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NATIONAL INSTITUTE OF TECHNOLOGY, HAMIRPUR
Department of Management Studies

Roll No. M

Branch: MBA | **Semester: 3rd**

Course Name: International Business (IB) | **Course Code: MB-631**

Time: 03 Hours (Nov-Dec., 2022) | **Maximum Marks: 50**

Note: Attempt all questions. Kindly ensure that you start a new answer from a new page in a neat and legible handwriting.

Q1. Case Study **(20 Marks)**

The European Union (EU), once known as the European Common Market, is a prime example of a very high level of economic cooperation. Formed by the 1957 Treaty of Rome, the EU has grown from six to fifteen members. Sweden, Austria, and Finland joined the EU in 1995. The EU's institutions that function as the three traditional branches of democratic government are the European Parliament (as the legislative branch), the Court of Justice (as a judiciary), and the Council of Ministers of the European Communities (as the executive branch). The Council appoints members of the Commission of the European Communities, which initiates legislative proposals (regulations or directives) for the Council.

The passage in 1985 of the Single European Act (SEA), an amendment to the Treaties of Rome, was largely responsible for the development of the Single Internal Market. Taking effect in 1987, this legal instrument makes it possible for the Council of Ministers to adopt an Internal Market directive or regulation on the strength of a qualified majority (forty-four of sixty-seven votes). Council votes are assigned by a weighted average. The Council of Ministers thus no longer has to reach unanimous agreement for a directive to be passed. However, unanimity is still required for fiscal matters (e.g., taxation), decisions on the free movement of persons, and directives or regulations on the rights and interests of employed persons.

Because an EMU envisages total fiscal and monetary integration, nations that agree to join the union must work out an economic arrangement in which trade between member countries directly benefits each of the countries' economic objectives. The features of an EMU require a common monetary policy formulated by a single institution; highly coordinated economic policies; and adequate, consistent constraints on members' public sector deficits and their financing.

It should be readily apparent that the formation of an EMU is a complex and exceedingly difficult task because this level of cooperation requires the harmonization of national economic policies – especially in the monetary and fiscal areas. A member country must give up the prospect of currency devaluation as a short-term instrument for solving economic problems. For an EMU to function effectively, member countries should have similar economic conditions. In the case of the EU, economic disparities are highly evident and will probably increase when the EU admits some Eastern European countries as new members.

Under the EU members' EMU agreements, the EU has created a central bank and adopted a single currency. According to the terms of the Maastricht Treaty, the EU nations wishing to join the monetary union must meet the following five economic criteria: annual inflation, public sector budget deficit, public sector debt, long-term interest rates, and exchange rate. In 1999, fixed conversion rates were adopted for the participating nations' currencies, and the European Central Bank (ECB) started to execute a common monetary policy. Following a transition period, the currencies were replaced by a new currency called the euro. At the beginning of 2002, twelve EU countries (not counting Denmark, Sweden, and the United Kingdom) introduced euro coins and notes.

The EU is unique in the sense that it is the first-time advanced economies have agreed to cooperate economically on such a grand scale. Naturally, with the fall of the Berlin wall in 1989, countries emerging from communism coveted EU membership. To promote stability in the region, the EU is expanding. Ten new members have been admitted for accession in 2004. The ten new members are: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Turkey, Bulgaria, and Romania have candidate status. While Bulgaria and Romania are on course for accession in 2007, Turkey was told to wait at least two more years before starting talks on joining.

NAFTA

The North American Free Trade Agreement (NAFTA) is a free trade agreement. Taking effect in January 1994, NAFTA comprises Canada, Mexico, and the USA. NAFTA, in terms of population, is larger than the European Union but slightly smaller than the European Economic Area. In addition, NAFTA's combined output is about 20 percent larger than that of the European Union.

NAFTA progressively eliminates almost all US–Mexico tariffs over a ten-year period and also phases out Mexico–Canada tariffs at the same time. Such barriers to trade as import licensing requirements and customs user fees are eliminated. NAFTA establishes the principle of national treatment to ensure that NAFTA countries will treat NAFTA-origin products in the same manner as similar domestic products. Service providers of the member nations will receive equal treatment. To protect foreign investors in the free trade area, NAFTA has established five principles: (1) nondiscriminatory treatment, (2) freedom from performance requirements, (3) free transference of funds related to an investment, (4) expropriation only in conformity with international law, and (5) the right to seek international arbitration for a violation of the Agreement's protections.

Canada's locus of economic activity has always been along the US border, which stretches for some four thousand miles. It is not too surprising that the natural axis of trade has always been from north to south rather than east to west. Canada is the largest single market for US exports as well as the largest manufactures market of the USA.

The USA is Mexico's most important trading partner, absorbing about two-thirds of total Mexican exports worldwide. On the other hand, Mexico is the third largest US trading partner, ranking after Canada and Japan. Approximately 70 percent of all of Mexico's imports come from the USA, and 15 cents of every additional dollar of Mexican GDP is spent on American goods and services. To modernize its infrastructure and plant facilities, Mexico is purchasing most of the durable goods and industrial materials from the USA. Not surprisingly, Mexico is the fastest growing major US export market. Mexico is, by far, the largest US trading partner in Latin America, accounting for about half of US exports to and imports from the region.

President Vicente Fox of Mexico has advocated a progressive move toward a North American common market that will allow free movement of labor among the three NAFTA members. Neither Canada nor the USA has shown much enthusiasm for the proposal. Instead, the USA is more interested in expanding the free trade area and thus maintaining the same level of economic cooperation.

As the EU expands, the USA itself is trying to persuade the other American countries to join the free trade area. The Free Trade Area of the Americas (FTAA), when completed, will be the world's largest free trade area stretching from the southern tip of Argentina northward to Alaska. In December 1994, at the first Summit of the Americas, the USA and thirty-four other democratically elected leaders in the Western Hemisphere took the first step by committing to establishing the FTAA by 2005. The idea of the FTAA is to allow import tariffs to fall to zero over a decade or more. Nontariff barriers will be gradually eliminated, and trade in services will be liberalized. When formed, the FTAA will be the largest free-trade area in the world.

Questions

1a. Discuss the obstacles and opportunities presented by the EU market. How should Japanese and American firms adjust their marketing strategies to meet the challenges?

1b. Discuss the benefits and difficulties involved as the EU absorbs several new members.

1c. Assess the likelihood that the EU will be able to establish a political union.