

Marks: 50

Duration: 03 hours

Date : 08/12/2018

Note:

- 1) All questions are compulsory.
- 2) Figures to the right indicate marks.

1) Read the following case study and present your in-depth analysis.

(15 Marks)

America and China Trade War: Tit for Tat

On September 17th President Donald Trump announced that he had approved a further wave of tariffs on Chinese imports. From September 24th, imports of products which in 2017 were worth as much as \$189bn, including furniture, computers and car parts, will be hit with duties of 10%. The Chinese have promised to retaliate on the same day with duties on \$60bn of American exports. Unless peace breaks out before the new year, the American rate will increase to 25% on January 1st.

President Trump frequently rants about how the Chinese have long taken advantage of Americans. But American bureaucrats stress that the duties come after careful deliberation. The Office of the United States Trade Representative (USTR) took seven months to write a report detailing China's unfair trade practices. Each tranche of tariffs has been consulted on and then revised. The latest set came after the USTR's office had received 6,000 written submissions and held six days of hearings.

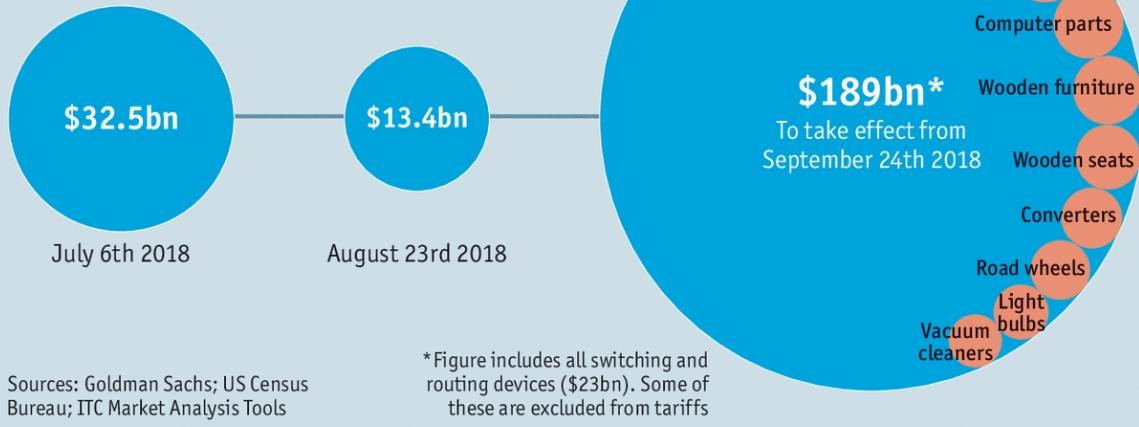
Compared with an earlier proposal, the latest tariff list excludes products worth up to \$30bn. Child-safety seats and safety headgear were exempted. Antiques more than a century old were spared, too. (Some had pointed out that the Chinese government restricted their export anyway.) Despite Mr Trump's warning on September 8th that prices of products made by Apple may increase as a result of his tariffs, smartwatches and bluetooth devices were removed from the list.

The Trump administration claims that these deliberations have helped to minimise the impact on the American consumer. The staggered tariff rate is supposed to give importers time to change their suppliers. Wilbur Ross, the commerce secretary, was mocked online for claiming that, because the tariffs are spread over thousands of products, "nobody's going to actually notice it at the end of the day". But in support of his claim, economists at Goldman Sachs, a bank, estimate that the 10% tariff rate will boost inflation by only around 0.03 percentage points, and the increase to 25% by a further 0.05 next year.

The universe is expanding

Chinese imports affected by US tariffs
Value, 2017

● Top ten Chinese products
on latest list



The Economist

Still, this diligence was not welcomed by all. More than three-quarters of the products that will be affected on September 24th are intermediate and capital goods, which means the most immediate impact will be to push up American businesses' costs. Mr Trump's announcement triggered complaints from industry representatives including the US Chamber of Commerce, the American Chemistry Council and the American Apparel and Footwear Association, all of which warned that Americans would end up footing the tariff bill, and pleaded for a different approach.

Although it claims to be following due process, the Trump administration's actions are far removed from the procedures of the rules-based global trading system. Ordinarily, members of the World Trade Organisation (WTO) would take their complaints to the body's judges. If such accusations are upheld, then those judges allow limited retaliation.

In 2012, for example, the American government complained to the WTO that the Chinese government was breaking the rules by restricting the export of rare-earth elements. China's dominance in their global supply meant that this hurt American manufacturers by pushing up prices for their inputs. After the WTO's judges sided with the Americans, the Chinese government dropped the measures.

The Trump administration claims that the WTO's incomplete rule book makes it incapable of dealing with China's alleged misdemeanours, which include forcing foreign companies to hand over their technology. But, even as it complains, America is simultaneously weakening the system by which the WTO's rules are enforced, by blocking the appointment of judges to the body's court of appeals. From October, only three will be left—the minimum needed to rule on a case.

On September 18th Cecilia Malmström, the European Union's trade commissioner, unveiled a "concept paper" outlining reforms that could plug some of the gaps in the WTO's rules, as well as ways to reform dispute settlement. But it is far from clear whether either President Trump or the Chinese government will take the bait.

And without the multilateral rules-based system to contain the conflict, the trade war between China and America could get much bloodier. In his announcement on September 17th President Trump threatened to hit another \$267bn-worth of Chinese imports if China retaliated against his latest tranche of tariffs. For their part, the Chinese show little sign of backing down, and have promised to use fiscal policy to soften any domestic blow.

Although they are running out of American exports to target, they have other ways to fight. On September 17th, for example, reports emerged of a Chinese official musing about China repeating its trick of imposing export restrictions on raw materials that American manufacturers depend on. The next day, Craig Allen, president of the US-China Business Council, warned that the WTO had made clear its opinion that such restrictions were illegal. But why, when America is acting outside the rule book, should others stick to it?

Sources:

<https://www.economist.com/finance-and-economics/2018/09/20/america-and-china-are-in-a-proper-trade-war>

- 2) A) Explain the importance of studying Business Perspectives in a Global Context as opposed to a local one in the current age. **(10 Marks)**

OR

- B) Explain the contribution of any one of the following thinkers and what and how can we learn from them:

i. Eric Reis

ii. Michael Porter

3) Discuss the importance of any TWO of the following:

(10 Marks)

- a. Sugata Ghosh
- b. Philip Kotler

- c. Peter Drucker
Theodore Levitt

4) A) Write in detail on any TWO of the following:

(15 Marks)

- a. PESTLE and BCG Matrix
- b. Geert Hofstede
- c. CK Prahalad
- d. Hans Rosling

OR

B) Read the following case study and present your in-depth analysis.

(15 Marks)

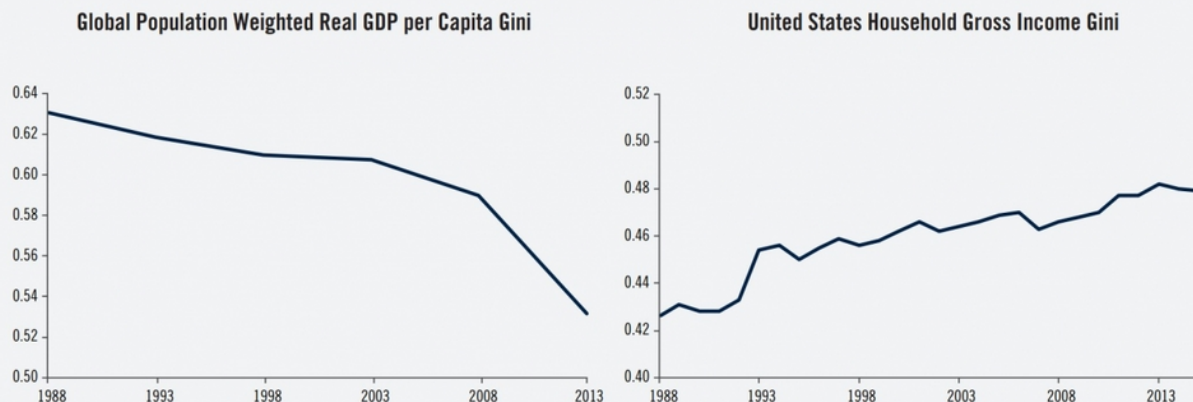
Globalization versus Nationalization: Factors Investors Need to Consider

Empire or nation-state? Globalization or populism? This has been the battle of humanity since the Europeans first learned to sail. You went to other countries, you conquered them, sometimes brutally, sometimes with soft power, and you took their raw materials for a song, sold them for a fortune. Empires were built this way. To fend off these colonial powers of wealth and influence, countries closed their doors or fought back. Politically speaking, the left-of-center politicians fight back by touting chicken-in-every-pot kumbaya socialism. The bad guys are "over there," usually a colonial power, like the U.S. They must be kept at bay. The right-of-center politicians fight back by touting a locals-only mindset. The bad guys are "over there," usually another country trying to take from us. These are the forces of globalization versus nationalism in its most characteristic laymen's terms.

For investors, this new battle is being waged with gusto. It started with Brexit, a deal that had Brits ticked off with Brussels dictating immigration policy and has continued with Donald Trump, a president who has promised to tighten American borders from working poor migrants seen taking jobs from other minority American citizens and the gigantic white working class. The bad guys are over there, usually in a cheap labor country that Trump feels has taken advantage of his countrymen, all the while forgetting, or ignoring, the vast benefits those arrangements have given to American multinationals and, to some extent, the consumer society that lives on cheap, disposable goods.

"What's unique to this current phase of globalization is the acceleration of capital and information flows, which makes it harder than ever for governments to keep pace with the opportunities and challenges that result," said Nathan Sheets, head of global macroeconomic research at PGIM Fixed Income. "Investors need to understand how companies might benefit from globalisation or handle a backlash from a government."

Exhibit 5: Global inequality has declined while inequality in the U.S. has risen



Note: A Gini coefficient, commonly used to express income inequality, is a statistical measure of the degree of inequality represented in a set of values. A coefficient of one represents total inequality, and zero represents perfect equality.
Source: Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization*, Cambridge, Massachusetts: The Belknap Press of Harvard University, 2016; All the Ginis database (version October 2016).

PGIM thinks Wall Streeters need to rethink ... everything. Wealth managers worried about the latest Trump Tweet on trade need to consider the following, as taken from PGIM's recent report titled "The End of Sovereignty?"

- **Decrease reliance on top-down country-level factors**, which have a diminishing role in driving equity, corporate debt and real estate returns. Continuing their steady decline, country-level factors now account for only 20% of global equity returns, for example.
- **Apply a global framework for all investment decisions.** Regional stock index performance is no longer solely determined by local economic growth; for example, 40% of S&P 500 company sales occurred outside the U.S. over the last decade. Investors must consider the impact that decisions taken around the globe will have on their domestic investment portfolios.
- **Ensure developed market risk is embedded in decisions.** The 2016 Brexit vote left many investors scrambling to evaluate their exposure to the U.K. Investors should work with their asset managers and consultants to understand their true regional exposures; at a minimum, investors will want to ensure they have access to local, on-the-ground expertise to be aware of geopolitical tensions.
- **Position the portfolio for greater volatility and uncertainty.** Long-term investors should be wary of traditional measures of risk.

Globalization has been seen by some countries as a challenge to state sovereignty. That's nothing new. What is new is that former colonial powers, the guys who created globalization since the first East India Company ships set sail on the Atlantic Ocean, are caught in a very serious political battle. On one side, you have the populists, often reeling against establishment policies on immigration and trade. Depending on who controls the executive branch, countries are taking actions to rein in the big-money corporations and the banks that are the bastions of free trade. They are closing down their borders to the extent that it is possible, under the notion that by doing so they are protecting the market for the most economically vulnerable citizens. Their policies have potentially significant implications for the economic and business environment not only in their home country but around the world, as the U.S. has shown under Trump.

Globalization has helped poor countries move out of dollar-a-day Happy Meal toy-making economies to real members of the global supply chain. China is the poster child of this. The data points show that thanks to a globalized economy that relies on a global chain of suppliers, incomes have risen in emerging market nations. Inequality between countries around the world has steadily declined since the 1980s, thanks to Asia moving up the value chain. Here it has gone up. The two are not exclusive of each other. Inequality within developed markets has risen thanks to a combination of new technologies eliminating middle-income blue-collar labor that did not require specialized or advanced degrees. Competition among low-skilled workers has also added to the increase.

Governments across the developed world have been taking steps to shift multinational firms' economic activity back to their "home" tax jurisdiction. Starting in 2012, the OECD launched the Base Erosion and Profit Sharing Project to create an international framework to increase reporting transparency and tackle tax evasion. Some governments are taking unilateral action.

It's not unique to Trump, by the way. In 2014, under President Obama, the U.S. Treasury announced steps to cut tax benefits of corporate inversions, taking additional actions in 2016 in response to Pfizer's proposed \$160 billion takeover of Allergan. Last year, Trump and the Republicans passed the U.S. Tax Cuts and Job Act which shifted taxation from a worldwide system to a territorial system and allowed a

one-off tax on accumulated foreign earnings—potentially inducing firms to repatriate up to \$2 billion to the U.S. from cash held overseas.

Governments are also increasing their efforts to compel firms to “onshore” their physical and digital presence when selling into national markets and keep the local presence that firms already have, PGIM analysts wrote in "The End of Sovereignty." Trump pushed tax incentives and used public pressure to keep multinationals from sending jobs abroad.



**Global supply chains account
for nearly 80% of global trade
and 1 out of 5 jobs¹**

40%

**of the revenues of firms in the
S&P 500 and 50% of the MSCI
Europe Index are sourced from
outside their home markets²**

¹ UNCTAD, World Investment Report 2013: Global Value Chains: Investment and Trade for Development, United Nations Publication, 2013. ILO (2015) World Employment and Social Outlook, ILO, Geneva.

² Gupta, Abhishek, and Subramanian, Madhu. "Economic Exposure in Global Investing: Tilting Portfolios Based on Macroeconomic Views." MSCI, October 2014. Silverblatt, Howard. "S&P 500 2016: Global Sales." S&P Dow Jones Indices, July 2017; S&P data.

Government pressure in the core economies is having real effects on business models around the world. General Electric switched from a global strategy to a local strategy, with former CEO Jeff Immelt saying GE once had only one site making locomotives. "Now we have multiple global sites that give us market access. A localization strategy can't be shut down by protectionist policies," he says.

PGIM's report gives wealth managers something to think about. Successful investors will be those who better understand the tussle between nation-states trying to maintain control over their domestic economies and the global forces wresting that control away, report authors wrote.

Sources:

<https://www.forbes.com/sites/kenrapoza/2018/05/14/globalization-versus-nationalism-forcing-investors-to-rethink-everything/#3f023c13c604>

<http://news.prudential.com/tussle-between-globalization-nationalism-creates-new-risks-for-investors-pgim-says.htm>