AUTHOR: SHIVANI BECTOR

INTERNATIONAL MARKETING

STRUCTURE

1.0 INTRODUCTION

A fundamental shift is occurring in the world economy. We are moving rapidly away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are breaking; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent global economic system. The process by which this is occurring is commonly referred to as globalization. For businesses, this is in many ways the best of times. Globalization has increased the opportunities for a firm to expand its revenues by selling around the world and re-duce its costs by producing in nations where key inputs are cheap. Since the collapse of communism at the end of the 1980s, the pendulum of public policy in nation after nation has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developed nations, to expand internationally.

INTRODUCTION OF INTERNATIONAL MARKETING

International marketing is a broader concept and includes export marketing. Export marketing is concerned with the production of goods in one country and marketing them in different countries of the world while international marketing is a broader concept and includes globalisation, MNCs and TNCs joint ventures and foreign collaborations.

1.1 DEFINITION OF INTERNATIONAL MARKETING

"International marketing is a process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges between nations that satisfy individual and organizational objectives".

. - *American Marketing Association*

1.2 PROCESS OF INTERNATIONAL MARKETING

A study of international marketing should begin with an understanding of what marketing is and how it operates in an international context. Because of the large number of marketing textbooks, a variety of definitions of marketing are currently in use. Yet most of these definitions are convergent in the sense that they all describe the basics of marketing in much the same way. Any definition is acceptable as long as it captures the essential idea and as long as the strengths and limitations associated with the definition is acknowledged.

A definition adopted by the AMA (American Marketing Association) is used as a basis for the definition of international marketing given here: international marketing is the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Only the word multinational has been added to the definition adopted by the AMA. That word implies that marketing activities are undertaken in several countries and those activities should somehow be coordinated across nations.

This definition is not completely free of limitations. By placing individual objectives at one end of the definition and organizational objectives at the other, the definition stresses a relationship between a consumer and an organization. In the world of international marketing, governments, quasi-government agencies, and profit-seeking and nonprofit entities are frequently buyers.

Nonetheless, the definition does offer several advantages. It closely resembles the AMA's widely accepted and easily understood definition. In several ways, it carefully describes the essential characteristics of international marketing. First, it makes it clear that what is to be exchanged is not restricted to tangible products (goods) but can include concepts and services as well. - When the United Nations promotes such concepts as birth control and breast feeding, this should be viewed as international marketing.

Third, the definition recognizes that it is improper for a firm to create a product first and then look for a place to sell it. Rather than seeking consumers for a firm's existing product, it is often more logical to determine consumer needs before creating a product for overseas markets, the process may call for a modified product. In some cases, following this approach may result in foreign needs being satisfied in a new way (i.e., a brand new product is created specifically for overseas markets). Mazda, for example, understands that it is no longer adequate to simply adapt a Japanese car to the U.S. market, and its product strategy involves designing a car to meet U.S. buyers desires. Mazda's widely acclaimed Mata was conceived and styled in Southern California and was engineered and built in Japan.

Fourth, the definition acknowledges that "place" (distribution) is just part of the marketing mix, and that the distance between markets makes it neither more nor less important than the other parts of the mix. Thus, it is improper' for any firms to regard their international function as simply to export (i.e., move) available products from one country to another.

Finally, the “multinational process" implies that the international marketing process is not a mere repetition of using identical strategies abroad. The four Ps of marketing (product, place, promotion, and price) ipugt fee integrated and coordinated across countries in order to bring about the meet effective marketing mix, In some cases the mi* may have to fee adjusted for a particular market for better impact, PepsiCo Inc.'s Frito Lay Division, for chip for the British market, and the chip differs in both taste and texture from the American version. In other cases, however, a multinational marketer may find it more desirable to use a certain degree of standardization if the existing market differences are somewhat artificial and can be overcome. As in the case of washers, although Italian consumers once preferred front-loading machines while French consumers insisted on top-loading models, Whirlpool Corp. has been able to use the more standardized models to break down national traditions.

1.3 FEATURES OF INTERNATIONAL MARKETING

The features of international marketing are as under:

a) Large Scale Operations

Price is an important factor that determines the success of an international marketer in the highly competitive international market large-scale operations, full utilization of installed capacity and transactions in bulk reduce overall cost of production and thereby price of the product.

b) Dominance of MNCs / TNCs from Developed Countries

The international trade is dominated by MNCs and TNCs originating from developed countries especially form USA, Japan and European countries. These companies have huge financial and physical resources and operate throughout the world

c) Trade Barriers

Trade barriers are the artificial restrictions on the free movement of good from one country to other. These barriers are of two types, viz., tariff and non-tariff. Tariff barriers are in the form of taxes and customs duties. Non-tariff barriers are in the form of quotas and licenses.

d) Trading Blocs

Trading blocs are the associations of countries situated in a particular region whereby they come on to a common understanding regarding rules and regulations to be followed while exporting and importing goods among them. For example, European Union (EU).

e) International Marketing Research

The needs and requirements of individuals differ from region to region. Therefore, an effective marketing research technique should be applied in order to understand the needs and requirements of consumers in different parts of the world.

f) Importance of Advanced Technology

Technology plays an important role in building competitive strength. MNCs originating from countries like USE, Japan and Germany dominate the world trade due to continuous research, innovations and inventions.

g) Foreign Exchange Regulations

Different countries have different currencies and conversion rates, which are subjects to fluctuation. Therefore, each country has a separate set of rules for collection of export proceeds and payment for imports. For example, In India, all foreign Exchange Regulation Act, 1973 (FERA).

h) Three-Faced Competition

International market is highly competitive. An international marketer faces competition from three angles

- International marketers from his own country.
- International marketers from other countries.
- Local suppliers in importing country.

(a) International Organisations

International trade is subject to the rules and regulations **framed** by the **International**organisantions such as the World Trade Organization (WTO) and the United Nations Conference and Trade and Development (UNCTAD). These organizations have been formed in order to promote world trade by removing unnecessary trade barriers and help underdeveloped countries to develop their export potentials.

1.4 SCOPE OF INTERNATIONAL MARKETING

Though international marketing is in essence export marketing, it has a broader connotation in marketing literature. It also means entry into international markets by:

a) Opening a branch/subsidiary abroad for processing, packaging, assembly or even complete manufacturing through direct investment,
b) Negotiating licensing/franchising arrangements whereby foreign enterprises are granted the right to use the exporting company's know-how, viz., patents, processes or trademarks, with or without financial investment,
c) Establishing joint ventures in foreign countries for manufacturing an**,** ormarketing;Offering consultancy services and undertaking turnkey projects abroad.
d) Subcontracting and countertrade; and Importing for export production. Depending upon the degree of a firm's involvement, there may be several variations ofthese arrangements.

Self Check Exercise (MCQs)

1. What is international marketing primarily concerned with?

   a) Local market strategies

   b) Cross-border trade barriers

   c) Selling within a single country

   d) Marketing between nations

2. Which entity dominates international trade from developed nations?

   a) SMEs

   b) Government agencies

   c) MNCs/TNCs

   d) Nonprofit organizations

3. What is a common form of trade barrier?

   a) International cooperation

   b) Product standardization

   c) Currency stability

   d) Tariffs and quotas

4. What is the primary purpose of international marketing research?

a) Increase production costs

b) Understand consumer needs globally

c) Limit market expansion

d) Reduce competition

5. Which aspect is crucial for technology's role in international marketing?

a) Legal restrictions

b) Competitive strengths

c) Cultural diversity

d) Government regulations

1.5 IMPORTANCE OF INTERNATIONAL MARKETING

No country in the world is self-sufficient in all its domestic requirements. The slogan "Export or Perish" by Shri Jawaharlal Nehru is applicable to all the countries of the world, developed as well as developing. There are various factors which give rise to interdependence among countries. Therefore, international trade plays an important rolein the economic development of a country. <

(a) Division of Labour and Specialisation: Certain countries enjoy comparative cost advantage in the production of specific commodities due to favourable climatic conditions, technical know-how easy access produce commodities in excess of their requirements and exchange surplus production with other countries for the commodities they are deficient in.

(b) Increases National Income And Per-Capita Income Due to division of labour and specialization, each country produces commodities for which it is best suited and exports surplus production. Similarly, each country imports commodities or which it has comparative cost disadvantage. This generates additional income and saves real income by making available imported articles at competitive rates.

(c) Facilitates Transfer of Technology Some countries like Japan, USA, UK and Germany are highly developed in terms of technology while most of the Afro-Asian and South American countries are backward in technology. This directs the flow of technology from technically advanced countries to technically backwardcountries of the world.

(d) Resolves Balance Of Payment. Crisis j- Balance of payments may be defined as the difference between the monetary value of exports and imports of a country.When the outflow of foreign currency exceeds the inflow, a country suffers from an unfavourable balance of payments. In order to solve such imbalance a country of the world.

(e) Global Peace In the age of nuclear weapons, there is a greater need of promoting dialogue between various countries of the world. International trade may be a medium for promoting exchange of ideas and thoughts and thereby help promoting international peace and friendly relations among the countries of the world.

(1) Optimum Utilizations of Resources A country can make optimum utilization of its natural and human resource by promoting exports, if the resources remain unutilized or underutilized due to the want of demand in the domestic market; the same can be well utilized by promoting exports of surplus production.

(g) Employment Opportunities Development of exports brings about multiple increases in employment opportunities. It not only creates employment opportunities in the export sector but also in other related service sectors such as banking, insurance, advertising, transport, etc. This helps overpopulated countries in soling their unemployment problem.

(h) **Research and Development** International market is highly competitive. In order to survive cut-throat competition at international level, every firm operating at the global level needs to undertake continuous research and development. This leads to development of technology in backward and developing countries of the world.

1.6 SPECIAL PROBLEMS OF INTERNATIONAL MARKETING

International marketing is a very complex and time-consuming process as it is subject to rules and regulations of both exporting as well as importing county. At the same time, there are other problems such as long distance, currency fluctuations and high degree of competition. Some of the common problems of international marketing have been analysed below:-

(a) **Long Distance**: International trade is spread over the world and therefore, goods are to be transported over a considerable distance. During transportation goods are exposed to risk and uncertainties of transportation and perils of sea. Again delay is coursed due to lengthy customs formalities. However, risk during transportation can be insured by taking suitable marine insurance policies.

(b) **High Risks and Uncertainties** International trade is subject to political as well as commercial risks. Political risks arise due to the political actions of the government(s). For example, war and internal aggression. Commercial risks arise due to insolvency of buyer or buyer's failure to accept goods. However, there risks can be insured by taking suitable policies from the export Credit and Guarantee Corporation of India (ECGC).

(c) **Customs Formalities**: Customs formalities are different in different countries. Again, these formalities are very lengthy, time consuming and trade between countries of the world.
In order to solve the difficulties created by customs formalities, an international marketer can obtain assistance of the Clearing and Forwarding (C&F) agents.

(d) **Trade Barriers:**Trade barriers are the artificial restrictions on the free movement of goods from one country to other. These barriers are of two types, viz., tariff and non-tariff barriers are in the form of taxes and customs duties. Non-tariff barriers are in the form of taxes and customs duties. Non-tariff barriers are in the form of quotas and licences. However, efforts are being made by the World Trade Organization (WTO) to eliminate and simplify trade barriers.

(e) **Three-faced Competition** An international marketer faces competition fromthree angles

- International marketers from his own country
- International marketers from other countries.
- Local suppliers in importing country.

However, an international marketer can sustain international competition by upgrading the quality of product, innovations and inventions and cost reduction.

(f) **Payment Difficulties** Different countries have different currencies and conversion rates. These rates are subject of fluctuations. Thus, an international marketer may suffer a loss if there is a change in the exchange rate alter entering into a contract with a foreign buyer.Losses on account of fluctuations in the exchange rates can be eliminated by entering into forward contracts.

(g) **Documentation Formalities** There are a number of documents to be filed with various authorities while exporting goods. For example in India, an exporter is required to prepare and file as many as 25 documents of which L6 are commercial and 19 are regulatory.

(h) **Diverse Languages, Customs and Traditions** Languages, customs and traditions are very sensitive issues and must be taken into consideration while exporting goods to foreign countries.

An international marketer should try to get first hand information about such issues before importing goods.

(i) Hug foreign indebtedness Many countries of the world that would otherwise be attractive markets have accumulated such high foreign indebtedness that they cannot even pay the interest on their foreign debt. Among these countries are Mexico, Brazil, Poland and Romania. India's present balance oi payment position was real bad, though now it is looking up.

|j) Unstable governments High indebtedness, high inflation, and high unemployment in countries have resulted in highly unstable governments that expose foreign firms to the risks.

(k) Exchange instability High indebtedness and political instability force a country's currency to depreciate, or at least add a lot of volatility to the currency s value. The result is that foreign I investors hesitate to hold much of the foreign currency, and this limits trade.

(l) Foreign government entry requirements Governments are placing more regulations on foreign firms, such as requiring joint ownership with the majority share going to the domestic partner, a high level of nationals hired for management; technological transfer of trade secrets; and limits on profit
repatriation.

(m) Tariffs and other trade barriers Governments often impose unreasonably high tariffs against imports in order to "subsidies" or protect their own industries. Theyalso resort to invisible trade barriers such as withholding or slowing down import approval and requiring adjustments in imported products to meet their standards.

(n) Corruption Officials in several countries require bribes in order to co-operate. They often award business to the highest briber rather than the best bidder.

(o) Technological pirating A company locating its plant abroad worries about foreign managers learning how to make its product and breaking away to compete openly. This has happened in such diverse areas as machinery, electronics, chemicals, pharmaceuticals.

(p) High cost of product and communication adaptation A company going abroad must study each foreign market carefully, become sensitive to its economics, politics, and culture and make some adaptations in its products and communications to suit foreign tastes otherwise it might make some serious blunders.

(q) International code of conduct for product to be traded or marketed in aparticular country by **UNCTAD and World Trade Organisation as per Dunkel proposals.**

International marketing is of growing importance to Indian business. It is the duty of an international marketer to support the economic development of our country. One should try to sell a portion of one's output abroad. Benefits are gained in the obtaining of quotas for imported materials in exchange of proof of the export of finished goods.

Self Check Exercise (MCQs)

6. What is a significant concern regarding foreign exchange regulations?

a) Cultural adaptation

b) Technology barriers

c) Currency conversion rates

d) Government tariffs

7. What problem arises due to long distances in international trade?

a) Language barriers

b) Shipping delays

c) Currency devaluation

d) Technological piracy

8. Which factor contributes to a three-faced competition in international markets?

a) Market saturation

b) Local suppliers

c) Political stability

d) Trade unions

9. What is an essential factor for resolving balance of payment crises?

a) Government subsidies

b) Increased imports

c) Decreased exports

d) Favorable trade agreements

10. What is a significant concern in dealing with diverse languages and customs?

a) Technological advancements

b) Brand differentiation

c) Cultural sensitivity

d) Standardization of products

1.7 DISTINCTION BETWEEN DOMESTIC MARKETING & INTERNATIONAL MARKETING

Domestic Marketing	International Marketing
1. Meaning Domestic marketing is the process of planning, organizing, directing and controlling activities related to exchange of goods between the different regions of a same country.	International marketing is the process of planning, organizing, directing and controlling activities related to exchange of goods between the different countries of the world.
2. Scope The scope of domestic marketing is narrow and is restricted to the political boundaries of a country.	The scope of international marketing is wider as the whole world constitutes a market.
3. Trade Barriers In domestic markets, artificial restriction in the form of tariff and quota are negligible or the not present at all.	In international markets, server barriers in the form of tariff and quota are present in order to restrict excessive inflow of foreign goods.
4. Government Control The government exercises less control over domestic trade.	The international trade is subject to strict government controls and restrictions.

Domestic Marketing	International Marketing
5. Product Strategy Due to similar socio-economic environment, a single product (Product Standardisation Strategy) can be marketed throughout the country.	Since the socio-eco environment in different countries is different, the goods of different quality standards (Product Adaptation Strategy) axe required to be manufactured for different countries.
6. Competition The degree of competition in domestic market is low as the domestic markets are generally protected by the government from external competition.	An international marketer faces an intense competition from his own country, from other countries and local suppliers in the importing country.
7. Scale of Operations Since the degree of competition in the domestic market is low, a firm can afford to operate on a smaller scale.	In order to compete at the international level, a firm has to operate at the optimum level in order to reduce its cost of production.
8. Mobility of Factors of Production Factors of production such as land, labour and capital are freely mobile in the domestic market.	There are strict restrictions on the mobility of factors of production in the international market.

1.8 Keywords

Globalization: The process of integration among countries, breaking down barriers for cross-border trade and cultural exchange.

Trade Barriers: Restrictions imposed by governments to control the flow of goods between countries, including tariffs, quotas, and regulations.

Market Research: Systematic gathering and analysis of data regarding consumer preferences, behaviors, and market trends in various countries.

CulturalSensitivity: Understanding and respecting the differences in cultures, customs, and traditions when conducting marketing activities across diverse international markets.

Tariffs and Quotas: Taxes (tariffs) and limits (quotas) imposed on imported goods to control trade flow and protect domestic industries.

TechnologyIntegration: Utilizing technological advancements to enhance international marketing strategies, improve communication, and facilitate global market penetration.

1.9 Short Answer Questions:

1) What are the major challenges faced in international marketing due to trade barriers?
2) Explain the role of technology in enhancing global competitive strengths for multinational corporations.
3) How do currency fluctuations impact international marketing strategies?
4) Discuss the significance of market research in understanding consumer behavior across different nations.
5) Explain the distinction between tariff and non-tariff trade barriers in international marketing.
6) What are the implications of cultural sensitivity in international marketing campaigns?

1.10 Long Answer Questions:

1) Analyze the impact of trade blocs like the European Union on international marketing strategies.
2) Discuss the challenges and opportunities presented by the dominance of MNCs/TNCs in international trade.
3) Evaluate the role of technological innovation in overcoming obstacles in international marketing.
4) Examine the complexities associated with currency fluctuations and their effects on multinational corporations' profitability.
5) Compare and contrast the strategies employed by companies in adapting products and marketing communications to diverse cultural settings.
6) Discuss the ethical dilemmas faced by multinational corporations when operating in countries with differing regulatory frameworks and social norms.

1.11 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing*(3rd Edition, eearson Education)
2. F Cherunilam, *International Trade and Export Manangement*,(Himalaya Publishing House, 2003)

3. R L Varshney and B Bhattacharya, *International Marketing Management*(S & Chana & Sons, 2003)
4. Annual Report of World Bank, International Monetary Fund and Asian Development.
5. Annual Report of Export And Import Bank of India and Reserve Bank Of India, Mumbai
6. B.S.Rathore and J.S.Rathore, *Export Marketing*
7. Subash C Jain, *International Marketing*(6th Edition Thomson Learning)
8. Roger Bennett, *International Business*(Pearson Education (Singapore) - Indian Branch Delhi. 2003).

1.12 Self Check Questions (Answer Key)

1) d) Marketing between nations
2) c) MNCs/TNCs
3) d) Tariffs and quotas
4) b) Understand consumer needs globally
5) b) Competitive strengths
6) c) Currency conversion rates
7) b) Shipping delays
8) b) Local suppliers
9) d) Favorable trade agreements
10) c) Cultural sensitivity

MBA-CC (Second Year)
Semester-Ill

*m*3 1 3
INTERNATIONAL MANAGEMENT
Lesson No. 2 **AUTHOR : SHIVANI**BECTOR

ECONOMIC ENVIRONMENT IN INTERNATIONAL MARKETING STRUCTURE

2.0 INTRODUCTION TO WORLD ECONOMY

The world economy has changed profoundly since last 50 years. Perhaps the most fundamental change is the emergence of global markets; responding to new opportunities, global competitors, have steadily displaced local ones. Concurrently, the integration of the world economy has increased significantly. Integration is particularly striking in two regions, the European Union (formerly the European Community) and the North American Free Trade Area.

Within the past decade, there have been several remarkable changes in the world economy that hold important implications for business. Another change is the decoupling of employment from production. The world economy dominates the scene. The macroeconomics of individual countries no longer control economic outcomes. The growth of commerce via the Internet has diminished the importance of national barriers.

Generally there have been four major changes:

- capital movements rather than trade have become the driving force of the global economy
- production has become "uncoupled" from employment
- primary products have become "uncoupled" from the industrial economy and,
- while the world economy is in control individual nations are not, despite the large world economic share of the USA and Japan.

Taking each of these changes in turn, world trade is about some US$ 3 trillion, however, capital movements are much higher. The London Eurodollar market is worth about US$ 75 trillion per annum and foreign exchange transactions are US$ 35 trillion per annum.

Another change is the decoupling of employment from production. Employment is in decline whilst manufacturing output is growing or remaining static at 20-25% of GNP. Sectors such as agriculture, are achieving higher productivity through mechanisation but this is at the expense of employment.

Still another change is the decoupling of the primary product market from the industrial economy. Many commodity prices have collapsed, for example, tea, yet industrial economies have been relatively affected. Unfortunately, the prime producers have been dramatically affected. Finally, the most significant change is the change of focus from domestic to the world economy as the chief economic unit.

2.1 BASIC CONCEPTS

There are three types of economic systems capitalist, socialist, and mixed. This classification is based on the dominant method of resource allocation market allocation, command or central plan allocation, and mixed allocation, respectively.

(a) Market Allocation

A market allocation system is one that relies on consumers to allocate resources. Consumers write the economic plan by deciding what will be produced by whom. The market system is an economic democracy--citizens have the right to vote with their pocketbooks for the goods of their choice. The role of the state in a market economy is to promote competition and ensure consumer protection. The United States, most Western European countries, and Japan-the triad countries that account for three quarters of gross world product-are examples of predominantly market economies. The clear superiority of the market allocation system in delivering the goods and services that people need and want has led to its adoption in many formerly social.

(b) Command Allocation

In a command allocation system, the state has broad powers to serve the public interest. These include deciding which products to make and how to make them. Consumers are free to spend their money on what is available, but decisions about what is produced and, therefore, what is available are made' by state planners. Because demand exceeds supply, the elements of the marketing mix are not used as strategic variables. There is little reliance on product differentiation, advertising, and promotion; distribution is handled by the government to cut out "exploitation" by intermediaries. Three of the most populous countries in the world- China, the former USSR, and India-relied on command allocation systems for decades. All three countries are now engaged in economic reforms directed at shifting to market allocation system. By contrast, Cuba stands as one of the last bastions of the command allocation approach.

(c) Mixed System

There are, in reality, no pure market or command allocation systems among the world's economies. All market systems have a command sector, 'and all command systems have a market sector; in other words, they are mixed. In a market economy, the command allocation sector is the proportion of gross domestic product (GDF) that is taxed and spent by government. For the 24 member countries of the Organization for Economic Cooperation and Development (OECD), this proportion ranges from 32.percent of GDP in the United States to 64 percent in Sweden.3 In Sweden, therefore, where 64 percent of all expenditures are controlled by government, the economic system is more "command" than "market The reverse is true in the United States. Similarly, farmers in most socialist countries were traditionally permitted to offer part of their production in a free market. China has given considerable freedom to businesses and individuals in the Guangdong province to operate within a market system.

Self Check Questions (MCQs)

Which economic system relies on consumers to allocate resources?

a) Market allocation

b) Command allocation

c) Mixed allocation

Which major lenders besides the World Bank provide money for developmental projects?

a) IMF

b) EU

c) Bilateral donors and agencies

Which region experienced the emergence of the European Union (EU)?

a) Asia

b) North America

c) Europe

What organization deals with the International Monetary System?

a) World Bank

b) IMF

c) WTO

Which factor is NOT considered crucial in market analysis?

a) Population density

b) Inflation rate

c) Urbanization

RESOURCE ALLOCATION

RESOURCE OWNERSHIP	Market	Command
Private	Market Capitalism	Centrally Planned Capitalism
State	Market Socialism	Centrally Planned Socialism

2.2 KEY DIMENSIONS OF ECONOMIC ENVIRONMENT

Regionalism

Regionalism is a major and important trade development. Some regional groupings have either market (EU) or command (China) or mixed economies (former communist countries and The Preferential Trade Area (PTA) and The Southern African Development Community (SADC). With these developments, free trade zones have occurred (all internal barriers abolished) economic unions (the EU), export pricing zones (Mauritius) and other schemes. The major regional economic organisations are: Association of South East Nations (ASEAN), Asian Pacific Rim countries (APC), Caribbean Community and Common Market (CAR1COM), Central American Common Market (Mercado Comun Centro Americano), Council of Arab Economic Unity, Economic Community of West African States (ECOWAS), the European Union (EU), Latin American Integration Association, Organisation Commune Africane et Mauricienne, Preferential Trade Area (PTA) and the Southern African Development Conference (SADC). A principal collapse has been the Council for Economic Assistance (COMECON) with the disappearance of the communist bloc in Eastern Europe. Of these blocs, the EU (reporting 33% of world trade) and EFTA are very important. To counteract the growing power of the EU, the USA and Canada have entered into an agreement with Mexico as a willing partner and created the North American Free Trade Agreement (NAFTA).

These blocs are of various form, power, influence and success. ASEAN is a collaboration of industry and agriculture, PTA in tariffs. SADC and PTA have had historically little impact but are now beginning to grow in importance in view of the normalisation of South Africa. The EU, North American Union and the Pacific Rim Union will pose the greatest power blocs in future years. Many developing countries have entered into trading blocks as a reaction against loss of developed country markets or as a base to build economic integration and markets.

The development of trading blocs can bring advantages to trade.

THE INTERNATIONAL FINANCIAL SYSTEM

Global financing operations based on the gold standard gave rise to instability, so Bretton Woods, post World War II, saw the nascence of the International Monetary Fund (IMF) and World Bank.

The IMF deals with the International Monetary System. Involved countries joined IMF to establish' a par value for other countries in terms of the US dollar and maintain it with +/- one percent of that value. The system fell down because large corporations were holding more funds than banks and so a "float" set in. IMF began to fade somewhat. However it still lends, on a short term basis, to countries with payment problems to help them continue trading.

The World Bank, or International Bank for Reconstruction and Development (IBRD) deals with international capital. It provides long term capital to aid economic development. Currently it has about US$ 22 billion annually for this operation. The role of the World Bank has often been criticised especially on its conditionalities for loans to Africa in funding structural adjustment and trade liberalisation programmes. However many developing countries require institutional funding to help them with trade and balance payment problems.

Other major lenders include the EU and bilateral donors and agencies who have provided money for developmental projects. A principal donor is the United States Agency for International Development (USAID).

THE UNITED STATES OF AMERICA

Since the Gulf War of 1991, the USA has played an increasingly important role in the economic affairs of the world. Since that time, itself, and its agency USAID, have increasingly flexed their muscles. However, the balance of economic power in recent years, has shifted towards the Pacific rim, especially Japan and the Asian Tigers.

INDIVIDUAL ECONOMIES

Whilst the global factors listed above have aided the development of a world economy, marketers must consider carefully individual economies. A study of these helps answer the questions - how big is the market and what is it like? Currently there are over 200 individual countries in the world.

SIZE OF MARKET

General indications of market size include population (growth rates and distribution) and income (distribution, per capita, GNP)

(a) **Population**: In general, the larger the population, the bigger the market. However there is no correlation between income level and population. China has 2 billion plus people, India 1 billion, Zimbabwe 8 million. However, they do not have the same income per capita as the USA or UK. Different countries experience different population growth rates. In the early 90s, the UK had an annual growth rate of

0. 1%, the Ivory Coast 6%, and Africa in general, 3% per annum. Low income countries and oil rich countries have the largest growth rates. Growth rates have a dual edge - they are good

for sales but bad for world resources. The world population, currently standing at 5 billion is experiencing a rapid growth rate. It is expected to reach 7 billion by the end of the century. The strain on world resources is likely to be very large. The distribution of the population is also important. Different age groups have different needs and population density should mean good market potential, the higher the better. The Netherlands have 1000 persons per square mile, Bangladesh 1,791 but the USA only 65 persons per square mile. However, the USA spends more per capita than Bangladesh

(b) Income: No one has yet been able to assess accurately the impact of the AIDS pandemic on world population and economic activity. South Africa estimates AIDS will cost South African industry R16.7 billion by the year 2000 (Business Herald - Nov. 24.1994). Suffice to say, unless a cure or prevention is found, it could be serious, especially in Africa and South East Asia, the world's hot spots

Income is the most important variable affecting market potential. Markets are not markets without money to spend. Interestingly, there is an inverse correlation between GNP per capita and income elasticity of demand for food. Asia has a 0.9 income elasticity of demand and the USA 0.16.

The distribution of income is very-uneven. In Kenya the lowest 20% of the population receive less then 3% of national resource. This bimodal distribution of income means marketers must analyse two economies in a country. Per capita measures have therefore, many limitations. Per capita judges a country's level of economic development and its degree of modernisation and progress in health, education and welfare. Half of the world's population lives with an average per

capita income of only US$ 270. Per capita is usually reflected in US dollars and is only valid for comparison if exchange rates are equal. Exchange rates reflect international goods and services in a country but not domestic consumption.

Another limitation of per capita measures is the lack of comparability with the figures themselves. The US budget contains food, clothing and shelter. In many of the less developed nations these items may be largely self provided and therefore not reflected in national income tables. Also in the UK, snow equipment is included, and this is not, obviously, in Africa and parts of Asia. Other limitations are that sales of goods are not well correlated with per capita income and if there is great unevenness in income distribution, per capita figures are less meaningful. Product saturation can be equally troublesome in affecting market potential. A vacuum cleaner in the Netherlands has a 95% household penetration rate, but only 7% in Italy.

Gross National Product is a better indicator of potential than Gross Domestic Product as GDP includes more than "product". World GNP figures reveal the concentration of wealth in the three nations, the USA, Japan and Western Europe. Africa trails far behind

URBANISATION

Differences exist between "urban" and "country" dwellers. City dwellers may have more income, more developed communications and access to new products. Developing countries tend to suffer from rural drift, but without the accompanying incomes characteristic of developed countries. So when assessing market opportunities widespread urbanisation is no guarantee of a good market potential

INFLATION

Inflation causes havoc with economies and foreign exchange. For example, Zambia has hyper inflation which makes it difficult and expensive to access capital for investment and obtain pre-export finance. Inflation in an economy not only affects the foreign exchange risks but also the pricing environment for the export or import good. A moderate inflation though is expected at all times, and is managed via interest rate hedges.

Self Check Questions (True/False)

6. The emergence of global markets has largely replaced local markets.
7. The European Union (EU) is an example of a command allocation system.
8. The World Bank primarily focuses on short-term lending for countries with payment problems.
9. Population growth rates have no impact on sales potential in markets.
10. Infrastructure is a negligible factor when considering global market entry.

INFRASTRUCTURE

Infrastructure is a very important element in considering whether to market in a country or not. Infrastructure includes physical, financial and informational infrastructure. Transportation, for example, is vital. Zambia and Zimbabwe are landlocked and have relatively poor transport facilities. Tanzania, whilst having direct access to the coast, has also a relatively poor internal rural infrastructure. Chaos can therefore ensue, especially during the rainy season. Without being able to get produce to the point of exportation, countries will suffer poor export performance accordingly. Energy consumption shows the overall industrialisation of a society as does its infrastructure. The less energy is consumed, the less likely the development of the market resulting in a not too attractive market proposition. Commercial infrastructure is also vital - banks, accountants, advertising agencies and other services. Without these "transaction " facilities, exporting cannot take place.

Economic factors are just some of the "environmental uncontrollables" which marketers must consider when deciding to market globally. The global economy can be traced back hundreds of years when traders from the east and west came together toexchange goods. The economic environment is one of the major determinants of market potential and opportunity. Careful analysis of this, particularly income and the stage of economic development is essential. Failure to do so will lead, at best, to sub optimal opportunity and, at worst, to disaster.

Table: World merchandise trade by region and selected country, 2005

(Billion dollars and percentage.)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2005	2000-OS	2003	2004	2005	2005	2000-OS	2003	2004	2005
World	10121	10	17	21	13	10481	10	17	22	13
North America	1478	4	5	14	12	2285	6	8	16	14
United States	904	3	5	13	10	1733	7	9	17	14
Canada	360	5	8	16	14	320	6	8	14	14
Mexico	214	5	3	14	14	232	5	1	IS	12
South 6c Central America	351	13	15	29	25	294	7	6	28	22
Brazil	118	17	21	32	23	78	6	3	31	17
Other South & Central America	232	11	12	28	26	216	8	7	27	24
Europe	4353	11	19	20	8	4521	10	20	20	9
European Union (25)	3988	10	19	19	7	4120	10	20	20	8
Germany	971	12	22	21	7	774	9	23	18	8
France	459	7	18	15	2	496	8	21	IS	5
United Kingdom	378	6	9	14	9	501	8	13	20	6
Italy	367	9	18	18	4	380	10	20	19	7
Other Western Europe	233	10	14	18	14	182	8	15	16	10
Switzerland	126	9	15	18	6	121	8	15	16	9
South-East Europe	132	21	29	34	17	219	19	33	36	18
CIS	342	19	27	36	29	216	21	27	31	25
Russian Federation	245	18	27	35	34	125	23	25	28	28
Africa	296	15	26	30	29	248	14	21	29	16
South Africa	52	12	23	26	13	67	17	40	39	16
Africa less South Africa	244	16	26	31	33	181	13	16	26	16
Oil exporters	166	18	33	41	45	63	17	17	34	17
Non-oil exporters	78	11	18	18	12	118	11	15	22	16
Middle East	529	15	20	30	36	318	15	15	26	19
Asia	2773	11	19	25	15	2599	12	20	27	16
Japan	596	4	13	20	5	516	6	14	19	14
China	762	25	35	35	28	660	24	40	36	18
Four East Asian Traders	731	9	19	25	12	676	8	15	27	14
India	90	16	16	33	19	132	21	26	37	35

Source :http://www.fao.org/docrep/W5973E/w5973e03.htm accessed on 17th march 2009

2.3 KEYWORDS

Market Allocation: Economic system where consumers dictate resource allocation through purchasing decisions in a free market setup.

Command Allocation: Economic system where the state or central authority determines resource allocation and production decisions.

Mixed Allocation: Economic system combining elements of both market and command allocation, presenting a blend of free market and state-controlled aspects.

Infrastructure: Physical, financial, and informational framework crucial for development and efficiency within a region's economic activities.

Regionalism: The formation and development of trade agreements or economic unions within specific geographic regions to promote cooperation and economic integration.

International Financial Institutions: Organizations like the IMF and World Bank that facilitate global financial stability, lending, and development assistance.

Market Potential: The capacity and opportunities within a market for sales and growth based on factors like population, income, and consumer behavior.

2.4 SHORT ANSWER QUESTIONS

1. How has globalization impacted the dominance of global markets over local ones?
2. Define and differentiate between market allocation, command allocation, and mixed allocation systems in economics.
3. What are the major regional economic organizations and their significance in trade?
4. Explain the roles of the IMF and World Bank in the international financial system.
5. How do population and income distribution impact market potential in different countries?
6. Why is infrastructure considered a crucial factor in market assessment?

2.5 LONG ANSWER QUESTIONS

1. Discuss the fundamental changes in the world economy over the last 50 years and their implications for business.
2. Explain the characteristics and examples of market, command, and mixed allocation systems in economic resource allocation.
3. Analyze the role and significance of regional economic organizations in shaping global trade.
4. Evaluate the functions and criticisms associated with the IMF and the World Bank in the international financial system.
5. How do population dynamics and income distribution influence market size and potential in different countries?
6. Elaborate on the importance of infrastructure in assessing and entering new markets.

2.6 REFERENCES

11. Sak Onkvisit and John Shaw, *International Marketing*(3rd Edition, Pearson Education)
12. F Cherunilam, *International Trade and Export Manangement*,(Himalaya Publishing House , 2003)
13. R L Varshney and B Bhattacharya, *International Marketing Management,* (S & Chand And Sons , 2003)
14. Annual Report of World Bank, International Monetary Fund and Asian Development.
15. Annual Report of Export And Import Bank of India and Reserve Bank Of India, Mumbai
16. B. S. Rathore and J. S. Rathore, *Export Marketing*

17. Subash C. Jain, *International Marketing*(6th Edition Thomson Learning)
18. Roger Bennett, *International Business*(Pearson Education (Singapore), Indian Branch Delhi. 2003)

2.7SELF CHECK QUESTIONS (ANSWERS KEY)

1. a) Market allocation
2. c) Bilateral donors and agencies
3. c) Europe
4. b) IMF
5. a) Population density
6. True
7. False
8. False
9. False
10. False

EMERGENCE OP TRADING BLOCKS

STRUCTURE

3.0 MEANING OF TRADING BLOCS

Trading Blocs are the associations of countries situated in a particular region whereby they come on to a common understanding regarding rules and regulations to be followed while exporting and importing goods among them. Such blocs have liberal rules for member countries while a separate set of rules is laid for non-members. For example, European Union (EU), Association of South East Asian Nations (ASEAN).

3.1 DEFINITION - TRADING BLOCS

The definition of a trading bloc varies widely. However, one definition that encompasses the main attributes of trading blocs and touches on the reasons that countries may have for forming such an organization is that given by the United States National Policy association. According to this definition, a trading bloc is defined by four characteristics, it:

(1) Participates in a special trade relationship established by a formal agreement that promotes and facilitates trade within that group of countries in preference to trade with outside nations by discriminating against nonmembers;

(2) Has attained or has as a stated goal the deepening of trade liberalization or integration with the objective of establishing a free trade area, customs union, or common market;

(3) Strives to reach common positions in negotiations with third countries, with other trade blocs, or in multilateral forums; and

(4) Attempts to coordinate national economic policies to minimize disruption to intrabloc economic transactions.

Trading blocs are created because according to the theory of comparative advantage, countries should specialize in producing those goods in which they have a comparative advantage; that is, those goods that they have a lower opportunity cost of production than other nations. By specializing in the production of these goods, a group of nations as a whole can produce, and therefore consume, a greater quantity of each product. However, as countries become more specialized in the production of goods, it becomes necessary to trade with countries that need these goods or that have resources that are not available in that nation. Due to this factor, as nations become more specialized, they also become increasingly dependent on their trading partners. Furthermore, since smaller countries with fewer resources and land are generally less powerful than larger nations, the need arises to develop economic alliances to gain buying and selling power. Hence, trading blocs arise.

Trading blocs provide many economic benefits to their members. These can be grouped in two categories: competition and scale effects, and trade and location effects. Competition and scale effects refer to the benefits that arise from the possible increase in foreign direct investment, from the formation of economies of scale, and from increased competition as separate national markets become more integrated into a single market. By creating larger markets, trading blocs may assist in attracting foreign direct investment. When foreign firms want to supply a product to a country, they have two options: to import it or to build a local plant. Importing has the disadvantages created by tariffs and by other trade barriers that may be used. However, domestic production is riskier in that a certain amount of sales have to be made for the initial investment to be profitable. Therefore, a company may still choose to import the product even with the disadvantages that this entails. However, by increasing market size and making markets more competitive, trading blocs favor the lower marginal costs of locally producing products rather than importing them, and therefore often lead to an increase in foreign direct investment. In fact, this was observed to be the case in Mexico where foreign direct investment more than doubled the year after it joined NAFTA. Similarly, following the formation of the European Union, the EU's share of worldwide inward foreign direct investment how increased from 28% to 33% during the period from 1982 to 1993.

Creating large markets not only serves an important function by increasing the amount of foreign direct investment, it also allows for economies of scale. Many nations are not large enough to support the production of goods with large economies of scale because they lack large enough markets in which to sell their products or from which to obtain inputs. Trading blocs can provide these and consequently allow for economies of scale to be achieved. By allowing for bulk production, economies of scale decrease the average cost of production ny making it more efficient. However, the development of economies of scale may mean that there are only a few producers of each product, which could lead to the establishment of high monopoly prices. On the other hand, trading blocs bring producers in member countries into closer contact, thereby increasing competition among them. This leads to the erosion of monopoly positions and consequently promotes efficiency gains within firms. This eftect is not only felt by producers in the member states; producers in nonmember nations will also experience these changes and have to adapt their pricing and the quality of their products to be able to compete in a more efficient market. Therefore trading blocs result in a moreefficient market.

Trading blocs also result in trade and location effects. By eliminating tariffs, imports from other member countries will become cheaper, so demand patterns will change. Consumers and firms will buy products from the cheapest source without price distortions, thereby ensuring that production is allocated to those firms with a comparative advantage in production. This will increase the market's efficiency by allowing a greater quantity oi products to be manufactured with the same amount of resources and consequently result in higher levels of consumption.

3,2 TYPES OF TRADING BLOCS

Trading Blocs can be classified on the basis of the degree of integration among different economies:

- Free Trade Areas
- Customs Unions
- Common Market
- Economic Union

(a) **Free Trade Area** This is the simplest form of economic integration which provides for internal free trade between member countries. Each member is allowed to determine its own commercial policy with respect to nonmembers. For example, Latin American Free Trade Association (LAFTA), North American Free Trade Area (NAFTA) between the USA, Canada and Mexico; Asia Pacific Economic Cooperation (APEC) and COMESA.

(b) **Customs Union** A customs union is a more advanced form of economic integration which not only provides for internal free trade between the member countries but also adopts a uniform commercial policy against the non-members. The countries will be represented at trade negotiations with organisations such as the World Trade Organisation by supra-national organisations e.g. the European Union. For example, European Economic Community (EEC).

(c) **Common Market** A common market allows free movement of labour and capital within the common market in addition to having free movement of goods between the member countries and having common commercial policy is respect to nonmembers.

(d) **Economic Union** This is a common market where the level of integration is more developed. The member states may adopt common economic policies e.g. the Common Agricultural Policy (CAP) of the European Union. They may have a fixed exchange rate regime such as the ERM of the EMU. Indeed, they may have integrated further and have a single common currency. This will involve common monetary policy. The ultimate act of integration is likely to be some form of political integration where the national sovereignty is replaced by some form of over-arching political authority, e.g., the European Union (EU) has introduced a common currency Euro 2000. '

3.3 EFFECTS OF A COUNTRY JOINING A TRADING BLOC

Trade patterns change

- Trade creation: Joining bloc allows access to cheaper goods from other members. The country can export to other members goods in which it has comparative advantage.
- Trade diversion : Consumption shifts from low-cost producers outside bloc to higher cost, tariff-free production inside bloc

Dynamic Advantages of Joining a Trading Bloc:

- Access to larger markets leads to internal economies of scale.
- External economies of scale due to improved infrastructure (e.g. transport and telecoms links)
- Greater international bargaining power.
- Increased competition between members.
- More rapid spread of technology

Dynamic Disadvantages of Joining a Trading Bloc:

- Country may lose resources to more efficient members, or to geographical centre, and become depressed region.
- Firms may co-operate, collude and merge, leading to greater monopoly power.
- Diseconomies of scale if Firms become very large.

- High administrative costs of trading bloc.

Trading Blocs - Opportunities and Threat

- The prime objective of the Trading Blocs is to promote trade between different regions of the world. Some people view world trade as consisting broadly, of intraregional trade and inter-regional trade. The regionalism offers certain advantages and poses certain threats.

Opportunities

a. Elimination of trade barriers within the region would encourage the efficient firms to expand their business activities in all countries within the region.
b. Healthy competition within the region would help the less efficient firms in
c. Acquiring competencies in order to challenge the efficient firms.
d. The overall business performance in terms of productivity, quality, price,
e. Deliveryand customer service will improve.
f. Consumers get better quality goods and services at competitive price.
g. Employment opportunities in the region increase.

Threats

a. The removal of trade barriers provides opportunities to the efficient firms to enter the different markets within the region. This endangers the survival of the lessefficient firms.
b. The resources of the less efficient countries are exploited by the firms from theadvanced countries of the region.
c. The less developed countries of the region mostly become consumption centres while the advanced countries of the region become the production centres.
d. The less developed countries become still poorer whereas the advanced countries of the region become still richer.
e. It discourages trade with non-members as trade with non-members is subject to strict rules and trade barriers.

Stage of integration	Abolition of Tariffs and Quotas	Common Tariff and Quota System	Removal of Restrictions on Factor Movements	Harmonization of Economic, Social, and Regulatory Policies
Free trade area	Yes	No	No	No
Customer union	Yes	Yes	No	No
Common market	Yes	Yes	Yes	No
Economic union	Yes	Yes	Yes	Yes

Self Check Questions (Fill in the Blanks)

1) A __________ involves internal free trade among member countries and a uniform commercial policy toward non-members.
2) Economies of scale lead to reduced average costs through increased ___________ in production.
3) The European Union is the largest and most comprehensive ___________ in the world.
4) Trading blocs aim to eliminate trade barriers within the region, promoting ___________ to expand their activities.
5) Trade patterns change within trading blocs due to both ___________ and ___________ effects.

3.4 REGIONAL ECONOMIC ORGANIZATIONS

In addition to the multilateral initiatives of the World Trade Organization (WTO), countries in each of the world's regions are seeking to lower barriers to trade within their regions. The following section describes the major regional economic cooperation agreements. The trade groups listed next are divided geographically into the European, North American, Asian, South and Latin American, and African and Middle Eastern trade groups.

EUROPEAN TRADE GROUPS

The largest and most comprehensive of the regional economic groups is the European Union. It began as a customs union, but the formation of the European Parliament and the establishment of a common currency, the euro, make the EU the most ambitious of all the regional trade groups.

The European Union (formerly known as the European Community [EC]} was established by the Treaty of Rome in 1958. The six original members were Belgium, France, Holland, Italy, Luxembourg, and West Germany. In 1973, Britain, Denmark, and Ireland were admitted, followed by Greece in 1981 and' Spain and Portugal in 1986. The three newest members Finland, Sweden, and Austria joined in 1995.

The European Union was formally established when the Maastricht Treaty came into force on 1 November 1993 and in 1995 Austria, Sweden and Finland joined the newly established EU. In 2002, euro notes and coins replaced national currencies in 12 of the member states. Since then, the eurozone has increased to encompass sixteen countries, with Slovakia joining the eurozone on 1 January 2009. In 2004, the EU saw its biggest enlargement to date when Malta, Cyprus, Slovenia, Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, and Hungary joined the Union.

On 1 January 2007, Romania and Bulgaria became the EU's newest members and Slovenia adopted the euro. In December of that year European leaders signed the Lisbon Treaty which was intended to replace the earlier, failed European Constitution, which never came into force after being rejected by French and Dutch voters. However, uncertainty clouds the prospects of the Lisbon Treaty's coming into force as result of its rejection by Irish voters in June.

Since its origin, the EU has established a single economic market across the territory of all its members. Currently, a single currency is in use between the 16 members of the eurozone. Considered as a single economy, the EU generated an estimated nominal gross domestic product (GDP) of US$16.83 trillion in 2007, amounting to 31% of the world's total economic output which makes it the largest economy in the world by nominal GDP and the second largest trade bloc economy in the world by PPP valuation of GDP. It is also the largest exporter of goods, the second largest importer and the biggest trading partner to several large countries such as India, and China

170 of the top 500 largest corporations measured by revenue (Fortune Global 500) have their headquarters in the EU. In May 2007 unemployment in the EU stood at 7% while investment was at 21.4% of GDP, inflation at 2.2% and public deficit at -0.9% of GDP. There is a great deal of variance for annual per capita income within individual EU states.

Two of the original core objectives of the European Economic Community were the development of a common market, subsequently renamed the single market, and a customs union between its member states. The single market involves the free circulation of goods, capital, people and services within the EU, and the customs union involves the application of a common external tariff on all goods entering the market. Once goods have been admitted into the market they can not be subjected to customs duties, discriminatory taxes or import quotas, as they travel internally.

NORTH AMERICAN TRADE GROUP

(1) North American, Free Trade Agreement

In 1988, the United States signed a free trade agreement with Canada (U.S.-Canada Free Trade Agreement, or CFTA), the scope of which was enlarged in 1993 to include Mexico. The resulting free trade area had a 2000 population of 406.7 million and a gross National product of $9.3 trillion.

All three governments will promote economic growth through expanded trade and investment. The benefits of continental free trade will enable all three countries to meet the economic challenges of the decades to come. The gradual elimination of barriers to the flow of goods, services, and investment, coupled with strong intellectual property rights protection (patents, trademarks, and copyrights), will benefit businesses, workers, farmers, and consumer.

ASIAN TRADE GROUPS

(1) Asia-Pacific Economic Cooperation

Each member of each year representatives of 18 countries that border on the Pacific Ocean meet formally to discuss prospects for liberalizing trade. Collectively, the countries that make up the Asia-Pacific Economic Cooperation (APEC) forum account for 38 percent of world population and 52 percent of world GNP. APEC provides a chance for annual discussions by people at various levels: academics and business executives, ministers, and heads of state.

Much debate among APEC members has centered on whether all trade barriers in Asia can be eliminated, without exception, by the year 2020. In 1997, the APEC meeting in Vancouver, British Columbia, faced a surprising challenge: the so-called Asian Flu financial crisis that began in Thailand and quickly spread to Malaysia, Indonesia, Korea, and even Japan. This crisis, caused by careless lending and borrowing practices in the private sectors of these countries, led to a crisis in investor confidence in security values, which led to a collapse in prices in equity markets, a major decline in currency values, and a massive increase in exports from countries in the region to the United States. The entire world was caught off guard by this crisis, which underlined the fact that lending and banking practices in the region had become quite "loose" and sloppy. The world realized that the Asian miracle had some major deficiencies that needed to be repaired. These repairs presented a challenge to the world economy: how to fix the problems in Asia without spreading the ' flu to the rest of the world. It was clear to economists that as long as the economic leaders of the high-income countries of the world did not allow aggregate demand in their markets to collapse or trade barriers to be imposed it would be possible for the countries in the Asian region to clean house. This would require ending the traditional close relationship that had existed in many countries between business and government and the establishment of a more rigorous system of private sector responsibility for investment decision.

(2) Association of Southeast Asian Nations

The Association of Southeast Asian Nations (ASEAN) is an organization for economic, political, social, and cultural cooperation among its 10 member countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myall mar, the Philippines, Singapore, Thailand, and Vietnam. ASEAN (pronounced OZZIE-on) was established in 1967 with the signing of the Bangkok Declaration. Vietnam became the first communist nation in the group when it was admitted in 1995. Cambodia - and Laos were admitted to ASEAN in Myanmar joined in 1998.The countries have agreed to eliminate most tariffs by 2010). The ASEAN group has 495 million people and a GNP of $700 billion. A constant problem is the strict need for Consensus among all members before proceeding with any form of cooperative effort. Although the 10 countries of ASEAN are geographically close, they have historically been divided in many respects.

SOUTH AND CENTRAL AMERICAN TRADE GROUPS

(1) Andean Group

The Andean Group was formed in 1969 to accelerate development of its member states- Bolivia, Colombia, Ecuador, Peru, and Venezuela-through economic and social integration. Members agreed to lower tariffs on intragroup trade and work together to decide what products each country should produce. At the same time, foreign goods and companies were kept out as much as possible.

In 1988, the group members decided to get a fresh start. Beginning in 1992, the Andean Pact signatories agreed to form Latin America’s first operating sub regional free trade zone. More than 100 million consumers would be affected by the pact, which abolished all foreign exchange, financial and fiscal incentives, and export subsidies at the end of 1992. Common external tariffs were established, marking the transition to a true customs union, A high-level commission was created to look into any alleged unfair trade practices among countries.

(2) Southern cone common Market

Argentina, Brazil, Paraguay, and Uruguay (Figure 2-8)-with a combined population of 32 million people, a GNP of $1,332 billion or a per capita GNP of $5,741 in 2000 agreed in 1991 to form a customs union known as the Southern Cone Common Market (in Spanish, Mercado del Sur, or Mercosur). In 1996, Chile became an associate member. Chile chose not to become a full member because it already had lower external tariffs than the rest of Mercosur; full membership would have required raising them. Presently, Chile has been negotiating for membership in NAFTA.

(3) Caribbean Community and Common Market

The Caribbean Community and Common Market (CARICOM) were formed in 1973 as a movement toward unity in the Caribbean. It replaced the Caribbean Free Trade association (CARIFTA) founded in 1965. The members are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Monterrey, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Surinam, and Trinidad and Tobago. The population of the entire IS-member Caribbean Community is 14 million. The total population is 112,000 and has a GNP of $209 million or per capita GNP of $1,866.

The Caribbean Community's main activity is economic integration by means of a Caribbean Common Market. CARICOM has created a customs union with common tariffs on imports from third countries, cross-listed stocks on the various changes, created a Caribbean Court of Justice to deal with economic issues and trade disputes, and is working toward a common currency.

(4) Central American Integration System (SICA)

Central America is trying to revive its common market, which was set up in the 1960s. It collapsed in 1969 when war broke out between Honduras and El Salvador after a riot at a soccer match between teams from the two countries. The five members-EI Salvador, Honduras, Guatemala, Nicaragua, and Costa Rica-decided in 1991 to reestablish the common market by 1994. Efforts to improve regional integration gained momentum with the granting of observer status to Panama. In 1997, with Panama as a member, the group's name was changed to Central American Integration System.

(5) Free Trade Area of the Americas

One of the biggest issues pertaining to trade in the Western Hemisphere is the Free Trade Area of the Americas (FTAA). The idea was formally proposed in 1994 by U.S. President Bill Clinton during a summit of heads of state in Miami. Meeting in Brazil in May 1997, trade ministers from the 34 participating countries agreed to create preparatory committees" in anticipation of formal talks that would begin in 1998. The Clinton administration was keen to open the region's fast-growing big emerging markets (BEM) countries to U.S. companies. In particular, the president wanted talks to focus immediately on tariffs and "early harvest" agreements on individual industry sectors, such as informationtechnology.

When the second Summit of the Americas was held in Santiago, Chile, m April 1998, the FTAA was formally launched. However, it was also clear that fast track authority would be essential to successfully concluding the negotiations. Mean. While, Mercosur, CAR1COM, SICA, and the Andean Community intend to pursue further integration among themselves,as well as with Europe.

Self-Check Questions (True/False)

6) Trading blocs often lead to increased foreign direct investment (FDI) due to larger markets.
7) Free trade areas allow member countries to maintain individual commercial policies toward non-members.
8) Economies of scale result in reduced average costs, enhancing efficiency within trading blocs.
9) Joining a trading bloc may lead to reduced competition among member countries' firms.
10) Trading blocs can both create opportunities and pose threats to the regions involved.

AFRICAN AND MIDDLE EASTERN TRADE GROUPS.

The Treaty of Lagos establishing the Economic Community of West African States (ECOWAS) was signed in May 1975 by 16 states, with the object of promoting trade, cooperation, and self-reliance in West Africa. The members are Benin, Burkina Faso, Cape Verde, the Gambia, Ghana, Guinea, Guinea-Bissau, the Ivory’ Coast, Liberia, Ma i, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. The total population o ECOWAS is 300 million and total GNP is $254 million for a per capita GNP of $846.

In 1980, the member countries agreed to establish a free trade area for unprocessed agricultural products and handicrafts. Tariffs on industrial goods were also to be abolished; however, there were implementation delays. By January 1990, tariffs on 25 items manufactured in ECOWAS member states had been eliminated. The organization installed a computer system to process customs and trade statistics and to calculate the loss of revenue resulting from the liberalization of intercommunity trade. In a move to a common currency, which is unlikely before 2005, an ECOWAS traveler's check was initiated in 1999 for purchase by citizens of the member countries.

(1) East African Cooperation Treaty

During the 1960s and 1970s, efforts to organize the countries of East Africa failed for several reasons. Given the trend toward gloating, a new attempt has been made and the result is that Kenya, Tanzania, and Uganda have signed an agreement forming the East African Cooperation Treaty. Modeled after the EU, it already has a common passport and is working toward a common currency, a regional stock market, and harmonization of laws.

The South African Development Coordination Conference (SADCC) was set up in 1980 by the region s black-ruled states to promote trade and cooperation. The members are Angola, Botswana, Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. The real impediment to trade has been SADCCs poverty. The World Bank indicates that combined 2000 gross national product (GNP) for the 14 member nations amounted to $174 million, a figure that is even lower than the GNP of Denmark. The total population of SADCC is 216 million for a percapita GNP of $805.

(2) Cooperation Council for the Arab States of the Gulf

The organization generally known as the Gulf Cooperation Council (GCC) was established in 1981 by six Arab states-Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. It is difficult to provide GNP numbers for the GCC as economic data are not provided for several of the countries.

The organization provides" a means of realizing coordination, integration, and cooperation in all economic, social, and cultural affairs. Gulf finance ministers drew up an economic cooperation agreement covering investment, petroleum, the abolition of customs duties, harmonization of banking regulations, and financial and monetary coordination. GCC committees coordinate trade development in the region, industrial strategy, agricultural policy, and uniform petroleum policies and prices.

(3) Arab Maghreb Union and Arab Cooperation Council

In 1989, two other organizations were established. Today, the Arab Maghreb Union (AMU) consists of Morocco, Algeria, Mauritania, Tunisia, and Libya, and the Arab Cooperation Council (ACC) consists of Egypt, Iraq, Jordan, and Yemen. Many Arabs see their regional groups-the GCC, ACC, and AMU-as embryonic economic communities that will foster the development of inter-Arab trade and investment. The newer organizations are more promising than the Arab League, which consists of 21 member states and a constitution that requires unanimous decisions.

3.5 KEYWORDS

Trading Blocs: Associations of countries in a specific region with shared trade rules, favoring members and imposing distinct regulations for non-members.

Trade Liberalization: The process of reducing or removing barriers to trade between nations, encouraging free movement of goods and services.

Economies of Scale: The cost advantages that arise when production increases, leading to reduced average costs due to increased efficiency.

Free Trade Area: An economic integration where member countries allow free trade among themselves while maintaining individual commercial policies toward non-members.

Customs Union: A deeper form of economic integration than a free trade area, involving internal free trade and a uniform commercial policy toward non-members.

3.6 SHORT ANSWER QUESTIONS

1) What are the primary reasons for the formation of trading blocs?
2) Explain the concept of economies of scale within trading blocs.
3) Differentiate between a free trade area and a customs union.
4) How do trading blocs impact foreign direct investment (FDI)?
5) Enumerate the advantages and disadvantages of a country joining a trading bloc.
6) Define trade liberalization and its significance within trading blocs.

3.7 LONG ANSWER QUESTIONS

1) Elaborate on the economic benefits trading blocs provide to their member countries.
2) Discuss the various types of trading blocs and their characteristics.
3) How do trading blocs influence trade patterns and market efficiency?
4) Explain the objectives and effects of a country joining a trading bloc.
5) Compare and contrast the impacts of trade creation and trade diversion within trading blocs.
6) Analyze the opportunities and threats posed by trading blocs to different regions of the world.

3.8 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing*(3rd Edition, Pearson Education)
2. R L Varshney and B Bhattacharya, *International Marketing Management*(S & Chand And Sons , 2003)
3. Annual Report of World Bank, International Monetary Fund and Asian Development.
4. Annual Report of Export And Import Bank of India and Reserve Bank Of India, Mumbai
5. Subash C Jain, *International Marketing*(6th Edition Thomson Learning)

3.9 SELF CHECK QUESTIONS (ANSWER KEYS)

1) Customs Union
2) Efficiency
3) Trading Bloc
4) Efficient firms
5) Trade creation, trade diversion.
6) True
7) False
8) True
9) False
10) True

IM 313
INTERNATIONAL MANAGEMENT

Lesson No. 4

AUTHOR: SHIVANI BECTOR

TRADE BARRIERS

STRUCTURE

8.0 DEFINITION

The main objectives of imposing trade barriers are to protect domestic industries from foreign competition, to guard against dumping, to promote indigenous research and development, to conserve the foreign exchange resources of the country, to make the balance of payments position more favourable, and to discriminate against certain countries. Trade barriers are the artificial restrictions imposed by the governments on free flow of goods and services between countries. Tariffs, quotas, taxes, duties, foreign exchange restrictions, trade agreements and trading blocs are the techniques used for restricting free movement of goods from one country to the other.

Trade barriers can be broadly classified into two categories:

- Tariff barriers or fiscal controls.
- Non-tariff barriers or quantitative restrictions

8.1 OBJECTIVES OF TRADE BARRIERS

Trade barriers are imposed with different objectives under different situations as under:

1. **To Protect Home Industries from Foreign Competition** In many of the developing countries, majority of basic and heavy industries are still in the initial stage of their development. The cost of production in such industries is very high and quality is poor in comparison to the international market. Therefore such industries need protection from foreign competitors.
2. **To Promote New Industries and Research and Development** Developing countries, like India, are conducting research in various areas of technological development. In order to motivate the efforts of scientists and enable them to work with greater initiative such potential areas of development need protection from foreign giants.
3. **To Conserve Foreign Exchange Reserves** The immediate solvency of any country depends upon its foreign exchange reserves. Excessive imports may lead to erosion of valuable foreign currency from the country. Therefore, the government has to use quotas and tariffs as instruments for controlling imports and conserve foreign exchange.
4. **To Maintain Favourable Balance Of Payments** Balance of payments is defined as thedifference between inflow and outflow of foreign currency in the economy. A country, having favourable balance of payments, commands goodwill and reputation in the international market. Trade barriers help in reducing imports and thereby improve balance of payments situation.
5. **National Economy from Dumping:** Dumping is the situation whereby a big MNC tries to sell its products at a price which is much below its cost of production. As a result, the domestic

manufacturers may not be, able to compete and will have to withdraw from the market. To prevent this, the government may use tariffs to increase the price of dumped goods.

6. **To Curb Conspicuous Consumption** Goods, like diamonds and gold, nave inelastic demand. Generally, people buy such goods when their prices are high in order to show off their wealth. Such consumption are known as conspicuous consumptions. These consumptions cannot be curtailed by charging high duties and hence, quota should be fixed for their curtailment.

7. **To make Economy Self reliant:** Initially, infant industriesneed protection from the government. Gradually, these protected industries develop competitive strength. At that juncture, the domestic market can be throne open toforeigncompetitors to enable domestic companies to improve further. This gradually make the country self-reliant.

8. **To Mobilise Public Revenue:**In every economy, whether capitalist or socialist, the government plays a key role in the economic development. The government undertakes various developmental activities, which require enormous finance Customs duties charged on import and export of goods can serve as a significantsource of finance for such purposes.

9. **To Counteract Trade Barriers Imposed by Other Countries:**sometimes, in order to counteract trade barriers imposed by other countries, a country may be forced to impose trade restrictions.

4.2 TYPES OF TARIFF TRADE BARRIERS

Tariffs are extensively used trade barriers. Tariffs' are in the form of customs duties and taxes imposed on internationally traded commodities when they cross the nationalboundaries. The aim of tariffs is to. Increase prices of imported goods and thereby their demand and discourage their consumption.

TARIFFS

Tariff derived from a French word meaning rate, price, or list of charges is a customs duty or tax on products that move across borders. Tariff can be classified m several way. The classification scheme used here is based on direction, purpose, length, .ate, and distribution point. These need not be mutually exclusive

1. Direction: Import And Export Tariffs

Tariffs are often imposed on the basis of the direction of product movement, which is on imports or exports, with the latter being the less common one. When export tariffs are levied, they usually apply to an exporting country's scarce resources or raw materials (rather than finished manufactured products).

2. Purpose: Protective and Revenue Tariffs

Tariffs can be classified as protective tariffs and revenue tariffs. The distinction is based on purpose. The purpose of a protective tariff is to protect home industry, agriculture, and labor against foreign competitors by trying to keep foreign goods out of the country. The purpose of a revenue tariff, in contrast, is to generate tax revenues for the government. Compared to a protective tariff, a revenue tariff is relatively low. When Japanese and other foreign cars are imported into the United States, there is a 3 percent duty. On the other hand, American cars exported to Japan are subject to a variety of import taxes. Even the cost of shipping is taxed, since Japan considers that the shipping cost adds value to a car. As a result, a U.S. car sold in Japan can easily cost twice as much as its price in the United States. The U.S. tax is a revenue tariff, whereas the Japanese tax is more of a protective tariff.

3. Length : 'Tariff Surcharge versus Countervailing Duty'

Protective tariffs can be further classified according to length of time. A tariff surcharge is a temporary action, whereas a countervailing duty is a permanent Surcharge. Countervailing duties are imposed on certain imports when products are subsidized by foreign governments. These duties are thus assessed to offset a special advantage or discount allowed by an exporter s government. Usually, a government provides an export subsidy by rebating certain taxes if goods are exported.

4. Rates : Specific, Ad Valorem, and Combined

How are tax rates applied? To understand the computation, three kinds of tax rates must be distinguished: specific, ad valorem, and combined.

Specific duties are a fixed or specified amount of money per unit of weight, gauge, of other measure of quantity. Because the duties are constant for low- and high-priced products of the same kind, this method is discriminatory and effective for protection against cheap products because of their lower unit value.

Ad valorem duties are duties "according to value." They are stated as a fixed percentage of the invoice value and are applied as a percentage to the dutiable value of the imported goods, ad valorem duties provide an easy comparison of rates across countries and across products.

Combined rates (or compound duty) are a combination of the specific and ad valorem duties on a single product. They are duties based on both the specific rate and the ad valorem rate that are applied to an imported product. For example, the tar if may be 50Rs per kg plus 5 percent ad valorem. Under this system, both rates are used together, though in some countries only the rate producing more revenue may apply.

5. Distribution Point: Distribution and Consumption Taxes

Some taxes are collected at a particular point of distribution or when purchases and consumption occur. These indirect taxes, frequently adjusted at the border, are of three kinds: single-stage, value-added and excise.

Single-stage sales tax is a tax collected only at one point in the manufacturing and distribution chain. This tax is perhaps most common in the United States, where retailers and wholesalers make purchases without paying any taxes simply by showing a sales tax permit. The single-stage sales tax is not collected until products are purchased by final consumers.

Value-added tax (VAT) is a multistage, noncumulative tax on consumption. It is a national sales tax levied at each stage of the production and distribution system, though only on the. Value added at that stage. In other wants, each time a product changes hands, even between middlemen, a tax must be paid. But the tax collected at a certain stage is based on the added value and not the total value of the product at that point. Sellers in the chain collect the VAT from a buyer, deduct the amount of VAT they have already paid on their purchase of the product, and remit the balance to the government. European Union customs officers collect the VAT upon importation of goods based on the CIF (cost, insurance, and freight) value plus the duty charged on the product. The VAT is supposed to be non-discriminatory because it applies to both products sold on the domestic market andimported goods.

Excise tax is a one-time charge levied on the sales of specified products. Alcoholicbeverages and petrol are good examples. State, county, and city governments may have their own excise taxes.

Self-check Questions (Fill in the Blanks)

1. Quotas are quantity controls limiting the amount of ________ products imported or exported.

2. Dumping occurs when products are sold at a price significantly ________ the cost of production.

3. ________ duties are taxes on products based on their fixed percentage of the invoice value.

4. Non-tariff barriers encompass trade restrictions such as regulations, licenses, and ________.

5. Balance of payments reflects the difference between a country's ________ and outflow of foreign currency.

4.2.2 NON TARIFF BARRIERS

Tariffs, though generally undesirable, are at least straightforward and obvious. Nontariff barriers, in comparison, are more elusive or nontransparent. Tariffs have declined in importance, while nontariff barriers have become more prominent. These barriers can De grouped in five major categories. Each category contains a number of different nontariffbarriers,

GOVERNMENT PARTICIPATION IN TRADE

The degree of government involvement in trade varies from passive to active. The types of participation include state trading and subsidies

Government Procurement and State Trading State trading is the ultimate in government participation, because the government itself is now the customer or buyer who determines what, when, where, how, and how much to buy. In this practice, the state engages in commercial operations, either directly or indirectly, through the agencies under its control. Such business activities are either in place of or in addition to private firms.

Although government involvement in business is most common with the communist countries, whose governments are responsible for the central planning of the whole economy, the practice is definitely not restricted to those nations. The U.S. government, as the largest buyer in the world, is required by the Buy American Act to give a bidding edgeto U.S. suppliers in spite of their higher prices.

Subsidies: According to GATT, "subsidy is a "financial contribution" provided directly or indirectly by a government and which confers a benefit." Subsidies can take many forms including Cash interest rate, value-added tax, corporate income tax, 'sales tax, freight, insurance, and infrastructure. Subsidized loans for priority sectors, preferential rediscount rates, and budgetary subsidies are among the various subsidy policies of several
Asian countries.

The Subsidies Code, technically named the Agreement on Interpretation andApplication of Article VI, XVI and XXIII of the General Agreement on Tariffs and Trade, recognizes that government subsidies' distort the competitive forces at work in international trade. The rules of the international agreement negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN) differentiate between export subsidies and domestic subsidies. The Code's rules also differentiate between subsidies paid on primary products (e.g., manufactures) and those paid on non primary products and primary minerals. A primary product is any product of farm, forest, or fishery in its natural form or that has undergone such processing as is customarily required to prepare it for transportation and marketing in substantial volume in international trade. The Code prohibits the use of export subsidies on non-primary products and primary mineral products.

There is considerable debate over what should be considered manufactured products, since such products are not entitled to any subsidies. For instance, according to the United States, the EU's export subsidies for such manufactured products as pasta and wheat flourare banned by the international subsidies code.

Customs and Entry Procedures: Customs and entry procedures can be employed as nontariff barriers. These restrictions involve classification, valuation, documentation, license, inspection, and health and safety regulations.

Product classification is important because the way in which a product is classified determines its duty stamps. A company can sometimes take action to affect the classification of its product.

Valuation Regardless of how products are classified, each product must still be valued. The value affects the amount of tariffs levied. A customs appraiser is the one who' determines the value. The process can be highly subjective, and the valuation of a product can be interpreted in different ways, depending on what value is used (e.g., foreign, export, import, or manufacturing costs) and how this value is constructed.

Documentation can present another problem at entry because many documents and forms are often necessary, and the documents required can be complicated. Documentation requirements vary from country to country. Without proper documentation, goods may not be cleared through customs. At the very least, such complicated and lengthy documents serve to slow down product clearance.

License or Permit: Not all products can be freely imported; controlled imports require licenses or permits. For example, India requires license for all imported goods. An article is considered prohibited if not accompanied by a license. It is not always easy to obtain an import license, since many countries will issue one only if goods can be certified as being necessary. Inspection is an integral part of product clearance. Goods must be examined to determine quality and quantity. This step is highly related to other customs and entry procedures. First, inspection classifies and values products for tariff purposes. Second, inspection reveals whether imported items are consistent with those specified in the accompanying documents and whether such items require any licenses. Third, inspection determines whether products meet health and safety regulations in order to make certain that food products are fit for human consumption or that the products can be operated safely. Fourth, inspection prevents the importation of prohibited articles.

Health and Safety Regulations: Many products are subject to health and safety regulations, which are necessary to protect the public health and environment. Health and safety regulations are not restricted to agricultural products. The regulations also apply to TV receivers, microwave ovens, X-ray devices, cosmetics, chemical substances, and wearing apparel.

QUOTAS

Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in order to protect local firms and to conserve foreign currency. Quotas can be used for export control as well. An export quota is sometimes required by national planning to preserve scarce resources. From a policy standpoint, a quota is not as desirable as a tariff since a quota generates no revenues for a country. There are three kinds of quotas: absolute, tariff, and voluntary.

Absolute Quotas: An absolute quota is the most restrictive of all. It limits in absolute terms the amount imported during a quota period. Once filled, further entries are prohibited. Some quotas are global, but others are allocated to specific foreign countries. The most extreme of the absolute quota is an embargo, or a zero quota, as shown in the case of the U.S. trade embargoes against Iraq and North Korea.

Tariff Quotas: A tariff quota permits the entry of a limited quantity of the quota product at a reduced rate of duty. Quantities in excess of the quota can be imported but are subject to a higher duty rate. Through the use of tariff quotas, a combination of tariffs andquotas is applied with the primary purpose of importing what are needed and discouragingexcessive quantities through higher tariffs.

Voluntary Quotas: A voluntary quota differs from the other two kinds of quotas, which are unilaterally imposed. A voluntary quota is a formal agreement between nations or between a nation and an industry. This agreement usually specifies the limit of supply by product, country, and volume.

Self-check Questions (True/False)

6. Tariff quotas allow unlimited imports of a product at reduced duty rates.
7. Absolute quotas allow imports without any restrictions during a specified period.
8. Dumping involves selling products above the cost of production to gain market dominance.
9. Non-tariff barriers include only taxes and customs duties imposed on imports.
10. The balance of payments does not reflect a country's economic position in the global.

4.3 DIFFERENCE BETWEEN - TARIFF BARRIERS AND NON-TARIFF BARRIERS

Tariff Barriers	Non-Tariff Barriers

1. Meaning Tariff barriers are in the form of taxes and duties charged .on commodities imported and exported.	Non-tariff barriers are quantitative restrictions on physical units of a commodity imported or exported.
2. Types Tariff barriers, are classified on the basis of origin, purpose, criteria and relations between the trading countries.	Non-tariff barriers are in the form of quotas, licensing, consular formalities, foreign exchange restrictions, etc.
3. Objectives The objective of tariff barriers is to increase the price of imported goods and thereby reduce their consumption and import.	The objective of non-tariff barriers is to restrict the quantity of import and there by provide protection to domestic industries.
4. Nature It is an indirect method of curtailing imports by increasing the price of imported articles.	It is a direct method of curtailing imports by imposing restrictions on the physical quantity of imports.
5. Effectiveness Tariff barriers generate revenue for the government in the form of taxes and duties.	Non-tariff barriers do not generate any revenue for the government.

4.4 KEYWORDS

Trade barriers: Artificial restrictions by governments on the free flow of goods and services between countries.

Tariffs: Taxes imposed on internationally traded commodities when crossing national borders.

Quotas: Quantity controls limiting the amount of foreign products imported or exported.

Dumping: Selling products at a price significantly below the cost of production, affecting domestic markets.

Non-tariff barriers: Trade restrictions other than taxes, like regulations, licenses, or inspections.

Balance of payments: The difference between a country's inflow and outflow of foreign currency.

4.5 SHORT ANSWER QUESTIONS

1) What are the primary objectives of imposing trade barriers?

2) How do tariffs differ from quotas in regulating imports?

3) Why might a country implement an absolute quota over a tariff quota?

4) What are some examples of non-tariff barriers in international trade?

5) Explain the distinction between protective and revenue tariffs.

6) How do subsidies impact international trade relations?

4.6 LONGANSWER QUESTIONS

1) Discuss the various objectives behind imposing trade barriers and provide examples of each.
2) Compare and contrast the impact of tariffs and quotas on international trade using real-world instances.
3) Explain the differences between absolute, tariff, voluntary quotas, and their implications on trade.
4) Analyze the significance of non-tariff barriers in today's global trade landscape, citing examples.
5) How do government subsidies influence trade dynamics and competitiveness between nations?
6) Evaluate the effects of balance of payments on a country's economic standing in the global market.

4.7 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing*(3rd Edition, Peaison Education)
2. F. Cheruniiam, *International Trade and Export Manangement*(Himalaya Publishing House , 2003)
3. R. L. Varshney and B. Bhattacharya, *International Marketing Management* (S. & Chand And Sons, 2003)

4.8 Self-Check Questions (Answer Key)

1. Foreign
2. Below
3. Ad Valorem
4. inspection
5. inflow
6. False
7. False
8. False
9. False

10. False

11. IM 313

INTERNATIONALMANAGEMEN T

Lesson No. 5

AUTHOR: SHIVANI BECTOR

INTERNATIONAL FINANCIAL INSTITUTIONS

STRUCTURE

5.0 Introduction
5.1 The World Bank and its Affiliates
5.2 International Bank for Reconstruction and Development
5.3 International Development Association
5.4 International Finance Corporation
5.5 The Multilateral Investment Guarantee Agency
5.6 International Monetary Fund
5.7 Asian Development Bank
5.8 Bilateral Agreements
5.9 Keywords
5.10 Short Answer Questions
5.11 LongAnswer Questions
5.12 References
5.13 Self-Check Questions (Answer Keys)

5.0 INTRODUCTION

At the Bretton Woods Conference in 1944 it was decided to establish a new monetary' order that would expand international trade, promote international capital flows and contribute to monetary stability. The IMF and World bank were born out of this Conference at the end of World War II .The World Bank was established to help the restoration of economies disrupted by War by facilitating the investment of capital for productive purposes and to promote the long-range balanced growth of International trade. On the other hand, the IMF is primarily a supervisory institution for coordinating the efforts of member countries to achieve greater cooperation in the formulation of economic policies. It helps to promote exchange stability and orderly exchange relations among its member countries. The lesson begins with a comparison of the World Bank and its affiliates. The lesson then gives a brief review of the five international financial institutions - World Bank, IBRD, IDA, IFC and MIGA. The next section discusses the various dimensions of the World Bank in detail.. A comparison of the IMF and World Bank is also discussed. The lesson finally concludes with a discussion of the Asian Development Bank tracing its strategic objectives, operating objectives and financial management.

One major source of financing is international nonprofit agencies. There are several regional development banks such as the Asian Development Bank, the African Development Bank and Fund and the Caribbean Development Bank. The primary purpose of these agencies is to finance productive development projects or to promote economic development in a particular region. The Inter-American Development Bank, for example, has the principal purpose of accelerating the economic development of its Latin American member countries. In general, both public and private entities are eligible to borrow money from such agencies as long as private funds are not available at reasonable rates and terms. Although the interest rate can vary from agency to agency, these loan rates are very attractive and very much in demand.

Of all the international financial organizations, the most familiar is the World Bank, formally known as the International Bank for Reconstruction and development (IBRD). The World Bank has two affiliates that are legally and financially distinct entities, the international Development Association (IDA) and the International Finance Corporation (IFC).Exhibit 1 provides a comparison among IBRD, IDA and IFC in terms of their objectives,member countries, lending terms, lending qualifications as well “organizations have the same central goals: to promote economic and social progress in poor or developing countries by helping raise standards of living and productivity to the point atwhich development becomes self-sustaining.

In the process, financial resources are channeled from developed countries to thedeveloping world with the hope that developing countries, through this assistance, will progress to a level that will permit them, in turn, to contribute to the development processof other less fortunate countries.

5.1 THE WORLD BANK AND ITS AFFILIATES

The World Bank group is a multinational financial institution established at the end of World War II (1944) to help provide long-term capital for the reconstruction an development of member countries.

To assist in the reconstruction and development of terrttor.es of members byfacilitating the investment of capital for productive purposes, including the restore ion o economies destroyed or disrupted by war, the reconversion of peacetime needs and encouragement of the development of productive facilities andresources in less developed countries.

To promote private foreign investment by means of guarantees or participation inloans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it andother resources.

To promote the long-range balanced growth of international trade and themaintenance of equilibrium in balance of payments by encouraging International investment for the development of the productive resources of members, thereby assistingin raising productivity, the standard of living and condition of labour in their territories.

The World Bank is the International Bank for reconstruction and development (IBRD)and the international Development association (IDA). The IBRD has two affiliates, the International Finance Corporation (IFC) and the Multilateral Investment Agency (MIGA|. The Bank, the IFC and the MIGA are sometimes referred to as the World Bank Group".

International Bank for Reconstruction and Development Founded in 1944 to help Europe recover from World War If, the International Bank for Reconstruction and Development (IBRD) is one of five institutions that make up the World Bank Group. IBRD is the part of the World Bank (1BRD/IDA) that works with middle-income and creditworthy poorer countries to promote sustainable, equitable and job-creating growth, reduce povertyand address issues of regional and global importance.

Structured something like a cooperative, IBRD is owned and operated for the benefit of its 185 member countries. Delivering flexible, timely and tailored financial products, knowledge and technical services, and strategic advice helps its members achieve results Through the World Bank Treasury, IBRD clients also have access to capital on favorable terms in larger volumes, with longer maturities, and in a more sustainable manner than world financial markets typically provide.

Specifically, the IBRD: supports long-term human and social development needs that private creditors do not finance; preserves borrowers' financial strength by providing support in crisis periods, which is when poor people are most adversely affected. It uses the leverage of financing to promote key policy and institutional reforms (such as safety net or anticorruption reforms); creates a favorable investment climate in order to catalyze the provision of private capital; provides financial support (in the form of grants made available from the IBRD's net income) in areas that are critical to the well-being of poor people in all countries.

Middle-income countries, where 70 percent of the world's poor live, have made profound improvements in economic management and governance over the past two decades and are rapidly increasing their demand for the strategic, intellectual and financial resources the World Bank has to offer. To increase its impact in middle-income countries, IBRD is working closely with the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Monetary Fund (IMF) and other multilateral development banks.

The IBRD was set up in 1945 along with the IMF to aid in rebuilding the world economy. It was owned by the governments of 151 countries and its capital is subscribed by those governments; it provides funds to borrowers by borrowing funds in the world capital markets, from the proceeds of loan repayments as well as retained earnings. At its funding, the bank's major objective was to serve as an international financing facility to function in reconstruction and development. With Marshall Plan providing the impetus for European reconstruction, the Bank was able to turn its efforts towards the developing countries.

Generally, the IBRD lends money to a government for the purpose of developing that country s economic infrastructure such as roads and power generating facilities. Funds are directed towards developing countries at more advanced stages of economic and social growth. Also, funds are lent only to members of the IMF, usually when private capital is unavailable at reasonable terms. The projects receiving IBRD assistance usually require importing heavy industrial equipment and this provides an export market for many US goods. Generally, bank loans are made to cover only import needs in foreign convertible currencies and must be repaid in those currencies at long-term rates. The World Bank lays special operational emphasis on environmental and women's issues. Given that the Bank's primary mission is to support the quality of life of people in developing member countries, it is easy to see why environmental and women's issues are receiving increasing attention. On the environmental side, it is the Bank's concern that its development funds are used by the recipient countries in an environmentally responsible way. The women's issues category, specifically known as Women in Development (WID), is part of a larger emphasis on human resources. Bank lending for women's issues is most pronounced in education, population, health and nutrition and agriculture.

International Development Association

The IDA was formed in 1960 as a part of the World Bank Group to provide financial support to LDCs on a more liberal basis than could be offered by the IBRD. The IDA has 137 member countries, although all members of the IBRD are free to join the IDA. IDA's
funds come from subscriptions from its developed members and from the earnings of the IBRD.

An example of an IDA project is a $8.3 million loan to Tanzania approved in 1989 to implement the first stage in the longer-term process of rehabilitating the country s agricultural research system. Co-financing is expected from several countries as well as other multilateral lending institutions. Loans are made for similar projects as those earned out by IBRD, but at easier and more favourable credit terms.

International Finance Corporation

There are 133 countries that are members of the IFC and it is legally and financially separate from the IBRD, although IBRD provides some administrative and other services to the IFC. The IFC's main responsibilities are:(i) To provide risk capital in the form of equity and long-term loans for productive private enterprises in association with private investors and management. (ii) To encourage the development of local capital markets by carrying out standby and underwriting arrangements and, (iii) To stimulate the international flow of capital by providing financial and technical assistance to privately controlled finance companies. Loans are made to private firms in the developing member countries and are usually for a period of seven to twelve years. In addition to funds contributed by IFC, funds are also contributed to the same projects by local and foreign investors.

Some projects are locally owned, whereas others are joint ventures between investors in developing and developed countries. In a few cases, joint ventures are formed between investors of two or more developing countries. The IFC has also been instrumental m helping to develop emerging capital markets.

The Multilateral Investment Guarantee Agency (MIGA)

The MIGA was established in 1988 to encourage equity investment and other direct investment flows to developing countries by offering investors a variety of different services, developing member governments on the design and implementation of policies, programmes and procedures related to foreign investments; and sponsors a dialogue between the international business community and host governments on investment issues.

The World Bank is comparable to a global cooperative which is owned by member countries. The size of a country's shareholding is determined by the size of the country's economy relative to the world economy. Together, the largest industrial countries (the Group of seven or G-7) have about 45 per cent of the shares in the World Bank and they carry great weight in international economic affairs, generally. So it is true that the rich countries have a good deal of influence over the Bank's policies and practices. The Bank's board o. executive directors, which is resident at the Bank's headquarters in Washington DC represents all the members. Only developing countries can borrow from the Bank. But at: members, including the richer nations, gain from economic growth in developing countries^ Everybody benefits from increased trade and investment, higher incomes, fewer social tensions, better health and education and environmental protection. The Bank's member countries -particularly the industrial countries - also benefit from procurement opportunities derived from World Bank financed projects.

Where does The World Bank Get Its Money?

The World Bank raises money for its development programmes by tapping the world's capital markets and in the case of the IDA, through contributions from wealthier member governments. IBRD, which accounts for about three-fourths of the Bank's, annual lending,raises almost all its money in financial markets. One of the world's most prudent and conservatively managed financial institutions, the IBRD sells AM-rated bonds and other debt securities to pension funds, insurancecompanies, corporations, other banks and individuals around the globe. IBRD charges interest from its borrowers at rates which reflect its cost of borrowing. IDA helps to promote growth and reduce poverty in the same ways as does the IBRD but using interest free loans (which are known as IDA "credits") technical assistance and policy advice. IDA credits account for about one fourth of all Bank landings. Borrowers pay a fee of less than 1 per cent of the loan to cover administrative costs. Nearly 40 countries contribute to IDA's funding, which is replenished every three years.

Who Runs The World Bank?

The World Bank is owned by more than 180 member countries whose views and interests are represented by a board of governors and a Washington based board of directors member countries are shareholders who carry ultimate decision making power in the World Bank. The governors, who are usually officials such as ministers of finance or planning meet at the Bank's annual meetings each fall. They decide on key Bank policy issues, admit or suspend country members, decide on changes in the authorised capital stock, determine the distribution of the IBRD's net income and endorse financial statements and budgets.

Self-Check Questions (True/False)

1. The World Bank primarily aims to stabilize exchange rates among member countries.
2. The International Development Association (IDA) provides interest-free loans to middle-income countries.
3. The International Monetary Fund (IMF) operates as a cooperative institution for stabilizing international currency exchange.
4. The Asian Development Bank was established in the late 1960s to focus on social progress in African nations.
5. The International Finance Corporation (IFC) primarily assists governments in developing policies for foreign investments.

International Monetary Fund

The International Monetary Fund (IMF) came into official existence on December 27 1945, when 29 countries signed its Articles of Agreement (its Charter) agreed at a conference held in Bretton Woods, New Hampshire, USA, from July 1-22, 1944.The IMF commenced financial operations on March 1, 1947. Its current membership is 182 countries: Its total quotes are SDR212 billion (almost US$300 billion), following a 45 per/ cent quota increase effective from January 22, 1999. Staff: approximately 2,700 from 110 countries. Accounting Unit: Special Drawing Right (SDR). IMF is a cooperative institution that 182 countries have voluntarily joined because they see the advantage of consulting with one another on this forum to maintain a stable system of buying and selling their currencies so, that payment in, foreign currency can take place between countries smoothly and without delay. IMF lends money to members having trouble meeting financial obligations to other members, but only on the condition that they undertake economic reforms to eliminate these difficulties for their own good and that of the entire membership Contrary to widespread perception, the IMF has no effective authority over the domestic economic policies of its members. There are several major accomplishments to the credit of die International Monetary System. To an extent, the fund served as an international central bank to help countries during periods of temporary balance of payments difficulties by protecting their rates, of exchange. Because of that, countries did not need to resort to exchange controls and other barriers to restrict world trade.

The system required cooperation on a previously unattempted scale by all nations in establishingan innovative monetary system and an international institution to monitor it. It then had 39 members. The IMF's membership now is 182.

Members and Administration

On joining the IMF, each member country contributes a certain sum of money calleda quota subscription', as a sort of credit union deposit. Quotas serve various purposes. They form a pool of money that the IMF can draw from to lend to members in times of financial difficulty.

Statutory Purposes

The purposes of the International Monetary Fund are:

To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

To facilitate the expansion and balanced growth of international trade and to contribute, thereby, to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members, as primary objectives of economic policy.

To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.

To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

In accordance with the above, to shorten the duration and lessen the degree ci disequilibrium in the international balances of payments of members.

Financial assistance includes credits and loans extended by the IMF to member countries with balance of payments problems to support policies of adjustment and reform. Technical assistance consists of expertise and support provided by the IMF to its members in several broad areas: the design and implementation of fiscal and monetary policy; institution building (such as the development of central banks or treasuries); the handling and accounting of transactions with the IMF; the collection and refinement of statistical data; training officials at the IMF Institute International Monetary Fund

The IMF's Financial Policies and Operations

Though the IMF remains, primarily, a supervisory institution for coordinating efforts to achieve greater cooperation in the formulation of economic policies, nevertheless, its financial function is a significant activity as is evident from the role it played in the Mexican financial meltdown and the Asian financial crises.

The IMF makes its financial resources available to member countries through a variety of financial facilities.

Concessional IMF Facility

Enhanced Structural Adjustment Facility (ESAF) was established in 1987 and enlarged and extended in 1994. Designed for low-income member countries with protracted balance of payments problems, ESAF drawings are loans and not purchases of other members currencies. Quarterly benchmarks and semi-annual performance criteria apply; 80 low income countries are currently eligible to use the ESAF.

Other Facilities

- Supplemental Reserve Facility (SRF) provides financial assistance for exceptional balance of payments difficulties due to a large short-term financing needresulting from a sudden and disruptive loss of market confidence. This facility will enable countries that are basically sound and well managed to put in place precautionary financing should a crisis occur. Short-term financing - if the need arises - will be provided under the CCL to help members overcome the exceptional balance of payments financing needs that can arise from a sudden and disruptive loss of market confidence, Largely generated by circumstances beyond the members' control.

- **SDRs**

  As time passed, it became evident that the Fund's resources for providing short-term accommodation to countries in monetary difficulties were not sufficient. Special Drawing Rights (SDRs), sometimes called paper gold, are special account entries on the IMF books designed to provide additional liquidity, to support growing world[1]' commerce. Although SDRs are a form of money not convertible to gold, their gold value is guaranteed, which helps to ensure their acceptability. Initially, SDRs worth $9.5 billion were created.
- Participant nations may use SDRs as a source of currency in a spot transaction, as a loan for clearing a financial obligation, as a security for 'a loan, as a swap against currency, or in a forward exchange operation. The Fund itself may transfer SDRs to a participant for various purposes including the transfer of SDRs instead of currency to a member using the Fund's resources.

By providing a mechanism for international monetary cooperation, working towards reducing restrictions to trade and capital flows and helping members with their short-term balance of payments difficulties, the IMF makes a significant and unique contribution to human welfare and improved living standards throughout the world.

Self-Check Questions (MCQs)

a) Which institution focuses on long-term capital investment for middle-income countries?

   A) International Finance Corporation (IFC)

   B) International Development Association (IDA)

   C) International Monetary Fund (IMF)

   D) International Bank for Reconstruction and Development (IBRD)

b) What is the primary purpose of the International Monetary Fund (IMF)?

   A) Promoting bilateral economic relations

   B) Stabilizing exchange rates

   C) Providing long-term loans for infrastructure development

   D) Encouraging regional development projects

c) Which agency primarily supports the economic progress of Asian and Pacific regions?

   A) African Development Bank

   B) Inter-American Development Bank

   C) Asian Development Bank

   D) Caribbean Development Bank

d) Which World Bank affiliate provides interest-free loans and technical assistance to low-income countries?

A) International Finance Corporation (IFC)

B) International Monetary Fund (IMF)

C) International Development Association (IDA)

D) Multilateral Investment Guarantee Agency (MIGA)

e) What does the International Finance Corporation (IFC) mainly focus on?

A) Providing funds for public infrastructure

B) Encouraging international trade

C) Supporting private enterprise through loans and equity investments

D) Coordinating environmental protection programs

Asian Development Bank (ADB)

The Asian Development Bank is a multilateral developmental finance institution founded in 1966 by 31 member governments to promote social and economic progress of Asian and the Pacific region. The Bank gives special attention to the needs of smaller or less developed countries and gives priority to regional/non-regional national programmes.

History

The first President was Mr Wanatanade and during his initial years the bank conducted regional surveys to develop a fuller understanding of the social and economic conditions of the Developing Member Countries (DMC). In 1974, the Asian Development Fund was established to streamline the bank's means of financing. In the late 70s, the bank recognised the need to develop additional strategy to reduce poverty in the region, so they evolved the concept of multi-project loans which was a cost-effective means for funding projects too small for the Bank s involvement. In 1978, the Asian Development Fund was increased to 2.15 billion. 1986 was a significant year for the Bank because the Peoples Republic of China joined the Bank and India received her first loan of $100 million to the ICICI (Investment Credit and Investment Corporation of India) for one lending to private sector enterprises.

Bank Profile

The Bank gives special attention to the needs of the smaller or less developed countries and priority to regional, sub-regional and national projects and programmes

The Bank's principal functions are i. To extend loans and equity investments for the economic and social development of its Developing Member Countries (DMCS); n. To provide technical assistance for the preparation and execution of development projects and programmes and for advisory services; iii. To promote and facilitate investment of public and private capital for development purposes; and iv. To respond to requests for assistance incoordinating development policies and plans of its DMCs.

The two largest shareholders of the Bank, as of 31 December 1997, were Japan and the United States, each accounting for 16 per cent of the total subscribed capital. Forty one regional members accounted for 63 per cent of total shareholding while 16 non-regional members contributed 37 per cent, of the total.

The Bank’s head quarters are in Manila, Philippines.

Strategic Objectives *Economic Growth*

In 1997, the Bank lent $6.4 billion for 28 traditional, growth projects. The unusually large volume of lending for economic growth, projects was because of the programme loan to the Republic of Korea. Excluding the financial sector programme for the Republic of Korea, the total lending for growth projects was $2.4 billion. These projects covered most ot the Bank’s DMCs and were widely spread across sectors including agriculture, energy, industry finance, transport and communication.

Poverty Reduction

Poverty reduction is a strategic objective of the Bank. The total number of poor in the region represents nearly three-quarters of all the world's poor. The roots of poverty lie i,, a complex fabric of social and economic factors, making poverty reduction one of the most persistent development challenges the Bank addresses. Poverty reduction has been an implicit element of all operations since the Bank was established. The Bank pays close attention to poverty reduction issues in the formulation and implementation of its project and technical assistance activities. One approach in the Bank's poverty reduction efforts is the promotion of broad-based economic growth and support for targeted interventions. Sustained rates of economic growth, in turn, provide opportunities for the poor to participate in and benefit from this growth. Support for basic social services, particularly education and health services, helps the poor participate more effectively. At the same time, the Bank pursues poverty reduction through initiatives that are oriented toward the needs of specific countries. These initiatives are based on particular country-level conditions and concerns and have a specific country-based focus. Poverty reduction efforts increasingly are becoming an element of country strategy studies and country programming processes.

Supporting Human Development

The Bank has continued to emphasize its strategic objective of promoting human development by expanding investments in the critical sectors of education, health and nutrition, water supply and sanitation and urban development. Human development is anexpanding area of activity for the Bank. Of a total of 72 projects approved during 1997, excluding private sector and engineering technical assistance loans, 27 projects had human development as either their primary (22) or secondary (5) objective.

Education

The Bank aims to support the education sector in its DMCs by investing in basic education, improving the quality of education and making education in general-and skills training in particular - more relevant to market needs. Health and nutrition: The Bank's main strategies for supporting the health improvement efforts of its DMCs are to focus on primary health care services, the control of communicable diseases and capacity building.

Water supply and sanitation

The Bank’s main objective for the water supply and sanitation sub-sector is to increase the availability of safe drinking water and adequate sanitation facilities. Urban development: Addressing the rapid pace of urbanisation throughout Asia is a formidable challenge facing the majority of the Bank's DMCs. The Bank encourages an integrated approach to urban development by supporting investments for a balanced range of infrastructure and services, targeted at meeting the basic needs and improving the living conditions of the urban poor.

Gender Development

Improving the status of women is one of the strategic objectives of the Bank. Gender development is no longer seen as merely an issue of human rights or social justice; investment in women now is widely recognised as crucial to achieving sustainable development.

Economic analysis recognises that low levels of education and training, poor health and nutritional status and limited access to resources not only depress the quality of life for women but also limit their productivity and subsequently, contribution to economic efficiency, economic growth and development. Public policies and investments that raise the status of women have specific benefits such as improved public health, lower infant and maternal mortality, lower fertility rates, increased life expectancy and reduced welfare costs.

Development programmes -that include measures to expand economic opportunities for women and increase their incomes, combined with efforts to improve women's health and education, result in greater economic efficiency and decreased levels of poverty.

Environmental Protection

Commitment to the principles of sustainable development and environment protection is one of the primary strategic objectives of the Bank. The Banks major environmental activities include Promoting cooperation among countries in the region or subregion to address transboundary environmental concerns and to enhance possible environmental benefits occurring from subregional cooperation. Ensuring, through the use of environmental assessment and review procedures, that Bank-funded projects are environmentally sustainable; Financing projects that promote the sound management of natural resources and rehabilitate and protect .the environment; Undertaking resource centred activities to enhance Bank and DMC staff awareness on current and emerging environmental issues; and Ensuring inter-agency collaboration to avoid costly duplication of efforts and to enable the Bank to focus its assistance in critical areas.

Project Process ,

Before any project is identified for Bank financing. Bank staff review the country s economy particularly its national and sectorial development programmes and determines the prospects for its success. Country programming missions visit DMCs regularly to discuss topics of mutual interest with government officials and to select suitable projects for bankassistance. Since the levels of economic growth, as well as the pnont.es for development vary from one DMC to another, the Bank tries to select those projects that will contribute most effectively to the economic and social development of the country concerned, in conformity with the country and, Bank wide strategies. Once it is confirmed that investment in the project is justified, the Bank evaluates the project.

Private Sector Development

The Bank helps selected private enterprise to undertake financially viable projects that have significant economic merit and for which normal sources of commercial finance are not available. Bank support is provided directly to private enterprises and financial institutions through loans, underwriting, investment in equity securities, cofinancing investment advisory services and guarantees. The Bank's private sector operations focusprimarily on assistance to

1. Financial intermediaries involved in leasing, venture capital financing merchant banking, mutual funds, insurance, securitisation, credit enhancementand credit rating;
2. Infrastructure projects such as in the power, water supply, transport and telecommunications sectors, including build-own-operate/build-operate-transfer
3. In limited cases, industrial, agribusiness and other projects with significant economic merit.

Financial Resources

The financial resources of-the Bank consist of Ordinary Capital Resources (OCR comprising subscribed capital, reserves and funds raised through borrowings; and special funds, comprising contributions made by member governments, repayments from past loans and amounts previously set aside from paid-in capital. Loans from OCR lending operations are generally made to member governments which have attained a somewhat higher level o economic development. Loans from the Asian Development Fund (ADF) are made on highly concessional terms and almost exclusively to DMCs with a low per capita gross nations product and limited debt-repayment capacity.

Bilateral Agreements

Bilateral economic relations refer to the economic relations between two nations. In the current global economic scenario, countries can no longer afford to restrict economic activities within the home economy. With the growth or globalization and liberalization countries find it advantageous to forge economic relations with other nations. Bilateral economic relations play a strategic role in the growth and development of an economy. Many countries across the globe have established strong bilateral economic

relations with
other countries.

Bilateral economic relations help developed nations to access the markets ofdeveloping countries. Developing nations like India and China have also gamesignificantly from bilateral economic relations with other countries. The biggest advantage for the developing nations from bilateral economic relations is in the form of employment generation. With the inflow of capital to these countries, economic activity is boosted resulting in the growth of the economy. In the case of undeveloped economies, bilateral economic relations help them to get economic aid and loans for development projects. One of the major components of bilateral economic relations is bilateral trade. The trade of goods and services between two countries help both the participating countries to reap benefits by exporting goods and services which are produced in excess and importing those where there is a shortfall. Several bilateral trade agreements have been signed between nations.

Another import aspect of bilateral economic relations is FDI (Foreign Direct Investment). Inflow of foreign direct investments has proved to be beneficial for many developing economies. Many countries across the globe have undertaken liberalization policies to attract foreign direct investments into the economy. Bilateral economic relations also help countries to get loans and economic aid from other countries during times of need. This is especially beneficial for developing and undeveloped countries India is a signatory in following bilateral treaties.

(1) Asia Pacific Trade Agreement (APTA)
(2) India-EU Strategic Partnership Joint Action Plan
(3) India-US Trade Policy Forum Joint Statement
(4) India-United States Commercial Dialogue
(5) India-Pakistan Trading Arrangement
(6) Framework Agreement with GCC States
(7) Framework Agreement with ASEAN
(8) Framework Agreement with Thailand
(9) India-Nepal Trade Treaty
(10) India-Bangladesh Trade Agreement
(11) India-Bhutan Trade Agreement

5.9 KEYWORDS

Bretton Woods Conference: Birthplace of IMF & World Bank, aiming to stabilize currencies and aid post-war economic recovery.

World Bank: Aims at long-term capital investment for development, divided into IBRD (for middle-income countries) & IDA (for low-income countries).

IMF: Focuses on international monetary cooperation, stability in exchange rates, and lending to countries facing financial difficulties.

International Development Agencies: Entities like Asian Development Bank, African Development Bank, etc., supporting regional economic development.

Concessional Loans: Loans offered on more favorable terms than standard market rates, often featuring lower interest rates or extended repayment periods, typically provided to less economically developed countries.

Quotas: Specific sums of money or contributions made by member countries to international financial institutions, representing their shareholding and determining their voting power and access to resources within the institution.

Special Drawing Rights (SDRs): A supplementary international reserve asset created by the IMF, representing a potential claim on the freely usable currencies of IMF members, serving as a unit of account among IMF member countries.

5.10 SHORT ANSWER QUESTIONS

1) What were the main objectives of the World Bank and IMF established after the Bretton Woods Conference?
2) Name and briefly explain the two affiliates of the World Bank.
3) What is the primary function of the International Finance Corporation (IFC)?
4) Describe the primary purposes of the Asian Development Bank.
5) Explain the key responsibilities of the International Monetary Fund (IMF).

5.11 LONG ANSWER QUESTIONS

1) Discuss the historical background and main objectives of the Bretton Woods Conference.
2) Explain the structure and functions of the World Bank, including its affiliates.
3) Elaborate on the role and significance of the International Monetary Fund (IMF) in the global economy.
4) Provide an overview of the Asian Development Bank's history, objectives, and its strategic focus areas.
5) Analyze the impact and importance of bilateral economic relations between nations in today's global economic landscape.

5.12 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing* (3rd Edition, Pearson Education)
2. F. Cherunilam, *International Trade and Export Manangement* (Himalaya Publishing House , 2003)
3. R. L. Varshney and B. Bhattacharya, *International Marketing Management* (S, & Chand And Sons , 2003)
4. B. S. Rathore and J. S. Rathore, *Export Marketing*
5. Subash C. Jain, *International Marketing* (6th Edition Thomson Learning)

5.13 Self-Check Questions (Answer Keys)

1. False
2. False
3. True

4. False
5. False

a) D) IBRD
b) B) Stabilizing exchange rates
c) C) Asian Development Bank
d) C) IDA
e) C) Supporting private enterprise through loans and equity investments

MBA-CC (Second Year)
Semester-Il1
Lesson No. 6

IM 313

INTERNATIONAL MANAGEMENT
AUTHOR: KAMAL PREET KAUR

EXPORT-IMPORT POLICY OF INDIA

STRUCTURE

6.0 INTRODUCTION

Trade policy governs exports from and imports into a country. It is one of the various policy instruments used by a country to attain her goals of economic development. This policy is thus, formulated keeping in view, the national priorities for economic development and the international commitments made by the country. It is essential that the entrepreneurs and the export managers understand the trade policy as it provides the vital inputs for the formulation of their business growth strategies. In India, the trade policy Le., export-import policy is formulated by the Ministry of Commerce, Government of India in terms of section 5 of the Foreign Trade (Development and Regulation) Act,1992. Besides, the Government of India also announced on January 30,2002 a Medium Term Export strategy, to guide the formulation the Export-Import Policy: 2002 - 07 with the, objective of achieving a share of 1 % in world trade by the end of 2006 - 07 from the present I share of 0.6% (2000 - 01). The last Export - Import Policy was announced on 31.3.2002 for a period of 5 years with effect from 1.4.2002 to 31.3.2007 co-terminus with Tenth Five Year Plan. It covers both the trade in merchandise and services.

6.1 MEANING

The foreign trade of India is guided by the Export-Import (EXIM) Policy of the government of India arid is regulated by the Foreign Trade (Development and Regulation) Act, 1992.

EXIM Policy contains various policy decisions taken by the government in the sphere of foreign trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. It is prepared and announced by the Central Government (Ministry of Commerce). India's EXIM policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favourable balance of payments position.

6.2 GENERAL OBJECTIVES OF THE EXIM POLICY

Government control import of non-essential items through an import policy. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of trade policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government policy is to promote exports to the

maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated exports of items specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the policy aims at;

(i) Promoting exports and augmenting foreign exchange earnings; and
(ii) Regulating exports wherever it is necessary for the purposes of either avoiding competition among the Indian exporters or ensuring domestic availability of essential items of mass consumption at reasonable prices.

The government of India announced sweeping changes in the trade policy during the year 1991. As a result, the new Export-Import policy came into force from April I, 1992. This was an important step towards the economic reforms of India. In order to bring stability and continuity, the policy was made for the duration of 5 years. In this policy import was liberalised and export promotion measures were strengthened. The steps were also taken to boost the domestic industrial production. The more aspects of the export-import policy (1992-97) include: introduction of the duty-free Export Promotion Capital Goods (EPCG) scheme, strengthening of the Advance Licensing System, waiving of the condition on export proceeds realisation, rationalisation of schemes related to Export Oriented Units and units in the Export Processing Zones. The thrust area of this policy was to liberalise imports and boost exports.

The need for further liberalisation of imports and promotion of exports was felt and the Government of India announced the new Export-Import Policy (1997, 2002). This policy has further simplified the procedures and reduced the interface between exporters and the Director General of foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalised and efforts have been made to promote exports.

The new EXIM Policy 1997-2002 aims at consolidating the gains made so far, restructuring the schemes to achieve further liberalisation and increased transparency in the changed trading environment. It focusses on the strengthening the domestic industrial growth and exports and enabling higher level of employment with due recognition of the key role played by the SSI sector. It recognises the fact that there is no substitute for growth, which creates jobs and generates income. Such trade activities also help in stimulating expansion and diversification of production in the country. The policy has focused on the need to let exporters concentrate on the manufacturing and marketing of their products globally and operate in a hassle free environment. The effort has been made to simplify and streamline the procedure.

The objectives will be achieved through the coordinated efforts of all the departments of the government in general and the ministry of Commerce and the Directorate General of Foreign Trade and its network of Regional Offices in particular. Further, it will be achieved with a shared vision and commitment and in the, best spirit of facilitation in the interest of export.

OBJECTIVES OF THE EXIM POLICY 1997 -2002

The principal objectives of the EXIM Policy 1997 -2002 are as under:

a. To accelerate the economy from low level of economic activities to high level ofeconomic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.

b. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.

c. To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.

d. To generate new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.

e. To provide quality consumer products at reasonable prices.

HIGHLIGHTS OF THE EXIM POLICY 1997-2002

a. Period of the Policy

This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1997 to.31st March 2002.

b. Liberalisation

A very important feature of the policy is liberalisation.

It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

c. Imports Liberalisation

Of 542 items from the restricted list 150 items have been transferred to Special Import License (SIL) list and remaining 392 items have been transferred to Open General License (OGL) List.

d. Export Promotion Capital Goods (EPCG) Scheme

The duty on imported capital goods under EPCG scheme has been reduced from 15% to 10%.

Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors

e. Advance License Scheme

Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months,

A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

f. Duty Entitlement Pass Book (DEPB) Scheme

Under the DEPB, an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency. Such credit can be can be utilised for import of raw materials, intermediates, components, parts, packaging materials, etc. for export purpose.

g. Export Houses and Trading Houses

The criteria for recognition of export houses and all forms of trading houses has been modified.

(Amount in Rs. Crores) for 2000-01 Period

FOB Criterion NFE Criterion

	Annual Average FOB value of export made during preceding 3 licensing FOB	value of export made during preceding licensing years	Annual Average FOB value of export made during preceding 3 licensing years	FOB value of export made during preceding licensing years
EH EH	15	22	12	18
TH	75	112	62	90
STH	375	560	312	450
SSTH	1125	1680	937	1350

(h) Deemed Exports

Deemed exports facilities have been extended to oil and gas sectors in addition to power sector.

(i) Software

Software units can undertake exports using data communication links or through courier service.

Import of computer systems has been brought under the purview of EPCG scheme.

(j) Computerisation of DGFT Offices

By 1998, most DGFT transactions will be on line so as reduce paper work and avoid delay in disposal of applications.

(k) Agriculture Sector

Double weightage will be given for agro exports in calculating the eligibility for export houses and all forms of trading houses. Additional SIL of 1 % has been declared for export of agro products. EOUs and units in EPZs in agriculture and allied sectors can sell 50% of their output in the domestic tariff area (DTI) on payment of duty. Under the zero duty EPCG Scheme, the threshold level has been reduced from Rs. 20 crore to Rs. 5 crore for agriculture and allied sectors.

IMPLICATIONS OF THE EXIM POLICY 1997 -2002

The major implications of the EXIM Policy 1997-2002 are:

(a) Globalisation of Indian Economy

The EXIM policy 1997-02 proposed to prepare a framework for globalisation of Indian economy. This is evident from the very first objective of the policy, which states. "To accelerate the economy from low level of economic activities to- high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.[1]' The Indian economy has been reposed to more foreign competition. The regime of high protection is gradually' vanishing. !t means, in order to survive, Indian companies will have to pay due attention to cost reduction, improvement in quality, delivery schedules and after sales service. At the same time Indian industries have also been given an opportunity to globalise their business by allowing them to import machineries and raw materials from abroad on liberal terms.

(b) Impact on the Indian Industry

In the EXIM policy 1997-02, a series of reform measures have been introduced in order to give boost to India's industrial growth and generate employment opportunities in non-agricultural sector.

The reduction of duty from 15% to 10% under EPCG scheme will enable Indian firms to import capital goods. This will improve the quality and productivity of the Indian industry. However, liberalisation of imports by transferring 542’ items from restricted list to OGL and SIL list would adversely affect the growth of, consumer goods industry in India, as most of these items are consumer goods items.

(c) Impact on Agriculture

Many encouraging steps have been taken in order to give a boost to Indian agricultural sector. Double weightage for agro exports while calculating the eligibility for export houses and all forms of trading houses. Additional SIL of 1 % for export of agro products. EOUs' and units in EPZs in agriculture and allied sectors can sell 50% of their output in the domestic tariff area (DTA) on payment of duty. Under the zero duty EPCG Scheme, the threshold level has been reduced from Rs. 20 crore to Rs. 5 crore for agriculture and allied sectors.

(d) Impact on. Foreign Investment

In order to encourage foreign investment in India, the EXIM policy 1997 02 has permitted 100% foreign equity participation in the case of 100% EOUs, and units set up in EPZs. Due to liberalisation of procedural formalities, foreign companies may bee attracted to set up manufacturing units in India. Full Convertibility of Indian Rupee on revenue account would also give a fillip to foreign investment in India.

(e) Impact on Quality Upgradation

The SIL entitlement of exporters holding ISO 9000 certification has been increased from 2% to 5% of the FOB value of exports. This would encourage Indian industries to undertake research and development programmers and upgrade the quality of their products. Liberalisation of EPCG scheme would encourage Indian industries to import capital goods and improve quality and increase productivity of goods.

(f) Impact on Self-reliance

One of the long-term objectives of the Indian planning is to become self-reliant. This objective is well reflected in the EXIM Policy 1997-02. The policy aims at encouraging domestic sourcing of raw materials, so as to build up a strong domestic production base. In order to achieve this the policy has also extended the benefits given to exporters to deemed exporters. This would lead to import substitution. Oil, power and natural gas sectors have also been brought under the purview of deemed exports. However, the globalisation policy of the government may harm the interests of SSls and cottage industries, as they may not be able to compete with MNCs.

Self-Check Exercise (Fill in the blanks)

1. The EXIM Policy aims to achieve a share of at least __________ of global merchandise trade by the end of 2006-07.
2. The 1997-2002 policy aimed at __________ and increased transparency in the trading environment.
3. The Export-Import Policy deals with both the export and import of __________ and services.
4. Liberalization in the EXIM Policy encourages the growth of __________ and access to essential raw materials.
5. The objective of the EXIM Policy includes providing consumers with good quality products at __________ prices.

EXPORT-IMPORT POLICY 2002 - 2007

The Export- Import Policy: 2002-2007 deals with both the export and import of merchandise and services. It is worth mentioning here that the Export -Import Policy: 1997 - 2002 had accorded a status of exporter to the business firm exporting services with effect froml.4.1999. Such business firms are known as Service Providers.

The Export-Import Policy has been described in the following documents:

Export- Import Policy: 2002- 2007
Handbook of Procedures Volume I
Handbook of Procedures Volume II
ITC(HS) Classification of Export-Import Items

The main policy provisions are given in the policy document entitled Export -Import Policy 2002-2007". An exporter will have to refer to the Handbook of Procedures Volume-I to know the procedures, the agencies and the documentation required to take advantage of a certain provision of *he policy. There is a para-by-para correspondence between the Policy and the Handbook of Procedures Volume-I. Thus, if an exporter finds that para 6.2 of the policy is relevant for his business enterprise then he should also refer to the corresponding para of the Handbook of Procedures Volume- I to know precisely what is to be done take advantage of the policy provision. The Handbook of Procedures Volume-II provides a very vital information as regards the standard input-output norms in regard to items of export from India. Based on these norms, exporters are provided the facility to make duty-free import of inputs required for manufacture of export products under the Duty Exemption Scheme/Duty Remission Scheme. The policy regarding import or export of a specific item is given in the document entitled "ITC (HS) Classifications of Export -Import Items".

In addition to these policy documents, an export enterprise should also refer to the various policy circulars and trade notices issued by various regulatory authorities dealing with different aspects of foreign trade. One can refer to these notices either by visiting the relevant web site of the authority concerned or by referring to various trade magazines which circulate them.

OBJECTIVES OF THE EXPORT- IMPORT POLICY 2002-2007

The export-import policy 1997-2002 carried forward the process of liberalization and globalization set in motion by the process of economic reforms initiated since June, 1991. These reforms had aimed at restructuring the Indian economy to increase the productivity and competitiveness of foreign trade enterprises in order to achieve a higher rate of growth in exports. It also enabled the foreign trade grow in an environment of liberalization from licensing procedures, quantitative restrictions, discretionary bureaucratic controls andcumbersome documentation procedures. The present Export-Import-Policy: 2002-200/ aims at facilitating the growth in exports to attain a share of at least 1 % of global merchandise trade by the end of 2006-07. Specifically, main objectives of the present policy are as follows:

(1) To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services,

(2) To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality; and

(3) To provide consumers with good quality products and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

FEATURES OF EXIM POLICY

Union Commerce and Industry Minister Mr. Murasoli Maran announced the Exim policy for the 5 year period (2002-07) on March 31, 2002. The main thrust of the policy is to

Jammu and Kashmir so as to offset the disadvantage of being far from ports.

(a) Neutralising High Fuel Cost

Fuel costs to be rebated for all export products. This would enhance the cost competitiveness of our export products.

TRUST BASED

(a) Import and export of samples to be liberalised for encouraging product up gradation
(b) Penal interest rate for bonafide defaults to be brought down from 24% to 15%.
(c) No penalty for non-realisation of export proceeds in respect of cases covered, by ECGC insurance package.
(d) No seizure of stock in trade so as to disrupt the manufacturing process affecting delivery schedule of exporters.
(e) Foreign Inward Remittance Certificate (FIRC) to be accepted in lieu of Bank Realisation Certificate for documents negotiated directly.
(f) Optional facility to convert from one scheme to another scheme. In case the exporter is denied the benefit under one scheme, he shall be entitled to claim benefit under some other scheme.
(g) Newcomers to be entitled for licences without any verification against execution of Bank Guarantee.

DUTY NEUTRALISATION INSTRUMENTS

(a) Advance Licence

Duty Exemption Entitlement Certificate (DEEC) book to be abolished. Redemption on the basis of Shipping Bill and Bank Realisation Certificate.

Withdrawal of Advance Licence for Annual Requirement (AAL) scheme. The exporters can avail Advance Licence for any value.

(b) Duty Entitlement Passbook (DEPB) Scheme

Value cap exemption granted on 429 items to continue.

DEPB rates slashed on 8 out of 10 items.

Reduction in rates only after due notice.

No Present Market Value (PMV) verification except on specific intelligence'

Same DEPB rate for exports whether as CBUs or in CKD/SKD form. .

DEPB for transport vehicles to Nepal in free foreign exchange.

(c) Export Promotion Capital Goods (EPCG)

EPCG licences 'of Rs. 100 crore or more to have 12 year export obligation period with 5 year moratorium period.

Export obligation fulfillment period extended from 8 years to 12 years in respect of units in Agricultural Export Zones and in respect of companies under the revival plan of BIFR.

Supplies under Deemed Exports to be eligible for export obligation fulfilment along with deemed export benefit

Self-Check Question (True/False)

6. The EXIM Policy aims to restrict imports and boost exports.
7. The 1997-2002 EXIM Policy introduced more regulations on imports.
8. Liberalization in trade policies impacts only the industrial sector.
9. The 2002-2007 EXIM Policy focused on stimulating sustained economic growth.
10. The EPCG Scheme allows duty-free imports of consumer goods.

IMPLICATIONS OF THE EXIM POLICY 2002-07

The implications of the EXIM Policy 2002-07 are as follows:

(a) All-round Development of Indian Economy: The EXIM 2002-07emphasises all -round development of Indian economy by giving due weightage to differentsectors of the economy. This has been reflected in its objectives.

- To facilitate sustained growth in exports.
- To stimulate sustained economic growth.
- To enhance the technological strength and efficiency of Indian agriculture, industry and services.
- To generate new employment opportunities
- To attain internationally accepted standards of quality.
- To provide consumers with good quality goods and services at internationally competitive prices.

(b) Implications on Agricultural Sector Agriculture being the backbone of Indian economy, the EXIM policy has initiated a series of measures for its growth and development, especially for promotion of exports from agricultural sector. Removal 'of quantitative and packaging restrictions on certain agricultural products and on export of all cultivated varieties of seed would give a major boost to the export of these items.

Identification of 20 "Agricultural Export Zones would help in development of specific geographical areas for export of specific products. Extension of export obligation fulfilment period from 8 years to 12 years in respect of units in Agricultural Export Zones.

Other measures such as transport subsidy, 3% special DEPB rate, would definitely give a fillip to exports from agricultural sector.

(c) Implications on Technology Upgradation: Conversion of Electronic Hardware Technology Park (EHTP) into zero duty regime under the ITA (Information Technology Agreement)- It would give encouragement to setting up of more units in EHTP.

Liberalisation of import and export of samples would encourage product upgradation.

Liberalisation of EPCG scheme would encourage Indian industries to import capital goods and improve quality and increase productivity of goods.

This would also encourage Indian industries to undertake research and development programmes and upgrade the quality of their products.

(d) Implications on Small Scale Industry With a view to encourage further development of centres of economic and export excellence as Tripura for hosiery, woolen blankets in Panipat, woolen knitwear in Ludhiana, the following benefits have been made available to the small scale sector :

- Common service providers in these areas shall be entitled for facility of EPGC Scheme.
- Availability of Market Access Initiative Scheme for creating focused technological services and marketing abroad.
- Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore forothers.

These steps would lead to development of new centres of economic and export excellence.

(e) Implications on Gem and Jewellery Industry: Having already achieved leadership position in diamonds, the EXIM. Policy 2002-07 aims at achieving a quantum jump on jewellery exports as well. In order to achieve this, the following steps have been taken in the new EXIM Policy :

- Import of rough diamonds is allowed freely at 0% custom duty.
- Abolition of licensing regime for rough diamonds would help the country emerge as a major international centre for diamonds.
- Value addition norms for export of plain jewellery reduced to 7% and for all merchandised unstudded jewellery to ***3%***

(f) Implications on Industrial Sector Liberalisation of EPCG scheme would help Indian industries to promote, quality up gradation and would also enable sick units to revive. Extension of repatriation period for realisation of export proceeds from 180 days to 360' days -would help Indian industries to be more competitive in offering liberal payment terms to foreign importers. Licence, certificate, permissions and customs clearances for both imports and exports on self-declaration basis, priority finance for medium and long term capital' requirement and 100% retention of foreign exchange in Exchange Earner's Foreign Currency (EEFC) account would definitely benefit Indian industries and would encourage Indian producers to enter the export field. Exemption from compulsory negotiation of documents through banks would help exporters to save bank charges. Transport subsidy for exports from units located in North East, Sikkim and Jammu and Kashmir would offset the disadvantage of being far from ports.

(g) Diversification of Indian Industrial Sector In order to promote Indian industries to diversify their business and markets, the following measures have been taken in the EXIM Policy 2002-07 :-

- Setting up of ' Business Centre" in Indian missions abroad would enable India exporters and businessmen to visit abroad.
- Launching of Focus LAC (Latin American Countries) in November 1997 has greatly accelerated Indian trade with Latin American countries. Extension of this programme upto March 2003 would enable Indian exporters to consolidate the gains of this programme.
- There is a tremendous potential for trade with the Sub-Saharan African region. Launching of Focus Africa programme would help exporters to diversify their exports to these markets.
- Permission granted to External. Commercial Borrowings (ECBs) for tenure of less than three years in SEZs would provide opportunities for accessing working capital loan for these units at internationally competitive rates.

6.5 KEYWORDS

EXIM Policy: Government's regulations on imports and exports.

Foreign Trade Act: Legislation governing India's foreign trade.

Export Promotion: Measures to boost and encourage exports.

Import Liberalization: Easing restrictions on imports.

EPCG Scheme: Policy allowing duty-free imports of capital goods for export production.

Globalization: Process of integrating economies on a global scale.

6.6 SHORT ANSWER QUESTIONS

1. What is the aim of India's EXIM Policy?
2. How does the EXIM Policy impact agriculture?
3. What changes did the 1997-2002 EXIM Policy bring?
4. Explain the significance of liberalization in trade policy.
5. What are the objectives of the 2002-2007 Export-Import Policy?

6.7 LONG ANSWER QUESTIONS

1. Discuss the implications of liberalization on India's economy as outlined in the EXIM Policy.
2. How did the EXIM Policy impact various sectors like agriculture, technology, and small-scale industries?
3. Explain the significance of the EPCG Scheme in the context of India's trade policy.
4. Discuss the objectives and features of India's 1997-2002 Export-Import Policy.
5. How did the EXIM Policy of 2002-2007 aim to stimulate India's export growth?

6.8 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing* (3rd Edition, Pearson Education)
2. F. Cherunilam, *International Trade and Export Manangement* (Himalaya Publishing House , 2003)
3. R. L. Varshney and B. Bhattacharya, *International Marketing Management* (S. & Chand And Sons , 2003)
4. B. S. Rathore and J. S. Rathore, *Export Marketing*
5. Subash C. Jain, *International Marketing* (6th Edition Thomson Learning).

6.9 Self-Check Questions (Answer Keys)

1. 1 percent
2. Increased liberlisation
3. merchandise
4. exports
5. internationally competitive
6. False
7. False
8. False
9. True
10. False

*

IM 313

INTERNATIONAL MANAGEMENT

Lesson No. 7 **AUTHOR: RATNESH PAL SINGH**

TRENDS OF EXPORTS IN DIFFERENT FIVE YEAR PLANS

STRUCTURE

7.0 INTRODUCTION

The First Five-year Plan was a modest one and therefore the balance of payments deficit was much less than anticipated. This encouraged the government of India to have a bigger Second Plan with a higher foreign exchange component. As a result, imports were much higher in the Second Plan. Exports did not show any significant increase nor there does any attempt to increase them. In fact, rising prices towards the end of the First plan coupled with a liberal import policy led to a substantial increase in imports with the result that by the middle of the Second Plan, foreign exchange reserves were reduced to a very low figure of Rs. 186 crores only. But for a very tight import policy adopted thereafter, imports would have been higher still. The Third Plan was a much bigger plan and average annual imports increased to Rs. 1,241 crores in spite of the tight import policy. However, during the Third Plan period, the Government took active steps to promote exports. Special mention may be made of the Rupee payment Agreements, export incentives, including import entitlements, and the establishment of a number of export promotion organizations. As a result, there was a significant improvement in annual average exports to Rs. 752 crores. However, the annual average import surplus increased from Rs. 361 crores in the Second Plan to Rs. 489 crores in the Third Plan. As exports were less than imports, imports were financed with the help of foreign aid which amounted to Rs. 382 crores in the First Plan, Rs. 2,531 crores in the Second Plan and Rs. 2,937 crores in the Third Plan. It was at the end of the Third Plan in 1966 that the rupee was devalued. It would, therefore, be appropriate to discuss the reasons for an enormous increase in imports and slower growth in exports as also the factors which led to the devaluation of the rupee.

The reasons for an enormous increase in imports were:
(i) large volume of food imports,
(ii) large import of capital equipment due to increase in the tempo of developmental effort,
(iii) increasing requirements of maintenance imports,
(iv) Heavy increase in defense imports and (v) increase in import prices.

The reasons for a slower growth in exports were:
(i) stagnant agricultural production,
(ii) reduction in exportable surplus due to (a) increased utilization of exportable raw materials at

home, (b) increase in domestic incomes, and (c) increase in population,

(iii) intensification of inflationary pressures-inflation makes domestic goods less attractive for foreign importers,

(iv) increased competition from China, Pakistan and Japan, (v) static demand for some of the staple export items,

(vi) development of synthetic substitutes for some of the major export products like jute,

(vii) fierce competition in world trade in cotton textiles,

(viii) attempts on the part of developed countries to protect the stagnant sectors of their economy and on the part of the developing countries to protect their infant industries, and

(ix) reduction in export prices.

While the world demand for India's major exports was inelastic in nature, what is more significant to note is that India's share in world exports of these commodities declined, 1966, India had to launch its Fourth Plan which was fairly ambitious with a heavy foreign exchange component. The World Bank and the International Monetary Fund also impressed upon India to do something to improve her balance of payments position and the Government of India decided to devalue the rupee on June 6, 1966 by 36.5 per cent.

During the three years after devaluation, average annual imports in-creased to Rs. 1,991 crores while annual average exports increased to Rs. 1,238 crores and the trade deficit were still greater. Though devaluation might have had something to do with the increase in India's exports, it cannot be denied that the revival of agricultural production, recession in domestic industries, and restoration of export subsidies had a major role to play in the increase in India's exports apart from the increase in the rupee value of foreign exchange earnings due to devaluation. So also, an increase in the rupee value of imports would have been higher but for the slowing down of the flow of foreign aid, slowing of the developmental effort and the recession in domestic industries. Due to high rate of inflation, the effects of devaluation were nullified within the next three years.

In the Fourth Plan, imports remained stagnant as a whole due to (1) general sluggishness of the economy as also (2) India’s capacity to manufacture herself most of what she needs. On the other hand, exports showed a substantial increase, increasing at an annual average rate of 12.8 per cent as against the projected rate of 7 per cent. As a result, there was a heavy reduction in the import surplus to Rs. 163 crores only.

In the Fifth Plan (1974-78), the average annual imports jumped by 165 per cent from Rs. 1,973 crores to Rs. 5,221 crores. The primary cause of this sharp jump was the oil price hike which led to substantial increase in the import bill for petroleum products and fertilizers. The relaxation in restrictions on imports of capital goods and equipment and increased purchases

Thereof seem to have made up for the suspension of Government grain purchases, liberal imports of edible oils and other items of mass consumption to hold the price line also contributed to the increase in imports. Lastly, there was a general increase in the import prices due to inflationary conditions in the supplying countries. There was an increase in the annual average exports as well but the increase was less from Rs. 1,810 crores to Rs.4,481 crores, ie., by 148 per cent. In fact, the rate of growth of exports was fairly high in the first three years but declined sharply in the last year. The reasons for this varied performance are discussed below. Nevertheless, the average annual growth rate was higher at 25.5 percent than 8-5 Percent anticipated in the plan. As a result of the lower increase in exports, the annual average import surplus jumped up from Rs. 163 crores to Rs. 740 crores.

The main reasons for the high growth rate in India's exports between 1972-73 and 1976-77 were:

(i) The availability of new markets in oil-rich countries due to the oil price boom;

(ii) Commodity price boom which continued at least up to 1974 and the resultant higher unit value realization;

(iii) Opportunities created by oil crisis due to increase in prices of petroleum-based products and the increased competitive capacity of natural products like leather, cotton textiles and jute manufacture;

(iv) Recession in domestic industries leading to search by Indian manufacturers for markets abroad;

(v) Increase in project and turnkey exports;

(vi) Virtual devaluation of the rupee due to its link with sterling up to l975; and (vii) Relative price stability in India.

The growth rate of exports suffered a setback in 197778 and after due to the following reasons:

(i) Deliberate policy of restricting or banning the exports of mass consumption items.

(ii) Decline in the overall import demand in the developed countries because of low level of activity.

(iii) Protective measures adopted in the developed countries which affected India's exports of textiles, garments, shoes, iron-ore and leather.

(iv) A decline in the unit value realization of the key export commodities.

(v) Rising domestic demand for some exportable items like steel and cement.

(vi) Problems at the domestic front like power shortages, transport bottlenecks, labor strikes and congestion in ports.

(vii) Mounting inflationary pressures in the country.

(viii) Stoppage of crude exports after April 1985 due to the establishment of domestic refining capacity.

(ix) An overall decline in construction contracts secured by India because of (a) emergence of intense competition, (b) the long-drawn Iran-Iraq conflict, (c) fall in OPEC oil revenues and (d) foreign exchange problems faced by many African countries.

Self-check questions

State whether these statements are true or false

a) The main goal of five-year plans is to achieve rapid economic growth.

b) Five-year plans are only used in communist countries.

7.1 INCREASE IN IMPORTS

While there was continuous increase in India's imports except in 1976-77 the rate of growth was fluctuating between 2.4 per cent and 52.9 per cent. There was sharp spurt in 1973-74, 1974-75, 1979-80 and 1980-81 especially due to oil price hikes. However, the compound rate of growth of imports in the decade ending 1981-82 was 22.4 per cent. Oil price hikes were not the only cause responsible for an increase in imports. The following factors explain the sharp rise in imports over the decade 1971-72 to 1981-82:

(a) The frequent hikes in the price of crude oil and petroleum prices. Our payments for petroleum, oil and lubricants increased from Rs. 193 crores in 1971-72 to Rs. 5,254 Cores in 1981-82. The need to import fertilizers, edible oils, cement, and other mass consumption items including food to ensure availability of essential goods and to control the domestic inflationary pressures. Edible oils accounted for only Rs. 23 crores in 1970-71 but for over Rs. 500 crores in 1980-81 and 1981-82. Imports of fertilizers increased from Rs. 100 crores in 1970-71 to Rs.

728 crores in 1980-81.

(b) Liberalization of imports after 1976-77 to strengthen the domes-tic production base and to meet all legitimate requirements of industry for raw materials and components as also of capital © Equipment’s.

(c) Continuous increase in the prices of major products imported by India other than crude oil, namely, food, fertilizers, machinery and equipment, non-ferrous metals, edible oils, cement, steel, etc. It has been estimated that between 197071 and 1979-80, the quantum of imports rose by only 50 per cent as against an increase of 260 percent cent in the unit value of imports.

Self-check questions

a) Which of the following is India's main import item?

(1) Petroleum, crude and refined (2) Gold, in unwrought forms non-monetary (3) Coal, bituminous and sub-bituminous (4) Diamonds, industrial, unworked or simply worked

7.2 EXPORT PERFORMANCE DURING THE SIXTH AND SEVENTH PLAN PERIODS

Export performance in terms of volume growth of less than three percent per annum during the Sixth Plan considerably fell short of the targe 1 annual growth of nine per cent. By contrast, volume growth in exports accelerated during the Seventh Plan and averaged

6.3 per cent per annum during the first four years as against the targeted annual growth of 7 percent. The strong volume growth in exports is reflected in average additional 8,420 crores (US $3.1 billion) per annum over the average level exports during the Sixth Plan. Although the share of export in GDP shown a rising trend since 1986-87, the performance for the Seventh plan period as a whole has not been distinctly better than during the sixth plan period from its perspectives. The share of manufactures which was around 53 per cent in terms of value during the Sixth Plan rose to about 70 per cent on average during the Seventh Plan period. The volume growth of imports during the Sixth Plan was much lower at 6.9 per cent as compared with the target rate of 9.5 per cent. The subdued growth in import volume to a large measure reflected the success of the import substitution effort in the petroleum sector. In contrast, import volume growth during the Seventh Plan at 8.2 per cent was substantially higher than the growth of 5.8 per cent envisaged for the Plan period as a whole. This to a large measure was the outcome of a near-stagnation in domestic crude oil production necessitating substantial volume of POL imports. Table 3 further suggests that although the rate of growth in both the value (except in SDRs) and volume of imports as well as average level of the imports was higher during Seventh Plan period as a whole than in the Sixth Plan, the ratio of imports to GDP declined from 8.1 per cent during the Sixth Plan to 7.3 per cent during the Seventh Plan period.

7.2 BEGINNING OF NEW ERA - ECONOMIC LIBERALIZATION

India's trade policy has been undergoing rapid and drastic changes since 1991. Some of these changes are the result of economic reforms initiated by the Government while some others are also influenced by the requirements of the World Bank and the IMF from whom India has received structural adjustment loans. The most important element of the new policy is the increasing use of exchange rate. Rupee was adjusted downwards by 18 per cent in July 1991 to make the rupee's external value more realistic. Simultaneously, the system of cash compensatory support which had so far been the most important instrument of export promotion was abolished.

These steps were supposed to improve export incentives and make them uniform. Few months later, in March 1992, Rupee was made partly convertible, under a system known as Liberalized Exchange Rate Management System (LERMS). In March 1993 rupee was made fully convertible on trade account.

Self-check questions

a) In which year did India initiate its economic liberalization policies?

(1) 1979 (2) 1985 (3) 1991 (4) 1997

b) What was the primary goal of India's economic liberalization policies?

(1) To reduce the role of the government in the economy (2) To promote private sector participation in the economy (3) To increase foreign investment in India (4) All of the above

7.3 FOREIGN TRADE UNDER NINTH PLAN

The Government of India has outlined the policy framework for a rapid and sustained growth in exports. The Ninth Plan stressed the crucial importance of sound foreign trade and investment policies in order to promote rapid and sustained export growth. It will seek to enhance the technological strength and economic efficiency of domestic production, and to ensure a smooth and effective transition to a more open economy. The objective of the Ninth Plan is to achieve growth with equity'. This objective has to be seen against the need for self-reliance. India has embarked on a process of gradual and phased opening up of it economy to take advantage of new opportunities in trade and investment While this process needs to be continued and taken forward, it should be from a position of strength. In this sense, "self-reliance" must remain an important component of development policy and strategy. The Ninth Plan will address the issues of external vulnerability and develop suitable strategies for making India a strong and confident player in the international economy. The first, and perhaps most important, component of self-reliance is to ensure balance of payments sustainability and avoidance of excessive external debt. This requires a commitment to sound and prudent macroeconomic policies, particularly in fiscal and monetary management matters. The Ninth Plan was based on a framework of prudent macro-management and greater reliance on non-debt creating external flows for financing balance or payment needs, such as foreign direct investment.

Natural resources are considered as patrimony of the nation. It is not desirable to excessively deplete the natural resource endowments of the country which may expose future generations to vulnerabilities. The Ninth Plan will lay stress on conservation and optimal utilization of natural resources, including herbs and plants of medicinal value, keeping in view the inter-national availability of such resources and the need to maintain a viable balance of payments position.

A critical clement of self-reliance is self-reliance in technology. While it is desirable to access the best and most appropriate technologies from wherever these are available, in the long-run it is necessary that domestic capacity is developed in respect of all critical technologies needed by the country. This aspect has gained further importance in view of the emerging restrictions being placed on a wide range of technologies on the grounds of "dual-use" which means a technology which can be used both for peaceful and defense purposes. A technology statement called 'Vision 2020' has already been articulated by the Government of India, and the Ninth Plan will begin the process of its implementation. Insofar as foreign exchange balances are concerned, the current account deficits during the Eighth Plan would amount to about 1.27 per cent of GDP, which is well below the flow of external funds into the economy. This has enabled the country to build up its foreign exchange reserves to over US$ 25 billion at present. However, any effort at increasing the rate of growth is likely to lead to a substantial increase in the demand for imports. Unless the rate of growth of exports also picks up adequately, the balance of payments may come under pressure in future. This may be obviated to some extent by external capital flows.

During the Ninth Plan, exports are assumed to grow at an average annual of 12 per cent in dollar terms. This rate of growth of exports is based on the assumption that the share of exports in incremental output of the manufacturing sector will rise from the present level of 22 per cent to above 35 percent. If the domestic savings targets are attained, imports arelikely to grow at lower rate of 11.4 per cent in real terms.There is a possibility that if the dollar price of imports rises faster than the dollar priceof exports, the current account deficit may widen.

Table: India's exports by regions and principal countries

(Rs in crore)

Regional and principal countries	1997-98	1998-99 (Provisional)	% change over previous year	Apr.-Oct. (1998)	Apr.-Oct. (1999) provisional	% change over (previous year)
Europe	41524	45087	8.58	24780	27892	12.55
Belgium	4518	5458	20.8	3172	3266	2.96
France	2823	3544	25.54	1836	2109	14.86
Germany	7149	7929	10.91	4189	4425	5.63
Italy	4145	4480	8.08	2346	2498	6.47
Netherland	2987	3285	9.97	1777	2231	25.54
UK	7956	8028	0.9	4548	5418	19.12
Russia	3542	3038	-14.22	1712	2330	36.09
Asia and	5061	51246	1.25	27941	32488	16.27
ESCAP	3641	34520	-5.21	18406	22067	19.89
Australia	1629	1640	0.67	995	1067	7.23
Bangladesh	2923	4168	42.59	2253	1417	-37.1
China	2668	1724	-35.38	893	1161	30.01
Hong Kong	7180	7924	10.36	4254	5669	33.26
Japan	7056	6945	1.57	3866	4083	5.61
AFRICA	7135	8836	23.84	4980	4853	2.55
America	2951	36037	42.41	20494	24578	19.92
Canada	1610	2006	24.59	1116	1432	28.31
USA	2528	30842	21.98	17787	21356	20.06
Total exports (including re-exports)	130101	141604	8.84	78545	89940	14.5

Table: India's imports by regions and principal countries

(Rs in crore) (1 crore = 10 million)

Regional and principal countries	1997-98	1998-99 (Provisional)	% change over previous year	Apr.-Oct. 1998	Apr.-Oct. 1999 (Provisional)	% change over previous year
Europe	54385	59830	10.01	36013	35007	-2.79
Belgium	9916	10598	6.88	6742	7876	16.82
France	2965	3056	3.07	1731	1634	-5.60
Germany	9398	8998	-4.26	5167	4425	-14.36
ASIA &						
OCENIA	681186	49961	-92.66	47449	52241	10.10
Indonesia	2719	3425	25.96	1870	2404	28.56
Iran	2353	2044	-13.13	1151	2002	73.93
Japan	7971	10031	25.84	5885	5511	-6.35
Korea Republic of	3723	4903	31.69	3124	2797	-10.47
Malaysia	4381	6606	50.79	4712	5594	18.72
Kuwait	8546	6318	26.07	3733	4125	10.50
Saudi Arabia	9322	7888	-15.38	4289	5489	27.98
UAE	6615	7252	9.63	3994	5596	40.11
Africa	10851	14534	33.94	8353	15832	89.53
America	17027	19290	13.29	11675	12885	10.36
Canada	1564	1560	-0.25	992	871	12.19
USA	13814	15319	10.89	8860	9750	10.04
Total Imports	154176	176095	14.22	103490	12.05	115965

Self-check questions –

a)Which of the following is the main reason for India's trade deficit?

(1) India imports more goods than it exports. (2) India's exports are not competitive in the global market. (3) India's infrastructure is not well-developed. (4) All of the above.

b) Which of the following is one of the key challenges facing India's export sector?

(1) High tariffs in key export markets (2) Lack of access to finance for exporters (3) Inadequate infrastructure (4) All of the above

7.4 Keywords – economic liberalization, foreign trade, five-year plans, export, import.

7.5 Short answer questions

1 **When was the first Five-Year Plan implemented in India?**

2 What are the main objectives of India's Five-Year Plans?

3 What are some of the benefits of foreign trade to India?

4 What are some of the challenges facing India's foreign trade?

7.6 Long answer questions

1 What are some of the challenges faced by India's Five-Year Plans?

2 What are some of the achievements of India's Five-Year Plans?

3 Analyze the trends and patterns of India's foreign trade over the past decade, highlighting the key sectors that have driven India's export growth.

7.7 Self-check question (Answer key)

7.0 a) True

b) False

7.1 a) 1

7.2 a) Answer – 3

b) D

7.3 a) 1

b) 4

7.8 REFERENCES

1. B. S. Rathore and J. S. Rathore, *Export Marketing*
2. Subash C Jain, *International Marketing* (6th Edition Thomson Learning)
3. Roger Bennett, *International Business* (Pearson Education (Singapore) - Indian Branch Delhi. 2003)

IM 313
INTERNATIONAL
MANAGEMENT AUTHOR:
RATNESH PAL SINGH

Lesson No. 8

INSTITUTIONAL FRAMEWORK FOR EXPORT PROMOTION IN INDIA

STRUCTURE

8.0 DEPARTMENT OF COMMERCIAL INTELLIGENCE AND STATISTICS

The Government of India has set up several institutions whose main functions are to help an exporter in his work. It would be advisable for an exporter to acquaint him with these institutions and the nature of help that they can render to him so that he can initially contact them and have a clear picture of what help he can expect of the organized sources in his export effort.

Institutions engaged in export effort fall in six distinct tiers, at the top are the Department of Commerce of the Ministry of Commerce. This is the main organization to formulate and guide India's trade policy. At the second tier, there are deliberative and consultative organizations to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry. At the third tier are the commodity specific organizations which deal with problems relating to individual commodities and/or groups of commodities. The fourth tier consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the world markets. The fifth tier consists of Government trading organizations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management. Agencies for export promotion at the State level constitute the sixth tier.

The Department of Commerce is the primary government agency responsible for evolving and directing foreign trade policy and programmes, including commercial relations with other countries, State trading, various trade promotional measures and development and regulation of certain export oriented industries Apart from the Finance and Administrative Divisions, the principal functional divisions of the Department of Commerce are Economic Division, Trade Policy Division, Foreign Trade Territorial Division, Export Products Division, Export Services Division and Export Industries Division. The main task of the Trade Policy Division is to keep abreast of the developments in the international organizations like Unctad, WTO, the Economic Commissions for Europe, Africa, Latin America and Asia and Far Past (Escap). It is also responsible for India’s relations with the European Economic Community, European Free Trade Association, Latin American Free Trade Area, other regional groupings and the

Commonwealth. It also looks after the generalized system of preferences and nontariff barriers.
The Foreign Trade Territorial Division is entrusted with the work relating to the development of trade with different countries and regions of the world. This Division also handles matters pertaining to State trading and barter deals, organization of trade fairs and exhibitions, commercial publicity abroad, etc. It also maintains contacts with Indian Trade Missions abroad and attends to the connected administrative work including the protocolfunctions.

The Export Products Division pays attention to the problems connected with production,generation of surplus and development of markets for the various products under its jurisdiction. These products include, inter alia, plantations, marine products, chemicals, plastics, leather and leather goods, sports goods, films, steel, metals, engineering products, minerals and ores, coal, petroleum products, mica, salt, etc. Although in administrative terms the responsibility for these products remains with the Ministries concerned, this Division keeps itself in close touch with them to ensure that production is sufficient to realize in the export potential besides meeting the home consumption. This Division is also responsible for the working of export organizations and corporations dealing with above commodities andproducts.

The Export Industries Division is responsible for development and regulation of rubber,tobacco and cardamom. The Division is also responsible for handling expert promotion activities relating to textiles, woolens, hand-looms, readymade garments, silk and fibers, jute and jute products, handicrafts, coir and coir products.

The Export Services Division deals with the problems of export assistance including import replenishment licensing, cash assistance, export credit, ex-port houses, Marketing Development Assistance and grants there from, transport, free trade zones, dry ports, quality control and pre-shipment inspection, joint ventures abroad and capacity creation in export- oriented industries including assistance to import capital goods and essential raw materials.

The Economic Division, headed by the Economic Adviser, is responsible for the formulation of export strategies, export planning, periodic appraisal and view of policies as also for maintaining coordination and constant contacts the other Divisions as well as with various organizations which have been under the Commerce Department to assist the export drive. This Division also monitors work relating to technical assistance, management services for export and overseas investments by Indian entrepreneurs.

Self-check questions

a) What is the main organization to formulate and guide India's trade policy?

b) Institutions engaged in export effort fall in ___ distinct tiers.

8.1 DIRECTORATE GENERAL OF FOREIGN TRADE, NEW DELHI

The Import Export Trade Control Organization headed by the Director General of Foreign Trade is responsible for the execution of the import and export policies of the Government of India. Import and export licensing of iron and steel and ferro-alloys is also looked after by this organization.

Consultative and Deliberative Body-Board of Trade

The Board of trade has been set up to ensure that the collective advice of the commercial interests is available to the Government of India for framing and formulating export promotion and import policies and for successful implementation thereof. The Board of Trade is the highest forum for Government industry inter-face on trade policy issues. It has as its members Presidents of FICCJ, ASSOCHAM, CII and FIEO, in addition to several other leading industrialists. It has also representatives from the Ministries of Finance, Industry and Textiles as also from the Prime Minister's office. The chairman of the State Bank of India and Export-Import Bank and Director General of Foreign Trade, are also its members. The Board of Trade is presided over by the commerce minister. It deliberates on the policy and majorbottlenecks faced by the trade and industry in foreign trade and makes recommendations for Government's consideration and implementation.

Commodity related organizations

A number of organizations have been established in the country with the objective of promoting and strengthening commodity specialization. More important among them are the Export Promotion Councils and the Commodity Boards.

Self-check questions

a) The Import Export Trade Control Organization is headed by ___.
b) Who is responsible for the execution of the import and export policies of the Government of India?

8.2 EXPORT PROMOTION COUNCILS

There are 19 Export Promotion Councils covering the following products: Apparels; Basic Chemicals, Pharmaceuticals and Cosmetics; Chemicals and Allied Products; Carpet; Cashew; Cotton Textiles; Electronics & Computer software Engineering; Gems and Jewellery; Handicrafts; Handlooms; Leathers, Overseas Construction; Plastics and Linoleums; Shellac; Silk; Synthetic and Rayon Textiles; Sports Goods and Wool and Woollens.

These councils are non-profit-making limited companies registered under the Company Act. The Ministry of Commerce provides necessary assistance in relation to their programmes of work. These Councils advise the government regarding current developments in the export sector and measures necessary to facilitate future growth in exports, assist manufacturers and exporters to overcome the various constraints and extend to them the full range of services for the development of markets overseas. The Councils also perform certain regulatory functions as they have the power to de-register errant or defaulting exporters. An idea of the functions of the Export Promotion Councils can be had from some of the important activities of the Engineering Export Promotion Council as mentioned below:

1. To apprise the Government of the exporters' problems;
2. To keep its members posted with regard to trade enquiries and opportunities;
3. To help in exploration of overseas markets and identification of items with export potential;
4. To render assistance on specific problems confronting individual exporters;
5. To help resolve amicably disputes between exporters and importers of Indian engineering goods; and
6. To offer various facilities to engineering exporters in line with other exporting countries.

The Government is now increasingly limiting its role in direct conduct and promotion of trade. Accordingly, it has been decided that the Export Promotion Councils, which have so far received subsidy from the Government for some of their activities, will have to generate their own resources. Over a period of five years, the grants to the EPCs will be phased out. The EPCs would have to, therefore, redefine their role and functions. Over the years, they have more or less functioned as liaison offices of the trade and industry in their dealings with the Government. Developmental activities were undertaken only by a few EPCs. In the changed scenario, they will have to reorient their services because with the procedural simplification of foreign trade, traditional liaison work has lost its importance. They will now have to offer concrete market promotional and consolidation programmes and set-vices to their members.

Self-check questions

a) Who appoints the Chairman of an EPC?

(1) The Ministry of Commerce and Industry (2) The members of the EPC (3) The Board of Directors of the EPC (4) All of the above

b) What is the primary function of an Export Promotion Council (EPC)?

(1) To provide financial assistance to exporters (2) To regulate the quality of exported goods (3) To promote the export of specific products or services (4) To negotiate trade agreements with other countries

8.3 COMMODITY BOARD

There are 9 statutory Boards for the following commodities:

Handicrafts and Handlooms, Silk, Power loom, Coffee. Coir, Rubber, Tea, Tobacco and Spices. The Commodity Boards deal with the entire range of problems production, development, marketing, etc. In respect of the commodities concerned, they act themselves as if they were the Export Promotion Council. Some of these Boards have opened their branch offices in foreign countries in order to promote the consumption of the commodities under their jurisdiction.

Marine Products Export Development Authority

The Marine Products Export Development Authority replaced the Marine Products Export Promotion Council and started functioning in September 1972. The Authority serves the seafood industry right from fishing to processing, packaging, storing, transporting and marketing to the different markets all over the world. The Authority is entrusted with the task of ensuring a healthy growth of the industry through judicious regulation, conservation and control. Importers and exporters can obtain any information relating to the markets and the products from the Marine Products Export Development Authority.

The specific functions of the Authority are:

(a) Development of off-shore and deep-sea fishing in all its aspects and conservation and management of off-shore and deep-sea fisheries;

(b) Registration of fishing vessels, processing plants, storage premises and conveyances relating to the marine products industry and ex-ports with a view to promote a healthy development;

(c) Laying down standards and specifications for marine products for purposes of export and to introduce comprehensive in-plant inspection system to maintain a high quality of the products;

(d) Rendering financial or other assistance and to act as an agency for extension of relief and subsidy as may be entrusted by the Government;

(e) Rendering other types of assistance and service to the industry in relation to market intelligence, export promotion, trade enquiries and import of certain essential items required in small quantities for the industry;

(f) Regulation of export of marine products;

(g) Improve the marketing of marine products overseas by providing market intelligence, market promotion activities, information on the types of products in demand in different countries, nature of processing for specific types of requirements, etc.;

(h) Arrange for training in different aspects connected with export with specia reference to fishing, processing and marketing; and

(i) Such other measures that will be of importance to the export industry.

MPEDA's services extended to foreign buyers range from spotting the exporters and in ensuring that the products are delivered in markets on time and in prime condition. Agricultural and Processed Food Products Export Development Authority With a view to increase the exports from agricultural sector, the Processed Food Export Promotion Council has been upgraded as Agricultural & Processed Food Products Export Development Authority (APEDA). It will coordinate its activities with national bodies like Horticulture Board and State Governments for generating production for exports and with research institutes for development of value-added products. It would also undertake quality certification and unify the existing inspection and quality control for products such as meat and meat products.

The products covered by the APEDA are:

1. Fruits, vegetables and their products.
2. Meat and meat products.
3. Poultry and poultiy products.
4. Dairy products.
5. Confectionery, biscuits and bakery products.
6. Honey, jiggery and sugar products.
7. Cocoa and its products, chocolates of all kinds.
8. Alcoholic and non-alcoholic beverages.
9. Cereal products.
10. Cashewnuts, groundnuts and papads.

The Functions of APEDA are:

(a) The development of industries relating to the above products for export by way of providing financial assistance or otherwise for undertaking surveys and feasibility studies, participation in the equity capital through joint ventures and other reliefs and subsidy schemes;

(b) The registration of persons as exporters of the products concerned on payment of such fees as may be prescribed;

(c) The fixing of standards and specifications for these products purposes of export;

(d) The carrying out of inspection of meat and meat products in a slaughter house, processing plant, storage premises, conveyance or other places where such products are kept or handled for the purpose of ensuring the quality of such products;

(e) The improving of packaging of these products;

(1) The improving of the marketing of these products outside India;

(e) The promotion of export-oriented production and development of these products;

(h) The collection of statistics from the owners of factories or establishments engaged in the production, processing, packaging, marketing or export of these products or from such other persons as may be prescribed on any matter relating to these products, and the publication of the statistics so collected, or of any portions thereof or extracts there from; and

(i) The training in various aspects of the industries connected with these products.

Service Institutions

INDIAN INSTITUTE OF FOREIGN TRADE

Some of the principal activities of the Institute are the following:

1. It provides training of a high standard, short-term and long-term, for executives and personnel employed in trade and industry, export houses, export organizations, government departments, government trading corporations and Indian embassies and consulates abroad, for developing specialization in the techniques, methods and procedures of international trade.
2. It sponsors candidates selected from industry and trade, export houses, government departments, trading corporations, etc. for higher training abroad in export management and export techniques and for acquiring firsthand knowledge of the techniques and procedures adopted by advanced countries in export marketing.
3. It plans, organizes, undertakes, sponsors and commissions marketing research and area surveys in foreign countries in accordance with a planned programme in order to ascertain the characteristics of the overseas markets and consumer preferences, assesses the current and potential demand for Indian products, and determines the scope and the techniques to be adopted for an increased absorption of Indian products in these countries. It also undertakes commodity studies within the country with a view to locating new products or developing new uses of existing products with export potential and drawing up long-term plans for their development, processing and export.
4. The Institute undertakes and sponsors practical as well as fundamental research on various problems of international trade. Besides its own research programmes, the Institute undertakes research into problems referred to it by industry and trade and the government.
5. It provides consultancy to business firms in matters relating to foreign trade.
6. The Institute disseminates information through its quarterly journal Foreign Trade Review" and reports on various products and market studies undertaken y it. Its monthly Foreign Trade Bulletin' seeks to disseminate information on new decisions and developments affecting India's foreign trade.

Self – check questions

a) When was APEDA established?
   (1) 1985 (2) 1990 (3) 1995 (4) 2000

b) What are some of the arguments in favor of Commodity Boards?

   (1) They provide stability and predictability to the market. (2) They promote the development of the commodity sector. (3) They protect the interests of small producers. (4) All of the above

8.4 INDIA TRADE PROMOTION ORGANISATION (ITPO)

The India Trade Promotion Organisation (ITPO) has come into effect from 1-1-92 with the main objective of promoting exports and imports, and upgradation of technology through the medium of fairs to be held in India and abroad, to undertake publicity through the print and electronic media, to assist Indian companies in product development to organize programmes, buyer-seller meets, contact promotion programmes for specific products in specific markets. The India Trade Promotion Organisation provides information and market intelligence to the business community in India. It also organises visits of buyers and trade delegations to industry and trade establishments in India wit: a view to promote business contacts.

TTPO has foreign offices located at New York, Frankfurt, and Tokyo. The major activities of ITPO's foreign offices include provide necessary inputs to Head Office and Regional Offices for various ITPO activities.

Assist in fixing appointments and business meetings for Indian exporters travellingabroad.

Sponsoring buying delegations to India. Generation of trade enquiries anddissemination of trade information.

Collect latest information on fashion trends, pricing, distribution channels,standards, specifications, etc.

Mobilisation of foreign participation for trade fairs being organised in India. Provide assistance in space booking, custom clearance and other arrangements like stand erection, decoration, etc. for trade fairs being organised by ITPO in theirregion.

Publicise the ITPO participation in international fairs in their region by directmailing, telephone contacts, press conference, etc.

Invite buyers, government officials and the representatives of industry associations, etc. to India pavilion at various fairs in their region.

Follow-up of the enquiries of buyers' visit, and India's participation in trade fairsabroad.

Feedback on India's participation in international trade fairs, trade delegations,buyer-seller meets, India promotions and other export developmental activities. Procurement of samples for product development and adaptation.

Assist in setting up of joint ventures and promote upgradation of technology inIndia,

- Arrange visit of designers, experts, consultants, etc. for product development and adaptation.
- To liase with Government offices, industry associations, chambers of commerce, standards institutions and other similar organizations.

ITPO also has five regional offices in India located at Bombay, Calcutta, Madras, Bangalore and Kanpur. These offices are involved with all activities of ITPO and service the regions in which they are located.

Self-check question-

a) When was ITPO established?

b) How is ITPO funded?

(1) Government grants (2) Service charges (3) Membership fees (4) A combination of the above

8.5 NATIONAL CENTRE FOR TRADE INFORMATION (NCTI)

NCTI is a joint venture of ITPO and National Informatics Centre.

The main functions of the Centre are:

- To create databases at national and international levels for Export Promotion;
- To collect information on various aspects of trade and commerce on different countries;
- To disseminate information on countries and products to trade and industry;
- To establish linkages with trade promotion bodies, regulatory bodies, chambers, associations

among others;

- To establish linkages with commercial wings of Indian Missions abroad and foreign Missions in India;
- To create information base for all types of marketing intelligence on trade aspects;
- To organise training, seminars and conferences on matters related to trade and commerce;
- To maintain liaison with trade and commercial bodies of different countries;
- To publish papers, periodicals and other literature having a bearing on trade and commerce.

8.6 EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

For minimising the risk element in export business and to facilitate the flow of finance from the banks to exporters, there is an Export Credit Guarantee Corporation. In addition to the normal risk policies, the Corporation assists the exporters through special schemes such as packing credit guarantee, post shipment credit guarantee and export production finance guarantee. II is wholly owned by the Government of India and works on 'no-profit no-loss basis. To suit varying needs of the exporters, the Corporation provides different types of cover which may be divided into the following three broad groups:

(1) Standard policies issued to exporters to protect them against the risks of trading with overseas buyers on credit terms;

(2) Financial guarantees issued to banks against the risks involve providing credit to exporters; and

(3) Special Policies.

Under its policies intended to protect the exporters against overseas credit risks, ECGC bears the main brunt of the risk and pays the exporter 90 per cent of his loss on account of 'commercial risks' and 'political risks'.

EXPORT-IMPORT BANK

Export-Import Bank was established on January 1, 1982 for the purpose of financing, facilitating and promoting foreign trade of India. It extends finance to exporters of capital and manufactured goods, exporters of software's and consultancy services and to overseas joint ventures and turnkey/construction projects abroad. The Bank is the principal financial institution in India for coordinating the work of institutions engaged in financing export and import trade.

EXPORT INSPECTION COUNCIL

In consonance with the need for constant improvement in the quality of Indian manufactures and products, and for lending confidence to the importers abroad in respect of the quality of Indian exports, the Government had enacted the Quality Control and Reshipment Inspection Act. Eighty-eight per cent of export commodities cohering about 1,000 items have already been brought within the purview of this Act and are subject to compulsory pre-shipment inspection. It is envisaged that barring a few items, all the commodities will in the near future be covered by quality control and compulsory pre-shipment inspection. The Export Inspection Council established under the Act administers the various schemes of quality control and pre-shipment inspection. The Council is also charged with the responsibility of establishing laboratories and test houses throughout the country for the provision of inspection facilities in regard to the commodities thus notified. It has established inspection agencies under which the network of quality inspection officials operate in various parts of the country.

INDIAN INSTITUTED PACKAGING

Indian Institute of Packaging (IIP) is established, by Government of India in collaboration with Industries, in 1966.

The main aims of the Institute are:

(i) To undertake research on raw materials for the packaging industry,
(ii) To keep India in step with international developments in the field of packaging,
(iii) To organize training programmes on packaging technology,
(iv) To stimulate consciousness of the need for good packing, and
(v) To organize consultancy services for the industry. Its activities include effecting improvements in packaging standards and rendering testing facilities in respect of packages.

INDIAN COUNCIL OF ARBITRATION

The Indian Council of Arbitration was set up in 1965 as the apex arbitration body by the Government for promoting and encouraging amicable settlement of foreign trade disputes with a view to generating goodwill in the field of foreign trade. The Council's objectives include (a) propagation and popularisation of the idea of commercial arbitration in relation to foreign trade, (b) arranging arbitration of disputes in international trade through its constituent members, (c)maintenance of panels of persons to act as arbitrators, and (d) collaboration with international organisations and arbitral bodies in matters concerning international commercial arbitration.

Self – check questions-

a) ECGC established in ___

b) What types of financial assistance does EXIM Bank offer?

(1) Export credit (2) Lines of credit (3) Buyer's credit (4) All of the above

8.7 FEDERATION OF INDIAN EXPORT ORGANISATIONS

An apex body called the Federation of Indian Export Organisations (FIEO) was set up in 1965 with its registered office in Delhi, as a common and coordinating platform for the various export organisations including the Commodity Councils and Boards and the service institutions and organisations.

The principal activities of the FIEO are:

(i) Convening meetings, conferences, seminars and workshops to pro-vide opportunity to all sectors of the exporting community and export promotion institutions in India to review, discuss and, wherever necessary, to formulate recommendations to the Government and other authorities, on problems, prospects and potentials of India's exports.
(ii) Arranging 'round-table' conferences of business interests in India with trade missions and other business teams on a visit to India.
(iii) Inviting leading business interests and Economic and Trade Missions from abroad especially for a tour of industrial and commercial centres in India.
(iv) Projecting Indian goods and services abroad through various media including films, exhibitions, advertisements and publications.
(v) Sponsoring outgoing multi-interest trade and economic missions, and special teams of government recognised export houses, consultancy firms, small scale industries and individual study-cum-sales teams
(vi) Maintaining overseas liaison with International and U.N. Agencies- like WTO, Unctad, Escap, Unido. IMF, World Bank, ADB, ILO, etc.
(vii) Establishing rapport with overseas chambers of commerce, trade associations and government

departments concerned. (viii)Sponsoring special projects related to the export promotion of India's consultancy services.

(ix) Executing projects and responsibilities entrusted to it, from time to time, by the Government of India and serving as a forum for two-way transmission of views and information between government departments and the exporting community.

(x) Promoting trade, economic and technical co-operation between India and other countries by way of international seminars and creating special infrastructure for follow-up.

DEPARTMENT OF COMMERCIAL INTELLIGENCE AND STATISTICS

The Department of Commercial Intelligence and Statistics is located at Calcutta. Its functions comprise (i) commercial intelligence and (ii) collection, compilation and publication of the statistics of trade, tariffs and shipping. The work of the Department is broadly divided into the following principal categories:

(a) Collection and supply of commercial information required by the government and the trade;
(b) Maintenance of registers of Indian and foreign firms:
(c) Publication of the 'Directory of Exporters of Indian Products and Manufactures
(d) Publication of the weekly 'Indian Trade Journal' and 'Monthly Statistics of Foreign Trade of India';
(e) Publication of the periodical reports received from Indian Government Trade Representatives stationed in foreign countries in regard to economic conditions in these countries;
(f) Mediation in commercial disputes between Indian and foreign firms with a view to bringing about amicable settlement;
(g) Trade introduction; and
(h) Maintenance of Commercial Library in Calcutta for the use of the public. **DIRECTORATE**

GENERAL OF SHIPPING

Till 1949, the Ministry of Commerce was responsible for all matter relating to policy and administration of merchant shipping. Subsequently, it was felt that there should be a separate organisation to deal with all execute matters relating to merchant shipping.

Accordingly, the Directorate General of Shipping was set up in September 1949, with headquarters at Bombay. It functions, inter alia, include.

(i) Matters affecting merchant shipping, navigation, administration of merchant shipping;
(ii) Development of Indian shipping;
(iii) Regulation of ocean freight rates in overseas trade.

FREIGHT INVESTIGATION BUREAU

Freight Investigation Bureau (FIB) was set up in the Directorate General of Shipping 1959. This has branch offices at Calcutta, Cochin, Kandla, Madras and Vishakhapatnam. Themain functions of FIB are:

(i) To investigate into the representations of shippers/ shippers councils relating to high/anomalous/ discriminatory freight rates and to secure necessary adjustment;

(ii) To critically examine proposals of Conference Lines on periodic increases in freightrates and to provide guidance to shippers' councils with a view to enabling them to have an effective dialogue with Conferences on such proposals;

(iii) To provide spot assistance to shippers all over the country in procuring timely andadequate shipping space;

(iv) To collect, maintain and examine freight rates of Conferences/Ship-ping Lines operating in

India's overseas trade and also in international cross trade,

(v) To analyse the impact of changes in freight rates and to keep shippers' councils and other organisations concerned posted on such amendments,

(vi) To investigate into complaints regarding lack of shipping facilities;

(vii) To serve as a liaison organisation between shippers and shipping companies to solve shipping and freight problems through mutual consultation.

ORGANISATIONAL SET UP IN THE STATES

The State governments are increasingly participating in export efforts of the country. Some State Governments have created independent Departments of Commerce and a Minister has been put in charge of it. Some Governments have also set up Export Promotion Boards and Export Corporations for stimulating exports of items originating from their respective States. Liaison officers have also been appointed by the States to develop export trade and maintain links with the Central Government departments and organisations. Export Promotion Advisory Committees have been established by some States.

Self-check questions-

a) What are the key activities of FIEO?

(1) Advocacy and lobbying on behalf of exporters (2) Providing market intelligence and trade information (3) Organizing training programs for exporters (4) All of the above

b) When was FIEO established?

8.8 Keywords – India’s foreign trade policy, Department of Commercial Intelligence and Statistics, commodity boards, India Trade Promotion Organisation.

8.9 Short answer questions

1 what are the primary functions of Export promotion council?

2 How does India Trade Promotion Organisation (ITPO) benefit Indian businesses?

3 What is the role of Department of Commercial Intelligence and Statistics in trade policy formulation?

4 What types of credit risks does ECGC cover?

8.10 Long answer questions

1 Analyze the role of ECGC in promoting India's export growth and its contribution to the Indian economy.

2 Examine the impact of DGCI&S data on India's trade negotiations and international trade relations.

3 Compare and contrast the structures and functions of different commodity boards in India.

4 Discuss the specific initiatives undertaken by FIEO to influence government policies, address trade barriers, and promote a favorable environment for export growth

8.11 Self-check question (Answer key)

8.0 a) Answer -the Department of Commerce of the Ministry of Commerce

b) Six

8.1 a) the Director General of Foreign Trade

b) The Import Export Trade Control Organization

8.2 a) 1

b) 3

8.3 a) 1

b) 4

8.4 a) 1960

b) 4

8.6 a) 1957

b) 4

8.7 a) 4

b) 1964

8.12 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing* (3rd Edition, Pearson Education)
2. *F. Cherunilam, International Trade and Export Manangement (Himalaya Publishing* House, 2003)
3. R, L. Varshney and B. Bhattacharya, *International Marketing Management* (S. is Chand And Sons , 2003)
4. B. S. Rathore and J. S. Rathore, *Export Marketing*
5. Subash C. Jain, *International Marketing* (6th Edition Thomson Learning)

Lesson No. ***9***

INTERNATIONAL MANAGEMENT
AUTHOR: RATNESH PAL SINGH

REGISTRATION PROCEDURE

STRUCTURE

9.0 REGISTRATION PROCEDURE

Export procedure consists of several commercial and regulatory formalities, which an exporter is required to complete during the course of export trade transactions. These formalities are very complex and time-consuming and involve considerable documentation. Hence, the exporters must possess adequate knowledge of such formalities. At the same time, it should be ensured that the rules- and regulations, of not only exporting country but also of importing Country are duly complied with. Last but not least, it should be ensured that all the required documents, whether commercial or regulatory, are prepare and filed with the appropriate;.authorities.

9.1 REGISTRATION STAGES

The exporter is required -to register his organisation with a number of institutions and authorities, which directly or indirectly help him in the smooth conduct of export, trade. The registration stage includes: -

(a) **Registration of the Organisation :** The form of organisation selected by the exporter must. Be registered under the appropriate Act of the country.)

(b) **Opening-Bank Account :** The' exporter should open a current account in the name of the firm or company with a commercial bank which is authorised by the Reserve Bank of India (RBI) to deal in foreign exchange. Such bank also serves as a source of pre-shipment and post-shipment finance for the exporter.

(c) **Obtaining Importer-Exporter Code Number (1EC No.)** : Prior to 1.1.1997, it was obligatory for every exporter to obtain CNX number from the RBI. However, since then, IEC number issued by the Director General for Foreign Trade (DGFT) has replaced the CNX number. The application form for obtaining IEC number should be accompanied by fee of Rs. 1000.

(d) **Obtaining Permanent Account Number (PAN)** j Export income is subject to a number of exemptions and deductions under different sections of the Income Tax Act. For claiming such exemptions and deductions, the exporter should register his organisation with the Income Tax

Authorities and obtain the Permanent Account Number (PAN).

(e) Obtaining Sales Tax Number : Exportable goods are exempted from sales tax, provided, the 'exporter or his firm is registered with the Sales Tax Authorities. , For this purpose, the exporter is required to make an application in the prescribed form to the' Sales Tax Office (STO) in whose jurisdiction his (exporter's). Office is situated.

(£) **Registration with, Export Promotion Council (EPC)** : It is obligatory for every exporter to, register with the appropriate Export Promotion Council (EPC) and obtain the 'Registration-cum-Membership Certificate' (RCMC). The benefits provided in the current EXIM Policy are extended only to the registered exporters having valid RCMC.

(g) **Registration with ECGC** : The exporter should also register with the Export Credit and Guarantee Corporation of India (ECGC) in order to secure overseas payments against political and commercial risks. It also helps the exporters in obtaining the financial assistance from commercial banks and other financial institutions.

(h) **Registration with other Authorities** : The exporter should also register with various other authorities, such as :

- Federation of Indian Export Organisation (FIEO),
- Indian Trade Promotion Organisation (ITPO),
- Chambers of Commerce (COC),
- Productivity Councils, etc.

Self-check questions –

a) **Which is the first step for an Indian company to register as an exporter?**

1) Obtaining an Import Export Code (IEC) (2) Registering with the Directorate of Foreign Trade (DGFT) (3) Opening a bank account with an Authorized Dealer (AD) bank (4) Obtaining a Permanent Account Number (PAN)

b) **What type of bank account is required for exporters?**

1) Savings account (2) Current account (3) Foreign currency account (4) All of the above

9.2 MANUFACTURING OR PROCURING GOODS

Every export firm has devised internal procedures to suit specific requirements for ensuring production or procurement of goods, packing, marking and labelling, and dispatching to the port for shipment. A systematic approach to these activities could be to send a delivery note, in duplicate to the production department. In the case of a merchant- exporter, the marketing department may send a: similar document known as purchase order. Specific instructions are given on the above-mentioned document to the production/ procurement department for undertaking production and transport activities. Besides mentioning the time period within which these activities are to be completed, delivery note/ purchase order may give such details as: product specification, quantity required, packing, marking and labelling requirement, excise clearance requirement, intimation to transport department if any. The marketing or export department should also instruct the production/ procurement department to retain one copy of the delivery note/ purchase order and confirm the delivery (i.e., transportation to the port) on the duplicate copy. The purchasing, processing manufacturing and packing of goods for exports are facilitated by the packing. credit facility given by the commercial banks in India. Under the export credit (interest subsidy) scheme, the Reserve Bank of India enables the commercial banks to extend reshipment and post shipment credit to exporters manufacturers, as well as merchant exporters. Pre- shipment credit is given to an exporter to finance working capital needs for purchase of raw materials, processing them and converting them into finished goods for the purpose of exports. This facility is accorded oil the basis of either the letter of credit or the confirmed export order or any other evidence of the order. The rate of interest charged is concessional one. Banks also grant post- shipment credit to bridge the time- gap between, the shipment of the goods and the realisation of sale proceeds. Packing credit advances are normally granted on secured basis, which may mean collateral security through a third party guarantee or mortgage of immovable property. Once the goods have been acquired they are to be hypothecated. The banks have evolved their own documentation and proceduralsystems for granting the credit. Generally, following disbursement procedure is followed:

i. The exporter hands over the export order letter of credit to the bank, which will accept it and affix a rubber stamp on it reading 'export finance granted'.

n. The bank will calculate the drawing power of the exporter on the basis of a number of factors, including the value of export order/letter of credit.

in. Funds will be released by debiting to the packing credit account and credit to exporter's account.

IV. Goods will, generally be required to be sent through the approved transport agencies and forwarding agents.

v. Goods will be suitably insured while in the warehouse and in transit. On the basis of the laid down procedures, the exporter will approach the bank for the preshipment credit. This credit is granted to enable the reporter to manufacture/ procure and pack the goods for shipment overseas.

9.3 PROCEDURE FOR CENTRAL EXCISE CLEARANCE

The following is the procedure for obtaining central excise clearance

(a) **Application to the Assistant Collector of Central Excise (ACCE)** "The exporter is required to make an application to the Superintendent or the Inspector of Central Excise, having jurisdiction over the factory of production or warehouse of the exporter, by filling up four copies of ARE-I form having the following distinctive colours for easy verification and processing:

1. Original-White
2. Duplicate-Buff
3. Triplicate - Pink
4. Quadruplicate - Green
5. Extra Copy - Blue

(b) **Information to the Range Superintendent** The ACCE informs the. range superintendent, in whose area the exporter's factory or warehouse is located. On receiving instructions from the ACCE the range superintendent deputes an inspector for clearance of goods for exports.

(c) **Sealing of Goods** The inspector verifies the goods mentioned in the application and the particulars of duty paid or payable. If satisfied, he seals each package or the container in the manner as may be specified by the Commissioner of Central Excise and endorses each copy of the application.

(d) **Processing of ARE-I Forms** :- ARE-I as endorsed by the inspector are processed as under.

(e) **Examination of Goods at the place of Export** At the port of shipment the exporter presents goods together with original. Duplicate and quintuplicate copy of the AREI to the Commissioner of Customs. The Commissioner of Custom examines the Consignments. If satisfied he certifies the goods for export by an endorsement on all the copies of ARE-I. The original and quintuplicate copies are returned to the exporter while the duplicate copy is sent to the Maritime Commissioner.

Self-check questions-

a) **What is the purpose of the Central Excise Clearance Certificate?**

(1) To allow the free movement of excisable goods within India (2) To allow the export of excisable goods (3) To claim refund of excess duty paid (4) All of the above

b) **What are the benefits of obtaining Central Excise Clearance?**

(1) Avoid delays in transportation of goods (2) Reduce costs associated with penalties and fines (3) Gain a competitive edge in the market (4) All of the above

9.4 CUSTOMS CLEARANCE FORMALITIES

According the Section 40 of, the Customs Act, the person incharge of the conveyance vessel, vehicle, aircraft, etc., cannot permit loading of export cargo at the Customs Station unless and until a. formal permission to the export given by the authorised Customs Officer is presented. Before granting the permission, 'the Customs Officer ensures that the goods being exported are in accordance with different regulations, particularly m terms of thefollowing

(a) The goods are of the same type, sort and value as have been declared by the exporter.
(b) The duty or success leviable thereon has been properly determined and pai
(c) Provisions of Export (Control) .Order, Export . (Quality \ Control and Inspection) Act and Foreign Exchange (Regulation) 'Act are complied with.

9.5 LEGAL FRAMEWORK

Section 50 of the Indian Customs Act requires the exporter to file a declaration in a prescribed form and submit supporting documents to enable the customs authorities to check declarations made by the exporter. The objectives of the customs control are :

- To ensure that nothing goes out of the country against the laws of the land and that prohibitions and restrictions regarding outward cargo are duly enforced by the. Customs authorities; ^
- To ensure authenticity of the value of outward cargo according to the customs valuation rules to check over and under invoicing;
  a. To assess and realise export duty/cess/charge according to the customs Tarifl Act and any other fiscal legislation;
  b. To check that all the relevant regulatory provisions enforced by various authorities in the country have been duly complied with in respect of expoit, and
  c. To provide export data through the customs returns.

9.6 CUSTOMS CLEARANCE STAGES

There are four stages of customs involvement. These are :

Processing of documents at the Customs House This stage involves : (i) checking up of documents to ensure that all relevant documents have been submitted; ii) verification o; quantity and value of goods; iii) verification and determination of rate of duty and collection of the duty amount; (iv) direction for the customs officer in the docks for physical examination of goods; Documentary Requirements For movement of goods by air or by sea, the customs permission for shipment is given on a prescribed document, known as Shipping Bill. In other cases (Le. by road/rail) the document is known as Bill of Export. There are four types of Shipping Bill/ Bill of export. These are :

Dutiable Shipping Bill/Bill of Export for those goods which attract export duty/cess;

(ii) Drawback Shipping Bill/Bill of Export for those goods which are covered by the Duty Drawback schciTiC

Free Shipping Bill/Bill of Export for those goods which neither attract export duty/ cess nor are covered by the Duty Drawback scheme;

EX-bond Shipping Bill/Bill of Export for those goods, which are shipped from .the customs, bonded warehouse.

Exporter or his agent submits the following documents to the customs department.

(i) Shipping Bill (in duplicate, triplicate or quadruplicate) duly filled in and signed.
(ii) Declaration regarding truth of statement made in the Shipping Bill
(iii) Invoice copy G
(iv) R Form
(v) Export Licence (wherever required)
(vi) Quality Control Inspection Certificate (wherever required)
(vii) Original Contract wherever available or correspondence leading to contract
(viii) Contract registration certificate (wherever applicable)
(ix) Letter of credit (wherever applicable)
(x) Packing List

Self-check questions

a) **Which document serves as the primary document for customs clearance?**

9.7 SHIPMENT STAGES

Export, cargo can be exported to the overseas buyer by sea, air or land. However, shipment by sea is the most popular and generally resorted to, as it is comparatively cheaper. Besides, the ship's capacity is far greater than other modes of transportation. Nevertheless, transportation by air is utilized for export of expensive items like, diamonds, gold, etc. The shipment stage includes the following steps :

a. **Reservation of Shipping Space** Once the export contract is finalised, the I exporter reserves the required space in the vessel for shipment. On accepting the exporter's request, the shipping company issues a Shipping Order. The original copy of the shipping order as given to the exporter and the duplicate instruction by the shipping company to the commanding officer of the ship that the goods as per the details given should be received on board.
b. **Arrangement of Internal Transportation up to the Port of Shipment The**exporter makes necessary arrangements for transportation of goods to the port either by road or railways. On loading goods into the railway wagon, the railway authorities issue a Railway Receipt', which may be either 'freight paid' or freight to pay'. It serves as a title to the goods. The exporter doses the railway receipt in favour of his agent to enable him to take delivery of the goods at the port of shipment.
c. **Preparation and Processing of Shipping Documents** As the goods reaches the port of shipment, the exporter should issue detailed instructions to the C&F agent for the shipment of cargo along with a complete set of the documents

d. **Customs Clearance** The cargo must be cleared from the Customs before it is loaded on the ship. For this, the above mentioned documents, along with five copies of shipping bill, are to be submitted to the Customs Appraiser at the Customs House, The Customs Appraiser ensures that all the formalities relating to exchange control, quality control, pre-shipment inspection and licensing have been complied with by the exporter. After verification, all documents, except the original GR, original copy of Shipping Bill and one copy of Commercial Invoice, are returned to the C&F agent.

e. **Obtaining 'Carting Order' from the Port Trust Authorities** The C&F agent, then, approaches the Superintendent of the concerned Port Trust for obtaining the 'Carting Order' for moving the cargo inside the dock. After obtaining the Carting Order, the cargo is physically moved into the port area and stored in the appropriate shed.

f. **Customs Examination and Issue of Let Export Order'** The Customs Examiner at the port of shipment physically examines the goods and seals the packages in his presence. The same can be arranged for at the factory or warehouse of the exporter by making an application to the Assistant Collector of Customs. The Customs Examiner, if satisfied, issues a formal permission I' for the loading of cargo on the ship in the form of a Let Export Order'.

g. **Obtaining 'Let Ship Order' from the Customs Preventive Officer Let Export** Order' must be supplemented by a 'Let Ship Order' issued by the Customs Preventive Officer. The C&F agent submits the duplicate copy of Shipping Bill, duly endorsed by the Customs Examiner, to the Customs Preventive Officer who endorses it with the 'Let Ship Order'.

h. **Obtaining Mate's Receipt and Bill of Lading** The goods are then loaded on board the ship for which the Mate or the Captain of the ship issues Mate s Receipt to the Port Superintendent The Port Superintendent, on receipt of port dues, hands over the Mate's Receipt to the C&F Agent. The C&F Agent surrenders the Mate's Receipt to the Shipping Company for obtaining the Bill of Lading. The Shipping Company issues two to three negotiable and two to three non-negotiable copies of Bill of Lading.

9.8 PRE-SHIPMENT STAGE

Pre-shipment stage consists of the following steps :

a. **Approaching Foreign Buyers** In order to secure an export order, a new exporter can make use of one or more of the techniques, such as,' advertising in international media, sales promotion, public relation, personal selling, publicity and participation in trade fairs and exhibitions.

b. **Inquiry and Offer** An inquiry is a request from a prospective importer about description of goods, their standard or grade, size, weight or quantity, terms of payments, etc. On getting an inquiry, the exporter must process it immediately by making an offer in the form of a Performa invoice.

c. **Confirmation of Order** Once the negotiations are completed and the terms and conditions are finalised, the exporter sends three copies of Performa Invoice to the importer for the confirmation of order. The importer signs these copies and sends back two copies to the exporter.

d. **Opening Letter of Credit** The documentary credit or letter of credit is the most appropriate and secured method of payment adopted to settle international transactions. On finalization of the export. Contract, the importer opens a letter of credit in favour of the exporter, if agreed upon in the contract.

e. **Arrangement of Pre-shipment Finance** On securing the letter of credit, the exporter procures a pre-shipment finance from his bank for procuring raw materials and other components, processing and packing of goods and transfer of goods to the port of shipment.

f. **Production or Procurement of Goods** On securing the pre-shipment finance from the bank, the exporter either arranges for the production of the required goods, or procures them from the domestic market as per the specifications of the importer.

g. Packing and Marking Then the goods should be properly packed and JXl8.rked with necessary details such as port of shipment and destination, country of origin, gross and net weight, etc. If required, assistance can be taken from the Indian Institute of Packing (IIP).

h. Pre-shipment 'Inspection':- If the goods to be exported are subject to compulsory quality control and pre-shipment inspection then the exporter should contact the Export Inspection Agency (ElA). For obtaining an inspection certificate.

i. Central Excise Clearance The exporters are totally exempted from the payment of central excise duty. However, the exemption should be claimed in one of the following ways :

- Export under Rebate.
- Export under bond.

j. Obtaining Insurance Cover The exporter must take appropriate policies in order to insure risks

- ECGE policy in order to cover credit risks.
- Marine policy, if the price quotation agreed upon is CIF.

k. Appointment of C&F Agent Since exporting is a complex and time consuming process, the exporter should appoint a Clearing and Forwarding (C&F) agent for the smooth clearance of goods from the customs and preparation and submission of various export documents.

Self-check questions

a) **What document acts as a contract between the exporter and the carrier of the goods?**

1) Commercial Invoice 2) Bill of Lading (B/L) 3) Insurance Certificate 4) Export Declaration

b) **What is the standard validity period for a Bill of Lading?**

9.9 BASIC TERMS FOB (FREE ON BOARD)

Free on Board means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term should be used.

CIF COST, INSURANCE AND FREIGHT

Cost, Insurance and Freight means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium.

POST SHIPMENT STAGE

The post-shipment stage consists of the following steps :

a. Submission of Documents by the C&F Agent to the Exporter On the completion of the shipping procedure, the C&F agent submits the following documents to the exporter :

- A copy of invoice duly attested by the Customs.
- Drawback copy of the shipping bill.
- Export promotion copy of the shipping bill.
- A full set of negotiable and non-negotiable copies of bill of lading.
- The original L/C, export order or contract.
- Duplicate copy of the ARE-I form.

b. **Shipment Advice to Importer** After the shipment of goods, the exporter intimates the importer about the shipment of goods giving him details about the date of shipment, the name of the vessel, the destination, etc. He should also send one copy of non-negotiable bill of lading to the importer.

c. **Presentation of Documents to Bank for Negotiation** Submission of relevant documents to the bank and the process of getting the payment from the bank is called "Negotiation of the Documents" and tile documents are called 'Negotiable Set of Documents'. The set normally contains:

d Dispatch of Documents The bank -negotiates these documents to the importer's bank in the manner as specified in the L/C. Before negotiating documents the exporter's bank scrutinises them in order to ensure that all formalities have been complied with and all documents are in order. The bank then sends the Ban * Certificate and attested copies of commercial invoice to the exporter.

- Bill of Exchange, Sight Draft or Usance Draft.

» Full set of Bill of Lading or Airway Bill.

- Original Letter of Credit.
- Customs Invoice.
- Commercial Invoice including one copy duly certified by the Customs.
- Packing List.
- Foreign exchange declaration forms, GR/SOFTEX/PP forms in duplicate.
- Exchange control copy of the Shipping Bill.
- Certificate of Origin, GSP or APR Certificate, etc.
- Marine Insurance Policy, in duplicate.

e. Acceptance of the bill of exchange Bill of Exchange accompanied by the above documents is known as the Documentary Bill of Exchange. It is of two types :

- **Documents against Payment (Sight Drafts)** In case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment.
- **Documents against Acceptance (Usance Draft) In case of usance draft, ie** drawer instructs the bank to hand over the relevant documents to the importer against his 'acceptance' of the bill of exchange. ^

(f) **'Letter of Indemnity :*** The exporter can get immediate payment from his bank on the submission of documents by signing a letter of indemnity. By signing the letter of indemnity the exporter undertakes to indemnify the bank in the event of nonreceipt of payment from the importer along with accrued interests.

(g) **Realisation of Export Proceeds** On receiving the documentary bill of excnange, the importer releases payment in case of sight draft or accepts the usance drab undertaking to pay on maturity of the bill of exchange. The exporter's bank receives the payment through importer's' bank and is credited to exporter's account.

(h) **Processing** of GR **Form** On receiving the export proceeds, the exporter's bank intimates the same to the RBI by recording the fact on the duplicate copy of GR. The RBI verifies the details in duplicate copy of GR with, the, original copy of c*R received from the Customs. If the details are found to be I in order then the export transaction is treated to be completed.

Self-check questions-

a) What does the term "free on board" (FOB) mean in international trade?

1) The exporter is responsible for all costs up to the point where the goods are loaded on board the vessel or aircraft. 2) The importer is responsible for all costs from the moment the goods are delivered to the port or airport. 3) The exporter and importer share the costs of transportation equally. 4) The costs of transportation are not included in the sale price of the goods.

b) What document serves as a financial instrument for the exporter to collect payment from the importer?

1) Bill of Lading (B/L) 2) Commercial Invoice 3) Packing List 4) Bill of Exchange

9.10 Keywords – central excise clearance, free on board, bill of lading, commercial invoice.

9.11 Short answer questions

1 **Briefly explain the purpose of registering as an exporter.**

2 What are the essential documents required for exporter registration?

3 Briefly explain the difference between import and export customs clearance.

4 What are some common reasons for customs delays or rejections?

9.12Long answer questions

1 Describe the different stages involved in the customs clearance process, outlining the specific tasks and responsibilities of each party at each stage.

2 Evaluate the challenges faced by new exporters during the registration process

3 What are the consequences of failing to comply with the requirements of the exporter registration process?

9.13 Self-check question (Answer key)

9.1 a) 1

b) 2

9.3 a) 1

b) 4

9.6 a) Customs Declaration

9.8 a) 2

b) 60 days

9.9 a) 1

b) 4

9.10 REFERENCES

1. F. Cherunilam, *International Trade and Export Management* (Himalaya Publishing House, 2003)
2. R. L. Varshney and B. Bhattacharya, *International Marketing Management*(S. & Chand And Sons, 2003)
3. B. S. Rathore and J. S. Rathore, *Export Marketing*

EXPORT DOCUMENTATION

STRUCTURE

10.0 INTRODUCTION

Export documentation work constitutes a heavy charge on our export activity. This is partly due to the nature of export trade itself involving as it does a number of intermediary organizations and authorities at different stages of export activity between the seller and the buyer. The documents material to an export sales contract are not many in number.

This meant evolving not only simple export documents and procedures in each of the individual areas of export activity but also ensure their compatibility and harmony in the totality of export operation.

The documents use differed in size and layout, despite the fact that most of the information requirements are common to a number of them Because of the difference in their sizes and designs, these documents has to be completed individually. According to the Customs Act (Section 40), the person incharge of a Conveyance-vessel, vehicle, Aircraft, etc., cannot permit loading of export Cargo at the Customs Station unless and until the formal permission to export given by the proper Customs Officer, is presented.

Before granting the permission, the Customs Officer, however ensures that the goods being exported are in accordance with the different regulations, particularly in terms of the following:

(a) The goods are of the same type, sort and value as have been declared by the exporter, the Provisions of Export (Control) Order, Export (Quality Control and Inspection) Act and Foreign Exchange (Regulation) Act are complied with. The Customs Act (Section 50) further states that the exporter, in case of goods to be exported in a vessel or aircraft, has to present the Shipment Bill and other connected documents to the proper officer. Any export shipment therefore, involves the preparation of several document declarations and certificates, on the basis of which the Customs Authorities grant necessary permission. There are also several documents required for submission to the Port Authorities. In addition, a few more documents are required if the export product(s) fall(s) within the purview of the Export Assistance Schemes and Facilities.

These documents are important for two reasons :

(a) as an evidence of shipment and title of goods and

(b) for obtaining payment

The various documents are therefore, of vital interest to the exporter and the bank which is the usual media of payment.

When exporting for the first time, exporters should, always find out from their buyers the documents required for the product concerned.

Accuracy and completeness are a prime necessity in documents covering export shipments acing form. Any alteration or addition made by an Authority issuing he documents must be endorsed properly, with the signatures of the person issuing the documents only. If the documents are not the correct ones or if they are not filled in to the last, the importer may not be able to get the goods when the ship carrying them am • The main purpose of the documents accompanying a shipment is to provide a specific and complete description of the goods so that they can be assessed correctly for Buy purpose and meet the Import Licensing requirements or Import Quota Restrictions imposed on the goods for clearance purpose. If there are any discrepancies in the documents and or if the required documents are not produced, the shipment may not be allowed for import or may even be confiscated by the Customs of the importing country.

STANDAR1SED PRE-SHIPMENT EXPORT DOCUMENTS

The Government of India has made it mandatory for every exporter to use standardised preshipment export documents w.e.f September 1, 1991. This is popularly known as Aligned Documentation System |ADS|, based on UN Layout Key. The ADS Methodology involve die preparation of documents on a uniform and standardA4 size of paper. The documents are aligned to one another in such a way that, the common items of information are given the same relative slots in each of the documents included in the System. This makes it possibeto prepare one Master document embodying the information common to all the documents included in the aligned series and to run off all the aligned documents from the same master document with the help of suitable marking reproduction techniques The Pre-ship documents on a Standard Layout were first introduced by Sweden in 1956.

Self-check questions

a) Which document serves as the primary contract between the exporter and importer?

1) Commercial invoice 2) Bill of lading 3) Packing list 4) Certificate of origin

10.1 MASTER DOCUMENTS

This system is known as the' Aligned Documentation System. United nations key Layout has made it possible to many countries to reproduce in one run the repetitive information on all the export documents from just one document called the Master Document'. As a result, exports in these countries have been able to reduce thedocumentation costs by 50 to 70%.

The documentation of simplified export documents has reduced the burden of theexporters and has given a push to the country*s ongoing export drive. The exporters now can save at least 50% of the time and cost on documentation. Virtually eliminate the chances errors and facilitate electronic transmission of export documentation and data.

Therefore simplification of export documentation and procedures are key measures to promote exports. Earlier Indian exporters were required to submit 25 documents o various agencies and authorities merely to ship the goods. Each document **had to be** individually prepared. The news system standardized these documents and aligned then to each other on basis of united nations key layout which has already been adopted by most o Indians trading partners.

Thus now instead of typing out 25 documents, exporters prepare only two master documents. The two master documents- one for commercial use and the other for regulatory documents meant for customs, RBI and port trust-have maximum advantage of alignment and minimum cost and time for preparing individual documents. The two- master documents contain all the information that was common to individual documents. Thus the one run method of preparation of Documents involves the use of standardized and aligned documents. Aligned Documentation System (ADS) is based on the UN layout key. Common items of information are given the, same relative slots in each of the documents. For the purpose of Aligned Documentation System documents, have been, classified as under

(a) **Commercial Documents** Commercial .documents are required for effecting physical transfer of goods and their title from the exporter to the importer and the realisation of export sale proceeds. Out of the 16 commerce documents in the export documentation framework as many as '14 have been standardised and aligned to one another, shipping order and bill of exchange could not be brought within the fold of the Aligned Documentation System.

The following are the Commercial documents generally involved at the pre-shipment stage

1. Proforma invoice
2. Commercial Invoice
3. packing List
4. Shipping Instruction
6. certificate of Inspection
7. Insurance Declaration
8. Certificate of Insurance
9. Shipping Order
10. Mate's Receipt
11. Bill of Lading/Combined Transport Document
12. Application for Certificate of Origin
13. Certificate of Origin
14. Bill of Exchange
15. Shipment Advice
16. Letter to the Bank for Collection/Negotiation of Documents

(b) **Regulatory Documents** Regulatory pre-shipment export documents are prescribed by the different government departments and bodies in order to comply with various rules and regulations under the relevant laws governing export trade such as export inspection, foreign exchange regulation, ex port trade control, customs, etc. four documents have been standardised and aligned. These are shipping bill or bill of export, exchange control declaration (GR from), export application dock challan or port trust copy of shipping bill and receipt for payment of port charges.

The regulatory documents associated with the pre- shipment stage of an Export :

1. AR-4 Form
2. Shipping Bill/Bill of Export
3. Export Application/Dock Challan/Port Trust Copy of Shipping Bill
4. Receipt for Payment of Port charges
5. Exchange Control Declaration (GRIPP) Forms
6. Freight Payment Certificate'
7. Insurance Premium Payment Certificate

NEED FOR PREPARING EXPORT DOCUMENTS

Export documents have to be prepared for various purposes, viz.

1. Declaration of Exports as per Exchange Control Regulations of the country.

2. Transportation of the goods.
3. Customs clearance of the goods.
4. Other purposes.

Declaration forms There are four main declaration forms which are prescribed.

GR Form Used for exports to all countries made otherwise than by Post.

PP Form Used for exports to all countries by Parcel Post, except when made On Value Payble" or "Cash on Delivery" basis

VP COD FORM Used for exports to all countries by Parcel Post under arrangement to realise proceeds through Postal channels on "Value Payable" or Cash on Delivery basis. Used for export of Computer Software in non-physical form. . , .

SOFTEX While Export Declaration are to be made in a set of to copies (origin duplicate) of GR or PP form, VP/COD forms are to be submitted in a single copy.

GRIPP forms are printed in distinctive colours and each set bears a printed number which appears on both copies of the Form.

VP/COD Forms are sold directly to exporters by Reserve Bank of India. Export Declaration Forms have utmost importance and are binding on the exporter.

10.2 PROFORMA INVOICE

Invoice is a document of content. It's the exporter's bill for goods and sets forth the terms of sale. The invoice is a basic document. As a document of contents it must fully identify the overseas shipment and serve as a basis for the preparation of all other documents which in greater or lesser detail reproduce information from it. The exporter should strictly follow the requirements of the importer in regard to invoicing The starting point of e*Port contract is in the form of offer made 'by the exporter to the foreign customer. The offer made by the exporter is in the form of a proforma invoice. It forms the basis of all trade transactions.

Self-check questions

a) What is the function of a bill of lading?

b) What is a certificate of origin and why is it important?

10.3 COMMERCIAL INVOICE

Commercial invoice is an important and basic export document. It is also known as a Document of Contents as it contains all the information required for the preparation of other documents. It is actually a seller's bill of merchandise. It is actually a sellers bill of merchandise. It is prepared by the exporter after the execution of export order giving details about the goods shipped.

It is essential that the invoice is prepared in the name of the buyer or the consignee mentioned in the letter of credit. This is the first basic and the only complete document among all commercial documents for the shipment. Besides fulfilling the obligation under the export contract, the exporter needs this document for a number of other purposes including: i) obtaining export inspection certificate ii) getting excise clearance m) getting customs clearance and iv)securing incentives.

Thus, this document is prepared at both the pre- shipment and post shipment stages. In the first place, Commercial Invoice is a document of contents that describes details of goo s sent by exporter. It is the statement of account, which must contain identification marks and numbers, description of goods and quantity of goods. Every shipment has identification marks, which identify the cargo with various documents. The commercial invoice must specify the serial numbers given in a particular consignment.

Commercial invoice must describe the goods shipped by the exporter, if a contract describes the goods as "Ten Thousand Pairs of Blouses and Skirts". Sometimes description of the goods includes the number of packages and the type of packing material. The quantity described on the commercial invoice

should neither be less or more than the contracted quantity, the exporter should not ship less than contracted quantity, unless the contract permits part shipment. However, if the goods are being shipped under a letter of credit, quantity shipped should not be more than the contracted quantity. Second function of the commercial invoice is that it is the seller's bill given to the buyer. As a bill, it must contain the name and address of the buyer, unit price, amount and authorised signatures with designation. Unless required by the buyer, the total invoiced value should be net of any commission or discount; in other words, it should be the realisable amount of goods as per the trade terms. Sometimes a contract requires a detailed I breakup of the amount to be recorded on the invoice for enabling the customs authority in the importing country to calculate import duty.
’

The commercial invoice also sets forth the terms of sale (i. e. fob/cif /c&f),etc. mode and date of shipment and terms of payment. A packing list shows details of goods contained in each pack of shipment. Exporters themselves according to the requirements of their business devise the format of Commercial invoice.

9

SIGNIFICANCE OF COMMERCIAL INVOICE

(a) It is the basic document useful in preparation of various other shipping documents.
(b) It is used in various export formalities such as quality and pre;:-8hipment inspection, excise and customs procedure etc.
(c) It is also useful in negotiation of documents for collection and claim of incentives.
(d) It is useful for accounting purposes to both exporters as well as importers.

Self-check questions

a) What is the standard format of a commercial invoice?

b) What are the different types of commercial invoices?

1) Pro forma, consular, and commercial. 2) Standard, special, and combined. 3) Customs, export, and import. 4) Simple, detailed, and electronic.

10.4 PACKING LIST

The packing list is a relatively simpler document and the whole of the information can be reproduced from the master by masking information not desired on the packing list. Special information, if any, can be given in the blank space in the lower third portion of the document. The exporter prepares the packing list to facilitate the buyer to check the shipment. It contains the detailed description of the goods packed in each case, their gross and net weight, etc. The difference between a packing note and a packing list is that the packing note contains the particulars of the contents of an individual pack, while the packing list is a consolidated statement of the contents of a number of cases or packs.

10.5 MATE S RECEIPT

Mate's receipt is a receipt issued by the Commanding Officer of the ship when the cargo is loaded on the ship, goods are loaded in the vessel. After making payment of all port dues, the exporter or his agent collects the mate's receipt from the Port Trust Authorities. The mate's, receipt is freely transferable. It must be handed over to the shipping company in order to get the' bill of lading. Bill of lading is prepared on the basis of the mate's receipt.

TYPES OF MATE’S RECEIPTS

(a) **Clean Mate's Receipt** The Commanding Officer of the ship issues a clean mate's receipt; if he is satisfied that the goods are packed properly and there is no defect in the packing of the cargo or package.

(b) **Qualified Mate's Receipt** The Commanding Officer of the ship issues a qualified mate's receipt, when the goods are not packed properly and the shipping company does not take any responsibility of damage to the goods during transit.

SIGNIFICANCE OF MATE'S RECEIPT

(a) It is an acknowledgement of goods received for export on board the ship.
(b) It is a transferable document, company in order to get the bill of lading.
(c) Bill of lading, which is the title of goods, is prepared on the basis of the mate's receipt.
(d) It enables the exporter to clear port trust dues to the Port Trust Authorities.

10.6 BILL OF LADING

Bill of lading is issued by the shipping company or its agents stating that) goods are either being shipped, or have been shipped) Essentially a transport document, the bill of lading 'is a document issued Dy the shipping company or its agent acknowledging the receipt of goods on board the vessel, and undertaking to deliver the freight. A bill of lading serves three main purposes

(a) This document evidences the contract of transport between the shipping company and the shipper (exporter or importer).
(b) It is a receipt given by the shipping company for cargo received by it.
(c) It is a document of title (This is the most significant function of the bill of lading).

When goods are to be carried by any carrier (say. a ship), the contract of transport will

contains terms and conditions of carriage. A bill of lading also contains printed terms land conditions of the contract of affreightment(transport) on it However. Bill of lading is a receipt issued by the shipping company on its agents. Bill of lading is the only evidence to file .a claim against the shipping company in the event of non-delivery, defective delivery or short- delivery of the Cargo at the destination. As a result, this document indicates that the contracted goods have been either given into the charge of the shipping companies or shipped by the exporter by the named ship on the date specified on the bill of lading. If shipment is according to the contract terms, the exporter gets the right to demand the sale amount from the importer while the importer is entitled to get delivery of the goods at the destination. For the bill of lading to be negotiable in fact three requirements must befulfilled :

(1) It must be made out to the order to the shipper.
(2) It must be signed by the steamship company.
(3) It must be endorsed in blank by the shipper.

TYPES OF BILL OF LADING

(a) Clean Bill of Lading A bill of lading acknowledging receipt of the goods apparently in good order and condition and without any qualification is termed as a clean bill of lading.

(b) Claused Bill of Lading A bill of lading qualified with certain adverse remarks such as, "goods insufficiently packed in accordance with the Carriage of Goods by Sea Act," is termed as a claused bill of lading.

(c) Through Bill of Lading It covers goods being transshipped enroute but where the first carrier has the responsibility as the principal carrier for all stages of the journey. For example, goods may be shipped from Bombay to Dubai and transshipped from Dubai to a port in Latin America.

(d) Trans-shipment B/L It has similar characteristic as the Through B/L except that in this case the first carrier acts only as an agent for effecting Trans-shipment of cargo.

(e) Stale Bill of Lading A bill of lading that has been held too long before it is passed on to a bank for negotiation or to the consignee is called a stale bill of lading.

(f) Freight Paid Bill of Lading When freight is paid at the time of shipment or in advance, the bill of landing is marked, freight paid. Such bill of lading is known as freight bill of lading.

(q) Freight Collect Bill of lading When the freight is not paid and is to be collected from the consignee on the arrival of the goods, the bill of lading is marked, freight collect and is known as freight

ENDORSEMENT ON BILL OF LADING

By practice and custom the bill of lading has been transferable. If however, the bill reference to his assignees, the bill of lading is not transferable.

SIGNIFICANCE OF BILL OF LADING FOR EXPORTERS

(a) It is a contract between the shipper and the shipping company for the carriage of the goods to the port of destination.
(b) It is an acknowledgement indicating that the goods mentioned in the document have been received on board for the purpose of shipment.
(c) A clean bill of lading certifies that the goods received on board the ship are in order and good condition.
(d) It is useful for claiming incentives offered by the government to exporters.
(e) The exporter can claim damages from the shipping company if the goods are lost or damaged after the issue of a clean bill of lading.

SIGNIFICANCE OF BILL OF LADING FOR IMPORTERS

(a) It acts as a document of title to goods, which is transferable by endorsement and delivery.
(b) The exporter sends the bill of lading to use bank of the importer so as to enable him to take the delivery of goods.
(c) The exporter can give an advance intimation to the foreign buyer about the' shipment of goods by sending him a non-negotiable copy of bill of lading.

Self-check questions-

a) Who issues the bill of lading?

b) What are the two main types of bills of lading?

10.7 CERTIFICATE OF ORIGIN

The importers in several countries require a certificate of origin without which clearance to import is refused. The certificate of origin states that the goods exported are originally manufactured in the country whose name is mentioned in the certificate. Certificate of origin is required when:

(a) The goods produced in a particular country are subject to preferential tariff rates in the foreign market at the time importation.
(b) The goods produced in a particular country are banned for import in the foreign market.

Non preferential Certificate of Origin:- Non-preferential certificate of origin is required in general by all countries for clearance of goods by the importer, on which no preferential tariff is given. It is issued by: The authorised Chamber of Commerce of the exporting country. Or by Trade Association of the exporting country.

SIGNIFICANCE OF THE CERTIFICATE OF ORIGIN

(a) Certificate of origin is required for availing of concessions under Generalised System of Preferences (GSP) as well as under Commonwealth Preferences (CWP).
(b) It is to be submitted to the customs for the assessment of duty and clearance of goods with concessional duty.
(c) It is required when the goods produced in a. particular country are banned for import in the foreign market.
(d) It helps the buyer in adhering to the import regulations of the country.

Self-check questions

a) What is the difference between a preferential and a non-preferential certificate of origin?

b) What are the key considerations for businesses when obtaining and using certificates of origin?

1) Ensuring accuracy and compliance with regulations 2) Understanding the relevant trade agreements and requirements 3) Choosing the appropriate type of COO for the shipment 4) All of the above

10.8 SHIPPING BILL

Shipping bill is the main customs document, required by the customs authorities for granting permission for the shipment of goods. The cargo is moved inside the dock area on y after the shipping bill is duly stamped, i.e., certified by the customs. Shipping bill is normally prepared in five copies:

(a) Customs copy
(b) Drawback copy
(c) Export promotion copy
(d) Port trust copy
(e) Exporter's copy

Free Shipping Bill is used for export of goods which neither attracts any Duty/Cess nor is entitled to Duty Drawback on their exportation. Dutiable Shipping bill is used in case of goods subject to Export Duty/Cess but mayor may not be entitled to Duty Drawback. Drawback Shipping Bill or Bill of Exports is used in the case of goods which are entitled to Drawback.

Following documents are required for the processing of a Shipping Bill:

(a) GR Forms in duplicate for shipments to all countries.
(b) Four copies of Packing list giving contents, quantity, gross and net weight of each Package.
(c) Four copies of Invoices indicating all relevant particulars such as no. of packages, quantity, unit rate, total FOB/CIF value, correct and full description of goods, etc. (One copy of this Invoice is to be pasted on the duplicate copy of Shipping Bill).
(d) Contract, Letter of Credit, Purchase Order
(e) Inspection/Examination Certificate.

TYPES OF SHIPPING BILL

Based on the incentives offered by the government, customs authorities have introduced three types of shipping bills

(a) **Drawback Shipping Bill** Drawback shipping bill is useful for claiming the customs drawback against goods exported.
(b) **Dutiable Shipping Bill** Dutiable shipping bill is required for goods which are subject to export duty.
(c) **Duty-free Shipping Bill** Duty-free shipping bill is useful for exporting the goods on which there is no export duty.

SIGNIFICANCE OF SHIPPING BILL

(a) Shipping bill is the main customs, document, required by the customs authorities for granting permission for the shipment of goods.
(b) The cargo is moved inside the dock area only after the shipping bill is duly stamped, i.e., certified

by the customs.

(c) Duly endorsed shipping, bill is also necessary for the collection of export incentives offered by the government.

(d) It is useful to the Customs Appraiser while determining the actual value of goods exported.

Self-check questions

a) ___ is responsible for filing a shipping bill?

b) What are the different types of shipping bills?

10.9 BILL OF ENTRY

The bill of entry is a document, prepared by the importer or his clearing agent in the prescribed form under Bill of Entry Regulations, 1971, on the strength of which clearance of imported goods can be made. When goods are imported is a particular country, the importer has to pay the necessary import duty. For this purpose, necessary information about the goods imported must be given to the customs authorities "in a prescribed form called bill of entry form. Bill of entry is. a document, which states that, the goods of the stated values and description in the specified quantity have entered into the country from abroad. The bill of entry is drawn in triplicate. The customs authorities may ask the importer to supply other documents like invoice, broker s note and insurance policy, etc. in order to verify the correctness of the information supplied in the bill of entry form. For the purpose of giving information in the bill of entry form, goods are classified into

1. **Bill of entry for home consumption (white in colour)**: where an importer wants to get his goods cleared in one lot, he has to present the Bill of entry for home consumption.
2. **Bill of entry for warehousing (into bond, yellow in colour)**: Where an importer wants to shift goods to a warehouse and thereafter gets his goods.

3* Ex-Bond Bill of Entry (Green in Colour): When an importer wants to remove goods from the warehouse, he has to present an Ex-bond bill of entry which is green in colour.

The importer has to fill up a separate bill- of entry form for different classes of goods. In India, separate forms are not used but all the entries are made in one form. The free goods are marked as free in the entry form itself. The importer has to pay the duty before securing the possession of the goods.

Self-check questions

a) What are the benefits of using electronic bills of entry (e-BOEs)?

1) Faster processing and reduced paperwork. 2) Improved data accuracy and transparency. 3) Increased efficiency and cost savings. 4) All of the above

b) What is the primary function of a bill of entry?

10.10 AIRWAY BILL

An airway bill, also called an air consignment note, is a receipt issued by an airline for the carriage of goods. As each shipping company has its own bill of lading, so each airline has its own airway bill.

Airway Bill or Air Consignment Note is not treated as a document of title and is not issued in negotiable form.

IMPORTANCE OF AIRWAY BILL

(a) It is a contract between the airlines or his agent to carry goods to the destination.
(b) It acts as a customs declaration form.
(c) Since, it contains details about freight it also represents freight bill.

10.11 GR FORM

GR Form is an exchange control document required by the Reserve Bank of India (RBI). As per the exchange control regulations, an exporter has to realise the proceeds of the goods he has exported within 180 days of their shipment from India. GR form is to be submitted in duplicate to the Customs at the port of shipment along with the shipping bill. Customs will give their running serial number on both the copies after admitting the customs shipping bill. Customs authorities, will certify the value declared by the exporter on both the copies of the GR form at the space earmarked and will also record the assessed value. Within 21 days from the shipment of goods, exporter must lodge the duplicate copy of GR together with relative shipping documents with the authorised dealer named in the GR form for negotiation of export bills. After the documents have been negotiated, the authorised dealer will report the transaction to the RBI.

On account of introduction of Electronic Data Interchange (EDI) System at certain customs offices where shipping bills are processed electronically, the existing declaration in GR form has been replaced by a declaration in form SDF (Statutory Declaration Form).

Self-check questions

a) What is the difference between a straight and a negotiable airway bill?
b) What are the two main types of airway bills?

10.12 Keywords – shipping bill, certificate of origin, bill of entry, shipments.

10.13 Short answer questions

1. What information is typically included in a commercial invoice?
2. What are the differences between a straight and a negotiable bill of lading?
3. What are the future trends in export documentation?
4. What are the consequences of providing an inaccurate or fake Certificate of origin?

10.14 Long answer questions

1. What are the key trends in the future of Certificate of origin?
2. Explain the importance of export documentation in international trade and discuss the key documents required for most export shipments.
3. Analyze the different types of bills of lading (straight, negotiable, etc.) and their respective roles in the export process.
4. Explain the purpose and significance of the Bill of Entry (BOE) in the import process. Describe its role in customs clearance and trade facilitation.

10.15 Self-check question (Answer key)

10.0 a)Commercial invoice

10.2 a) To act as a receipt for the goods and evidence of the contract of carriage.
b) A document verifying the origin of the goods for preferential trade agreements.

10.3 a) There is no fixed format, but it should include key information
b) 1

10.6 a) The carrier
b) Non-negotiable and negotiable

10.7 a) A preferential COO qualifies goods for lower tariffs under trade agreements, while a non-preferential COO does not.
b) 4

10.8 a) The exporter or their authorized agent.

b) Export, import, and transit.

10.9 a) 4

b) To provide information about the imported goods for customs clearance.

10.11 a) A straight AWB is issued to a specific consignee and cannot be transferred, while a negotiable AWB can be endorsed and transferred to another party.

b) House and master.

10.16 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing* (3rd Edition, Pearson Education)
2. F. Cherunilam, *International Trade and Export Manangement* (Himalaya Publishing House, 2003)
3. R. L. Varshney and B. Bhattacharya, *International Marketing Management* (S. & Chand And

Sons , 2003)

4. Annual Report of Export and Import Bank of India and Reserve Bank of India, Mumbai
Subash C. Jain, *International Marketing* (6th Edition Thomson Learning)

MBA-CC (Second Year)
Semester-Ill

IM 313

Lesson No. 11

INTERNATIONAL MANAGEMENT AUTHOR;

RATNESH PAL SINGH

SEGMENTATION OF THE INTERNATIONAL MARKET
VARIOUS FORMS OF INTERNATIONAL BUSINESS

«

STRUCTURE

11.0 INTRODUCTION OF SEGMENTATION OF THE INTERNATIONAL MARKET

The classification for segmentation of international markets depends upon different variables. Different country characteristics are commonly used as bases for segmentation of the international markets. The guiding criterion for the choice of these variables is their performance as measures of demand of various countries. It seems to be the general view that the factors which have the strongest effect on demand patterns are cultural and social structure and level of economic and technological development.

Marketing theorists see culture as one of the underlying determinants of consumer behaviour and as a focal point to different market behaviour. Culture is difficult to use as a base ior segmentation due to difficulties in defining and measuring cultural characteristics. Therefore, studies dealing with international segmentation use as proxies for cultural differences social structures, education systems and living standards For example, we believe that level of education (a common proxy for cultural differences) may affect general purchasing behaviour, The second category of variables widely used to discriminate among countries consists of different measures of economic development. The economic literature supplies wide empirical and analytical evidence for differences among countries at different stages of economic levels. Economic development is associated in this literature with rising income, industrialization, change in trade patterns, shifts of resources from agriculture to industry, and accumulation of physical and human capital. This transformation is also associated with some socio-economic processes, such as urbanization, demographictransition, changes in income distribution and changes in the occupation of the labour force.

One of the most important strategic decisions in international business is the form of entering the foreign market. On the one extreme, a company may do the complete manufacturing of the product domestically and export it to the foreign market. On the other extreme, a company may do, by itself, the complete manufacturing of the product to be marketed in the foreign market there itself. There are several alternatives in between these two extremes. The choice varies with cost, risk and the degree of control which can be exercised over them. In some cases, the alternatives available may also be f" example the policy of some governments may not be very positive towards foreign investments Several governments have a definite preference for joint venture over complete foreign ownership. In some cases, the government may prefer foreign investments leading to import Substitution to perpetual Import of a product. Thus, in some cases, government polices may rule out the best alternative even if the environment were free.

Some of the means of taking your business abroad or entering a foreign market reside in popular forms of international business, which are as under from 11.1.

Self-check questions

a) What is the primary purpose of segmenting the international market?

1) To simplify marketing efforts and achieve economies of scale. 2) To identify and target specific customer groups with tailored marketing strategies. 3) To comply with international trade regulations and restrictions. 4) To homogenize the marketing message across all international markets.

b) What is the advantage of using benefit-based segmentation in international markets?

1) It allows targeting customers based on their unique needs and desires. 2) It simplifies market research and analysis by focusing on readily available data. 3) It ensures compliance with local regulations and cultural norms. 4) It facilitates mass marketing campaigns with a standardized message.

11.1 EXPORTING

Exporting, the most traditional mode of entering the foreign market is quite a common one even now. International trade has been growing much faster than the world outpu resulting in greater world economic integration. Exporting is the appropriate strategy vhen one of more of the following conditions prevails. .

1. The volume of foreign business is not large enough to justify production in foreign market.
2. Cost of production in the foreign market is high. . . , ,
3. The foreign market is characterised by production bottlenecks like infrastructure problems, problems with materials supplies etc.
4. There are political or other risks of investment in the foreign country.
5. The company has no permanent interest in the foreign market concerned or that there is no guarantee of the market available for a long period.
6. Foreign investment is not favoured by the foreign country concerned.
7. Licensing or contract manufacturing is not a better alternative.

Exporting is more attractive than other modes particularly when underutilised capacity exists. Even when there is no excess capacity, expansion of the existing facility may sometimes be easier and less costly than setting up production facilities abroad Further many governments, as in India, provide incentives for establishing facilities for export production. The alternatives to making in foreign countries by the international marketer for marketing the goods in the foreign countries are licensing and contract manufacturing. Although these have certain advantages, there are also certain risks. Hence, if a company does not want to go in for licensing or contract manufacturing, the only avenue open is exporting. Although exporting may turn out to be the best alternative under a given set of conditions or environmental factors, then are several sets of conditions which make exporting less attractive than one or more of other alternatives. Policies of some foreign governments discriminate against imports; in some cases import is even banned. It may be noted that hostility agams imports have been encouraging substitution of exports by production in the foreign markets. A number of foreign companies have setup production facilities in the European Commum y to overcome the import barriers. Japanese transplants in North America have also been caused to a considerable extent by the hostility towards imports. Besides, in a number of a cases cost considerations make foreign production or assembly preferable to other entry strategies. Further, exporting marks the first stage in the evolution of international business of many companies. As the international business grows or as the environment changes or to expand the business it may become necessary to change the strategies.

Self-check questions

a) What is the first step in exporting?
b) What is the term used for the total cost of delivering goods to an international buyer?

11.2 LICENSING AND FRANCHISING

Licensing and Franchising, which involve minimal commitment of resources and effort on the part of the International marketer, are easy ways of entering the foreign markets. Under International licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use its intellectual property (such as patents, trade marks, copyrights, technology, technical know-how, marketing skill or some other specific skill). The monetary benefit to the licensor is the royalty or fees which licensee pays. In many countries, such fees or royalties are regulated by the government; it does not exceed five per cent of the sales in many developing countries. A licensing agreement may also be one of cross licensing, wherein there is a mutual exchange of knowledge and/or patents. In cross licensing, a cash payment mayor may not be involved. Franchising is "a form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee) the right to do business in a prescribed manner. This right can take the form of selling the Franchiser's products, 'using its name, production and marketing techniques, or general business approach." One of the common forms of franchising involves the franchisor supplying an important ingredient (part, material etc.,) for the finished product, like the Coca-Cola supplying the syrup to the bottlers. Usually franchising involves a combination of many of the elements mentioned above. The major forms of franchising are manufacturer - retailer systems (such as automobile dealership), manufacturer-wholesaler systems (such as soft drink companies),and service firm - retailer systems (such as lodging services and fast food outlets).

Self-check questions

a) What is the most common type of licensing agreement?

   1) Trademark license 2) Patent license 3) Copyright license 4) Design license

b) What is a master franchise agreement?

11.3 TURNKEY CONTRACTS

Turnkey contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc; construction projects and franchising agreements. "A turnkey operation is an agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. The term is sometimes used in fast - food franchising when a franchiser agrees to select a store site, build the store, equip it, train the franchisee and- employees and sometimes arrange for the financing". Many turnkey contracts involve government/public sector as buyer (or sellers in some cases) A turnkey contractor may subcontract different phases/parts of the project. Wholly Owned Manufacturing Facilities Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there. As Drucker points out, "it is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer." A number of factors like trade barriers, differences in the production and other costs, government policies etc., encourage the establishment of production facilities in the foreign markets Establishment of manufacturing facilities abroad have several advantages. It provides the firm with complete control over production and quality. It does not have the risk of developing potential competitors as in the case of licensing and contract manufacturing. Wholly owned manufacturing facility has several disadvantages too. In some cases, the cost of production is high in the foreign market. There may also be problems such as restrictions regarding the types of technology, non-availability of skilled labour, production bottlenecks due to infrastructural problems etc. If the market size is small, a separate production unit for the market may be uneconomical. Foreign investment also entails political risks. Fully owned enterprises may not be allowed or favoured in some countries, particularly in low priority areas. Moreover, this method demands sufficient financial and. managerial resources on the part of the company.

Contract manufacturing, is when a company doing international marketing contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product. This is a common practice in international, business.

Contract manufacturing has the following advantages :

1. The company does not have to commit resource for setting up production facilities.
2. It frees the company from the risks of investing in foreign countries.
3. If idle production capacity is readily available in the foreign country, it enables the marketer to get started immediately.
4. In many cases, the cost of the product obtained by contract manufacturing is lower than if it were manufactured by the international firm. For example, the product cost in the small scale sector is much lower than in the large scale sector for many products because of the lower wages, lower overheads, and tax concessions. More over, if excess capacities are available with existing units, it may even be possible to get the product supplied on the marginal cost basis.
5. Contract manufacturing also has the advantage that it is a less risky way to start with. If the business does not pick up sufficiently, dropping it is easy; but if the company had established its own production facilities, the exit would be difficult. Moreover, contract manufacturing may enable the international firm to enlist national support.

Contract manufacturing, however, has the following disadvantages.

1. In some cases, there will be the loss of potential profits from manufacturing.
2. Less control over the manufacturing process.
3. Contract manufacturing also has the risk of developing potential competitors..
4. It would not be suitable in cases of high-tech products and cases which involve technical secrets etc.

Self-check questions

a) What defines a turnkey contract?

b) Which industries commonly utilize turnkey contracts?

1) Construction and engineering 2) Manufacturing and assembly 3) Information technology and software development 4) All of the above

11.4 MANAGEMENT CONTRACTING

Under the management contract, the firm providing the management know-how may not have any equity stake in the enterprise being managed. In short, in a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership Thus, as Kotler observes, management contracting is a low-risk method of getting into a foreign market and it starts yielding income right from the beginning. The arrangement is especially attractive if the contracting firm is given an option to purchase, some shares in the managed company within a stated period.

Management contract could, sometimes, bring in additional benefits for the managing company. It may obtain the business of exporting or selling otherwise of the products of the managed company or supplying the inputs required by the managed company.

Management contract enables a firm to commercialise existing know-how that has been built up with significant investments and frequently the impact of fluctuations in business volumes can be reduced by making use of experienced personnel who otherwise would have to be laid off.

Management contracts, obviously, have clear benefits for the clients. "They can provide organisational skills not available locally, expertise that is immediately available rather than built up, and management assistance in the form of support services that would be difficult and costly to replicate locally." Management contracts have disadvantages under certain

conditions. As Kotler observes, the arrangement is not sensible if the company can put its scarce management talent to better use, or if there are greater profits to be made by undertaking the whole venture. Management contract may prevent a company from setting up its own operations for a particular period. One possible risk from the point of view of the client is overdependence and loss of control. The client should enable itself to steadily develop its own capabilities.

Some Indian companies - Tata Tea, Harrisons Malayalam and AVT - have contracts to manage a number of plantations in Sri Lanka. Tata Tea also has a joint venture in Sri Lanka namely Estate Management Services Pvt. Ltd.

Self-check questions

a) What is the primary difference between management contracting and general contracting?
b) What is the role of a project manager in a management contracting arrangement?

11.5 ASSEMBLY OPERATIONS

A manufacturer who wants many of the advantages that are associated with overseas manufacturing facilities and yet does not want to go that fat may find it desirable to establish overseas assembly facilities in selected markets. In a sense, the establishment, of an assembly operation represents a cross between exporting and overseas manufacturing.

Having assembly facilities in foreign markets is very ideal when there are economies of scale in he manufacture of parts and components and when assembly operations are labour intensive, and labour is cheap in the foreign country. It may be noted that a number of U.S. manufacturers ship the parts and components to the developing countries, get the product assembled there and bring it back home. The U.S. tariff law also encourages this. Thus, even products meant to be marketed domestically are assembled abroad.

Assembling the product meant for the foreign market in the foreign market itself has certain other advantages, besides the cost advantage. The import duty is normally low on parts and components than on the finished product. Assembly operations would satisfy the 'local content' demand, at least to some extent. Because of the employment generation, the foreign government's attitude will be more favourable than towards the import of the finished product. Another advantage is that the investment to be made in the foreign country is very small in comparison with that required for establishing complete manufacturing facilities. The political risks of foreign investment are, thus, not much.

Self-check questions

a) What are the three main types of assembly operations?

11.6 JOINT VENTURES

Joint venture is a very common strategy of entering the foreign market. In the widest sense, any form of association which implies collaboration for more than a transitory period is a joint venture (pure trading operations are not included in this concept). Such a broad definition encompasses many diverse types of joint overseas operations, viz,

1. Sharing of ownership and management in an enterprise.
2. Licensing/franchising agreements.
3. Contract manufacturing.
4. Management contracts.

The essential feature of a joint ownership venture is that the ownership and management are shared between a foreign firm and a local firm. In some cases there are more than two parties involved.

A joint ownership venture may be brought about by a foreign investor buying an interest in a local company, a local firm acquiring an interest in an existing foreign firm or by both the foreign and local entrepreneurs jointly forming a new enterprise. It is also common practice to split the local interest between a partner and various public participation (including public sector firms or industrial development organisations). Such a strategy may enable the international firm to retain much control despite a minority holding as the power of the remaining shares is spread out. Further, equity holding by the public would help the enterprise get some public support. Partnership with government organisation may help to obtain favourable treatment from the government.

In countries where fully foreign owned firms are not allowed or favoured, joint venture is the alternative if the international marketer is interested in establishing an enterprise in the foreign market. Many foreign companies entered the communist, socialist and other developing countries by joint venturing. One important advantage of joint venturing is that it permits a firm with limited resources to enter more foreign markets than might be possible under a policy of forming wholly owned subsidiaries.

In some cases, it is also possible to swap know-how (such as patent rights for equity) in forming joint venture as a means of securing ownership in foreign operations. - Partnership with local firms has certain specific advantages. The local partner would be in a better position to deal with the government and the publics. Further, there would not be much public hostility when there is a local partner; it would be much less when there is equity holding by the government sector and the public.

A right local partner for a joint venture can have a major impact on a firm's competitiveness because such a partner can serve as a cultural bridge between the manufacturer and the market. For example, several successful foreign affiliated companies have demonstrated how the right partnership can strongly enhance a firm's competitive edge and. its ability to adapt to and cope with the idiosyncrasies of the Japanese market. A joint venture can succeed only if both the partners have something definite to offer to the advantage of the other, and reap definite advantages, and have mutual trust and respect.

Self-check questions

a) What is the definition of a joint venture?

b) What are some of the key benefits of equity joint ventures?

1) Shared ownership and control over the joint venture 2) Increased access to capital and resources 3) Improved risk sharing and management 4) All of the above

11.7 THIRD COUNTRY LOCATION

Third country location is sometimes used as an entry strategy, nations because of political reasons or when direct transactions other market will have to operate from a third country base. For example, Taiwanese entrepreneurs found it easy to enter People's Republic of China through bases in Hong Kong.

Third country location may also be helpful to take advantage of the friendly trade relations between the third country and the foreign market concerned. Thus, for example, Rank Xerox found it convenient to enter the erstwhile USSR through its Indian joint venture Modi Xerox.

There are several cases of countries not having direct commercial transactions. Countries trade with South Africa and Mauritius. Sometimes commercial reasons encourage third country location. For example, several Japanese companies established production facilities in developing countries to circumvent the non-tariff barriers (like quotas, voluntary export restraints and orderly marketing arrangement) to imports to countries like the United States and also to avail of the preferential treatment accorded by the developed countries to the imports from the developing countries.

Further, third country location may be resorted to reduce cost of production and thereby to increase price competitiveness to facilitate market entry or for improving/ maintaining the market position. The incentives offered by governments, particularly of the developing countries, for investment and exports encourage such third country location. The export processing zones are particularly attractive in this respect.

Self-check questions

a) What does "third country location" refer to in international business?

b) What are the primary reasons for companies to choose a third-country location?

1) To benefit from lower production costs and cost advantages. 2) To avoid trade barriers and tariffs imposed by the target market. 3) To access resources and expertise not available in the home country or target market. 4) All of the above

11.8 MERGERS AND ACQUISITIONS

It is market entry strategy as well as expansion strategy. Indian companies have also used this entry strategy. Mergers and acquisitions have certain specific advantages: It provides instant access to markets and distribution network, access to new technology or a patent right, competition. Mergers and acquisitions may also give rise to some problems which arise mostly because of the deficiencies of the evaluation of the case for acquisition. Sometimes the cost of acquisition may be unrealistically high. The success of the enterprise will naturally depend on the success in solving the problems.

Self-check questions

a) What is the difference between a merger and an acquisition?
b) What are the different types of mergers?

11.9 STRATEGIC ALLIANCE

Strategic alliance has been becoming more and more popular in international business, competitive advantage of the firm by forming alliance with its competitors, existing or potential in critical areas, ’instead of "The goals are to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technological changes." Strategic alliance is also sometimes used as a market entry strategy. For example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market for marketing or distributing the former's products. Pharmaceutical firm may use the sales promotion and distribution infrastructure of a Japanese pharmaceutical firm to sell its products in Japan, strategy for the sale of its products in the U.S. market. Strategic alliance, more than an entry strategy, is a competitive strategy, structure, coalitions by Michael Porter 'and Mark Fuller, Magsaysay classifies alliances according to purpose as follows :

1. Technology development alliances like research consortia, simultaneous engineering agreements, licensing or joint development agreements.
2. Marketing, sales and service alliances in which a company Infrastructure etc., of another company, in the foreign market, market and pre-emption of potential competitors.
3. Multiple activity alliance which involves the combining of two or more types of alliances. While marketing alliances are often single country alliances, as international firms take on different allies in each country, technology development and operations alliances are usually multi-country since these kinds of activities can be employed over several countries.
4. Multiple activity alliance involves the combining of two or more types of alliances. While marketing alliances are often single country alliances, as international firms take on different allies in each country, technology development and operations alliances are usually multi-country since countries.

Strategic alliances also differ according to how they are structured. They can be equity based (joint ventures) or non-equity Non-equity based alliances such as technology transfer agreements, licensing agreements, marketing agreements etc., are strategic, according to Magsaysay. distribution - provide scope for alliance. D, manufacturing or marketing, an important objective of the collaboration is to maximise marginal contribution to fixed cost.

Evaluation Matrix for entering a global market

	Entry mode							
Evaluation criteria	**Indirect export**	**Direct export**	**Marketing subsidiary**	**Turnkey contracts**	**Licensing**	**Joint venture**	**Wholly owned operation**	**Mergers**
a) Company goals								
b) Size of company								
c) Resources								
d) Product								
e) Remittance								
f) Competition								
g) Middlemen characteristics								
h) Environmental								
i) Market								
j) Market								
Feedback								
k) International Market Learning								
1) Control								
m) Marketing Costs								
n) Profits								
o) Investment								
p) Foreign Problems								
q) Flexibility								
r) Risk								

Self-check questions

a) What is the primary objective of a strategic alliance?

1) To share costs and risks of a specific project or venture 2) To gain access to new markets, technologies, or resources 3) To enhance innovation and competitiveness in the marketplace 4) All of the above

11.10 Keywords – licensing, franchising, strategic alliance, joint venture, merger and acquisitions.

11.11 Short answer questions

1 What are the different types of acquisitions?

2 What are the primary motivations for entering into a joint venture?

3 What are the different types of turnkey contracts?

4 What is the primary goal of assembly operations?

11.12 Long answer questions

1 Briefly explain the main stages of a typical M&A process.

2 What are the key stages involved in forming a joint venture?

3 What are the key advantages of turnkey contracts for project owners?

4 What are some of the challenges associated with strategic alliances?

11.13 Self-check question (Answer key)

11.0 a) 2

b) 1

11.1 a)Developing an export strategy

b) Landed Cost

11.2 a) 1

b) An agreement granting the right to operate multiple franchise units

11.3 a)A lump-sum agreement where the contractor assumes full responsibility for design, construction, and commissioning of a project

b) 4

11.4 a) Management contracting focuses on project management, while general contracting focuses on construction work.

b) Represent the project owner and oversee the management contractor's performance

11.5 a) Manual, automated, and semi-automated

11.6 a) A partnership between two or more companies to form a new, separate legal entity.

b) 4

11.7 a) A location in a country other than the home country of the company and the target market.

b) 4

11.8 a)A merger is the creation of a new company, while an acquisition is the absorption of one company into another.

b) Horizontal mergers, vertical mergers, and conglomerate mergers

11.9 a) 4

11.14 REFERENCES

1. Sak Onkvisit and John Shaw, *International Marketing* (3rd Edition, Pearson Education)
2. R. L. Varshney and B. Bhattacharya, *International Marketing Management* (S. & Chand And Sons , 2003)
3. Subash C Jain, *International Marketing* (6th Edition Thomson Learning)
4. Roger Bennett, *International Business* (Pearson Education (Singapore) - Indian Branch Delhi. 2003)
5. *Global Marketing* (4th Edition, Prentice Hall) by Warren J. Keegan, Mark C. Green

IM 313
INTERNATIONAL MARKETING

Lesson No. 12

AUTHOR : APAR SINGH

SEGMENTATION OF THE INTERNATIONAL MARKET
VARIOUS FORMS OF INTERNATIONAL BUSINESS

STRUCTURE

12.1 Pricing .
12.2 Promotion Mix
12.3 International Product Life Cycle (IPLC)
12.4 Product Standardization Versus Product Adaptation
12.5 Mandatory Product Modification
12.6 Keywords
12.7 Short answer questions
12.8 Long answer questions
12.9 **Self-check question (Answer key)**
12.10 Reference

The marketing environment in international context can be categorized in three major decision areas. They are pricing of the product, promotional mix and PLC and how it affects the other decisions.

12.1 PRICING

Proper pricing, complete and accurate quotations, choosing the terms of the sale, and selecting the payment method are four critical elements in selling a product or service overseas. Of the four, pricing can be the most problematic, even for an experienced exporter. The price considerations listed below will help an exporter. An important aspect of a company's pricing analysis is determining market objectives. For example, is the company attempting to penetrate a new market, looking for long-term market growth, or looking for an outlet for surplus production or outmoded products ? Many firms view the foreign market as a secondary market and consequently have lower expectations regarding market share and sales volume. This naturally affects pricing decisions.

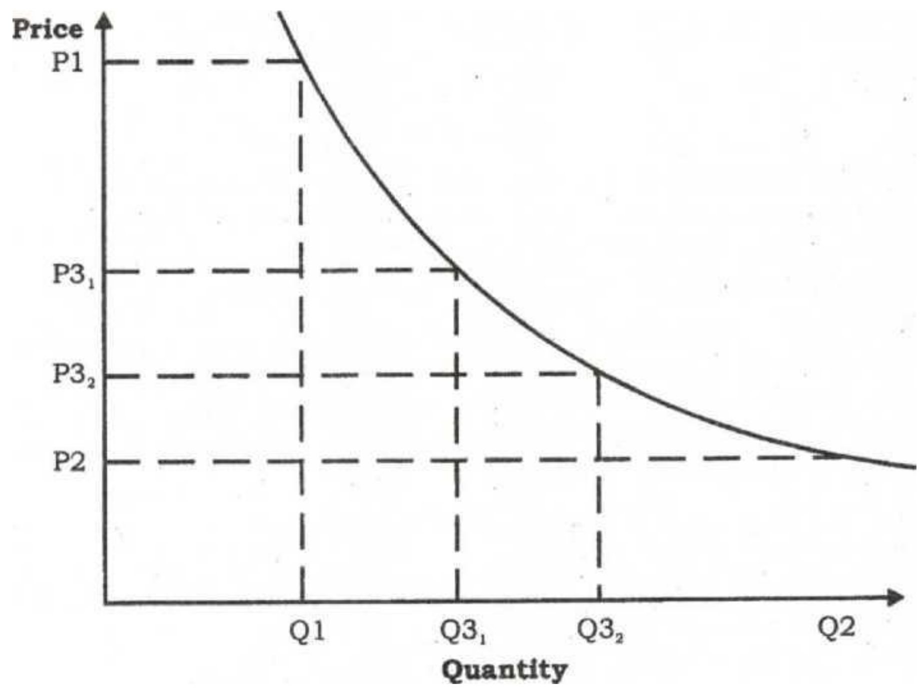
Marketing and pricing objectives may be general or tailored to particular foreign markets. For example, marketing objectives for sales to a developing nation where per capita income may be one tenth of that in the United States are necessarily different from the objectives for Europe or Japan.

Some of the key points while determining product's price :

- Determine the objective in the foreign market.
- Compute the actual cost of the export product.
- Compute the final consumer price.
- Evaluate market demand and competition.
- Consider modifying the product to reduce the export price.
- Include "nonmarket” costs, such as tariffs and customs fees.
- Exclude cost elements that provide no benefit to the export
- • Function, such as domestic advertising.

Pricing products or services in international marketing is difficult decision. Price is, partly a function of cost, and the foreign exchange rate is an important determinant of a company's cost of production. Factors such as borrowing of capital to do business, the cost of that capital can be very influential in the price decision. Three basic factors determine the boundaries of the pricing decision - the price floor, or minimum price, bounded by product cost, the price ceiling or maximum price, bounded by competition and the market and the optimum price, a function of demand and the cost of supplying the product. In addition, in price setting cognisance must be, taken of government tax policies, resale prices, dumping problems, transportation costs, middlemen and so on. Whilst many agricultural products are at the mercy of the market (price takers) others are not. These include high value added products like ostrich, crocodile products and hardwoods, where demand outstrips supply at present.

Prices depend on objectives and policy of organisations who want to be profit maximisers. Three frequently encountered price polices are market penetration, skimming and holding. A low price (penetration) is a volume policy. A high price (skimming) is used if the product is fairly unique and new, development costs are high and demand is relatively inelastic. Market holding is a strategy intended to hold share. Here products are not based on straight exchange rates at current rates but on what the market can bear.



PI Q1 = Price Skimming P3, Q3, = Price Market Holding
P2 Q2 = Price Penetration P3, $Q3_2$ = Price Market Holding

Pricing based on demand and supply Eire illustrated in above figure.

Self-check questions-

a) **What is penetration pricing?**

b) **What is the primary objective of pricing?**

a) To maximize profit 2) To cover costs 3) To achieve a target market share 4) All of the above

12.2 PROMOTION MIX

The promotional dimension of the international marketing comprises of the following elements:

a. **Advertising** It is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. The different advertising media are newspapers, magazines, radio, television, and so on. However, their relative effectiveness vary from country to country and so do their availability and efficiency. Advertising plays an important role in informing, persuading, and educating the present and potential customers.

b. **Sales Promotion** Sales promotion is defined as short-term incentives offered to encourage purchase or sale of a product or service. Sales promotion activities include trade fairs and exhibitions, samples, gifts, contests, games, lotteries, discounts, etc. Regulations regarding sales promotion differ in different countries. Sales promotion efforts of a firm must be supported or complemented by the other elements in the promotion mix.

c. **Public Relations** Modern business houses are becoming more of consumer oriented. They believe in maintaining good and cordial relations with their consumers, creditors, dealers as well as intermediaries. Through public relations, the firm intends to create a positive impression on the government agencies, employees, shareholders, consumerists, environmentalists, suppliers, and others, which may include present and potential customers.

d. **Personal Selling** Personal selling is defined as oral presentation in a conversation with one or more prospective consumers for the purpose of effecting sales. Personal selling may be preferable when the product is technical in nature, is of high unit value and the number of customers is limited. Effective communication and skilful salesmanship is needed to convince and induce the target customers to buy the company's products.

e. **Publicity** Publicity is unpaid form of advertising whereby a news item is carried in the mass media about a firm and its products, policies, personnel or actions. For example, a newspaper may publish an article on the company or its products or activities. It may be favourable or unfavourable. The publicity unit or the public relations department may influence the media owners to write a positive story about the company and its products.

f. **Packaging** Attractive and durable packing not only protects the product but also acts as a silent salesman. An attractively designed packaging can attract the attention of the prospects and can induce them to act upon their buying decisions. While designing the packages, factors such as the size and shape of the packages, their colours, language used, international packing standards, etc. must be taken into consideration.

g. **Trade Fairs and Exhibitions** Trade fairs and exhibitions playa leading role in publicising the products of the exporters. Trade fairs and exhibitions, by bringing potential buyers and suppliers in contact with each other and imparting information about the relevant developments around the world, play an important role in international marketing. In India, Indian Trade Promotion Organisation (ITPO) looks after trade fairs and exhibitions of Indian products.

h. **New Information Technologies** E-commerce has shifted the very persona of international marketing. By definition internet is without boundaries. The methods of advertising on web are innovative and extremely inexpensive. There have been dramatic changes in the information technology over the last few years. New information technology modes include electronic mail, corporate and public databases, application systems, fax, video and computer conferencing, which are widely used in the field of international marketing. These modes are considered to be some of the driving forces of internationalization.

Stage	Import/Export	Target Market	Competitors	Production Costs
(0) Local Innovation None		USA	Few : Local Firms	Initially High
(1) Overseas Innovation	Increasing Export	USA & advanced nations Few:	Local firms	Decline owing to economies of scale stable
(2) Maturity	Stable Export	Advanced nations & DCs	Advanced Nations	Stable
(3) Worldwide Imitation	Declining Export	DCs	Advanced Nations	Increase owing to lower economies of scale
(4) Reversal	Increasing Import	USA	Advanced nations & LDCs Increase	Owing to comparative disadvantage

Self-check questions

a) **What are the five main elements of the promotion mix?**

12.3 INTERNATIONAL PRODUCT LIFE CYCLE (IPLC)

The international product life cycle (IPLC) theory, tries to to explain trade in a context of comparative advantage. It describes the diffusion process of an innovation across national boundaries. The life cycle begins when a developed country, having a new product to satisfy consumer needs, wants to exploit its technological breakthrough by selling abroad. Other advanced nations soon start up their own production facilities, and developing countries start following trend. Due to cheaper ingredients efficiency/comparative advantage shifts from developed countries to developing nations.

STAGES AND CHARACTERISTICS

There are five distinct stages (Stage 0 through Stage 4) in the IPLC. There are three life-cycle curves for the same innovation: one for the initiating country, one for other advanced nations, and one for developing countries. For each curve, net export results when the curve is above the horizontal line; if under the horizontal line, net import results for that particular country. As the innovation moves through time, directions of all three curves change. Time is relative, because the time needed for a cycle to be completed varies from one kind of product to another. In addition, the time interval also varies from one stage to the next. The following table shows one such possibility with USA as innovator.

The IPLC is probably more applicable for products related through an emerging technology. These products likely satisfy basic needs that are universally common in most parts of the world. Washers, for example, are much more likely to fit this theory than are dryers. Dishwashing machines are not useful in countries where labor is plentiful and cheap, and the diffusion of this kind of innovation as described in IPLC is not likely to occur.

12.3 MARKETING STRATEGIES

What is important is that firms understand the implications of the IPLC so that they can adjust marketing strategies accordingly

Product Policy : The IPLC emphasizes the importance of cost advantage. It would be very difficult for U.S. firms to match labor costs in low-wage nations since costs are only eight cents per minute in Japan, two cents in South Korea, and 0.5 cent in China. Still, the innovating firm must keep its product cost competitive. One way is to cut labor costs through automation and robotics. IBM converted its Lexington (Kentucky) plant into one of the most automated plants in the world. Likewise, Japanese VCR manufacturers are counting on automation to help them meet the challenge of South Korea.

Manufacturers should examine the traditional vertical structure in which they make all or most components and parts themselves because in many instances outsourcing may prove to be more cost-effective. Outsourcing is the practice of buying parts or whole products from other manufacturers while allowing a buyer to maintain its own brand name, these days outsourcing is used even by FMCG's for example Unilever buying from its arm (HUL) in India.

A modification of outsourcing involves producing various components or having them produced under contract in different countries. That way, a firm takes advantage of the most abundant factor of production in each country before assembling components into final products for worldwide distribution. E.g. PC system consists mostly of components made in low-cost countries-monochrome monitor in South Korea; floppy disk drives in Singapore; and graphics printer, keyboard, power supply, and semiconductors in Japan.

Once in the maturity stage, the innovator's comparative advantage is gone, and the firm should switch from producing simple versions to producing sophisticated models or new technologies in order to remove itself from cutthroat competition. For a relatively high-tech product, an innovator may find it advantageous to get its product system to become the industry's standard, even if it means lending a helping hand to competitors through the licensing of product knowledge. Otherwise, there is always a danger that competitors will persevere in inventing an incompatible and superior

Pricing Policy : Initially, an innovating firm can afford to behave as a monopolist, charging a premium price for its innovation. But this price must be adjusted downward in the second and third stages of IPLC to discourage potential newcomers and to maintain market share. IBM, was slow in reducing prices for its PC models and had to ultimately sell its division to Lenovo. The error in judgment was the result of a belief that the IBM PC was too complex for Asian imitators. This proved to be a costly error because the basic PC hardly changed for several years. Before long, the product became nothing but an easily copied, standardized commodity suitable for intensive distribution-the kind that Asian companies thrive on. the market.

In the last stage of the IPLC, it is not practical for the innovating firm to maintain low price because of competitors' cost advantage. But the firm's above-the market price is feasible only if it is accompanied by top-quality or sophisticated products. A high standard of excellence should partially insulate the firm's product from direct price competition

Promotion Policy : Promotion and pricing in the IPLC are highly related. The innovating firm's initial competitive edge is its unique product, which allows it to command a premium price. To maintain this price in the face of subsequent challenges from imitators, uniqueness can only be retained in the form of superior quality, style, or services.

One implication that can be drawn is that a new product should be promoted as a premium product with a high-quality image. By starting out with a high-quality reputation, the- innovating company can trade down later with a simpler version of the product while still holding on to the high-priced, most profitable segment of the market. One thing the company must never do is to allow its product to become a commodity item with prices as the only buying motive, since such a product can be easily duplicated by other firms. Product differentiation, not price, is most important for insulating a company from the crowded, low-profit market segment. A product can be so standardized that it can be easily duplicated, but image is a much different proposition. Sony in its TV segment has been successful in doing so.

Place (Distribution) Policy : A strong dealer network can provide innovating firm with a good defensive strategy. Because of its near-monopoly situation at the beginning, the firm is in-a good position to be able to select only the most qualified agents/distributors, and the distribution network should be expanded further as the product becomes more diffused. When CocaCola came to India it simply took over Parle for its distribution channel. A firm must also watch closely for the development of any new alternative channel that may threaten the existing channel.

Once a product is in the final stage of its life cycle, the innovating firm should strive to become a specialist, not a generalist, by concentrating its efforts in carefully selected market segments, where it can distinguish itself from foreign competitors.

Self-check questions

a) **Which stage of the IPLC is characterized by initial introduction of a product in a few foreign markets?**
b) **During which stage of the IPLC do companies typically focus on product adaptation and customization for different markets?**

12.4 PRODUCT STANDARDIZATION VERSUS PRODUCT ADAPTATION

Product standardization means that a product originally designed for a local market is exported to other countries with virtually no change, except perhaps for the translation of words and other cosmetic changes. Revlon, for example, used to ship successful products abroad without changes in product formulation, packaging (without any translation, in some cases), and advertising. There are advantages and disadvantages to both standardization and individualization.

ARGUMENTS FOR STANDARDIZATION

The strength of standardization in the production and distribution of products and services is in its simplicity and cost. It is an easy process for executives to understand and implement, and it also is cost-effective. If cost is the only factor being considered, then standardization is clearly a logical choice because economies of scale can operate to reduce production costs. Yet minimizing production costs does not necessarily mean that profit increases will follow. Simplicity is not always beneficial, and costs are often confused with profits. Cost reductions do not automatically lead to profit improvements, and in fact the reverse may apply. By trying to control production costs through standardization, the product involved may become unsuitable for altem_tive markets. The result may be that demand abroad will decline, which leads to profit reduction. In some situations, cost control can be achieved but at the expense of overall profit. The main marketing goal is to maximize profit, and production-cost reductions should be considered as a secondary objective. The two objectives are not, always convergent.

When appropriate, standardization is a good approach. For example when a consistent company or product image is needed, product uniformity is required. The worldwide success of McDonald's is based on consistent product quality and services. Hamburger meat, buns, and fruit pies must meet strict specifications. This obsession with product quality necessitates costly export of French fries from Canada to European franchises because the required kind of potato is not grown in Europe. Product standardization or customization depends in part on the type of product. Furthermore, respondents consistently regarded competitive environment as the most important variable affecting the extent of marketing standardization.

ARGUMENTS FOR ADAPTATION

There is nothing wrong with standardized products if consumers prefer those products. In many situations, domestic consumers may desire a particular design of a product produced for the American market. But when the product design is placed in foreign markets, foreign buyers are forced either to purchase that product from the manufacturer or not purchase anything at all.

Firms must choose the time when a product is to be modified to better suit its market. Important factors for product modification are long-term profitability, long term market potential, product-market fit, short-term profitability, cost of altering or adapting (e.g, retooling), desire for consistency (e.g, maintaining a world image), and short-term market potential. These factors apply to consumer non-durable and durable products as well as to industrial products.

Product adaptation is necessary under several conditions. Some are mandatory, whereas others are optional.

Self-check questions

a) **What is the primary difference between product standardization and product adaptation?**

b) **In which scenario would a company be most likely to choose a hybrid approach combining both standardization and adaptation?**

1) Introducing a new product to a culturally diverse market 2) Selling a mature product with established brand recognition in a new market 3) Launching a product with limited resources and budget constraints 4) None of the above

12.5 MANDATORY PRODUCT MODIFICATION

The mandatory factors affecting product modification are the following :

1. Government's mandatory standards (i.e, country's regulations)
2. Electrical current standards
3. Measurement standards
4. Product standards and systems

The most important factor that makes modification mandatory is government regulation. To gain entry into a foreign market, certain requirements must be satisfied. Regulations are usually specified and explained when a potential customer requests a price quotation on a product to be imported. Food products are usually heavily regulated.e.g.added vitamins in margarine, forbidden in Italy, are compulsory in the United Kingdom and Holland

Frequently, products must be modified to compensate for differences in electrical current standards. In many countries, there may even be variations in electrical standards within the country. The different electrical standards (phase, frequency, and voltage) abroad can easily harm products designed for use in the United States, and such improper use can be a serious safety hazard for users as well. Stereo receivers and TV sets manufactured for the U.S. 110- to 120-volt mode will be se-verely damaged if used in markets where the voltages are twice as high. Therefore, products must be adapted to higher voltages. When there is no voltage problem, a product’s operating efficiency can be impaired if the product is operated in the wrong electrical frequency. Alarm clocks, tape recorders, and turntables designed for the U.S. 60 Hz (60 cycles per minute) system will run more slowly in countries where the frequency is 50. Hz. To solve this problem, marketers may have to substitute a special motor or arrange for a different drive ratio to achieve the desirable operating RPM or service level.

Like electrical standards, measurement systems can also vary from country to country. Some countries have adopted the English (imperial) system of measurement (feet, pounds, etc.), most countries employ the metric system, and product quantity should or must be expressed in metric units. Since 1989 the EU countries no longer accept nonmetric products for sale. Many countries even go so far as to prohibit the sale of measuring devices with both metric and English markings. Some products must be modified because of different operating systems adopted by various countries. Television systems provide a good example. There are three different TV operating systems used in different parts of the world: the American NTSC (Nationa Television Systems Committee), the French SECAM (Systeme Electronique Pour Couleur Avec Memoire), and the German PAL (Phone Alternating Lines). In 1941 the United States became the first country to set the national standards for TV broadcasting, adopting 525 scanning lines per frame. Most other nations later decided to require 625 lines for a sharper image. In most cases a TV set designed for one broadcast system cannot receive signals broadcast through a different operating system. Videotex and HDTV (high-definition TV) are other- examples-of products that thus far do not have a universal system accepted by the industry. When differences in product operating systems exist, a company unwilling to change its products must limit the number of countries it can enter, unless proper modification is undertaken for other market requirements.

Optional Product Modification: The conditions dictating product modification mentioned so far is mandatory in the sense that without adaptation a product either cannot enter a market or is unable to perform its function there. A more complex and difficult decision is optional modification, which is based on the international marketer's discretion in taking action. Nescafe in- Switzerland, for instance, tastes quite different from the same brand sold just a short distance across the French border.

One determinant for optional adaptation involves local use conditions, including climatic conditions. The hot/cold, humid/dry conditions may affect product durability or performance. Avon modified its Candid moist lipstick line for a hot, humid climate. Certain changes may be required in gasoline formulations. If the heat is intense, gasoline requires a higher flash point to avoid vapor locks and engine stalling. In Brazil, automobiles are designed to run on low-quality gas, to withstand the country's rough dusty roads, and to weather its sizzling temperatures.

Another local use condition that can necessitate product change is space constraint. Sears's refrigerators were redesigned to be smaller in dimensions without sacrificing the original capacity, so that they could fit the compact Japanese home. Philips, similarly, had to reduce the size of its coffeemaker.

Consumer demographics as related to physical appearance can also affect how products are used and how suitable those products are. Habitat Mothercare PLC found out that its British products were not consistent with American customs and sizes. Its comforters were not long enough to fit American beds, and its tumblers could not hold enough ice. Philips downsized its shaver to fit the smaller Japanese hand.

Even a doll may have to be modified to better resemble the physical appearance of local people. The Barbie doll, though available in Japan for decades, became popular only after Mattel allowed Takara (which holds the production and marketing agreement) to reconstruct the product. Recently even India also modified Barbie. Western-style features are modified in several ways: her blue eyes become brown, her vividly blond hair is darkened, and her bosom size is reduced.

Price may often influence a product's success or failure in the marketplace. This factor becomes even more critical abroad because U.S. products tend to be expensive, but foreign consumers' incomes tend to be at lower levels than Americans' incomes. Frequently, the higher quality of American products cannot overcome the price disadvantage found in foreign markets.

one reason that international marketers often voluntarily modify their products in individual **markets** is their desire to maximize profit by limiting product movement across national borders. The rationale for this desire to discourage gray marketing is that some countries have price controls and other laws that restrict profits and prices. When other nearby countries have no such laws, marketers are encouraged to move products into those nearby countries where a higher price can be charged. A problem can arise in which local firms in countries where product prices are high are bypassed by marketers who buy directly from firms handling such products in countries where prices are low. In many cases, because of antitrust laws, international marketers who wish to maintain certain market prices cannot ban this kind of product movement by threatening to cut off supply from those firms re exporting products to high-priced countries.

Perhaps the most arbitrary yet most important reason for product change abroad is istorical preference, or local customs and culture. Product size, color, speed, grade, and source may have to be redesigned in order to accommodate local preference. Pizza Hut started making JainPizza to cater to vegetarian customers in India.

In conclusion, marketers should not waste time resisting product modification. The reluctance to change a product may be the result of insensitivity to cultural differences in foreign markets. Whatever the reason for this reluctance, there is no question that it is counterproductive in international marketing. Product adaptation should rarely become an important issue to the marketer. A good marketer compares the incremental profits against the incremental costs associated with product adaptation. If the incremental profit is greater than the associated incremental cost, then the product should be adjusted-without question. In making this comparison, marketers should primarily use only future earnings and costs.

Self-check questions-

a) **What is mandatory product modification?**

12.6 **Keywords** – Pricing, promotion mix, international product life cycle, product adaptation.

12.6 Short answer questions

1. How do mandatory product modifications impact businesses?

2. What are the key factors influencing the choice between standardization and adaptation?

3. What are the key stages of the IPLC?

4.What are the different types of pricing strategies?

12.7 Long answer questions

1. Review the issues encountered when a Firm Tries to enter a new market
2. Describe briefly the different decisions faced when product life cycle of a product is considered in case of foreign market.
3. What are the advantages and disadvantages of various pricing strategies?
4. The concept of promotion mix has a special place in international marketing. Elaborate

12.8 Self-check question (Answer key)

12.1 **a)** Penetration pricing involves setting a low price initially to gain market share and then raising it over time.

b) 4

12.2 a)Advertising, sales promotion, public relations, personal selling, and direct marketing

12.3 a) Introduction

b) Growth

12.4 a) Standardization focuses on offering a single product globally, while adaptation involves modifying the product for different markets.

b) Introducing a new product to a culturally diverse market

12.5 a) The requirement for manufacturers to modify their products to comply with government regulations.

12.9 REFERENCES

1. Subash C Jain, International Marketing (6th Edition Thomson Learning)
2. Roger Bennett, International Business (Pearson Education (Singapore) - Indian Branch Delhi. 2003)
   Sak Onkvisit and John Shaw, International Marketing (3rd Edition, Pearson Education)

*