

Case Study 1

The Rise of India's Drug Industry

One of the great success stories in international trade in recent years has been the strong growth of India's pharmaceutical industry. The country used to be known for producing cheap knockoffs of patented drugs discovered by Western and Japanese pharmaceutical companies. This made the industry something of an international pariah. Because they made copies of patented products, and therefore violated intellectual property rights, Indian companies were not allowed to sell these products in developed markets. With no assurance that their intellectual property would be protected, foreign drug companies refused to invest in, partner with, or buy from their Indian counterparts, further limiting the business opportunities of Indian companies. In developed markets such as the United States, the best that Indian companies could do was to sell low-cost generic pharmaceuticals (generic pharmaceuticals are products whose patents have expired). In 2005, however, India signed an agreement with the World Trade Organization that brought the country into compliance with WTO rules on intellectual property rights. Indian companies stopped producing counterfeit products. Secure in knowledge that their patents would be respected, foreign companies started to do business with their Indian counterparts. For India, the result has been dramatic growth in its pharmaceutical sector. The sector generated sales of close to \$30 billion in 2012, more than two and a half times the figure of 2005. Driving this growth have been surging exports, which grew at 15 percent per annum between 2006 and 2012. In 2000, pharmaceutical exports from India amounted to around \$1 billion. By 2012, the figure was around \$14 billion! Much of this growth has been the result of partner-ships between Western and Indian firms. Western companies have been increasingly outsourcing manufacturing and packaging activities to India while scaling back some of these activities at home and in places such as Puerto Rico, which historically has been a major manufacturing hub for firms serving the U.S. market. India's advantages in manufacturing and packaging include relatively low wage rates, an educated workforce, and the widespread use of English as a business language. Western companies have continued to perform high value-added R&D, marketing, and sales activities, and these remain located in their home markets. During India's years as an international pariah in the drug business, its nascent domestic industry set the foundations for today's growth. Local start-ups invested in the facilities required to discover and produce pharmaceuticals, creating a market for pharmaceutical scientists and workers in India. In turn, this drove the expansion of

pharmaceutical programs in the country's universities, thereby increasing the supply of talent. Moreover, the industry's experience in the generic drug business during the 1990s and early 2000s has given it expertise in dealing with regulatory agencies in the United States and European Union. After 2005, this know-how made Indian companies more attractive as partners for Western enterprises. Combined with low labor costs, all these factors came together to make India an increasingly attractive location for the manufacturing of pharmaceuticals. The U.S. Federal Drug Administration (FDA) responded to the shift of manufacturing to India by opening two offices there to oversee manufacturing compliance and make sure safety was consistent with FDA-mandated standards. Today, the FDA has issued approvals to produce pharmaceuticals for sale in the United States to some 900 plants in India, giving Indian companies a legitimacy that potential rivals in places such as China lack. For Western enterprises, the obvious attraction of outsourcing drug manufacturing to India is that it lowers their costs, enabling them to protect their earnings in an increasingly difficult domestic environment where government health care regulation and increased competition have put pressure on the pricing of many pharmaceuticals. Arguably, this also benefits consumers in the United States because lower pharmaceutical prices mean lower insurance costs, smaller copays, and ultimately lower out-of-pocket expenses than if those pharmaceuticals were still manufactured domestically. Offset against this economic benefit, of course, must be the cost of jobs lost in U.S. pharmaceutical manufacturing. Indicative of this trend, total manufacturing employment in this sector fell by 5 percent between 2008 and 2010.

Case Discussion Questions

How might (a) U.S. pharmaceutical companies and (b) U.S. consumers benefit from the rise of the Indian pharmaceutical industry?

2. Who might have lost out as a result of the recent rise of the Indian pharmaceutical industry?
3. Do the benefits from trade with the Indian pharmaceutical sector outweigh the losses?
4. What international trade theory (or theories) best explain the rise of India as a major exporter of pharmaceuticals?

Case Study 2

China Limits Exports of Rare Earth Materials

Rare earth metals are a set of 17 chemical elements in the periodic table and include scandium, yttrium, cerium, and lanthanum. Small concentrations of these metals are a crucial ingredient in the manufacture of a wide range of high-technology products, including wind turbines, iPhones, industrial magnets, and the batteries used in hybrid cars. Extracting rare earth metals can be a dirty process due to the toxic acids that are used during the refining process. As a consequence, strict environmental regulations have made it extremely expensive to extract and refine rare earth metals in many countries.

Environmental restrictions in countries such as Australia, Canada, and the United States have opened the way for China to become the world's leading producer and exporter of rare earth metals. In 1990, China accounted for 27 percent of global rare earth production. By 2010, this figure had surged to 97 percent. In 2010, China sent shock waves through the high-tech manufacturing community when it imposed tight quotas on the exports of rare earths. In 2009, it exported around 50,000 tons of rare earths. The 2010 quota limited exports to 30,000 tons. The quota remained in effect for 2011 and was increased marginally to around 31,000 tons in 2012 and 2013.

The reason offered by China for imposing the export quota is that several of its own mining companies didn't meet environmental standards and had to be shut down. The effect, however, was to dramatically increase prices for rare earth metals outside of China, putting foreign manufacturers at a cost disadvantage. Many observers quickly concluded that the imposition of export quotas was an attempt by China to give its domestic manufacturers a cost advantage and to encourage foreign manufacturers to move more production to China so that they could get access to lower-cost supplies of rare earths. As news magazine *The Economist* concluded, "Slashing their exports of rare earth metals has little to do with dwindling supplies or environmental concerns. It's all about moving Chinese manufacturers up the supply chain, so they can sell valuable finished goods to the world rather than lowly raw materials." In other words, China may have been using trade policy to support its industrial policy.

Developed countries cried foul, claiming that the export quotas violate China's obligations under World Trade Organization rules. In July 2012, the WTO responded by launching its own investigation. Commenting on the investigation, a U.S. administration official said that the export quotas were part of a "deeply rooted industrial policy aimed at providing substantial competitive advantages for Chinese manufacturers at the expense of non-Chinese manufacturers."

In the meantime, the world is not sitting still. In response to the high prices for rare earth metals, many companies have been redesigning their products to use substitute materials. Toyota, Renault, and Tesla, for example all major automotive consumers of rare earth product shave stated that they plan to stop using parts that have rare earth elements in their cars. Governments have also tried to encourage private mining companies to expand their production of rare earth metals. By 2012, there were some 350 rare earth mine projects under development outside of China and India. An example, Molycorp, a U.S. mining company, is quickly boosting its rare earth production at a California mine. As a consequence of such actions, by early 2014, China's share of rare earth output had slipped to 80 percent. This did not stop China from announcing quota limits in 2014 that seemed to be in line with those of 2013.

Case Discussion Questions

Which groups benefited the most from China imposing an export quota on rare earth metals? Did it give the Chinese domestic manufacturers a significant cost advantage? Did it result in dramatically increased quality and environmental standards? Given that 97 percent of rare earth metal production is now done in China, an increase from 27 percent to 97 percent between 1990 and 2010, do you think countries such as Australia, Canada, and United States should reconsider their environmental restrictions on products of such metals?

The restrictions imposed by China on rare earth metals has resulted in some companies (e.g., Toyota, Renault, Tesla) starting to look for alternatives. They plan to use parts that do not include rare earth metals. Is this a good solution?

Case Study 3

Foreign Retailers in India

For years now, there has been intense debate in India about the wisdom of relaxing the country's restrictions on foreign direct investment into its retail sector. The Indian retailing sector is highly fragmented and dominated by small enterprises. Estimates suggest that barely 6 percent of India's almost \$500 billion in retail sales take place in organized retail establishments. The rest takes place in small shops, most of which are unincorporated businesses run by individuals or households. In contrast, organized retail establishments account for more than 20 percent of sales in China, 36 percent of sales in Brazil, and 85 percent of all retail sales in the United States. In

total, retail establishments in India employ some 34 million people, accounting for more than 7 percent of the workforce.

Advocates of opening up retailing in India to large foreign enterprises such as Walmart, Carrefour, Ikea, and Tesco, make a number of arguments. They believe that foreign retailers can be a positive force for improving the efficiency of India's distribution systems. Companies like Walmart and Tesco are experts in supply chain management. Applied to India, such know-how could take significant costs out of the economy. Logistics costs are around 14 percent of GDP in India, much higher than the 8 percent in the United States. While this is partly due to a poor road system, it is also the case that most distribution is done by small trucking enterprises, often with a single truck, that have few economies of scale or scope. Large foreign retailers tend to establish their own trucking operations and can reap significant gains from tight control of their distribution system.

Foreign retailers will also probably make major investments in distribution infrastructure such as cold storage facilities and warehouses. Currently, there is a chronic lack of cold storage facilities in India. Estimates suggest that about 25 to 30 percent of all fruits and vegetables spoil before they reach the market due to inadequate cold storage. Similarly, there is a lack of warehousing capacity. A lot of wheat, for example, is simply stored under tarpaulins, where it is at risk of rotting. Such problems raise food costs to consumers and impose significant losses on farmers.

Farmers have emerged as significant advocates of reform. This is not surprising because they stand to benefit from working with foreign retailers. Similarly, reform-minded politicians argue that foreign retailers will help to keep food processing in check, which benefits all. Ranged against them is a powerful coalition of small shop owners and left-wing politicians, who argue that the entry of large, well-capitalized foreign retailers

will result in the significant job losses and force many small retailers out of businesses.

In 1997, it looked as if the reformers had the upper hand when they succeeded in changing the rules to allow foreign enterprises to participate in wholesale trading. Taking advantage of this reform, in 2009 Walmart

started to open up wholesale stores in India under the name Best Price. The stores are operated by a joint venture with Bharti, an Indian conglomerate. These stores are only allowed to sell to other businesses, such as hotels, restaurants, and small retailers. By 2012, the venture had 20 stores in India. Customers of these stores note that unlike many local competitors, they always have products in stock, and they are not constantly changing their prices. Farmers, too, like the joint venture because it has worked closely with farmers to secure consistent supplies and has

made investments in warehouses and cold storage. The joint venture also pays farmers better prices—something it can afford to do because far less produce goes to waste in its system.

For its part, in 2011 the Indian government indicated that it would soon introduce legislation to allow foreign enterprises like Walmart entry into the retail sector. On the basis on this promise, Walmart and Bharti were planning to expand downstream from wholesale into retail establishments, but their plans were put on hold in late 2011 when the Indian government announced that the legislation had been shelved for the time being. Apparently, opposition to such reform had reached such a pitch that implementing it was not worth the political risk. Opponents argued that global experience showed that FDI leads to job losses, although they cited no data to support this claim. Whether India will further relax regulations limiting inward FDI into retail remains to be seen.

Case Discussion Questions

1. Why do you think that the Indian retail sector is so fragmented?
2. What are the potential benefits to India of entry by foreign retail establishments? Who are the potential losers here?
3. Who stands to lose as a result of foreign entry into the India retail sector?
4. Why do you think reform of FDI regulations in India has been so difficult?

Case Study 4

American Motor Corporation: International Operation

American Motor Corporation (AMC) for years had been America's fourth largest producer of automotive vehicles. It dropped to fifth position when Volkswagen began producing cars in US, after joining with Renault of France in 1980. AMC started to drop them. It began producing and selling Renault's designed cars instead of its own. AMC was also the world's largest producer of four wheelers since its acquisition of Jeep from Kaiser in 1870. Joining with Renault did not threaten the viability of AMC's Jeep line because Renault had no four wheelers. In fact, Renault became exclusive distributor for Jeeps in France and elsewhere.

By 1980, worldwide sales of Jeep were over 2 Lakh per year with $\frac{3}{4}$ of that in the US and Canada, which represented the domestic business. The international sales in 1981 including communist countries were 45,000. Until the fall of Shah, Iran was the biggest market. Among four wheelers, Jeep was the largest seller. Its competitors in order were Toyota, Nissan, and Land

Rover. Jeep was the most global of the competitors also with manufacturing, assembly operations in just Indonesia and Venezuela. Most of the Jeeps were produced from Ohio. However, AMC Jeep had equity in plants in Australia, Egypt etc. Altogether, 2 assembly plants in Africa, 3 in Middle East, 12 in Asia Pacific and 4 in Latin America.

Jeep sales outside US and Canada are the responsibility of a firm based in Michigan. The concern has 185 employees, of which 25 are living in foreign countries, 25 are American expatriates. Jeep vehicles have enjoyed universal recognition and appeal due to their use in the Second World War by US. In developed countries, Jeeps are promoted as recreational vehicles while multipurpose in developing countries. It can be seen that Jeeps are sold in large number in world markets and in countries with difficult economic, environmental and use conditions.

Questions

1. To what degree should Jeep vehicles be adopted for world markets?
2. Should Jeeps have uniform international brands in world markets?
3. Should the Jeeps warranty be the same in every market?
4. What should be the service and promotion strategy for world markets?

Case Study 5

Business Strategy: Case of the Ford Motor Company

The Ford Motor Company decided to produce the first lowest priced car in U.S.A. The company President Mr. Lee Iacocca wanted to rush the development of a car costing less than \$ 2000, as he promised the public that his company will bring out car at that price (as low as \$2000) and also fight the growing popularity of Volkswagen's Beetel. Preliminary test showed that it involved an additional cost of \$ 11 to enhance the safety of the car. Then he organized the meeting of the executives of the company to decide how to reduce the cost below \$2000. Many executives suggested that the company should sell the car at \$2011 by including the safety features. But some executives viewed that the company should sell the car at \$2000 as was promised by excluding the safety feature. However, the company decided to go ahead without the safety norms.

The car got overwhelming response from every corner but after six months of release, one of the cars met with an accident killing all the passengers travelling in it. The competitors influenced the newspaper to publish this accident significantly and the newspaper in the U.S.A. highlighted the absence of the safety features. This incident resulted not only in the loss of sales but also in the closure of the unit resulting in a loss of \$250 million to the company.

Questions

1. What was the key strategy behind manufacturing of low-price car of Ford Motor?
2. What was the ultimate result of the business strategy?
3. If you were the President of Ford Motor, what changes would you like to implement?

Case Study 6

Tiles and Ceramics Ltd (TCL): The way forward

Tiles and Ceramics Ltd (TCL), a fairly young firm in Iznik, Turkey, faces rapidly changing markets and increasing competition. Iznik is famous for its hand painted tiles, mostly in different shades of blue. The region's special clay has enabled to produce long-lasting quality tiles over the centuries.

Modern methods of production are new to the industry in Iznik. TCL is regarded as the largest and most modern domestic producer. However, as a manufacturer for the international market, it is considered to be in its infancy and in need of technical and management know-how.

Current production comprises ceramic tiles for walls, flooring, and decorative purposes. The company is considering entry into the export trade and diversifying into sanitary ware and tableware. Its managing director is an experienced retailer of tiles and sanitary ware. Tableware, a product line unrelated to the construction industry, will require separate construction channels.

TCL holds 30 percent of the domestic market for the ceramic tiles and is facing significant challenges from its closest competitors, BCD, and PK, which have a combined share of 65 percent. Considering that both these companies were established many years earlier, TCL has been exceptionally successful. The remaining 5 percent of the market is supplied by imports, mainly from Italy and Germany.

Demand for high-quality, high-priced imports carrying prestigious brand names is increasing as income is rising significantly in certain sections of the population.

TCL's production cost is rising with the costs of imported raw materials, a situation exacerbated by the imposition of an import duty of 40-120 percent on such items as dyes, molds, and chemicals. The company's profit margins are shrinking, and the impending entry of another domestic supplier is regarded as a threat.

Questions

1. Evaluate the current position of the company (TCL) with SWOT analysis.
2. Suggest suitable international marketing mix strategy for the TCL.

Case Study 7

China: Threat or Opportunity to India

A recent report of the government of India indicates that China's competitiveness is not a myth built on cheap labor but the result of far-sighted planning. China managed to increase its per capita income by nine times and its GDP by five times during 1978 to 2010. China is the first in the world in the production of corn, cotton, rape seed, meat, charcoal, chemical fiber, yarn, cloth, cement, steel, color TV and digital control panels. It stands second in power generation and the production of fertilizers. Overview of Chinese economy depicted GDP 26,44,642 (US\$ billion), per capita GDP 7,800, growth rate 11.1%, export 1060, import 892 (US\$ billion), trade balance +168 (US\$ billion), labor force 795 million. FDI inflow 5, 34,781 (US\$ billion), saving around 39.8, median age 37.9 and bank deposits 3706 (US\$ billion).

Around 200 transnational companies entered China to get the benefit of cheap labor, freedom to hire and fire, absence of bureaucratic interference, low taxes, flexible labor laws and higher productivity. A report of WTO stated that China would be a threat to many developing countries including India in the near future.

India is the second largest country in farm output (agriculture and allied sectors) in the world. As the third largest economy in the world in PPP terms, India is a preferred destination for foreign direct investment (FDI); India is rich in information technology, auto components, chemicals, pharmaceuticals, and jewelry. GDP of India 8, 73,659 (US\$ billion), per capita GDP 3,800, growth rate 8.1%, export 194, import 238 (US\$ billion), trade balance - 44 (US\$ billion), labor force 509 million.

FDI inflow 70,630 (US\$ billion), saving around 26.8, median age 28.1 and bank deposits 436 (US\$ billion). The large population put pressure on infrastructure and social services. A positive factor has been the large working age population and skilled managerial & technical expertise. The size of the middle-class population at 300 million exceeds the population of both the US and the EU, and represents a powerful consumer market.

Questions

1. What are major macroeconomic indicators?
2. Explain the role of these indicators in economic growth of both the countries.
3. How can India convert these threats into opportunities in near future?

Case Study 8

Mahindra & Mahindra and USA

Mahindra & Mahindra (M&M) is a major player in the tractor and certain segments of the automobile market in India. After an impressive growth for a few years, the tractor market in India has been stagnating during 1998-1999 to 2015-2019.

Mahindra & Mahindra has been selling its tractors and utility vehicles in foreign markets including USA. Some of the components for its products have been sourced from abroad.

M&M has a 100 percent subsidiary in USA, Mahindra USA, with a strong network of 100 dealers. Mahindra has a five percent market share in US market in the 28-30 horsepower (HP) range.

As a part of the strategy aimed at building a global supply chain, Mahindra USA has signed a memorandum of understanding (MoU) with the Korean tractor major Tong Yang, a part of the \$2 Billion Tong Yong Moolsam group, according to which Mahindra will source high horsepower (mostly 25-40 hp range) and sell them around the world under the M&M brand name. To start with, the premium range of tractors will be sold in USA.

M&M's current tractor range is more utility-oriented and lacks the aesthetic appeal that Tong Yong's tractors have but still there is a strong presence of Mahindra tractor in the US market.

Questions

1. What are the advantages and disadvantages of global sourcing?
2. How will the foreign market expansion help M&M?
3. How does the strategic alliance with Tong Yong benefit M&M?

DO NOT COPY, Dr. Manish Dadhich