate solutions. All the knowledge of the organization will have to be stored and used regularly to ensure accuracy in all transactions and decisions. In the new millennium, effective knowledge management will be the difference between the winners and the also-rans in the corporate world.

2.vii. Increasing Productivity

The way to increase productivity and reduce cost per unit is doing the same thing in less time-turning things around faster. This is possible through continuous learning. To do that, you need to be able to make use of the knowledge explosion. Adopt and adapt to new knowledge. Productivity enhancement can be done by:

- Connecting knowledge to work (learning the best practices and latest management principles).
- Leveraging the power of peer net works (learning from other peoples' experience and avoid reinventing the wheel).
- Put CID (Communications, Internet, Desktop) technology to work for you. Automate your routine work so that you have time for the bigger issues.

2.viii. Increasing Satisfied Customers

Consistently delivering value to the customer is a must for enhancing market share and reputation. The following would help in increasing the number of satisfied customers :-

- Agreeing with the customer instead of arguing would bring in better results.
- Make sure that there is no need for argument with the customer.
- Think that the customer is first and he is right.
- The price we pay to make the customer happy is rewarding. A satisfied customer is our biggest propagator.
- Give plenty of opportunity for the customer to talk and you hear attentively.
- Give your best to the customer. Then, the customer will give his best to you.

- A small work done for the customer will get you a work which even thousand words cannot do.
- Never talk ill of your competitors.
- Unless you take care of your employees, they will not take care of customers.
- Taking good care of your customers is the best way to face competition.
- When the customer comes to you for service after the purchase, solve his problem at the earliest.
- Make it a habit to look straight at the eyes of your customers as well as your employees.
- A satisfied customer will spread the good qualities of your products/services.

3. Conclusion

In order to become and remain a global player, a company has to address itself to three key issues viz. quality, consumer satisfaction and lowest possible cost of production/service. The Indian Industry has to become proactive and improve its overall performance. There has to be an increase in the awareness and concern for cost effective production system, upgrading technology, efficiency improvement, improving quality and increasing productivity and profitability.

In a competitive business environment, an organization needs to anticipate many type of changes, including shifting customer expectation, emerging technological developments, changing customer segments, or strategic shifts in the thrusts made by competitors. Benchmarking is the management tool for search for the best anywhere in the world. It is the process of identifying, understanding, and adapting outstanding practices and processes from organizations anywhere in the world to help your organization improve its performance.

In order to respond to the continuously changing dynamic environment, in addition to productivity and quality, the organizations will be required to focus on innovation in the 21st century. In order to stay ahead of competition, organizations are required to continuously innovate not only products, but also processes, systems, procedures, rules and policies. In this age of knowledge, we should provide the workforce with challenging work environment supplemented by supporting policy environment, which encourages them to use their brains to create new ideas and foaster spirit of innovation.

If you are good at your business, you get good business. Business relies heavily on a combination of proven skill and a history of good relationship with customer. In this connection, the words of Mahatma Gandhi given below would be appropriate:

A customer is the most important visitor in our premises.

He is not dependent on us. We are dependent on him.

He is not an interruption on our work. He is the purpose of it.

He is not an outsider on our business. He is a part of it.

We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.

India: Trade, Investments & Policy Updates

Kamal Nath For Big Push To Economic Dimension Of Indo-German Relations: Outlines Areas Of Cooperation For SMEs : Calls For Dismantling Of Non-Tariff Barriers In EU At Indo-German Business Summit In Hannover

Stating that India's presence as a Partner Country in Hannover marks the renewal of its strong and robust relations with Germany, Mr. Kamal Nath, Minister of Commerce and Industry, Government of India, called for giving a big push to expanding the economic dimension of Indo-German relations. The foundation of mutually beneficial commercial relations between the two countries lies in leveraging both the countries' inherent manufacturing strengths, he said while addressing the second session of the Indo-German Business Summit today at the Hannover Fair, which was inaugurated last evening by the Prime Minister of India Dr. Manmohan Singh and the German Chancellor, Dr. Angela Merkel.

"The strongest endorsement of India's emerging potential as the next global manufacturing champion comes from the fact that today approximately 80% of all German investors present in India are manufacturing firms – all of them world leaders in their field – mostly from the electronics and electrical sectors, chemicals & mechanical engineering and auto components. Daimler Chrysler, Siemens, Bayer, BASF, Robert Bosch, Allianz, Thyssen Krupp and SAP come to mind", the Minister said, adding that the relationship was about to enter a new phase as Indian companies with new-found confidence in their competitive strengths were also increasingly looking at Germany as a base for value-added operations.

The potential areas of Indo-German cooperation outlined by Mr. Kamal Nath include telecom, engineering, environmental technology, chemicals, pharmaceuticals and food processing, besides renewable sources of energy where India could benefit in particular from German expertise in wind energy technology. "Closer state-to-state relations between the Indian and German provinces would help in providing a boost to our economic ties", he said, in a reference to the participation of several Indian states in the Hannover Fair including Jharkhand, Karnataka, Orissa and West Bengal.

Small & Medium Enterprises (SMEs) of India and Germany could cooperate in particular in the fields of auto-components, machine and hand tools, toys and pharmaceuticals, he said.

Further, with increasing concern about environmental sustainability, "there is a huge opportunity for strengthening Indo-German 'green business' relations in the areas of dye and dye intermediaries, textiles, chemicals and waste utilization technologies", he stressed.

Referring to the increasing stringency of standards and complex rules and procedures in the European Union (EU) which acted as non-tariff barriers (NTBs) to trade, Mr. Kamal Nath sought the cooperation and support of Germany – India's largest trading partner in Europe along with the UK and Belgium – in settling the issues of various NTBs that Indian exporters had been facing in the EU.

Bilateral trade and investment

- India's trade with Germany in 2004-05 stood at US $ 6.5 billion, indicating a robust growth of nearly 20%.
- India's exports to Germany were US $ 2.64 billion while India's imports from Germany were US $ 3.86 billion.
- Bilateral trade has been growing at a record 20% for the past 3 years.
- The inflow of total German FDI into India (1991-December 2005) at US $ 1.34 billion has been less than one and a half billion dollars.
- There are more than 600 German companies operating in India and an increasing number of Indian companies investing in Germany.
- The actual figures of FDI inflows, therefore, do not reflect the synergies and complementarities of the two economies.
- India has emerged as one of the largest consumer markets in the world, making it one of the most attractive investment destinations.

http://commerce.nic.in/April06_release.htm

Kamal Nath Releases Compendium On India's FDI Policy

Shri Kamal Nath, Union Minister of Commerce & Industry, released a Compendium on "India's Foreign Direct Investment Policy", here today, which brings together India's current policy on FDI along with the relevant Press Notes.

Later addressing media persons, Shri Kamal Nath said that the government had, for the first time, undertaken recently a comprehensive review of FDI policy and associated procedures, given the fact that "Foreign Direct Investment

(FDI) plays an important role in the long term economic development of the country, not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities".

As a result of the review, a number of rationalization measures have been undertaken which, include, dispensing with the need of multiple approvals from Government and/ or regulatory agency that existed in certain sectors, extending the automatic route to more sectors, and allowing FDI in new sectors. "Liberalization of FDI Policy is expected to attract large FDI inflows in the development of infrastructure, technological upgradation of Indian Industry though green field investment in manufacturing, and in projects having potential for creating employment opportunities", Shri Kamal Nath said.

The Compendium "Foreign Direct Investment Policy" is set in three Sections:

Section A gives an overview of extant FDI policy. In the sectors listed in the statement, FDI is allowed only in the indicated activities subject to the equity limits and/ or other conditions, as indicated. FDI in all sectors/activities is subject to sectoral guidelines and requirements. FDI is not permitted in Retail trade (except Single Brand product retailing); Lottery; Gambling and Atomic Energy. In the remaining sectors/activities, FDI up to 100% would be allowed on the automatic route.

Section B contains relevant Press Notes on FDI policy and procedures in a chronological order. All Press Notes, issued since 1991, are available at the website http:// www.dipp.goc.in/.

Section C deals with FDI inflow statistics since 1991, including the country-wise and sector wise details. It also gives FDI inflow statistics, as per international practices, since 2000-01. FDI statistics is also available at the website http://www.dipp.gov.in/

http://commerce.nic.in/April06_release.htm

Patents (Amendment) Rules Notified – A Major Step Forward In Developing User-friendly Ipr Regime In India, Says Kamal Nath

The Patents (Amendment) Rules 2006 have been notified by the government. Commenting on the Rules, Shri Kamal Nath, Minister of Commerce & Industry, has said that "the recent amendments to the Patents Rules represent yet another major step forward in India's endeavour to develop a vibrant and user-friendly Intellectual Property Regime which would facilitate as well as encourage innovation and creativity". The thrust of the Patents Rules is to introduce transparency, decentralize the functioning of Patent Offices, simplify the procedures and to make them user-friendly, he added.

Pursuant to the amendment to the Patents Act, 1970 as contained in the Patents (Amendment) Act, 2005, the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, has issued a Notification dated 5th May, 2006 published in the Gazette of India No. S.O. 657 (E) further amending the Patents Rules, 2003.

The Patents (Amendment) Rules, 2006 have been finalized through a consultative process involving Patent Attorneys, Industry Associations, Government Departments concerned and other stake holders.

In order to decentralize as well as facilitate the patent administration, all patent related activities can now be performed by all the Patent Offices at Kolkata, Chennai, Delhi and Mumbai.

Patent applications are now to be mandatorily published within one month after expiry of the statutory period of 18 months and, in case of request for an early publication, the application is to be published within one month from the date of request. This step will introduce an element of certainty regarding the date of publication which was hitherto not available.

With a view to enforcing transparency and ensuring time bound disposal of patent applications, definitive time frames have been prescribed for various activities by the Patent Offices. A patent application now has to be referred to an Examiner within one month of a request for its examination. Further, the Controller will now be required to take a decision on the report of the Examiner within one month of its submission and the First Examination Report has also to be issued within six months of the date of request for examination of a patent application. The time for granting permission to file patents abroad has also been reduced to just 21 days.

In order to make the system user-friendly, timelines available for applicants and the public have also been extended. Accordingly, the time frame for making a request for examination has been extended from 36 to 48 months; time for filing a pre-grant opposition extended from 3 to 6 months; time for filing reply to pre-grant opposition extended from 1 to 3 months; and time for meeting the requirements of the First Examination Report increased to 12 months.
http://commerce.nic.in/Mayl06_release.htm

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