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MEANING OF EXPORT MARKETING, NATURE AND SCOPE OF EXPORT MARKETING, EXPORT MARKETING V/S DOMESTIC MARKETING

STRUCTURE

1.0 OBJECTIVES

After reading this chapter, the student should be able to:

- To understand the concept of export marketing
- To know about the channels of export marketing
- To find out the ways for successful export marketing
- To study the opportunities in the export marketing as compared to domestic marketing

1.2 INTRODUCTION

Export marketing is a serious issue for most growing companies in today s interconnected global economy. Whether to export or not, where to and how to, are the major questions for companies willing to expand their international markets. Export marketing is not just a process to find buyers/importers and approach them with the expectation of export orders but a well- planned strategic marketing process one should follow and performed well to get success in International Market.

1.1 NATURE AND SCOPE OF EXPORT MARKETING

With the gradual rationalization of customer tariffs and consequent integration of markets under the WTO framework the scope of export marketing has been increasing a lot and has become an area of due concern. Due to globalization, the exporters have to sell the merchandise not only to the customers in their respective countries but also to the overseas customers to gain enough profits. Due to globalization, privatization and liberalization, the scope export marketing has also been increased to a great extent. Moreover, due to the reduction in the tariffs on the exports in the last few years have also done well in this regard and also the restrictions on the exports have been decreased.

Export Marketing is the marketing of goods and services to the overseas customers. Export marketing takes place when a business takes advantage of opportunities outside its home market but continues production in the home country. When a company tries to increase sales outside their domestic market whilst maintaining production within the country, it indulges into the process of export marketing. Export marketing also involves preparing an offering that will entice the foreign buyer and customer. This offering comprises a product that is offered at a certain price and that is made available - distributed - to the foreign customer. At the same time, the offering is communicated - or promoted - to the buyer using certain communication or promotion channels. These elements - the product, price, distribution (also referred to as the place) and promotion - are called the marketing mix.

Export Tariffs and Duties

Tariffs or duties are taxes levied on the goods transported across the country of origin or other political boundary. These tariffs act as a trade barrier and are used for protecting a company's economy. The different types of tariffs are:

- **Ad valorem tariff**: This tariff is a specific percentage of the value of a good being exported.
- **Specific tariff**: This is the fixed tariff that does not change with the market value of a specific good.
- **Revenue tariff**: The very purpose of this tariff is to raise money for the government that allows the business.

Many countries negotiated bilateral or multi-party Free Trade Agreements (FTAs) to reduce or eliminate tariffs or duties between them, for specific sectors or in all categories. Although this may reduce the immediate income generated by the government, it will increase total economic activity in all involved countries. Additional measures help, such as identifying and removing internal constraints like bureaucratic red tape and fiscal duties.

Export Trade: The Hotspots

In 2008, the World Trade Organization (WTO) indicated that Germany is the world’s largest exporter, followed by China and the US. Germany’s world class engineering sector comprises small and medium enterprises that operate throughout the world. About 40% of the country's GDP comes from exports alone. Germany's contribution to total global exports amounts to about 9.5%. One -fourth of the world's total global exports are provided by the top three exporting countries. The top 10 exporting nations are:

- Germany
- China
- US
- Japan
- France
- Netherlands
- Italy
- UK
- Belgium
- Canada

Making the Export Decision

Once a company determines it has exportable products, it must still consider other factors, such as the following:

- What does the company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will exporting place on the company’s key resources - management and personnel, production capacity, and finance -and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

Self-check questions-

a) What is Ad valorem tariff?

b) In the context of export marketing, what is "dumping”?

1.3 BENEFITS OF EXPORT MARKETING

1. Engage with potential new clients in foreign markets without leaving the existing
2. Communicate with customers and prospects in a cost-efficient way
3. Improve your credibility and reputation for modernity
4. Create a professional image of a being a 'significant company'
5. Promote new products and services, quickly and cheaply
6. Sell online (actual transactions i.e., e-commerce)
7. Attract partner enquiries and manage a partner network
8. Distribute important company news and positioning material to the media

Self-check questions -

a) Export marketing can lead to economies of scale, which means:

(1) Lower production costs per unit due to increased volume (2) Improved access to raw materials and resources (3) Greater flexibility in product offerings (4) Enhanced marketing and distribution efficiency

b) Which of the following is NOT a primary benefit of export marketing?

(1) Increased sales and revenue (2) Reduced dependence on domestic market fluctuations (3) Improved brand image and recognition (4) Increased competition and market pressure.

1.4 EXPORT MARKETING CHANNELS

Strictly speaking, a marketing channel is the route that a product follows from factory to customer and incorporates all of the intermediaries - middlemen (sorry, middlepersons) that help the product reach the ultimate consumer. Another term for a marketing channel is a distribution channel. Sometimes the term 'marketing channel' is taken to mean an advertising media channel, but this is an incorrect use of the term.

As far as deciding on your marketing channel is concerned, there are a number of decisions an exporter need to make. These are:

- How will he enter the foreign market place?
- How will he physically get the product from your factory to the end user?
- Who will he turn to help him with your distribution?

1. How will he enter the foreign market place?

Deciding on how you will enter the foreign market place is an important decision to take and will affect many other decisions you will be required to make. What options are available to you? Well, you can:

- **Export indirectly**: This involves making use of an export agent, trading house or by piggybacking. The export agent simply acts as your representative, while the trade house buys and sells for its own account and represents a customer for you. They will normal only agree to this arrangement if your product(s) complement theirs in some way and adds value to their sales network. Essentially your product is being sold overseas, but only as a component of the other exporter's product. This is little more than a domestic sale for you - you would be paid in rents even though your products end up overseas.
- **Export directly**: This you can do either through an import agent, foreign distributor, wholesaler, retailer, or by selling directly to the end user. The agent (like an export agent) functions as your representative on a commission basis, while the distributor buys and sells products for their own account. Wholesalers and retailers' function in a similar way to the distributor in that they are also customers of your company, yet sell the product on to other intermediaries and/or the final

user. Finally, there is always the option of selling your products to the end user using direct marketing, including the Internet.

- License, franchise or contract the production and/or marketing of your product abroad - In this instance, you enter into a contractual agreement with a foreign company to either use your technology or intellectual property (licensing) or entire business system (franchising) in the foreign market place. In both the case of franchising and licensing, your involvement is somewhat limited beyond providing access to the intellectual property or the business system. Thereafter, the foreign company operates largely on its own. In the case of contract manufacture, the foreign company simply manufacturers the goods to your specification - you will normally keep control over the marketing.
- Invest directly in the foreign marketplace - Direct foreign investment may take different forms, such as foreign assembly or foreign manufacture. In the case of manufacturing abroad, you can decide to either start a new manufacturing operation altogether, or you can buy into an existing manufacturing operation.
- Enter into a co-operative agreement - With co-operative agreements, you enter into an agreement with a foreign firm, where your two firms work closely together to develop the business in the foreign market place. Examples of co-operative agreements include joint-ventures (a shared ownership of a new operation), strategic alliances (involving close cooperation in the area of technology, R8sD, distribution or marketing) and reciprocal share holdings (normally not common with smaller firms).

2. How will he physically get the product from your factory to the end user?

Let us assume that you have decided to make use of an import agent or import distributor to market your goods in the foreign marketplace. Your next challenge is to decide how you will physically move the product to your customer (i.e., the distributor or a customer identified by the agent - remember the agent is not a customer it is own right). What you need to consider here is how you will physically move the product from your factory to the buyer's designated premises. This physical movement of the goods can be further broken down into three stages of transportation and you need to make in decision about each of these stages.

Your decisions will impact on your marketing effort in that you may have to pack and package your goods differently if they going by sea freight versus airfreight. Similarly, containerized cargo will require a different approach to break bulk cargos. Not only will your packing and packaging be affected, but the cost of your choice of mode of transportation is likely to vary considerably. Airfreight, for example, is much more expensive than sea freight. Furthermore, rail versus road freight costs is likely to vary as well. Not only are costs likely to vary, but delivery time as well. Air freight, while more expensive, is much quicker than sea freight. In some countries, only road freight will bring your goods to its designation - you won't have an option.

3. Who will he turn to help him with your distribution?

Your final decision that you will need to make is who to get to help you with all of these activities. You could negotiate space, rates and booking with each mode of transportation yourself, but this requires quite a bit of specialist knowledge which you probably don't have. You probably also don't have the contacts in the foreign marketplace to handle the transportation and customs clearing of your goods abroad. For this reason, you are likely to make use of a freight forwarder, whose business is to handle all of these decisions on your behalf. They also usually have a network of partners located across the globe that they work with that assist them with the foreign market movement of freight and with customs clearing. Unless you are a large firm with enough exports to justify establishing your own freight forwarding team, it is highly likely that you will work with a freight forwarding company.

Self-check questions -

a) Direct export channels involve:
(1) Selling directly to foreign customers without intermediaries (2) Utilizing independent distributors or sales representatives (3) Participating in trade shows and exhibitions (4) Combining elements of different channels

b) Which channel offers the highest level of control over distribution and pricing?

(1) Direct export through own sales force (2) Exporting through a trading company (3) Partnering with a local distributor (4) Online marketplaces and e-commerce platforms

1.5 STEPS FOR SUCCESSFUL EXPORT MARKETING

1. **Make a commitment to exporting.** Whether you own a sole proprietorship offering consulting services or manage a 1500-person manufacturing facility, exporting offers you opportunities for growth, increased sales and diversified markets. But a marketable product or service is only the beginning. Exporting takes time and effort. It also takes resources and a strong commitment to compete beyond your current borders. If you are focused and have assessed your readiness to enter the global marketplace, you are ready for the next step.
2. **Planning**: The secret to export success is preparation and a carefully researched export plan. This is your source of direction as you embark on your journey into foreign markets. An export plan helps you to act - rather than react - to the challenges and risks encountered in international business. And in addition to helping, you implement your export strategy, it can help you obtain financial assistance, investors or other strategic partners required to make your export venture a success.
3. **Conduct research to find the right market.** Thorough market research helps you make sound export marketing decisions by giving you a clear picture of the economic, political and cultural factors that affect your ability to sell your product or service. Ultimately, market research saves you time, money and effort by reducing your exposure to unknowns.
4. **Devise marketing strategies for your target market.** International marketing is not the same as domestic marketing. Those who ignore this fact do so at their own peril. As successful as you may be at reaching your Canadian customers or clients, you must be aware that your international audience will frequently have different tastes, needs and customs. Good marketing strategies help the exporter understand and address these potential differences.
5. **Enter the market.** The research is complete and the export and marketing plans have been devised. You feel ready to enter the market and are seeking the best strategy to reach potential customers. There are as many market entry strategies as there are markets; however, these strategies can be loosely grouped into three categories.
   - Direct exports, as the name implies, involve direct marketing and selling to the client.
   - Indirect exporting is frequently used to enter new markets. Businesses selling products enter into an agreement with an agent, distributor or a trading house for the purpose of selling (or marketing and selling) the products in the target market.
   - A strategic alliance by which a company selling a complementary product or service to another countries.

6. **Get your product or service to market.** Every market has its own set of rules and regulations covering safety, health, security, packaging and labeling, customs and duties among other things. Additionally, these rules and regulations may vary depending on the product or service you are exporting. Whether you are shipping by truck, rail, sea or air, the documentation will likely be extensive and potentially confusing. The services provided by these businesses will assist you in determining the most efficient and least risky options for shipping your goods across borders.
7. **Explore financing options.** While there are overnight export success stories, most companies must be prepared to invest both time and financial resources to see the return on their investment and the subsequent success. Consequently, financial stability and a secure cash flow are important during this period. In some cases, businesses can rely on their domestic sales to sustain their early export efforts. If this is not possible, it is a good idea to know what financing options are available
8. **Understand the legal and regulatory issues.** Exporting exposes export businesses to unfamiliar laws and regulations. There are numerous international conventions, treaties and national, regional and municipal rules that can affect your ability to operate successfully in foreign markets. Exporters may also encounter disputes with agents or distributors, clients or creditors. It is important to understand your rights and obligations when resolving disputes, selling goods or services and protecting intellectual property.
9. **Put it into practice.** If you have committed yourself to exporting. You have the skills and the resources to undertake the challenge. You have researched the market and prepared your export plan, international marketing plan and financial plan. Your market entry strategy is clear and the support system (i.e., freight forwarder, customs broker, financial lenders, legal advisors) is in place.

Self-check questions –

a) Before entering a new export market, conducting thorough market research is crucial for:
(1) Identifying potential opportunities and target markets (2) Understanding cultural nuances and consumer preferences (3) Analyzing competitor strategies and market trends (4) All of the above

1.6 DOMESTIC MARKETING V/S EXPORT MARKETING

Export marketing is about marketing across national borders. All the basic principles of marketing can be applied to both domestic and export marketing; the latter is far more challenging because when entering a new country/market, the marketer will have to deal with a different kind of customer in a foreign environment with laws and regulations that may differ radically from those of the domestic market. Even in a world that is moving towards increasing similarities in consumer tastes, marketing methods, production processes and business practices, there are still a significant number of differences between international markets to make selling to them challenging.

In the domestic marketing included all the tasks within the confines of the local or domestic/home market. It focuses upon the sales of domestic products in international markets. The orientation of these markets is domestic i.e., they serve the customers only within the territory of their own country. These firms have little adaptation of product or marketing mix. These markets are based on the ethno-centric orientation i.e., they adopt:

- Domestic strategies, techniques, and personnel are perceived as superior
- International customers are considered as secondary

- International markets are regarded primarily as outlets for surplus domestic production
- International marketing plans are developed in-house by the international division Export Marketing, on the other hand, has poly-centric orientation. It helps a firm in keeping pace with the competition by reach a larger market and reaping higher profits through Prolong the lifecycle of their products. Following are the features of export marketers:
- They Views the world as one market, develop product and marketing strategies for world markets.
- Standardize as far as possible, adapt where necessary.
- Economies of scale transfer of knowledge and technology, global image, and better competitive position.
- Focuses on the importance and uniqueness of each international market
- Likely to establish businesses in each target country

Difference between Domestic Marketing and Export Marketing

1. Domestic marketing is marketing aimed at a single market whereas the export marketing covers marketing activities that are involved when a firm sells its products outside its domestic base of operation and when products are physically shipped from one country to another.
2. The domestic market is the single market is the firm's domestic area whereas in export marketing there is a presence of numerous markets in which the exporter can sell his merchandise.
3. In the domestic marketing, the firm faces only one set of competitive, economic and market issues but the major challenges of export marketing are the selection of appropriate markets or countries through marketing research, the determination of appropriate product modifications to meet the demand requirements of export markets, and the development of export channels through which the company can market its products abroad.
4. In the domestic marketing, the economic, political, legal, socio -cultural, competitive and technology environments are known, hence one can take the necessary precautions but the environment is not fully known. Innumerable hidden factors which may emerge at any time to pose problems.
5. In the domestic marketing, Plans and strategies can be worked out for short terms and carried forward to the long term but in the export marketing, only long-term planning and strategy will work. Strategic inputs are required in multiples.
6. In the domestic marketing, the maximum domestic competitive forces operate and one can understand their movement but in the export marketing, International competitive forces play a vital role and it is very difficult to understand their motive and movement.
7. In the domestic marketing, it is easy to conduct business research, demand analysis and customer survey. It is also reliable for business ventures whereas in the export marketing it is very difficult to conduct surveys moreover it is very costly. The reliability criteria depend upon the individual countries and hence there is no uniformity in the output.

Self-check questions -

a) Which type of marketing focuses on reaching customers within the national boundaries?

b) Export marketing involves reaching customers in ___

1.7 SUMMARY

It may be said that Export Marketing has become an upcoming area in marketing due to globalization and immense competition. Export marketing is not just a process to find buyers/importers and approach them with the expectation of export orders but a well- planned strategic marketing process for the exporters to gain profits at the international level through competing with the other brands.

1.8 GLOSSARY

Export Marketing is the marketing of goods and services to the overseas customers.

1.9 Keywords – Export marketing, domestic marketing, revenue tariff, export marketing channels.

1.10 Short answer questions

1. Explain the nature and scope of Export Marketing from the Indian context.
2. Is Export Marketing an emerging issue in the Indian economy? Comment on the statement by describing the opportunities in the export marketing as compared to the domestic marketing.
3. What are the basic channels of Export Marketing?

1.11 Long answer questions

1. Analyze the key challenges and opportunities associated with entering new export markets.
2. Discuss the different types of export marketing channels and their advantages and disadvantages for reaching international customers.
3. Explain how export marketing strategies need to be adapted for different cultural contexts.

1.12 Self-check question (Answer key)

1.2 a) This tariff is a specific percentage of the value of a good being exported
b) Selling products at a lower price in foreign markets than in the home market.

1.3 a) 1
b) 4

1.4 a) 1
b) 1

1.5 a) 4

1.6 a) Domestic marketing
b) Multiple countries with diverse cultures and regulations

1.13 SUGGESTED READINGS

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CONCEPTUAL FRAMEWORK OF INTERNATIONAL TRADE

STRUCTURE

2.0 OBJECTIVES

After reading this chapter, the student should be able:

- To understand global trading scenario & major trading blocks
- To understand govt, initiatives to simplify trade procedures

2.1 INTRODUCTION

In a market system individuals trade because they expect to profit from exchange. They expect to be better off as a result of trade. Trade occurs for the same reasons among nations.

According to Wasserman and Haltman "International Trade consists of transactions between residents of different countries." Domestic trade occurs within the political boundaries of a nation whereas international trade occurs across the political boundaries of different nations. The main reason behind both the types of trade is division of labour and specialization. Each nation specializes in that field in which it enjoys maximum comparative advantage. International trade takes place because of:

- Different nations have different entrepreneurial and labour skills.
- Factor endowments are not the same in different countries.
- Human wants are multiple and varied. No single country satisfies all of them.
- Level of technology is different in different countries.

Rapid and sustained growth in international trade has been an outstanding feature of post- world war period. A number of developing countries have emerged as highly successful exporter of manufactured exports. The real barometer of sustained economic development is the growth index of exports. International trade is a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation.

Creation of appropriate institutional framework and supportive environment facilitates the growth of external trade. In d developing country like India, with strong industrial base also wants to expand its exports. Sustained growth in exports can only be accelerated by conducive framework. The primary objective and emphasis of the framework is towards accelerated development with the required regulation to support the framework structure. The role of regulation is to protect the interests of consumers, obtain conditions of competition and foster the institutional framework. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation. To make India a quality producer and exporter of goods and services, apart from projecting such image, an important Act-Exports (Quality control & inspection) Act, 1963 has been in vogue.

On the eve of independence in 1947, foreign trade of India was typical of a colonial and agricultural economy. Trade relations were mainly confined to Britain and other commonwealth countries. Exports consisted chiefly of raw materials and plantation crops while imports composed of light consumer goods and other manufactures.

Over the last 60 years, India's foreign trade has undergone a complete change in terms of composition and direction. The exports cover a wide range of traditional and non - traditional items while imports consist mainly of capital goods, petroleum products, raw materials, and chemicals to meet the ever-increasing needs of a developing and diversifying economy.

For about 40 years (1950 -90), foreign trade of India suffered from strict bureaucratic and discretionary controls. Similarly, foreign exchange transactions were tightly controlled by the government and the Reserve Bank of India. From 1947 till mid-1990s, India, with some exceptions, always faced deficit in its balance of payments, i.e., imports always exceeded exports. This was characteristic of a developing country struggling for reconstruction and modernization of its economy. Imports galloped because of increasing requirements of capital goods, defense equipment, petroleum products, and raw materials. Exports remained relatively sluggish owing to lack of exportable surplus, competition in the international market, inflation at home, and increasing protectionist policies of the developed countries.

Beginning mid-1991, the government of India introduced a series of reforms to liberalize and globalize the Indian economy. Reforms in the external sector of India were intended to integrate the Indian economy with the world economy. India's approach to openness has been cautious, contingent on achieving certain preconditions to ensure an orderly process of liberalization and ensuring macroeconomic stability. This approach has been vindicated in recent years with the growing incidence of financial crises elsewhere in the world. All the same, the policy regime in India in regard to liberalization of the foreign sector has witnessed very significant change.

The present regulatory framework in India is highly supportive. The attitude of the government, a very important aspect for faster pace, is poised in that direction to make the framework achieve the sustained growth, removing the bottlenecks, hindering the path of progress and development. Developmental pace of foreign trade is dependent on the Export - Import Policy adopted by the country too.

Principles objectives of export promotion measures in India are to:

- Compensate the exporters for high domestic cost of production.
- Provide necessary assistance to the new and small exporters to develop the export business.
- Increase the relative profitability of the export business vis-a-vis the domestic business.

India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations, and played a critical part in the Doha negotiations.

2.1.2 Who are Engaged in Foreign Trade

In India, Government as well as private sector participates in foreign trade. In India before independence, foreign trade was mainly carried on by private sector. However, after independence, Government of India set up a number of organizations to engage in foreign trade.

Government Organizations

The government organizations mainly carry out foreign trade in bulk items like food grains, iron ore, minerals and metals etc. Examples of government agencies engaged in foreign trade are STC (State Trading Corporation), MMTC (Mineral and Metal Trading Corporation) etc. The need for such agencies arose because the government wanted to play larger role in foreign trade of the country.

Private Sector

Private sector is also engaged in foreign trade. Some of the important items exported by this sector are readymade garments, gem and jewellery, handicrafts, tea and coffee etc. Some of the items imported by private sector are capital goods, consumer goods etc.

However, with economic reforms, the share of these government agencies in foreign trade is being reduced and increasing role has been assigned to the private sector.

Institutional engaged in export effort fall in six tiers in India.

- At the top is Department of Commerce under Ministry of Commerce to formulate and guide India’s trade policy.
- At the second tier there are deliberative and consultative organizations like F1CC1, Assochem, CII etc. to resolve export problems
- At third level their commodity specific organizations, which include nineteen export promotion councils and nine commodity boards.
- The fourth tier consists of service institutions which facilitates and assists the exporters like IIFT, ITPO, ECGC, EXIM BANK, FIEO etc.
- Fifth tier consists of Government Trading Organizations like MMTC, STC etc.
- State level export promotion activities constitute sixth tier.

Self-check questions –

a) International trade is the exchange of goods and services between:
   (1) Individuals within the same country. (2) Businesses within the same country. (3) Countries and their citizens. (4) All of the above.

b) A common challenge associated with international trade is:
   (1) Cultural differences and communication barriers. (2) Complex import and export regulations, including tariffs and quotas. (3) Logistics and transportation challenges across borders. (4) All of the above.

2.2 REGIONAL AND BILATERAL TRADE AGREEMENTS

Business is the navigator of any country’s success and prosperity at the international level. Each and every country makes trade agreements with others that benefit them. These trade agreements are made depending on the foreign relations and also over the personal preferences of the nation. Making trade agreement is not any easy ask, as a single point can affect the whole nation's economy.

Countries make various trade agreements in all the kinds of sector like health, agriculture, business, and many others. The reason of such agreements is simple as no nation is cent percent self dependant in any sectors. Let us take a hypothetical situation; India is rich in iron ore but not the self sufficient to process it. Then India has the trade agreement that it will sell iron ore as a reply of the processed iron and its products. Same is the procedure followed for other services as well.

There are various kinds of trade agreements that are made; WTO- the trades agreements here are made must be abide by all of the members. It is the huge platforms that affect the whole of the global economy.

Bilateral - the bilateral agreements are made upon mutual understanding, bonding and trust between the nations. Some bilateral trade agreements develop the nation's position in the region and results betterment of the economy.

Trilateral or multilateral: apart from WTO there are many smaller trade agreements like ASEAN and many others, when nation of same interests unite.

India is a member of all the major multilateral economic fora, be it International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). India is even a founding member of GATT and the World Trade Organization (WTO).

Regionally India is a member of SAARC (the South Asia Association of Regional Cooperation) and BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation}. There are agreements in pipeline with China, Australia, New Zealand & Indonesia. India enjoys different types of trade agreements with many countries. The complete list is given below:

2.2.1 Free Trade Agreement (FTA)

Free Trade Agreement between two countries or group of countries agrees to eliminate tariffs, quotas and preferences on most of the goods (if not all) between them. Countries choose FTA if their economic structures are complementary, not competitive. India enjoys FTA, till date, with the following two countries:

- **Srilanka (28 December, 1998)**

  The Free Trade Agreement is expected to boost the bilateral trade between India and Sri Lanka and also consolidate the close economic, commercial and political relations between the two countries through increased trade and investments. As of now, India is one of the largest exporters to Sri Lanka and the trade balance is heavily in favor of India.
- **Thailand (9th October, 2003)**

2.2.2 Trade Agreements

It is a bilateral or multilateral treaty or any other enforceable compact which commits two or more nations to specified terms of commerce, most of time involving mutually beneficial concessions. India has signed trade agreements with following countries.

- Bangladesh
- Bhutan
- Ceylon
- Maldives

- China
- Japan
- Korea
- Mongolia
- Trade Treaty
- Nepal

2.2.3 Comprehensive Economic Cooperation Agreement (CECA)

- Singapore

2.2.4 Framework Agreement

A framework agreement is one which sets the stage for future substantive liberalization by defining the scope and terms of reference for some new area of discussions. List of countries with which India enjoys Framework Agreement are as mentioned below:

- With GCC states i.e. The Member States of the Cooperation Council for the Arab States of the Gulf.
- With ASEAN i.e. The Association of South East Asian Nations.
- With Chile.

India will eliminate tariffs in 2011 for Brunei Darussalam, Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, Singapore, Thailand and Vietnam; Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand will eliminate in 2011 and new ASEAN Member States i.e., CLMV will eliminate in 2016 for India. India and Philippines will eliminate tariffs for each other on a reciprocal basis by 2016.

2.2.5 Regional Agreement

South Asia Free Trade Agreement (SAFTA) with Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives.

INDIA'S TRADE AGREEMENTS AT A GLANCE		
Existing	**Ongoing**	**FT As/PTAs under Study and Consideration**
Bangkok Agreement Global System of Trade Preferences (GSTP) SAARC Preferential Trading Agreement (SAPTA) India-Sri Lanka FTA India - Thailand FTA India Singapore Comprehensive Economic Cooperation (CECA) Indo-Nepal Trade Treaty India-Mauritius PTA India-Chile PTA	Indo-ASEAN CECA South Asian Free Trade Agreement (SAFTA) BIMSTEC (Bay of Bengal Initiative for Multi- Sectoral Technical 85 Economic Cooperation) India - MERCOSUR PTA	• Gulf Cooperation Council (GCC) • China • South Korea • Japan • Malaysia • Pakistan • Southern African Customs Union (SACU) • Egypt • Israel • Russia • Australia

2.2.6 Preferential Trade Agreement (PTA)

This trade gives preferential access to only certain products. It is done by reducing tariffs, but it does not abolish them completely. PTA is established through trade pact and it is the weakest form of economic integration. India enjoys PTA with the following countries:

- Afghanistan
- Chile
- MERCOSUR - It is a trading bloc in Latin America comprising Brazil, Argentina, Uruguay and Paraguay. It has Chile and Bolivia as its associate members. MERCOSUR was formed in 1991 with the objective of facilitating the free movement of goods, services, capital and people among the four member countries.

2.3 STEPS ARE ALSO TAKEN UP BY THE GOVT. TO SIMPLIFY TRADE PROCEDURES

(a) DGFT Related Documentation at a Single Place

As a first step towards this exercise, the DGFT has devised a single common application form called 'Aayaat Niryaat Form'. This 50 -page set of forms, as against the 120 - page set, is to provide availability of information on DGFT related Documentation at a single place. It has a web interface for on-line filing by exporters and retrieval of documents by the licensing authorities. This is a major leap towards paperless trading, in the series of initiatives in the direction of moving towards reduced paper transactions through procedural simplifications. A single common application form called "Aayaat Niryat Form" is being introduced, reducing the documentation requirements by more than 60%.

(b) Reduction of documents to five for customs purposes

Government has decided to do away with a number of declarations that exporters, presently, have to file under various promotion schemes, including duty drawback and duty entitlement pass book. Now there are just five documents required for customs purposes. These include commercial invoice, packing list, self-declaration form, ARE-1 (application for removal of excisable goods for e. port) and the declarations pertaining to various export promotion schemes.

Even the Exim Policy 2002-2007 laid its stress to simplify procedures, sharply, to further reduce transaction costs.

Self-check questions –

a) What is the primary purpose of regional and bilateral trade agreements (RTAs and BTAs)?

b) A free trade agreement (FTA) primarily aims to:

(1) Eliminate tariffs and quotas on trade between member countries. (2) Harmonize technical regulations and standards. (3) Facilitate cross-border investment and movement of labor. (4) All of the above.

2.4 SUMMARY

Today's international trade is not only highly competitive but also dynamic. To gear with the changing requirements, it is essential that the framework has to remain in pace and change in anticipation, accordingly, and then only international trade can pick up the speed envisaged. Necessary responsive framework to make exports compete globally is essential. In order to harness these gains from trade, the transaction costs, in turn dependent on the framework support, involved need to be low for trading within the country and for international trade.

2.5 GLOSSARY

- **Foreign Trade**: International trade is exchange of capital, goods, and services across international borders or territories.
- **Free Trade Agreement**: Free Trade Agreement between two countries or group of countries agrees to eliminate tariffs, quotas and preferences on most of the goods {if not all) between the m. Countries
- **Bilateral trade agreement**: Trade agreement between any two countries, usually in order to reduce tariffs and quotas on items traded between themselves.

2.6 Keywords – Foreign trade, regional agreement, free trade agreement, bilateral trade agreement.

2.7 Short answer questions

1. Discuss need and emergence of International Trade?
2. Discuss role of trade agreements in promotion of international Trade.
3. Discuss types of trade agreements.
4. Write about trade agreements of India with other countries/blocks.

2.8 Long answer questions

1. Imagine a future where international trade has profoundly changed. Describe the potential scenarios and implications for businesses and societies.
2. Critically analyze the potential benefits and drawbacks of regional trade agreements (RTAs) and bilateral trade agreements (BTAs) for both member countries and non-member countries.
3. Choose a specific regional trade agreement (e.g., NAFTA, EU, ASEAN) and analyze its historical context, key provisions, and impact on member countries. Discuss any ongoing challenges or future prospects of the agreement.

2.9 Self-check question (Answer key)

2.1.2 a) 3
b) 4
2.3 a) To reduce trade barriers and boost economic cooperation between member countries.
b) 1

2.10 SUGGESTED READINGS

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MBA DE (Second Year) **EM 405**

EXPORT MARKETING

MBA DE (Second Year)

Semester-IV

Lesson No. 3

AUTHOR: GAGAN DEEP MARKAN

BALANCE OF TRADE AND BALANCE OF PAYMENTS

STRUCTURE BALANCE OF TRADE

3.0 Objectives

3.1 Introduction

3.2 Factors affecting the balance of trade

3.3 Opposition of trade deficits

3.4 Physical balance of trade

BALANCE OF PAYMENTS

3.0 Objectives

3.1 Introduction

3.2. Features of Balance of Payments

3.3 Types of Balance of Payments Accounts

3.4 Overall Balance of Payments

3.5. Equilibrium and disequilibrium in balance of payments

3.6 Causes of Disequilibrium (Deficit)

3.7 Summary

3.8 Glossary

3.9 Keywords

3.10 Short answer questions

3.11 Long answer questions

3.12 Self-check questions (answer key)

3.13 Suggested Readings

BALANCE OF TRADE

3.0 OBJECTIVES

- To study the factors affecting the balance of trade.
- To understand Opposition of trade deficits and Physical balance of trade.

3.1 INTRODUCTION

Balance of TRADE In terms of Economics, Trade is the voluntary exchange of goods, services, or both. Trade is also called commerce. A mechanism that allows trade is called a market. The original form of trade was barter, the direct exchange of goods and services. Modern traders instead generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non -physical money) greatly simplified and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade.

Trade exists for many reasons, Due to specialization and division of labor, most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions have a comparative advantage in the production of some tradable commodity, or because different regions' size allows for the benefits of mass production. As such, trade at market prices between locations benefits both locations.

Trading can also refer to the action performed by traders and other market agents in the financial markets.

BALANCE OF TRADE DEFICIT

In economic term relates to more expenditure and less of revenue, now as we shall proceed to our subject, trade deficit (also commonly known as trade gap) is the difference between the monetary value of exports and imports in an economy over a certain period of time. A positive balance of trade is known as a trade surplus and consists of exporting more than is imported; a negative balance of trade is known as a trade deficit or, informally, a trade gap. The balance of trade is sometimes divided into a goods and a services balance; especially in the United Kingdom the terms visible and invisible balance are used. The balance of trade forms part of the current account, which also includes other transactions such as income from the international investment position as well as international aid. If the current account is in surplus, the country's net international asset position increases correspondingly. Equally, a deficit decreases the net international asset position.

The trade balance is identical to the difference between a country's output and its domestic demand (the difference between what goods a country produces and how many goods it buys from abroad; this does not include money re-spent on foreign stocks, nor does it factor the concept of importing goods to produce for the domestic market).

Measuring the balance of payments can be problematic because of problems with recording and collecting data. As an illustration of this problem, when official data for the entire world's countries are added up, exports exceed imports by a few percent; it appears the world is running a positive balance of trade with itself. This cannot be true, because all transactions involve an equal credit or debit in the account of each nation. The discrepancy is widely believed to be explained by transactions intended to launder money or evade taxes, smuggling and other visibility problems. However, especially for developed countries, Accuracy is likely to be good.

Self-check questions –

a) A balance of trade deficit occurs when ___

b) A trade deficit can be measured in:

(1) Units of currency. (2) Percentage of Gross Domestic Product (GDP). (3) Both (a) and (b). (4) Number of imported goods.

3.2 FACTORS AFFECTING THE BALANCE OF TRADE FIGURES INCLUDE

- Prices of goods manufactured at home {influenced by the Responsiveness of supply)
- Exchange rates
- Trade agreements or barriers
- Other tax tariff and trade measures
- Business cycle at home or abroad.

The balance of trade is likely to differ across the business cycle. In export led growth (such as oil and early industrial goods), the balance of trade will improve during are economic expansion. However, with domestic demand led growth (as in the United States and Australia) the trade balance will worsen at the same stage in the business cycle. Modern economists are split on the economic impact of the trade deficit with some viewing it as a loss in a fixed volume of trade and other voices who claim it is a sign of economic strength.

Self-check questions –

a) A key factor influencing a country's balance of trade is:

(1) The global demand for its currency. (2) The level of government corruption. (3) The relative competitiveness of its exports. (3) The size of its domestic population.

b) A strong domestic economy can lead to a trade deficit due to ___

3.3 OPPOSITION OF TRADE DEFICITS

Trade deficits were originally opposed by the mercantilists of the 18th century, who saw it as weakening the country. One view opposes long run trade deficits and outsourcing for the sake of labor arbitrage to obtain cheap labor as an example of absolute advantage which does not produce mutual gain, and not an example of some contends effects of deficits are detrimental. Since the stagflation, the U.S. economy has been characterized by slower growth. In 1985, the U.S. began its growing trade deficit with China. In 2006, the primary economic concerns have centered around: high national debt ($9 trillion), high corporate debt ($9 trillion), high mortgage debt ($9 trillion), high unfunded Medicare liability ($30 trillion), high unfunded Social Security liability ($12 trillion), high external debt (amount owed to foreign lenders) and a serious deterioration in the United States net international investment position (NIIP) (-24% of GDP), high trade deficits, and a rise in illegal immigration. These issues have raised concerns among economists and unfunded liabilities were mentioned as a serious problem facing the United States in the President's 2006 State of the Union address.

Large inequalities imply problems. Exchange rates have been pegged at levels preventing correction of a trade imbalance, such as the pegged Chinese currency.

The trade deficit must be foreign income or transfers, or a capital account surplus. This takes into account investment and purchases of stocks, bonds etc. Foreign liabilities tend to exacerbate already-extant savings-investment issues.

Those in favor of the deficit point to this as the source. Buyers in the receiving country send the money back. A firm in America sends dollars for Brazilian sugarcane, and the Brazilian receivers use the money to buy stock in an American company. Although this is a form of capital account reinvestment, it is not a liability on anyone in America.

Such payments to foreigners have intergenerational effects: by shifting the consumption schedule over time, some generations may gain and others lose. However, a trade deficit may incur consumption in the future if it is financed by profitable domestic investment, in excess of that paid on the net foreign debts. Similarly, an excess on the current account shifts consumption to future generations, unless it raises the value of the currency, deterring foreign investment.

However, trade inequalities are not natural given differences in productivity and consumption preferences. Trade deficits have often been associated with international competitiveness. Trade surpluses have been associated with policies that skew a country's activity towards externalities, resulting in lower standards. An example of an economy which has had a positive balance of payments was Japan in the 1990s. The positive balance was partly the result of protectionist measures that brought excessive profits to Japanese exporters.

Milton Friedman has famously argued that trade deficits are not important, as high exports will raise the value of the currency, reducing aforementioned exports, and visa versa for imports, thus naturally removing trade deficits not due to investment. This opinion is shared.

Self-check questions-

a) Common arguments against trade deficits include:

(1) They automatically lead to job losses in domestic industries. (2) They indicate a decline in national competitiveness and economic power. (3) They increase dependence on foreign countries for essential goods. (4) All of the above.

3.4 PHYSICAL BALANCE OF TRADE

Monetary balance of trade is different from physical balance of trade (which is expressed in number of raw materials). Developed countries usually import a lot of primary raw materials from developing countries at low prices. Often, these materials are then converted into finished products, and a significant amount of value is added. Although for instance the EU (as well as many other developed countries) has a balanced monetary balance of trade, its physical trade balance (especially with developing countries) is negative, meaning that in terms of materials a lot more is imported than exported.

BALANCE OF PAYMENTS

3.0 OBJECTIVES

3.1 INTRODUCTION

Balance of Payments is a systematic record of economic transactions of the residents of a country with rest of the world during a given period of time. Thus, the aim is to present an account of all receipts and payments on account of goods exported & goods imported by the residents of a country. Every country needs to do business with three items.

|**A) Visible items**: It includes all physical items which can be import and exported.

(B) Invisible items: It includes all items which we cannot see and are invisible.

(C) Capital Transfer: It relates to items which relates to capital.

Definition: According to Sodersten-"The balance of payment is merely a way of listing receipts and payments in international transactions for a country."

A country's balance of payments accounts keep track of both its payments to and its receipts from foreigners. Every international transaction automatically enters the balance of payments twice: once as a credit (+) and once as a debit (-).

3.2 FEATURES OF BALANCE OF PAYMENTS

1. **Systematic Record:** It contains all records relates to all receipts and payments of one country with other countries.
2. **Fixed Period of Time:** It contains all records in a particular period of time like one year of time.
3. **Comprehensiveness:** It includes all visible, invisible and capital
4. **Double Entry System:** All receipts and payments are recorded in double entry system.
5. **Self- Balanced:** Double entry system itself balanced its records.
6. **Adjustments of Difference:** Whenever there are any inequalities, there is a need to balance the difference.

Self-check questions –

a) The balance of payments (BOP) is a record of ___

b) The BOP can be used to:

(1) Analyze a country's external position and potential risks. (2) Predict future exchange rate movements. (3) Monitor the performance of specific industries. (4) All of the above.

3.3 TYPES OF BALANCE OF PAYMENTS ACCOUNTS

Three types of international transactions are recorded in the balance of payments:

(a) The Current Account

The current account records trade in goods and services, as well as transfer payments. It is divided into:

- Merchandise trade
- Exports or imports of goods
- Services
- Payments for legal assistance
- Tourists' expenditures
- Shipping fees
- Royalty payments
- Interest payments.
- Incomes
- International interest and dividend payments and the earnings of domestically
- Owned firms operating abroad.
- Net Transfer Payments.
- Remittances, gifts and grants

Balance of Payments on Current Account = (visible +Invisible Export) * (Visible + Invisible Import)

(b) The Capital Account

The Capital Account consists of short - terms and long-term capital transactions a capital outflow represent a debit and a capital inflow represents a credit. For instance, if an American firm invests Rs.100 million in India, this transaction will be represented as a debit in the US balance of payments and a credit in the balance of payments of India. The payment of interest on loans and dividend payments are recorded in the Current Account, since they are really payments for the services of capital. As has already been mentioned above, the interest paid on loans given by foreigners of dividend on foreign investments in the home country are debits for the home country, while, on the other hand, the interest received on loans given abroad and dividends on investments abroad are credits.

The capital and financial account is that balance of payments account in which all cross -border transactions involving financial assets are listed. This includes transactions between foreign and domestic residents, and foreign and domestic, governments.

All purchases or sales of assets, including:

- Direct investment
- Securities (debt)
- • Bank claims and liabilities
- Official reserves transactions
- , When Indian citizens buy foreign securities or
- when foreigners buy Indian securities, they are listed here as outflows and inflows respectively

Self-check questions –

a) The BOP is divided into which two main accounts?

b) The current account of the BOP measures what?

3.4 OVERALL BALANCE OP PAYMENTS

It consists of country's total current account and capital account. Overall balance of payment is always balanced as the deficit of current account is compensated by capital account and vice versa.

The Total Balance of payments

The BOP is just the slim of these three accounts and is calculated as follows

BOP = Current + Capital Account + Change in Official

Account Balance Balance Reserves Account

BOP - BCRA+ CPA + ORA

The BOP must always equal 0, i.e., balance since it is an accounting identity in a fixed exchange rate system. If for some reason, the CRA and CPA do not sum to 0, then the government must, like action by adjusting the ORA so that BOP equals O. The government does this by buying or selling foreign currency and gold, depending on the situation.

3.5. EQUILIBRIUM AND DISEQUILIBRIUM IN BALANCE OF PAYMENTS

When payments are larger than receipts in international transactions, it is called deficit balance of payments, but when receipts are" larger than payments, it is called as surplus balance of payments. There are four main ways of measuring surplus or deficit.

(a) **Balance on Current Account**: This includes the balance of visible and invisible items and unilateral transfers.

{b) **Basic Balance:** It includes the current account balance and the long- term capital account balance.

(c) **Net Liquidity Balance:** It includes the basic balance plus the short-term private non-liquid capital balance.

(d) **Official Settlement Balance:** It is the total of the net liquidity balance plus the short-term private non-liquid capital balance.

An analytical approach is to consider the balance of payments as the difference between receipts from and payments to foreigners by the residents of a country. Thus,

B=R-P (B=Balance of payments, R=Receipts, P=Payments)

If B = 0, BP is an equilibrium

If B = (+), BP is surplus (BP is balance of payments)

If B = (-), BP is in deficit

3.6 CAUSES OF DISEQUILIBRIUM (DEFICIT)

- Short-term disturbances like floods, crop failures, drought and so on may raise imports and reduce exports.
- Increase in income may lead to more imports and less exports.
- Initiation of development plans may necessitate more imports, while exports of raw materials may be curtailed.
- While the prices of imports arc rising for lDCs, the prices of exports are always sticky.
- Exports of a country may reduce due to (a) contraction of the economy (b) Government policy(c) reduction in exportable surplus (d) Higher home consumption (e) circulation of better quality and new goods (f) increase in income.
- Structural changes may change the demand for exports and imports adversely.
- High rate of growth of population may necessitate more imports and a reduction in exports.

Self-check questions -

a) Which of the following indicates a disequilibrium in the current account of the BOP?

1) Exports exceeding imports. 2) Trade balance equal to zero. 3) Net foreign investment inflows equal to net foreign investment outflows. 4) Current account surplus exceeding the capital account surplus.

b) A significant and persistent decline in domestic savings compared to investment can lead to:

1) Increased foreign investment and a capital account surplus. 2) A trade deficit and a current account deficit. 3) Appreciation of the domestic currency and higher inflation. 4) Stable exchange rates and improved export competitiveness.

3.7 SUMMARY

A Trade deficit of a country is a major push back to the economy of the country perhaps we may also expect to drive a theory in future where trade deficit may be programmed and beneficiary in it existence to the economic growth of a country. Balance of Payments is a systematic record of economic transactions of the residents of a country with rest of the world during a given period of time.

3.8 GLOSSARY

Balance of Trade Deficit: In economic term relates to more expenditure and less of revenue, now as we shall proceed to our subject, trade deficit is the difference between the monetary value of exports and imports in an economy over a certain period of time.

3.9 Keywords – Balance of payments, equilibrium, disequilibrium, deficit.

3.10 Short answer questions

1. What are different features of Balance of Payments and the types of Balance of Payments Accounts?
2. What are the factors affecting the balance of trade?
3. Describe the Opposition of trade deficits and Physical balance of trade.
4. what are various causes of disequilibrium in balance of payments?

3.11 Long answer questions

1. Discuss the major components of the Balance of Payments (BOP) and explain how they interact to affect the overall balance.
2. Analyze the potential causes of disequilibrium in the BOP, distinguishing between internal and external factors. Explain how policy measures can be used to address these imbalances.
3. Explore the potential consequences of a persistent trade deficit for a country's long-term economic growth and

development.

3.12 Self-check question (Answer key)

3.1 **a)** A country's imports exceed its exports

b) 3

3.2 a) 3

b) Increased demand for imported goods and services.

3.3 a) 4

3.2 a) All economic transactions between residents and non-residents.

b) 4

3.3 a) Current account and capital account.

b) The difference between a country's exports and imports of goods and services.

3.4 a) 4

b) 2

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MBA DE (Second Year) | EM 405
Semester-IV | EXPORT MARKETING
Lesson No. 4 | AUTHOR: ROHIT KUMAR MARKAN

REGIONAL ECONOMIC INTEGRATION AND THEIR ROLE IN GLOBAL TRADE

STRUCTURE

4.0 OBJECTIVES

- To understand regional economic integration and its role in international trade.
- To get an idea regarding different regional economic integration in the world.
- To study the advantages and opportunities of economic integration.

4.1 INTRODUCTION

Regional economic integration has started playing role in the global economy. It means the agreements between countries in a geographical region to reduce and completely remove tariff and non - tariff barriers to the free movement of goods, services and factors of production between each other.

Economic integration has major benefits. It allows factors of production to freely move through manmade borders. It is also beneficial for the particular region as a whole. Regional economic integration concerns with the integration of different state economies through assimilation of capital markets, transport, labor market, infrastructure and free trade endorsement. In any decolonized region the states should also share culture, heritage, identity, infrastructure and economic integration institutions of governance. The political differences among the parties of the countries also influence the regional economic integration. Every country has the requirement of energy, communications, resources and technology. The particular countries in a geographical region can exchange these facilities between each other. The growth in Asia is changing international dynamics of globalization. West Asia is the largest source of energy whereas East Asia is a source of labor supply. So their specific needs can be fulfilled mutually. This economic integration can have trade creation and trade diversion effects. Every country is getting the business opportunities. But trade diversion results into many difficulties and awkward situations. The problems which exist are; restrictive trade practices, identical comparative advantage, lack of coherent transport system, political problems (India and Pakistan). These problems can be eradicated by reducing trade barriers, simplifying and improving tariff structure and procedures', improving trade facilitation, promoting collectivism, making the South Asian Free Trade Area (SAFTA) work and exploring potential in new areas.

The common problems of poverty, unemployment and illiteracy can be solved by economic integration. In SAARC countries different countries are participating in terms of population, size and GDP. The agreement on promotion and protection of investment, establishment of arbitration council and a multinational tax treaty with regard to avoidance of double taxation.

For the effective implementation of regional economic integration there should be capital mobility and coordination in policies are required. The common currency i.e., Euro plays vital role in integration. The integration to be effective should be regulated properly and cautious, accompanied by conducive political situations among nations. Rehman Sobham states that South Asia as a region has opportunities and capabilities to integrate and emerge as strong regional entity. South Asia has inherited a shared identity, infrastructure but unfortunately fragmented by politics. Moreover, Asia's emergence as new global growth center has also been high lightened with China the leading economy and India being another fast pace developing state. Other than capital markets South Asian states have opportunities to trade freely and fulfill mutual needs through agreements like (FTA's) free trade agreements signed between India and Sri Lanka, Nepal and Bhutan.

Poonam Baru in "Economic diplomacy in South Asia

Priorities and stake holders in new economy" has stated that economic diplomacy has always been good tool to conduct international relations and build relations at national, regional and global level. This tool has been used successfully earlier such as in integration of (EU) European Union and authorization of (SAARC) South Asian Association for regional Cooperation. Future economic scenario and success of new business will be defined by new variables such as best business practices, innovation, and cross - cultural skills that will facilitate new stakeholders in various areas of cooperation. Furthermore there are new set of random variables namely International security, geo -politics and threat of terrorism, that will affect future economic prospects. The South Asia and world economic community seems to be analyzing series of myths about Indo-Pak relations, which are incoherent with the existing evidence. Although the trade volume in intra-SAARC countries as well Indo-Pakistan is very low as compare to EU and other unions but still there are opportunities and common interest areas between and among these nations. The South Asian business community has always been at the forefront of its governments in supporting and is growing tendency among general public towards business community and corporate sector for leadership and social concerns. Corporate sector should realize that reducing political tensions and security risks in the region have profound long-term implications for their business. The route to involve corporate sector in peace building role will be a positive step towards economic integration, whereas Ideologues and fundamentalists factors will have a negative impact and in economic progress and social stability.

Javid Hussain in "Limitations of SAARC" stated that recently held 14th SAARC summit emphasized on roadmap for South Asian Customs Union .and South Asian Economic Union. South Asian Union if formed will have deep implications for Pakistan regarding politics, economy and the decision-making process. Comparison with (EU) European Union has been done where there is merger of economies and coordination in fiscal, monetary and trade policies. There are certain factors such as cultural affinities and economic complementarities that either facilitate or hinder the formation of economic union. In case of South Asian Union, people.

Economic Integration belongs to two different civilizations Hinduism and Islam that creates differences and political tensions especially between India and Pakistan. Another factor is the apprehension about India's ambition of becoming regional hegemony. There are less possibilities for South Asia to integrate economically however SAARC can play its role in promoting trade and encourage cooperation in areas such transport, communication environment and energy. SAARC still has limitations as organization and is not appropriate for Pakistan to establish economic union. Pakistan will either be frustrated or lose its identity in huge Indian mass in case of this economic union but should grasp other suitable opportunities such platform of ECO where it has much favorable environment economically and politically.

Eric Gonslaves in "Regional Cooperation in South Asia" has stated that regional cooperation has succeeded and accepted universally. It is because of the fact that world is interdependent for its needs and fast pace globalization is taking place. General perception that people and governments have is that they have to compromise and adjust; force cannot resolve bilateral and regional disputes. South Asian cooperation has been at unviable proposition as compare to other regional unions such as EU and ASEAN that are far ahead in regional and economic terms. SAARC has not been able to achieve its goals an d has proved ineffective. One of the reasons is that of Indo -Pakistan disputes mainly Kashmir issue that hinders regional cooperation. Indian economy is growing at fast pace and is moving forward to join world economy so its neighbors including Pakistan must take advantage and benefit from the opportunity of economic cooperation.

Bhutan, Maldives and Sri Lanka have benefited economically due their positive approach and improved bilateral relations with India. Even India-Pakistan cooperation and improved bilateral relations can bring economic progress and regional integration and still opportunities are lying ahead. It is essential for South Asian states to change their negative approach and overcome disputes or they lag behind in process of globalization.

Self-check questions –

a) The world's largest regional economic integration bloc by GDP is currently ___

b) Which of the following is NOT a potential benefit of regional economic integration?

1) Increased economic growth and development for member countries. 2) Reduced trade barriers and improved market access for member businesses. 3) Increased competition and pressure on less efficient industries. 4) Enhanced political and cultural cooperation between member nations.

4.2 PROCESS OP ECONOMIC INTEGRATION AND ITS VARIOUS STAGES

Economic integration is a sequential process whereby ’the discriminations which occur at borders are removed. Discrimination, in simpler terms, is the hindrance to the free flow of factors of production. The aim of the process is to integrate economies so that there is allocative efficiency within a region. Increased economic integration leads to decreased trade barriers within markets. The theory is founded on the work of a Hungarian economist, Bela Balassa and dates back to 1960. There are generally six (five in some places) stages to economic integration. The highest stage is total economic integration and demands some form of supranational body to sustain itself.

The first stage is the establishment of a preferential trade area (PTA). A PTA is established through a trade pact that reduces tariffs (but does not abolish them) and thereby grants 'preferential access’ to factors of production from a particular region.

The second stage of regional integration is a free trade area (FTA). This implies an area where tariffs and quotas are abolished to facilitate the movement of factors of production across borders. Countries within an FTA will however maintain tariffs against countries outside it. Different countries within the FTA have the right to set their own tariffs against third parties. Examples of FTAs are the Association of South East Nations (ASEAN) and the North American Free Trade Area.

The third stage is the formation of a customs union. A customs union is like an FT A where member countries set the same tariffs for non- members. Examples of such a union arc the European Economic Community since 1968 and the southern common market MERCOSUR (Argentina, Brazil, Uruguay, and Paraguay).

The fourth stage is a customs market (CM). In a CM, member countries abolish their non -tariff barriers to factors of production and service markets. An example of this is the European community since 1993, the European Single Market.

The fifth stage is the establishment of an economic union (EUN). This is an advanced stage of a customs market where there is coordination between members in setting their national economic policies and domestic laws. An example of this is the European Union nowadays.

The sixth and final stage is total economic integration. A supranational body sets economic policies applicable to all members. This means that the supranational body needs to have a considerable degree of power to pass laws and make policies. The implications for South Asia when following this model are important to take into account as will be done in subsequent questions.

Self-check questions –

a) A customs union differs from a free trade area in which way?

b) Which of the following is NOT a major form of economic integration?

1) Free trade area 2) Customs union 3) Technical barriers to trade (TBT) agreement 4) Common market

4.3 ADVANTAGES OF ECONOMIC INTEGRATION TO SOUTH ASIA

Theories on economic integration art: based on works by Viner, Mende and Lipsey. According to them, economic integration produces two opposite results: trade creation and trade diversion. Trade creation is when low cost producers have free access to the domestic market', lowering the cost of production, producing allocative efficiency, increasing competition, 'displacing high cost producers and allowing industries to specialize. Trade diversion effects are produced when efficient third parties (countries outside a regional trade agreement) are barred from supplying better factors of production. In general, the benefits of economic integration should outweigh the disadvantages. This means, trade creation effects should outweigh trade creation effects.

The benefits of trade creation are numerous. Firstly, it increases competition in the domestic economies. This would, as a matter of speaking, result in lowering costs and increasing quality as producers are pushed to capture the market; there is more reason to innovate and diversify (produce a greater variety of products). Secondly, because it promotes efficient allocation of resourced it increases living standards, the long run growth of the economy and productivity. Besides the advantages proposed in theory, there are other arguments in integration's favor. Increased economic integration tends to create a stable investment environment by regulating economic and trade policies. A great degree of integration would imply that member states find it difficult to reverse policies without the consent of other members. A regional trade organization may also provide member states with a valuable experience of trade liberalization on a small, experimental stage. In addition to that, economic integration may also lead to greater regional security by creating stakeholders and reducing the risk of conflict. All these benefits become particularly applicable to South Asia when 'geographical proximity', similar cultures and economies are considered.

Self-check questions –

a) One of the key benefits of economic integration for South Asian countries is:

1) Increased political tension between member nations. 2) Reduced access to international markets. 3) Enhanced trade and investment flows within the region. 4) Decreased economic diversification for individual countries.

b) Economic integration can contribute to poverty reduction in South Asia by ___

4.4 ROLE OF SAARC IN ECONOMIC INTEGRATION

The South Asian Association for Regional cooperation (SAARC) is an economic and political organization established in 1985, comprising of eight countries in Southern Asia. Initially the consensus was to cooperate in five areas namely agriculture, science, health, transportation and human resource. Regional trade is an issue of great significance for this region but SAARC has not yet been able to deal effectively with it. Although India has several trade pacts with small South Asian states, similar trade agreements with Pakistan and Bangladesh have been stalled due to political and economic concerns on both sides. Intra - SAARC trade has been bleak 3 percent for the past decade as compare to EU regional trade which stands for nearly 65 percent and intra -ASEAN trade which stands for 35 percent. Another area which has been ignored by SAARC is the integration of capital markets which has been underway for long time but is still operated informally. SAARC has not laid stress internationally on decisive issues like Kashmir dispute and Sri Lankan Civil war. However political dialogue is often conducted on margin of SAARC meetings and during 12th and 13th summits 19 extreme emphases was laid upon greater corporation between the SAARC members to fight terrorism. SAARC s inability to play crucial role in integrating South Asia is often credited to the rivalry between India and Pakistan. It is due to the economic, political and territorial disputes that South Asian nations have not been able to exploit the benefits of a Unified economy. Over the years SAARC's role in South Asia has been greatly diminished and is now used as a mere platform for annual talks and summits. Common Currency Area: prospects for South Asia, Economic Integration in South Asia, Nepal Rastra Bank Small South Asian States namely: Maldives, Nepal, Bhutan and Sri Lanka. Economic diplomacy in South Asia: Priorities and stake holders in new economy, Poonam Baru, Foreign affairs.

However, on the optimistic side SAARC can still play its role in boosting regional trade, water Management, environment, energy, diseases and terrorism which have profound implications for

Every member state and cannot be handled purely at national level and thus require regional Cooperation.

Self-check questions –

a) Which year was SAARC established?

b) One of the major achievements of SAARC in economic integration is:

1) Launching a regional airline network 2) Establishing a common market for agricultural products 3) Developing a South Asian regional standards and quality control framework 4) Implementing a unified visa regime for tourists

4.5 OPPORTUNITIES FOR ECONOMIC INTEGRATION

South Asian states have wide range of opportunities to integrate economically and remerge as a strong regional and economic entity. South Asia can have free trade and free market policies which will pave the way for economic union. Free trade will enable these countries to have common external tariff keeping in view the interests of small nations regarding their tariff revenues. Free market will facilitate the mobility of capital and labor across borders that enhance the capabilities of South Asia to integrate its capital and labor markets. South Asian countries especially India, Pakistan and Bangladesh can work on common interest areas such as Infrastructure, technology, telecommunication, transportation and energy. Special emphasis should be laid to build road networks that can facilitate mobility and generate revenue. India is a major stakeholder in this region and can exploit its neighbor countries to fulfill its energy needs. In return, India can help Pakistan and Bangladesh in sectors such as software and Information technology in which it is highly advanced. Another opportunity seems to have generously opened to India and Pakistan which is (IP1) Iran, Pakistan and India gas pipeline'. Most recently Pakistani foreign minister Shah Mahmood Qureshi visited New Delhi where the modalities of this gas pipeline have almost been finalized. This is a positive step towards improving bilateral relations, diffusing tensions and fulfillment of mutual needs.

Other than that, a regional economic organization also enables the member -states to tackle issues more effectively such as water management, environment, energy and trans border crimes and diseases that cannot be handled at a purely national level and that, therefore, require regional cooperation. As member-states engage in regional cooperation, they establish positive linkages amongst themselves thus producing a 'peace dividend'20. This has been an important outcome of the process of economic integration that has taken place in Europe in the form of the European Union.

4.6 CONSTRAINTS OF ECONOMIC INTEGRATION

South Asian countries have potential to integrate economically and regionally and these countries are also members of a regional cooperation group SAARC. Since economic decisions cannot be alienated from political issues, various political tensions and constraints are source of hindrance in South Asia's economic integration. There are internal political conflicts in countries individually as well as at the regional level. Bilateral political problems such as that of India and Pakistan is one the major hurdles in formation of this union. Kashmir issue which is considered to the apple of discord between t wo states remains unsolved since 1947. One opinion22 in Pakistan is that unless Kashmir issue is resolved no other development including economic progress can take place deterministically. There are certain norms which formulate economic union such as preferential trade agreements, free trade agreements, customs unions and free markets where labor and capital can freely move. Although preferential trade agreement is there between these states but there are serious objections for FTA even with small states due to loss of tariff revenues. Formulation of Customs unions and free markets also seems to be very difficult in near future.

South Asian Union if formed will have deep consequences for Pakistan regarding politics, economy and decision makes process. There are certain factors such as cultural affinities and economic complementarities which either facilitate or hinder the formation of economic union. In case of South Asian Union people belong to two different civilizations Hinduism and Islam which creates differences especially between India and Pakistan. Another factor being the apprehension about India's ambition of becoming regional hegemony and significant trade imbalances in favor of India remains issue of concern even for smaller South Asian states. One opinion is that Pakistan should join EC023 as forum for establishing Economic Union because of advantage of cultural affinities, absence of serious disputes and non-existence of hegemonic ambitions on the part of ECO member states. Furthermore, analysis of EU model which is an established union suggests that there are ongoing debates on issues such as security policies and EU constitution which are indeed political in nature, whereas in the case of South Asia issues are far more sensitive and complicated in nature.

Self-check questions –

a) Economic integration primarily aims to ___

b) Which of the following is NOT a typical constraint of economic integration?

1) Increased cultural homogenization and loss of diversity. 2) Loss of national sovereignty and decision-making autonomy. 3) Exacerbation of existing inequalities and regional disparities. 4) Increased competition and potential job losses in certain sectors.

4.7 DIFFERENT REGIONAL ECONOMIC INTEGRATION IN THE WORLD

(A) REGIONAL ECONOMIC INTEGRATION AMERICA

1. (NAFTA)

Established in 1989 between US and CANADA, in 1994 MEXICO joined, after that these countries had done various agreements like removal of tariffs on 90% goods in 10 years, removal of barriers to cross border flow of services, protection of intellectual rights, removal of most restrictions on FDI, application of national environmental standards. Two commissions were established for monitoring environmental standards and health/ safety, minimum wage and child labor laws, impose fines and remove trade privileges for violations.

IMPACT OF NAFTA

- In the entire world US and Canada have largest bilateral trade.
- Canada is the largest export market to US.

- NAFTA has helped in creating opportunity for an enlarged and efficient production base for region.
- Mexico is getting benefit from inwards FDI.
- Consumers are getting goods at lower prices.
- In the concerned countries employment creation developed.
- US and Canada are getting cheap labor from Mexico.
- Low-cost agricultural products are imported from Mexico.

2. MERCOSUR (SOUTH AMERICA)

Established in 1991 treaty of Asuncion, updated in 1994 by treaty of Ouro Preto. Argentina, Brazil, Paraguay, Uruguay are the full members of this treaty.

3. CENTRAL AMERICAN COMMON MARKET

It consists of Central American common market (5 nations of Central America), firstly it was established in 1960 and restarted in 1991 this central American common market (CACM) has succeeded in removing duties on most products moving among the member countries, it has largely unified external tariffs and increased trade within the member nations. However, it has not achieved the further goals of greater economic and political unification that were hoped for at the organization's founding.

4. CARICOM

Established in 1973 by treaty of Chaguaramas which came into effect on August 1, 1973. CARICOM had replaced the 1965 -1972 (Caribbean Free Trade Association) CARIFTA. Basically, it consists of Caribbean community (Barbados, Jamaica, Guyana and Trinidad & Tobago.

5. ANDEAN COMMUNITY

This Andean community was established in 1969 and 1997 between the customs union of Bolivia, Chile, Educador, Colombia, and Peru. Until 1996 the trade bloc was called the Andean Pact and came into existence with the signing of the Cartagena Agreement in 1969. Its headquarters are located in Lima, Peru. The treaty was done for internal tariff reduction, common external tariff, transportation policy, common industrial policy between the partner countries.

(B) REGIONAL ECONOMIC INTEGRATION (ASIA)

1. ASEAN

ASEAN has 10 member countries, it was established in 1967 partner countries were Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. This collaboration has increased free trade and cooperation in industrial policies and social progress. Many companies like BMW, Matsushita, Electrical industrial, Honda motors, Proctor and Gamble. A Dell computer has established assembly operations at Malaysia.

2. APEC

APEC (Asia- Pacific Economic Cooperation) was established in 1990 and constitutes 20 members like US, Japan, China, and Australia. This has increased multilateral cooperation in light of interdependence of pacific nations.

Self-check questions –

a) The Central American common market was established in:

1) 1960 2) 1970 3) 1980 4) 1990

b) ASEAN was established in ___

4.8 SUMMARY

Regional economic integration concerns with the integration of different state economies through assimilation of capital markets, transport, labor market, infrastructure and free trade endorsement. South Asian states have wide range of opportunities to integrate economically and emerge as a strong regional and economic entity. South Asia can have free trade and free market policies which will pave the way for economic union. Free trade will enable these countries to have common external tariff keeping in view the interests of small nations regarding their tariff revenues. Free market will facilitate the mobility of capital and labor across borders that enhance the capabilities of South Asia to integrate its capital and labor markets.

4.9 GLOSSARY

Regional economic integration means the agreements between countries in a geographical region to reduce and completely remove tariff and non-tariff barriers to the free movement of goods, services and actions of production between each other.

4.10 Keywords – Economic integration, NAFTA, ASEAN, common market.

4.11 Short answer questions

1. What do you mean by regional economic integration. Mention Advantages of Economic Integration to South Asia?
2. Mention different regional economic integrations in America and Asia.
3. What are the constraints of economic integration?
4. Write a note on ASEAN.

4.12 Long answer questions –

1 Analyze the potential benefits and drawbacks of economic integration for a specific region or group of countries.

2 Evaluate how economic integration could contribute to sustained economic growth and development across South Asia.

3 Analyze and compare the benefits and drawbacks of different regional economic integration in the world.

4.13 Self-check question (Answer key)

4.1 **a)** European Union (EU)

b) 4

4.2 **a)** A customs union goes beyond simply eliminating tariffs, requiring harmonized customs regulations to facilitate trade and prevent unfair competition.

b) 3

4.3 a) 3

b) Creating new job opportunities in export-oriented industries.

4.4 a) 1985

b) 3

4.6 a) Increase trade and investment flows between participating countries.

b) 1

4.7 a) 1

b) 1967

4.14 SUGGESTED READINGS

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TARRIFFS AND NON-TARIFF BARRIERS IN INTERNATIONAL TRADE

STRUCTURE

5.0 OBJECTIVES

After reading this chapter, the student should be able to :

- To understand what is Tariff.
- To know about different barriers to trade and to find out most commonly used barriers to trade.
- To study arguments in favour of trade barriers and arguments against them.

5.1 INTRODUCTION TO TARIFF AND NON-TARIFF BARRIERS

The General Agreement on Tariffs and Trade (GATT) has provided a forum for negotiating multilateral tariff reductions among the member nations. Despite these negotiating efforts, however, many tariffs still exist and much effort is still required to lower these barriers.

What Is Tariff?

Tariffs may differentiate among the countries from which imports are obtained. They may, for instance be lower between countries that have previously entered into special arrangements, such as the trade preferences accorded by members of the British Commonwealth.

Tariffs may affect the economy of the country imposing them in a number of ways. By raising the prices of imported goods, tariffs may encourage domestic producers to increase production. As the expenditure on domestic products rises, domestic employment lends to go up. This is why tariffs are favoured by industries that find themselves hard pressed by foreign competitors. Tariffs may also encourage tendencies towards a monopolistic market structure to the extent to which they lessen foreign competition, with the resulting decrease in the incentive to modernize or innovate. But a tariff by increasing the price of a commodity may also reduce its consumption, depending on how consumers react to the higher price.

Reasons for Trade Barriers

1. Protect local jobs by shielding home country business from foreign competition.
2. Encourage local production to replace imports.
3. Protect infant industries that are just getting started.
4. Reduce reliance on foreign suppliers.
5. Encourage local and foreign direct investment.
6. Reduce balance of payments problems.
7. Promote export activity.
8. Prevent foreign firms from dumping that are, selling goods below cost in order to achieve market share.
9. Promote political objectives such as refusing to trade with countries that practice apartheid or deny civil liberties to their citizens.

5.2 DISAGREEMENTS ABOUT TARIFFS

Many people believe that tariffs enable a nation to improve its economy. On the other hand, most economists argue that tariffs lower the standard of living in a country by forcing its citizens to pay higher prices for goods. Most economists also believe that tariffs lower the standard of living throughout the world by reducing trade.

5.2.1 Arguments for Tariffs

The supporters of tariffs claim these taxes help provide:

5.2.1.1 Domestic job protection;

5.2.1.2 Aid to industrial development; and

5.2.1.3 A strong national defence.

Tariff policies reflect the economic and political conditions in various countries. Throughout history, nations have changed their tariff policies to keep in step with their economic and political goals.

5.2.2 Arguments against Tariffs

There is a belief that tariffs result in:

5.2.2.1 Higher prices;

5.2.2.2 Industrial development; and

5.2.2.3 Reduction in trade.

Many economists, therefore, believe that they lower the standard of living of the trading nations.

Self-check questions –

a) A tariff is a ___

b) Non-tariff barriers can be more difficult to remove than tariffs because:

1) They are often less transparent and harder to identify. 2) They are negotiated and agreed upon in international trade agreements. 3) They are directly beneficial to domestic producers. 4) They are prohibited by the World Trade Organization.

5.3 COMMONLY- USED BARRIERS

There are a variety of barriers that deter the free flow of international goods and services. The following discussion presents six of the most common barriers.

- **Price-based barriers**: Imported goods and services sometimes have a tariff added to their price. Quite often this is based on the value of the goods. For example, some tobacco products coming into the United States carry an ad valorem tariff of over 100 Percent, thus more than doubling their cost to U.S. consumers. Tariffs raise revenues for' the government, discourage imports, and make local goods more attractive.

- **Quantity limits**: Quantity limits, often known as quotas, restrict the number of units that can be imported or the market share that is permitted. If the quota is set at zero as in the case of Cuban cigars from Havana, it is called an embargo. If the annual quota is set at 1 million units, no more than this number can be imported during one year; once this quota is reached; all additional imports are turned back. In some cases, a quota is established in terms of market share.
- **International price fixing**: In some cases, a host of international firms will fix prices or quantities sold in an effort to control price. This is known as a cartel. An example is OPEC (Organization of Petroleum Exporting Countries), which consists of Saudi Arabia, Kuwait, Iran, Iraq, and Venezuela, among others (see companying map). By controlling the supply of oil, it provides, the cartel seeks to control the price and profit, his practice is illegal in 'the United States and Europe.
- **Non- tariff barriers**: Nontariff barriers are rules, regulations, and bureaucratic red tape that delay or preclude the purchase of foreign goods. Examples include (1) processing of import permits, (2) the establishment of quality standards that exclude foreign producers, and (3) a "buy local" policy. These barriers limit import and protect domestic sales.
- **Financial limits**: There are a number of different financial limits. One of the most common is exchange controls that restrict the flow of currency. For example, many Latin American countries will allow exporters to exchange their dollars for local currency, but they place restrictions on access to dollars for purchasing imports. Other common exchange control is the limit of currency that can be taken out.
- **Foreign investment controls**: Foreign investment controls are limits on foreign direct investment or the transfer or remittance of funds. These controls can take a number of different forms, including (1) requiring foreign investors to take a minority ownership position (49 percent or less); (2) limiting profit remittance, for example, to 15 percent of accumulated capital per year; and (3) prohibiting royalty payments to parent companies, thus stopping the latter from taking out capital.

Self- check questions –

a) A barrier refers to ___

5.4 TARIFF BARRIERS

Tariff is a tax on goods that are shipped internationally. The most common is the import -tariff, which is levied on goods shipped into a country. Less common-is the export- tariff, which is levied on goods that are sent out of the country, or a transit-tariff, which is levied on goods passing through the country. There are a number of bases on which these taxes are levied. A specific duty is a tariff based on units such as $1 for each item shipped into the country. So, manufacturer shipping in 1000 pairs of shoes would pay a specific duty of $1000. A specified duty is expressed in terms of money per quantity of goods. An ad valorem duty is q- tariff based on a percentage of the value of the item, so a watch valued at $25 and carrying a 10 percent duty would have a tariff of $2.50. Ad valorem duties on manufactured goods are obviously more than specific duties as the cost of import increases. A compound duty is a tariff consisting of both a specific and an ad valorem duty. These are levied on certain manufactured products on the basis of the weight of the raw material. So, a suit of clothes valued at $80 which carries a specific duty of $3 and an ad valorem duty of 5 percent would have a compound duty of $7.

Tariffs continue to be one of the most commonly used barriers to trade, despite the fact that they often hurt low-income consumers and have limited, if any, impact on upper-income purchasers. In recent years most industrialized countries have tried to reduce or eliminate the use of these trade barriers and to promote more free trade policies. The United States is a good example.

Self-check questions –

a) A tariff is a barrier to:

1) Physical movement of people. 2) International trade. 3) Access to information. 4) Educational opportunities.

b) How does a tariff affect the price of imported goods?

5.5 NON- TARIFF BARRIERS TO TRADE

The economic effects of nontariff barriers (NTBs) to trade are roughly similar to those of tariffs. They are inefficient distortions which reduce potential gains from trade here is a wide range of NTBs.

Nontariff barriers have gained prominence in recent years as they have become more visible and more important. Nations have resorted to them more frequently for protection. For example, the average U.S. tariff rate was reduced from an all-time high of 60 percent in 1932 to 12 to 15 percent during the 20 years following World War II to about 5 percent by 1980. The use of nontariff barriers remained stable until the 1970s, when their use increased.

(a) Quotas

Quotas are the most important NTBs. A quota restricts imports to a particular level. When a quota is imposed, domestic production generally increases and prices rise. As a result, the government will usually end up losing tariff revenues.

Historically the GATT has prohibited import quotas except on agricultural products, as emergency measures, or when a country has short-run balance of payments problems. Countries have circumvented this regulation most notably for textiles, footwear, and automobiles by negotiating voluntary export restraint agreements which are useful in preventing retaliatory action by the importing country. In general, business would rather be protected by quotas than by tariffs.

Non-tariff Barriers to Trade

Specific Limitation	Customs administrative rules	Government participation	Import charges
• Quotas (Including voluntary) • Import licenses • Supplementary incentives • Minimum import limits • Embargoes • Sectoral bilateral agreements • Orderly marketing agreements	• Valuation systems • Antidumping rules • Tariff classifications • Documentation needed • Fees • Disparities in quality and testing standards • Packaging, labeling, and marketing standards	• Procurement policies • Export subsidies and incentives • Countervailing duties • Domestic assistance programs • Trade-diverting	• Import deposits • Supplementary duties • Import credits • Variable levies • Border levies

(b) Buy National Restrictions

"Buy national" regulations require national governments to give preference to domestic producers, sometimes to the complete exclusion of foreign firms. In Europe, for example, many of the telephone, telegraph, electricity generation and transmission, airlines, and railroad industries are government - owned and buy from national firms only, thus closing a large market for U.S. exports. On the other hand, the United States has a similarly wide range of inefficient "Buy American'[1] regulation at the national and state levels that discriminate against foreign suppliers.

(c) Standards

Several devices have been used in the recent past to exclude export from foreign markets. Product standards, ranging from permissible auto exhaust emission levels to wine labeling requirements, have been manipulated to discriminate against foreign goods. The purpose of the agreement on technical barriers to trade, known as the standards code, is to discouraged discriminatory manipulation of product standards, product testing, and product certification systems.

(d) Customs Valuation

Also, during the GATT Tokyo round, considerable progress was made in the area of customs valuation for the payment of duties. In the United States, there were nine valuation systems prior to the Tokyo round. Value for duty is now generally on the invoice cost. The latitude of customs to reclassify products was also reduced.

The countries of the EEC and many other countries base customs valuation on the relatively simple Brussels Convention of 1950. The U.S. has a different, highly complex system that includes the notorious American Selling Price (ASP) device, which values certain imports, notably benzenoid chemicals, canned clams, tennis shoes, and woolen gloves at the highest wholesale price of the competitive U.S. product.

The customs valuation code lays down new international rules which should result in uniform and equitable evaluation for duty purposes of all classes of trades. This agreement will provide major benefits to exporters by bringing an end to the common practice of customs authorities arbitrarily lilting the dutiable value of goods. The code also requires that the U.S. eliminate the controversial ASP method of valuation.

Under this hierarchy, valuation is based on the first of the following, whichever can be determined:

1. price of identical goods,
2. price of similar goods,
3. Resale price of the goods, with allowances for factors such as profits and costs associated with resale of the goods,
4. cost of producing the goods.

When value cannot be determined by using these fallbacks, custom., officials must use other means with the proviso that no method can be used, if its results are unreasonable.

(e) Government Procurement

The government procurement issue has been a thorny one. All governments and their satellites discriminate in favour of national suppliers. The Europeans do it through administrative decisions. The EEC has only recently decided that the public sector market should be open even to intra-EEC competition; and even that excludes public works, transport communications, power equipment and, for the moment, computers.

(f) Foreign Exchange Control

Foreign exchange deals with the means and methods by which rights to wealth in on - country's currency are converted into right to wealth in terms of the currency of another country. According to Indian exchange control regulations, "foreign exchange [1]' means foreign currency and includes all deposits, credits and balances payable in any foreign currency, and any drafts, travellers cheques, letters of credit and bills of exchange and promissory notes.

Aims of Foreign Exchange Control

The objectives of foreign exchange control are:

(i) To restrict demand for foreign exchange;

(ii) To give protection to industries;

(iii) To maintain over-valued exchange rates;

(iv) To have independent monetary and fiscal policies;

(v) To check the flight of capital; and

(vi) To earn revenue.

Self-check questions –

a) A quota is a barrier that:

b) Non-tariff barriers (NTBs) differ from tariffs in that they:

1) Are always hidden and difficult to identify. 2) Do not directly increase the price of imported goods. 3) Are exclusively used by developed countries. 4) Are prohibited by the World Trade Organization (WTO).

5.6 TECHNICAL BARRIERS

Product and process standards for health - welfare, safety, quality, size and measurements can create trade barriers by excluding products that do not meet the standards. Testing and certification procedures, such as testing only in the importing country and on-site plant inspections, were (and still are to some extent) cumbersome, time- consuming, and expensive. These costs must be borne by the exporter prior to the foreign sale. National governments have the right and duty to protect their citizens by setting standards to prevent the sale of hazardous products. But such standards can also be used t o impede trade. Japan excluded U.S. made baseball bats from the market because they did not meet the Japanese standard. No product produced outside Japan (even products made by foreign subsidiaries of Japanese MNEs) could bear the certification stamp of the Japanese Industrial Standard GIS) or the Japanese Agricultural Standard GAS), and selling in Japan without the JIS or JAS logo was difficult.

Antidumping Legislation, Subsidies, and Countervailing Duties

The GATT allows importing countries to protect their producers from unfair competition such as 'dumping' goods at extremely low prices in an effort to gain market share and to drive out local competition. Importing countries are allowed to impose additional duties on products that have received export subsidies or are "dumped." Before the duties are imposed, however, the country must show that its domestic industry has suffered "material" injury by dumped or subsidized imports. Although products at these artificially low prices provide consumers in the importing country with a "good buy," such competition is thought to be unfair to domestic producers. Domestic producers object to dumping (and also to subsidized imports which can be offset by "countervailing'' duties) if the domestic market of the exporting country is closed to them.

Agricultural Products

Trade in agricultural products is highly regulated by quotas and fixed and variable tariffs. Domestic producers are often highly subsidized both directly and by artificially high domestic prices. Agricultural exports are often subsidized as well. The EC flatly refused to discuss its Common Agricultural Policy (CAP) at the Tokyo round.

Export Restraints

Over the vigorous objections of countries exporting natural resources, the Tokyo round moved to tighten the conditions under which exports could be restrained. In general world tariffs increase with the level of processing (e.g., import duties increase as copper is processed from concentrate to blister, to refined copper, to copper wire and bars, to copper pots and pans). This tariff structure makes upgrading of natural resources in the producing country difficult.

Self-check questions –

a) How do technical barriers differ from tariffs?

b) What is the primary function of technical barriers?

5.7 SUMMARY

There are number of different barriers to trade. some of the most common include price base barriers, quantity limits, international price fixing, on-tariff barriers, financial limits, and foreign investment controls. Like most other countries India uses a variety of trade barriers and negotiated agreements to limit the negative impact of imports and has enacted legislation to encourage exports. Although tariffs are often introduced to maintain local jobs and assist infant industry, they are inefficient. This economic inefficiency results in higher price s of imported goods for the consumer. Non-tariff barriers provide similar inefficiencies to trade. There are several types of Non -tariff barriers such as quotas, buy national restrictions, technical barriers, and export constrains.

5.8 GLOSSARY

6.0 Tariff is a tax on goods shipped internationally.

7.0 Quota is a quantity limit on imported goods.

5.9 **Keywords –** Tariff, non-tariff, technical barriers.

5.10 Short answer questions

1 Differentiate between tariffs and non-tariff barriers (NTBs).
2 Give two examples of common non-tariff barriers NTBs and explain their potential impact.
3 Give two arguments against tariffs.
4 Write note on technical barriers.

5.11 Long answer questions

1. What are the reasons for trade barriers? Identify and describe few.
2. How does each of these trade barriers work: price based barriers, quantity limits, international price fixing, non- tariff barriers, and financial limits.
3. Nontariff barriers have become increasingly predominant in recent years. Describe what we understand by nontariff barrier and list its various types.

5.12 **Self-check question (Answer key)**

5.2 **a)** Tax on imported goods.

b) 1

5.3 **a)** An obstacle or hindrance to entry, progress, or success.

5.4 **a) 2**

b) It increases the price for consumers

5.5 **a)** Restricts the quantity of something allowed.

b) 2

5.6 **a)** They are based on technical specifications, while tariffs are based on monetary value.

b) Generate government revenue

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MBA DE (Second Year) **EM 405**

Semester-IV **EXPORT MARKETING**

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INTERNATIONAL INSTITUTIONS FOR TRADE PROMOTION: WTO, IMF AND IBRD

STRUCTURE

6.0 OBJECTIVES

After reading this chapter, the student should be able to:

- To understand the concept and working of various financial institutions
- To know about impact of these instates on the Indian economy

6.1 INTRODUCTION

Financial Institutions are the life blood of any economy. The growth of any economy depends upon the kinds of its financial institutions from which it gets financial aid as and when necessary. From the international point of view the various financial institutions, who are serving its members for development as well as other purposes. In this chapter we will study the working and administration of World Trade Organization (WTO), International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD)

6.2 WORLD TRADE ORGANISATION: A HISTORICAL BACKGROUND

The first half of the 20th century was marked by a major worldwide economic depression that occurred between the two world wars and destroyed most of the industrialized nations. International trade got a setb ack when after the First World War countries erected high tariff walls and raised other tariffs as well. International trade was stalled along with most economies; this was fundamental reason of Second World War. After that world leaders created General agreement on Tariffs and Trade (GATT) to avoid the repetition of the same. It was a forum for member countries to negotiate a reduction of tariffs and other barriers to trade. The GATT was then converted into World Trade Organization (WTO) on 1st January 1995 while GATT was only a mere agreement the WTO on the other hand was an institution which was supposed to work on a permanent basis. The purpose of WTO was to solve the trade disputes along with IMF and World Bank

6.2.1 The WTO Structure

The structure of WTO is dominated by the highest authority- the ministerial Conference. This body is composed of representatives of all WTO members. It meets at least every two years and is empowered to make decisions on all the matters under any of the multilateral trade agreement. The day-to-day work of WTO is entrusted to a number of subsidiary bodies- namely the General Council, who is required to report to the Ministerial conference. The General Council also delegates responsibility to three other bodies namely- Trade in goods, Trade in services and Trade related aspects of Intellectual property rights

6.2.2 Functions of WTO

6.2.2.1 Helping Developing and Transition Economies

The main function of WTO is to help the developing economies and those who are in transition phase as they are shifting from planned economic system to market based economic systems. WTO provides data of tariff and trade to developing nations to help them in their exports.

6.2.2.2 Specialized help for Exports

In 1964 WTO established the International Trade Centre to help develop countries in their exports. It is jointly operated by WTO and the United Nations. It provides information and advice on exports markets and marketing techniques

6.2.2.3 Global Economic Policy Making

WTO co-operates with the IMF, World Bank and other multilateral institutes to achieve greater coherence in global economic policy making. A separate ministerial declaration was adopted at the Marrakesh Ministerial Meeting in April 1994 to underscore this objective

6.2.2.4 Taking Information

WTO takes regular information from the member countries regarding their policies and tariffs. In this way it keeps itself updated regarding developments but also it disseminates information to the member countries which help them in increasing their exports

6.2.2.5 Giving Information to Public

It also disseminates information to the public about the development in WTO through its publication and its websites

6.2.3 Rules of WTO

WTO agreements include goods, services and intellectual property. It has an objective of reducing tariffs to zero. It enables liberalization and allows limited exemption regarding duties. It establishes a system to resolve disputes and ensures transparency regarding the trade policy of the government. The present WTO system is based on the Uruguay Round Agreements, which are as follows:

6.2.3.1 Binding and cutting of tariffs: It includes commitment to cut and bind custom duty rate on import of goods. In some cases, tariff is being cut to zero. Developed countries tariff cuts were for the most part phased in over five years from January 1, 1995

6.2.3.2 Tariff on Agriculture: Tariff on all the agricultural products is now bound. Almost all the import restrictions besides tariffs have been converted into tariffs, a process known as tariffication. Over six years from 1995-2000, the tariff gradually reduced.

6.2.3.3 Domestic Support: WTO has also provided the members countries, the domestic support including the government services, assistance programmes to encourage agricultural and rural development.

6.2.3.4 Export Subsidies: The Agricultural Agreement in WTO prohibits export subsidies on agricultural products except those specified in a members' list of commitment. Taking the average for 1986-90 at the base level, developed countries agreed to cut the value of export subsidies by 36 % over the six years starting in 1995.

6.2.4 Regional Groups in WTO

Many groups operate in the WTO. Some are for economic integration such as European Union, ASEAN, NAFTA and MERCOSUR. These groups of countries when adopt common positions can reach a consensus more easily. The largest group is European Union and its 15 member's states for legal reasons known officially as the "European Committees" in WTO business. ASEAN members also coordinate positions among themselves and speak with a single voice in the WTO. Other groups are African, Caribbean, pacific Group and the Latin America Economic System.

6.2.5 Advantages of WTO

1. The system helps in promoting peace
2. Disputes are handled constructively
3. Rules makes life easier for all
4. Free trade cuts the cost of living
5. It provides more choice of products and qualities
6. Trade raises incomes and stimulates economic growth
7. Free trade reduces the manufacturing cost
8. Government is shielded from lobbying
9. The system encourages good government

Self-check questions –

a) When was the WTO established?

b) How many members does the WTO currently have (as of December 2023)?

6.3 INTERNATIONAL MONETARY FUND (IMF)

International Monetary Fund (IMF) is one of the most important financial institutions. It commenced its financial operations from March 1, 1947. At that time, it had 39 members but now the membership is around 182. The staff of IMF is approximately 2700 from 110 countries. The main function of IMF is to lend money to the member countries for the purpose of economic reforms. Its policies and activities are guided by its charter known as the "Articles of Agreement".

6.3.1 Members and Administration of IMF

On joining IMF, each member country contributes a certain sum of money called quota subscription' which serves the following purposes:

6.3.1.1 From pool of money in the quotas IMF lend money to the members in the time of financial difficulty

6.3.1.2 Quota forms the basis of determining Special Drawing Rights (SDR)

6.3.1.3 It also determines the voting power of the members

6.3.2 Statutory Purposes of IMF

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

6.3.2.2 To facilitate the expansion and balanced growth of international trade

6.3.2.3 To contribute to the promotion and maintenance of high levels of employment and real income for the development of productive resources

6.3.2.4 To promote exchange stability and orderly exchange arrangements among members

6.3.2.5 To assist in the elimination of foreign exchange restrictions which hampers the growth of world trade

6.3.2.6 To shorten the duration of disequilibrium in the international BOP of members

6.3.3 IMF- Financial Policies and Operations

The financial operations of IMF can be categorized into following heads:

(a) Financial Assistance

IMF provides financial assistance to its members on regular and concessional basis. Under the regular financial assistance, Standby arrangements (SBA) are designed to provide short term balance of payment assistance for deficits of temporary nature for generally 12 -18 months. Repurchases are made 3 'A to 5 years. Also, the Extended Fund facility (EFF) is designed to provide medium term programmes that generally runs for 3 years. Repurchases are made 4 Vi to 10 years.

Under the concessional facilities, Enhanced Structural Adjustment Facility (ESAF) was established in 1987 which was extended and enlarged in 1994. It was designed for low-income member countries with prolonged balance of payment problems. It loans all types of loan arrangements which is made for 3 years and carry interest at 0.5 % pa with 5 1/2 grace period and 10 years of maturity.

(b) Charges

Service charges and commitment fee is charged at the rate of 'A of 1% of the amount borrowed. Interest is charged at the rate of 4.5%

(c) Services

The services of IMF are as follows:

- Providing technical assistance in certain areas of its competence
- Running an educational institute at Washington and offering training courses abroad
- Issuing wide variety of publications containing valuable information and statistics that are useful not only to the members but also to the banks, research institutes, universities and also the media

6.3.4 Accomplishments of IMF

6.3.4.1 It sustained a rapidly increasing volume of trade and investment

6.3.4.2 It displayed flexibility in adapting changes in international commerce

6.3.4.3 It has proved to be efficient

6.3.4.4 It has established a capacity to accommodate reforms and improvements

Self-check questions –

a) How many member countries does the IMF currently have (as of December 2023)?

b) What are Special Drawing Rights (SDRs)?

6.4 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IBRD was set up in 1945 to aid in rebuilding the world economy. It was owned by the governments of 151 countries and also the capital is subscribed by the governments. It lends money to a government for the purpose of developing that country's economic infrastructure. Funds are lent only to the members of IMF and usually when private capital is unavailable at reasonable terms. Loans are generally given by IBRD for the grade period of 5 years and are repayable in 15 years.

6.4.1 Purposes of IBRD

6.4.1.1 To develop new industrial free trade zones and expansion of existing ones
6.4.1.2 Strengthening backward linkages with the domestic economy
6.4.1.3 Reducing unemployment
6.4.1.4 Alleviating scarcity in term financing
6.4.1.5 To help the poorest countries
6.4.1.6 To invest in health and education programmes
6.4.1.7 To protect the environment
6.4.1.8 Supporting and encouraging private business developments
6.4.1.9 Strengthening the ability of the government to deliver quality services efficiently and transparently
6.4.1.10 Focusing on the social developments
6.4.1.11 Poverty reduction
6.4.1.12 To improve the capacity of the institutions involved in financing, regulating and promoting the free zones.

6.4.2 Sources of IBRD

6.4.2.1 Contribution from wealthier member governments
6.4.2.2 IBRD sells AAA rated bonds and other debt securities to pension funds, insurance companies, corporations, banks and other bodies
6.4.2.3 IBRD charges interest from the borrowers
6.4.2.4 By tapping the world's capital markets IBRD generates funds
6.4.2.5 Loans are repaid in 15 to 20 years with grace period of 3-5 years
6.4.2.6 IT gives interest free loans
6.4.2.7 It accounts for *A* of all the bank lending
6.4.2.8 Borrowers pay a fee of less than 1 % of the loan to cover administrative cost. Repayment are made in 35-40 years with grace period of 10 years
6.4.2.9 Nearly 40 countries contribute to IBRD’s funding

6.4.3 Bodies of IBRD

The World Bank (IBRD) is comprised of three parts i.e., IDA, IFC and MIGA.

6.4.3.1 **International Development Association (IDA)**: It was formed in 1960 as a part of the World Bank group to provide financial support to the Least Developing countries on the more liberal terms. It has 137 member countries. Its funds come from the subscription from its developed members and from the earnings of the IBRD. Credit terms are usually extended to 40 to 50 years with no interest. Repayment begins after 10 years grace period and it can be paid in the local currency.

6.4.3.2 **International Finance Corporation (IFC)**: It was established in 1956. It has 133 members. It is legally and financially separate from IBRD although IBRD provides some administrative and other services to IFC. Loans are made to private firms in the developing member countries, usually for a period of 7 to 12 years. AH the loans are made to private enterprises and its investments are made in conjunction with the private business.

6.4.3.3 **The Multilateral Investment Guarantee Agency (MIGA)**: It was established in 1988 to encourage equity investment and other direct investment flow to developing countries by offering investors a variety of different services. It offers guarantees against non-commercial risks and also advices developing member governments on the design and implementation of policies, programmes and procedures related to foreign investments. It sponsors a dialogue between the international business communities and the host governments on the investment’s issues.

Self-check questions –

a) What is the primary purpose of the IBRD?

b) Which country currently holds the largest voting power in the IBRD?

1) The United States
2) China
3) Japan
4) Germany

6.5 SUMMARY

The financial institutions are very essential in meeting the needs of the under developed and developing economies. With the help of these institutions the underdeveloped economies have easy access to generate funds at low interest rates. Time to time various institutions has been formed in this way to help the underdeveloped economies. WTO, IBRD and IMF are doing well in this direction.

6.6 GLOSSARY

Financial Institutions are the backbone of any economy. They provide loans and other types of financial assistance to the underdeveloped economy for growth of their trade and others services as well.

6.7 **Keywords –** World trade organization, international monetary fund, International Bank for Reconstruction and Development

6.8 Short answer questions

1 Explain functions of WTO.
2 describe the purpose of IBRD.
3 elaborate financial policies of IMF.

6.9 Long answer questions

1. Explain in detail the working and administration of World Trade Organization.
2. Write a detailed note on the financial policies and operations of International Monetary Fund.
3. What is IBRD? For what purpose it has been formed? How funds are generated by IBRD?

6.10 Self-check question (Answer key)

6.1.5 a) 1995
b) 164
6.3.4 a) 195
b) A reserve asset created by the IMF
6.4.3 a) To provide long-term loans for infrastructure development and economic growth in middle-income and low-income countries.
b) 1

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Semester-IV **EXPORT MARKETING**

Lesson No. 7 **AUTHOR: GURVINDER SINGH**

COMPOSITION OF INDIA'S FOREIGN TRADE AND ITS DIRECTION STRUCTURE

7.0 OBJECTIVES

After reading this chapter, the student should be able:

- To know the importance of foreign trade for India.
- To state the direction of India's foreign trade and how it changes its direction over time
- To know India's composition of foreign trade.
- To know major trading partners of India
- To state India's share in world trade.

7.1 INTRODUCTION

One of the most important phenomena in post-war economic history has been the enormous expansion of world trade. Indian trade grew poorly from 1950 to 1980 as compared with the world. However, from 1980 onwards, Indian exports have been rising at one and a half times the pace of growth in world exports. In 1993, India ranked 33rd in top exporting countries and 32nd in top importing countries.

Initially, India's foreign trade followed a pattern common to all underdeveloped countries: exporting raw materials and food in exchange for manufactured goods. The only difference in India's case was that it also exported processed textiles, yarn, and jute goods. Until the late 1980s, the government's strongly import substitution-oriented industrial policy limited the significance of exports for the Indian economy, and while exports have become more important, they remain only about 8% of national income. With imports exceeding exports almost continuously in the 1970s and 1980s, India registers a chronic trade deficit. Stabilization and structural adjustment measures taken in 1991, including 50% currency devaluation, have improved the country's balance of trade position by depressing imports and making exports more competitive in the world market. Given the country’s relatively well -developed manufacturing base, items like textile goods, gems and jewelry, engineering goods, chemicals, and leather manufactures now comprise the country's leading exported items, replacing jute, tea, and other food products that dominated its export base in the 60s and early 70s.

Til! the early 1990s, India was a closed economy: average tariffs exceeded 200 percent, quantitative restrictions on imports were extensive, and there were stringent restrictions on foreign investment. The country began to cautiously reform in the 1990s, liberalizing only under conditions of extreme necessity.

In 1999 India's imports were distributed among the following categories: India's exports are dominated by textiles, followed by agricultural products, gems and jewelry, and engineering goods. Major imports include petroleum and petroleum products, gold and precious stones, machinery, chemicals, and fertilizers.

Since that time, trade reforms have produced remarkable results. India's trade to GDP ratio has increased from 15 percent to 35 percent of GDP between 1990 and 2005, and the economy is now among the fastest growing in the world.

Average non-agricultural tariffs have fallen below 15 percent, quantitative restrictions on imports have been eliminated, and foreign investments norms have been relaxed for a number of sectors.

India however retains its right to protect when need arises. Agricultural tariffs average between 30-40 percent, anti-dumping measures have been liberally used to protect trade, and the country is among the few in the world that continue to ban foreign investment in retail trade. Although this policy has been somewhat relaxed recently, it remains considerably restrictive.

Nonetheless, in recent years, the government's stand on trade and investment policy has displayed a marked shift from protecting 'producers' to benefiting 'consumers'. This is reflected in its Foreign Trade Policy for 2004/09 which states that, "For India to become a major player in world trade ...we have also to facilitate those imports which are required to stimulate our economy." Foreign Trade Policy for the period 2004-09 had indicated two major objectives, namely

(a) to double our percentage of global merchandise trade within 5 years, and

(b) to use trade expansion as an effective instrument of economic growth and employment generation.

In 2004 India's exports stood at a little over US $ 63 billion. In 2007-08, they have exceeded US $ 155 billion; India's total merchandise trade - exports and imports together - will be almost US $ 400 billion this past year, accounting for nearly 1.5% of world trade. If the trade in services is added to this, commercial engagement with the world would be in the region of US $ 525 billion. Our total trade in goods and services is now equivalent to almost 50% of our GDP.

India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations, and played a critical part in the Doha negotiations.

7.2 COMPOSITION OF FOREIGN TRADE

Composition of foreign trade means goods that we are exporting and goods that we are importing. Therefore, composition of trade consists of composition of exports as well as composition of imports. The importance of these imports and exports for a country are as follows:

7.2.1 Importance of Exports

7.2.1.1 **Help In Growth of the Economy by Increasing production**: Exports help in selling surplus production. For example, in India demand for tea is less than its potential production. If we had not been exporting tea, our total production of tea would have been smaller. Thus, export to European-markets has helped us to expand our tea production.

7.2.1.2 **Exports help in employment and income generation:** Exports increase the size of the market and this encourage more production. Larger production involves greater use of man - power. Thus, more people get jobs and greater employment and income is generated.

7.2.1.3 **Expansion of related industries:** Expansion of one industry helps in the expansion of other industries. For example, when exports result in expansion of an industry, it also creates greater demand for packaging, transporting etc., and thus lead to the growth of these sectors.

7.2.1.4 **Overall increase in demand for other goods:** Exports generate more income and employment in the economy. Expansion of income leads to greater purchasing power in hands of people who in turn spend this income on goods produced in the economy.

7.2.1.5 This increase in demand for goods causes increase in production, income and employment. In this way the growth of the economy takes place.

7.2.1.6 **Better utilization of resources:** Exports increase the scale of production and thus help in the use of modern technology. This results in better use of resources which, in turn, leads to more production with same resources and lower cost of production. Use of modern technology also helps in improving the quality of goods.

7.2.1.7 **Source of Foreign Exchange:** Exports are an important source of earning foreign exchange. (Foreign exchange means foreign currencies). Any country needs foreign exchange to pay for its imports. This foreign exchange can be earned through exports.

7.2.2 Composition of Exports

Composition of exports means goods that we are selling to other countries. Exports of India are broadly classified into four categories: (i) Agriculture and allied products; (ii) Ores and minerals (iii) Manufactured goods; (iv) Mineral fuels and lubricants.

At the time of Independence, our exports consisted mainly of agricultural products like tea, spices, tobacco and other raw materials etc., We were also exporting cotton textiles and jute products in large quantities. With the industrialization of the economy, composition of exports has undergone a change. Many raw materials that we exported earlier are now being used in newly developed industries. Therefore, the proportion of raw materials in our exports has declined while that of manufactured goods has increased. Efforts were made to diversify and expand our exports. It was necessary as our imports were increasing. Therefore, over the years, many new commodities have emerged in our export list. We are now exporting large quantities of items such as machinery and transport equipment, chemicals and allied products, handicrafts, fish and marine products. However, export of items such as cotton fabric, tea, jute manufactures, spices etc. also continue.
The sectoral shift of India's domestic economy is partially driven by the rapid growth in the nation's trade in goods and services. Following figure shows the increase in both merchandise and service trade from 1990 to 2005. Between 1990 and 1999, India's total merchandise trade doubled in value and its trade in services trebled in value. Since 1999, India's international trade growth has accelerated. Between 1999 and 2005, India's total merchandise trade and imports of services nearly tripled in value, and its exports of services quadrupled in value.

Commodity Group-Wise Composition of India's Exports

Following table gives the information regarding composition of India's exports for the year 2006 - 07 8s 2007-2008.

(Value in Rs. Lacs)

S. No.	Commodity	2006-2007	% Share	2007-2008	%Share	%Growth
1	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAKES.	8,554,199.25	14.9607	11,687,796.74	17.8205	36.63
2	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRE.METALS, CLAD WITH PRE.METAL AND ARTCLS THEREOF; IMIT.JEWLRY; COIN.	7,278,4 1 ft.08	12.7294	7,976,309.43	12.1615	9.59
3	ORGANIC CHEMICALS	2,594,964.01	4.5384	2,886,978.42	4.4018	] 1.25
4	ORES, SLAG AND ASH.	2,205,951.26	3.858	2,808.946.75	4.2828	27.33
5	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	2,303,852.1 1	4.0293	2,735,391.87	4.1707	18.73
6	IRON AND STEEL	2,533,710.82	4.4313	2,639,786.52	4.0249	4.19
7	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED.	2,390,855.01	4.1814	2,182,123.59	3.3271	-8.73

8	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS.	1,859,062.53	3.2514	2,151,919.31	3.281	15.75
9	ARTICLES OK IRON OR STEEL	1,538,416.48	2.6906	2,096,793.82	3.197	36.3
10	COTTON.	1,775,550.51	3.1053	2,071,430.06	3.1583	16.66

(Source: Ministry of Commerce)

7.2.3 Importance of Imports

(i) Help in Development of the Economy

Capital goods like machinery and equipment are required for industrial development. Industrial development also depends upon infrastructural facilities like power, transport etc. Agriculture also requires machines like tractors, harvesters etc. tor raster growth. Fertilizers, pesticides etc. play a key role in agricultural development. A developing country does not have sufficient resource or knowhow to produce such goods or even if it is producing these goods, the production may not be sufficient. This deficiency can be made by importing these goods. Thus, imports can increase the productive capacity of a country.

(ii) To Meet Shortages

Imports can fill the gap between domestic demand and domestic supply of essential goods like food, cooking oils etc. For example, in early years after Independence there was food shortage in our country. So large quantities of food grains like wheat and nee were imported. Even now our country does not produce vegetable oils enough to meet our requirements. Hence their import continues.

(iii) Imports for Better Living Standards

The developing countries may not be producing non-essential goods like luxury and semi-luxury items such as television, motorcars, washing machines etc. The rising income levels in the developing countries create demand for such goods. A country can get these goods from other countries.

(iv) To Improve Quality of Production

The import of goods may help in improving the quality of domestic production. When faced with competition from foreign goods, the domestic producers try to improve the quality of their products. By doing so, they can effectively compete with foreign producers. For example, import of electronic goods into India has contributed a lot in improving the quality of similar Indian goods.

Imports have been classified into bulk imports and non-bulk imports. Bulk imports are divided into three categories: (i) Petroleum & crude products; (ii) Bulk consumption goods;
(iii) Others incl. fertilizers, metals & non-metals, paper, rubber etc. Non- bulk imports are divided into three categories: (i) Capital goods; (ii) Export related items e.g., pearls, stones, chemicals etc. (iii) Others incl. professional and scientific instruments, pharmaceutical products, non -metallic minerals etc.

There have been persistently rising trends in imports which result of both internal and external factors. During seventies, a result of sharp increase in oil prices and drought conditions in 1979 -1980. During eighties higher outflow of foreign exchange, drought of 1987, growing pressure of demand etc. pushed the imports. Imports which were aggregated to Rs. 1634 cr. In 1970 -71 rose sharply to Rs. 12,549 cr in 1980-81. After liberalization in 1984- 85 imports zoomed to Rs. 43,190 cr. In 1990-91. During 1990-
91 and 2000-021 imports grew at an annual rate of 18.2 percent. Imports growth rate during 2000 -01 and 2005-06 rose higher to 22.3 percent.

7.2.4 Composition of Imports (Value in rupees Lacs)

(Value in Rs. Lacs)

S.No.	Commodity	2006-2007	% Share	2007-2008	% Share	%Growth
1	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES.	8,554,199.25	33.3022	34,720,546.10	34.2983	24.04
2	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRE.METALS, CLAD WITH PRE.METAL AND ARTCLS THEREOF; IMIT.JEWLRY;CO!N.	7.278,416.08	12.1653	10,645,199.12	10.5157	4.1 1
3	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	2,594,964.01	10.021 1	10,180,795.34	10.057	20.87
4	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS.	2,205,951.26	7.8435	8,079,691.39	7.9814	22.56
5	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF.	2,303,852.11	2.8339	5,356,997.00	5.2918	124.9
6	IRON AND STEEL	2,533,710.82	3.3006	3,659,216.06	3.6147	31.9
7	ORGANIC CHEMICALS	2,390,855.01	3.2516	3,264,193.88	3.2245	19.44
8	ORES. SLAG AND ASH.	1,859,062.53	3.0904	1,870,582.31	1.8478	-27.98
9	FERTILISERS.	1,538,416.48	1.4418	1,845,410.33	1.823	52.28
10	SHIPS, BOATS AND FLOATING STRUCTURES.	1,775,550.51	1.4486	1,738,930.23	1.7178	42.82

(Source: Ministry of Commerce)

Self-check questions –

a) What is the term for the difference between a country's total exports and its total imports?

b) What factors typically influence a country's import composition?

1) Domestic resource availability

2) Production costs in other countries

3) Consumer preferences and demand

4) All of the above

7.3 DIRECTION OF FOREIGN TRADE

Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus, direction consists of destination of our exports and sources of our imports. Prior to our Independence when we were under British rule, much of our trade was done with Britain. Therefore, UK used to hold the first position in our foreign trade. However, after Independence, new trade relationships were established. Now USA, Germany, Japan and UK have emerged as our most important trading partners. We are also making efforts to increase our exports to other countries also.

Major portion of India's exports (value in rupees Lacs): Principal trading partners (exports) of India

S. No.	Commodity	2006-2007	%Share	2007-2008	% Share
1	USA	8,536,848.47	14.9303	8,338,806.90	12.7142
2	U ARAB EMTS	5,444,497.57	9.522	6,291,503.15	9.5927
3	CHINA P RP	3,752,978.02	6.5637	4,359,741.55	6.6473
4.	SINGAPORE	2,746,160.74	4.8028	2,966,223.21	4.5226
5 -	UK ■ '	1 2,542,128.99	4.446	2,696,748.37	4.1118
6	HONG KONG	2,117,937.73	3.7041	2,538,525.33	3.8705
7	NETHERLAND	1,208,248.32	2.1131	2,103,846.15	3.2077
8	GERMANY	1,800,723.17	3.1493	2,059,892.83	3.1407
9	BELGIUM	1,572,170.47	2.7496	1,694,309.86	2.5833
10	ITALY	1,621,242.84	2.8354	1,574,812.54	2.401 I

Principal trading partners (imports) of India in 2008-09 were as follows (value in rupees Lacs):

S. No.	Commodity	2006-2007	% Share	2007-2008	%Share
1	CHINA P RP	7,900,860.91	19.4001	10,911,606.87	10.7789
2	USA	5,310,541.33	6.3183	8,462,513.18	8.3596
3	SAUDI ARAB	6,056,149.65	7.2054	7,81 1,031.55	7.716
4	U ARAB EMTS	3,917,494.35	4.6609	5,423,319.31	5.3574
5	IRAN	3,451,547.48	4.1065	4,394,593.51	4.3411
6	GERMANY	3,414,674.96	4.0626	3,973,603.74	3.9253
7	SWITZERLAND	4,128,317.11	4.9117	3,957,082.01	3.909
8	SINGAPORE	2,483,996.75	2.9554	3,268,217.81	3.2285
9	AUSTRALIA	3,171,090.10	3.7728	3,155,208.45	3.1168
10	KUWAIT	2,711,417.49	3.2259	3,095,993.11	3.0583

India-USA Trade

USA is India's leading trading partner and premier export destination. Two-way trade in 2000 totaled US $ 14.35 billion, reflecting an increase of nearly 100% since 1993. During the year 2000, India’s exports to USA increased by 17.65% in dollar terms, compared to 1999, but India's imports from USA marginally declined by 1.20%. India - US trade over the last eight years has been as under:

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(in US $ millions)

	1993	1 994	1995	1996	1997	1998	1999	2000
India's Exports	**4,551**	**5,302**	**5,736**	**6,169**	**7.322**	**8,237**	**9,071**	**10,686**
India's Imports	**2,761**	**2.296**	**3,296**	**3,318**	**3,608**	**3,564**	**3,688**	**3,663**
Turnover	**7,312**	**7,598**	**9,032**	**9,487**	**10,931**	**1 1,801**	**12,759**	**14,349**
Balance (+)	**1,790**	**3,005**	**2,440**	**2,851**	**3,715**	**4,673**	**5,383**	**7,023**

(Source: US Department of Commerce, Bureau of Census)*

The composition of India's exports has undergone a change over the years. Our exports to the US have been rising mainly on account of significant increases in the exports of diamonds, textiles and ready-made garments, machinery, carpets, footwear and leather products, dyes, iron and steel products, chemicals, edible fruit and nuts and spices, coffee and tea. A handful of items, namely, cut and polished non industrial diamonds, jewellery, textiles and clothing, carpets, shrimp and other marine products, footwear and leather goods, iron and steel, and cashew nuts, account for over 70% of total Indian exports to the US.

There has also been a change in the composition of our imports from the USA. With India having become self- sufficient in food grains and the PL 480 funds having been used up, imports of wheat and edible oil from the USA on a regular basis have stopped. Crude oil, which was the second highest import item in 1985, has also been virtually phased out. The chief items imported from the U.S. at present are machinery including project items, fertilizers, aircraft and aeronautical equipment, medical equipment, and organic chemicals.

India-Europe Trade

Europeans countries account for about 22.5 per cent of India's total trade while India's exports to Europe during 2006-07 were US$ 28.87 billion. During this year, bilateral trade increased by 26 per cent over 2005-06. While India's export to Europe recorded a growth of 17 per cent, India's import from Europe grew by 33 per cent. The top five items of India's exports to Europe are ready -made garments including accessories, gems & jewellery, machinery & instruments, petroleum (crude & products) and transport equipment. The top five items of India’s imports from Europe are machinery (except electrical & electronics), pearls/precious, semi-previous stones, electronic goods, transport equipments and iron & steel.

Trade and Investment relations with European Union

The European Union (EU) presently consists of 27 countries. These countries are Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK, Bulgaria and Romania.

India and EU enjoy healthy economic relations. These relations have been built on the foundation of (i) India-EU Corporation Agreement on Partnership and Development which came into effect in August, 1994 and (ii) India-EU Strategic Partnership which was announced in September, 2005. India has also had bilateral economic Agreements with a number of individual EU countries in the areas of trade, investments and avoidance of double taxation. India has agreements for investments and promotions/protections with *22* countries of Europe, including 17 countries of EU. Similarly, agreements for avoidance of double taxation exist with 26 countries in EU.

lndia-EU bilateral relations are reviewed at the official level by the India -EC Joint Commission. This had its last meeting in July 2008. Three Sub-Commissions on Trade, Economic Cooperation and Development Cooperation and nine Joint Working Groups on agriculture and marine products, textiles, information technology 8c. communications, consular matters, environment, steel, food processing industries, pharmaceuticals & biotechnology and technical barriers to trade (TBT)/sanitary and photo sanitary (SPS) issues are functioning and their reports are considered by Joint Commission.

India-Africa Trade

There are more than 50 countries in the Sub-Saharan Africa (SSA) region. Traditionally relations between India and countries of Africa continent have remained close and cordial, in spite of various constraints such as distance, language barriers, lack of information etc. India’s trade with the region has grown rapidly. The trade between India and SSA region has grown from US$ 7572.65 million in 2004 -05 to US$ 197,053.37 million in 2007-08 registering a growth of 32.34%.

India's exports to the region have increased by 30.85% from US$ 4218.23 million in 2004 -05 to US$ 83,535.94 million in 2007 -08 and the imports form the region have increased by 42.70% from US$ 3354.42 million in 2004-05 to US$ 111,517.43 million in 2007 -08.

Self – check questions -

a) What is the term used to describe the countries with which a nation primarily trades goods and services?

b) How can regional trade agreements or blocs impact the direction of trade?

1) By reducing tariffs and barriers within the bloc, encouraging trade between member countries
2) By creating preferential treatment for member countries in trade agreements with non-member countries
3) Both a and b
4) None of the above

7.4 PERFORMANCE OF INDIA'S EXTERNAL SECTOR

The external sector has strengthened over the years with balance of payments showing surplus. The large capital flows in 2003-2004 have resulted in a further accumulation of reserves, rendering reserve position comfortable as per various indicators of reserve adequacy.

India is already being seen as a new hub for exports of auto parts and other engineering goods and opportunities are expected to open in the textile sector.

Direction of Trade

- The regional shares in sourcing of imports in 2001-02 reveal enhanced shares from all major regions.
- At the end of 2002 imports from SAARC region declined by 27.3% due to lower imports from Nepal and Pakistan.
- Indo-Pakistan trade also continues to be depressed with decline in our exports by 22.9% in 2001-2002.
- China has emerged as India's leading trading partner. Its share in India's trade is rising with every passing year.
- India's total foreign trade is also significant with UAE & USA.
- Trade with ASEAN continues to be robust in 2004-2005 with exports registering a growth of 50% and imports a rise of 21.2% in April-October period,
- Prevalence of high international crude oil prices and the consequent gains in terms of trade have increased the share of India’s trade with the OPEC region both in imports and exports.
- Trade with SAARC region countries currently constitutes around 3% of India's total trade.

Composition of Trade

- Export growth has increased in 2003-04 due to major contribution from manufacturing sector.
- Export of wheat, vegetables and fruits, meat and meat preparation has accelerated.
- Yet the overall export growth has witnessed a record surge in India's export.
- The products most commonly exported today are manufacturing goods, chemical products, gems and jewellery, agricultural items and textiles.
- The rise in imports is also broad based.
- The imported products include gold and silver, consumer goods, capital goods, food and allied products mainly edible oil.
- For the period April-November 2004-05 imports were valued at US $ 64265.79 million representing an increase of 34.47% over the level of imports.
- Petroleum and petroleum products alone accounted for $20 billion that is 47% of the increase in imports in imports in 2004 (April-Nov).

Self-check questions –

a) What is the current account deficit (CAD) of India as a percentage of GDP (as of December 2023)?

b) How has the rupee performed against major currencies like the US dollar in recent years?

1) Steady appreciation
2) Gradual depreciation
3) Sharp depreciation
4) Erratic fluctuations

7.5 SUMMARY

In recent years, the government's stand on trade and investment policy has displayed a marked shift from protecting producers' to benefiting consumers. India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations, the trend of world exports has changed over the decades. Exports have become more diversified in nature. Previously, the maximum of shares of export came from primary goods sector. However, it has now shifted to the manufacturing goods sector; and also, the service sector.

7.6 GLOSSARY

- Aggregate Demand: The total demand of all potential buyers of a commodity or service. Includes all individuals and organizations that have the ability, willingness, and authority to purchase such products
- APEC: Asia-Pacific Economic Cooperation
- Foreign Trade: International trade is exchange of capital, goods, and services across international borders or territories
- Free Trade Agreement: Free Trade Agreement between two countries or group of countries agrees to eliminate tariffs, quotas and preferences on most of the goods (if not all) between them. Countries
- Export: Any resource, intermediate good, or final good or service that producers in one country sell to buyers in another country.
- Exim Policy: Refers to Export and Import (Exim) Policy. Exim Policy has got incorporated into the comprehensive Foreign Trade Policy, which was announced by the Commerce & Industry Minister
- Liberalization: The process by which certain business activities become more market driven
- Trade Deficit: A trade deficit occurs when the value of a country's exports is less than the value of its imports
- Trade Surplus: A trade surplus occurs when the value of a country's exports is greater than the value of its imports.

- Balance of Payment: The BOP is the annual financial record of Foreign Payments and Foreign Receivables. Or The BOP is the International Money Fund's accounting system that tracks the flow of goods, services, and capital in and out of each country.
- Balance of Trade: The difference between a country's total imports and exports

7.7 Keywords – Compositions of exports, composition of imports, foreign trade.

7.8 Short answer questions –

1 What do you know about India’s share in global trade?

2 Highlight importance of foreign trade.

3 What is the Composition of India's global trade?

7.9 Long answer questions

1. What is the direction of India’s global trade?
2. Discuss India's trade relations with major trading partners.
3. What are some specific initiatives or policies undertaken by the Indian government to promote exports and improve the external sector performance?

7.10 Self-check question (Answer key)

7.2.4 a) Trade surplus

b) 4

7.3 a) Trade direction

b) 3

7.4 a) Less than 2%

b) 2

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INSTITUTIONAL INFRASTRUCTURE FRAMEWORK FOR EXPORT PROMOTION IN INDIA

STRUCTURE

8.0 OBJECTIVES

- To know about organizations and institutions which have been created to stimulate and support exports.
- To know about the activities which are carried over by these organizations to facilitate exports.
- To understand the organizational set up of these organizations.

8.1 INTRODUCTION

To stimulate and support the export efforts of the country, various organisation and institutions have been established. These organisations and institutions aim at the development of specialization in specific spheres of commodities and products and the provision of various services. The activities of important organisations and institutions which have been involved in the export effort have been briefly described and evaluated in this lesson.

8.2 DEPARTMENT OF COMMERCE (MINISTRY OF COMMERCE) GOVERNMENT OF INDIA

The Department of Commerce in the Ministry of Commerce is headed by a Secretary. The Department is responsible for the country' s external trade and all mailers connected with it such as commercial relations with other countries, state trading export promotional measures, and the promotion, development or regulation of certain export oriented industries and commodities.

8.3 DIRECTOR GENERAL OF INTERNATIONAL TRADE

CCI & E-Chief Controller (Imports & Exports) :

CCI & E is responsible for the execution of export and import policies of the government. For improving the functioning of the organization on August 13 , 1991 government of India proposed to change its name from CCI & E to the Director General of International Trade. Now the role of DGIT would be to promote exports and to remove controls. India now needs promoter of exports and not the controller of exports.

CCI 61 E’s supporting offices are located at important port towns and commercial centres of the country,

Agartala, Ahmedabad, Amritsar, Bangalore, Bombay, Calcutta, Cuttack, Chandigarh, Emakulam, Guwahati, Hyderabad, Jaipur, Kandla, Kanour, Madras, New Delhi, Panjim, Patna, Pondicherry, Rajkot, Shiaong, Srinagar, and Visakhapatnam.

Advisory and Policy-Making Organizations :

These have been set up to ensure that the collective advice of the commercial interests in available to the Government of India:

(a) for framing and formulating export promotion and import policies; and

(b) For successful implementation of these policies.

8.4 CABINET COMMITTEE ON EXPORTS

The cabinet committee under the chairmanship of the Prime Minister expedites decisions on important policy matters relating to exports.

8.5 BOARD OF TRADE

It has been reconstituted on 13 August 1991 by the Union Commerce Ministry with the Minister for Commerce as its Chairman. The deputy Minister of Commerce is the Board's Vice- Chairman.

(i) The Board consists of 28 members including representatives from different organisations and individuals with business standing and expertise in the field of commerce;

(ii) The Board has powers to coop additional members;

(iii) The members of the Board hold office for two years; and

(iv) The Board ordinarily meets twice a year and advises the Government on matters relating to;

   (a) export and import policy and programmes;

   (b) the operation of export and import controls;

   (c) organization and development of commercial services; and

   (d) organization and expansion of export production.

   (e) The Board of trade ensures continual dialogue between industry and trade on the one hand, and the government on the other.

   (f) The Board advises the government on policy measures preparation and implementation of both short and long term plans for increasing exports in the light of national international economic scenario.

(g) The Board also reviews exports performance of various sectors, identifies constraints and suggest measures to be taken by the government and industry and trade consistent with the need to maximize export earnings and restrict imports.

(h) In addition, Board also examines existing institutional frame work for exports and suggest practical measures for reorganization or streamlining it with a view to ensure coordinated and timely decision making.

(i) The Board will review policy instruments, package of incentives and procedures for exports-and suggest steps to rationalize and channelize incentives to areas where these are most needed.

8.6 ZONAL EXPORT AND IMPORT ADVISORY COMMITTEES

In order to make a detailed study of the export possibilities of the commodities exported from different regions and to advise the government on specific problems of exports from these regions. Regional Export. Promotion Advisory Committees have been set up :

Western Zone (Bombay)	Southern Zone (Madras)
Eastern Zone (Calcutta)	Northern Zone (Kanpur)

These committees were set-up in July 1968 to consider :

1. Difficulties faced in the operation of prevailing import and export policies and procedures and to suggest measures for improvement in disbursement of various assistance;
2. Difficulties in the matter of:
   (i) Customs clearance;
   (ii) Shipping;
   (iii) Credit;
   (iv) Insurance; and
   (v) Export inspection and to suggest measures for improvements therein.
3. Suggest improvements in the methods of working and public relations of the DGIT organisation and other government departments, concerned with trade and industry; and
4. Representatives of State Governments and the Customs and Central Excise Department are included in these committees.

- **State Government : State Government Liaison Officers**

State governments have appointed Liaison officers Incharge of export promotion, whose main function is to develop the exports trade in the goods produced in their states, in consonance with the policies of the Central Government.

- **Commodity Organisations**

(i) Export Promotion Councils : EPCS arc supported by assistance from the central government.

Under the administrative control of Ministry of Commerce, EPCS are registered as nonprofit organisations under the Companies Act or Society Registration Act, as the case may be. The EPCS perform both advisory and executive functions. The councils are also the registering authorities under the import policy for registered exporters. On being admitted to membership the applicant is granted a Registration- cum-Membership Certificate.

8.7 FUNCTIONS OF EXPORT PROMOTION COUNCILS (EPC)

EPC's main functions to project India's image abroad as a reliable suppliers of high quality goods and services.

1. Advise the government of current export problems and measures necessary for the growth of exports. Promote interaction between the exporting community and the government both at the central and state levels.
2. Assist individual exporters on specific problems confronting them and help them to overcome these problems. Provide commercially useful information and assistance to their members in developing and increasing their exports.
3. Offer services for the development of overseas markets.
4. The council deregisters any defaulting exporter.
5. Disseminate amongst registered exporters the trade enquiries received from abroad, giving information on overseas markets, market leads, export-import procedures, customs tariff, GSP facilities. To build statistical base and provide data on the exports and imports of the country, exports and imports of their members as well as other relevant international trade data.
6. To offer professional advice to their members in areas such as technology upgradation, quality and design improvement, standards and specifications, product development, innovation etc. ^
7. To organize visits of delegations of its members abroad to explore overseas market opportunities.
8. Resolving trade disputes between exporters and importers.
9. Help exporters in shipping and transport problems.
10. Help exporters in obtaining licenses, duty-drawback etc.
11. To organize participation in trade fairs, exhibitions and buyers and sellers meet in India and abroad.

8.7.1 SELF-CHECK EXERCISE

1. What is the primary role of Export Promotion Councils (EPCs) in India's institutional infrastructure for export promotion?

a) Conducting academic research
b) Regulating domestic trade
c) Facilitating collaboration between exporters
d) Implementing environmental policies

2. Which government ministry is primarily responsible for formulating and implementing policies related to India's international trade and commerce, including export promotion?

a) Ministry of Finance
b) Ministry of External Affairs
c) Ministry of Commerce and Industry
d) Ministry of Agriculture and Farmers Welfare

3. How does technology contribute to the institutional infrastructure framework for export promotion in India?

a) By regulating trade barriers
b) By increasing bureaucratic processes
c) By enhancing transparency and reducing transaction costs
d) By limiting access to global markets

8.8 COMMODITY BOARDS

Commodity Boards have been set up to help in the development of certain commodities. The Commodity Boards deal with the entire range of problems of production, development and marketing etc. Commodity Boards, which deal with the commodities that are important from the point of view of exports, are :

(i) Tea Board;

(ii) Coffee Board;

(iii) Coir Board;

(iv) Central Silk Board;

(v) All India Handicrafts and Handloom Board;

(vi) Tobacco Board;

(vii) Rubber Board; and

(viii) Spices Board.

8.9 MARINE PRODUCTS EXPORTS DEVELOPMENT AUTHORITY (MPEDA)

This authority came into being in September 1972. It is concerned with the organization, co- ordination, regulation and growth of the export of marine products with special reference to the quality of the material, processing, packaging, storage, transport shipment marketing and attendant investigation.

(iv) Agricultural and Processed Food Products Export Development Authority (APEDA) APEDA came into being on 12th August, 1986. It serves as the focal point for agricultural exports particularly the
marketing of processed foods in value added forms with a view to increase the exports of agricultural and processed food products. Government of India has established this authority.

8.10 SERVICE INSTITUTIONS

(i) Indian Institute of Foreign Trade (IIPT), New Delhi

The Indian Institute of Foreign Trade, set up by the Government or India in 1964, is if as &r nuclei*s for. Human resource development in the fields of foreign trade, u f- ; national business and marketing through specialized training programmes.

(ii) Trade Development Authority, New Delhi

The TDA, set up as a Registered Society, induces and organizes entrepreneurs, largely in the medium and small scale sectors to develop their individual export capabilities.

(iii) Export Inspection Council of India, Calcutta

The E 1 C, a statutory body, is responsible for the enforcement of quality control and ‘compulsory reshipment inspection of various exportable commodities.

(iv) Export Credit of Guarantee Corporation of India Ltd. Bomb (ECGC)

The ECGC was incorporated in 1957 . It is a company wholly owned by the government of India, functioning under the administrative control of the Ministry of Commerce and managed by a Board of Directors representing the Government, Banking, Insurance, Trade and Industrial Sectors.

The primary goals of ECGC are to support and strengthen the export promotion drive in India, by providing a range of credit risk insurance covers against loss in export of goods and services and also by offering guarantees to banks and financial institutions to enable exporters obtain better facilities from them.

(v) Indian Institute of Packaging, Bombay

The IIP is registered under the Societies Registration Act. It undertakes research on raw materials for the packaging industry. This organisation effects improvements in packaging standards, providing consultancy services, organizing training activities and rendering testing facilities in respect of packages. The main objective of IIP is to stimulate consciousness of the need for good packaging amongst Indian exporters.

(vi) Indian Council of Arbitration, New Delhi

The Indian Council of Arbitration, set-up under the Societies Registration Act, promotes arbitration as a means of settling commercial disputes and popularizes arbitration among the trades particularly those engaged in international trade.

This Council provides facilities of effecting arbitration in cases of commercial disputes in relation to foreign trade.

(vii) Directorate-General of Commercial Intelligence and Statistics, Calcutta

DGCI & S is the primary government agency for the collection, compilation and publication of the foreign, inland and ancillary trade statistics and dissemination of various types of commercial information. The Directorate brings out a number of publications, particularly on trade statistics, which are utilized in framing economic policies, formulating trade agreement foreign countries and monitoring these agreements.

(viii) Trade Fair Authority of India (TFAI)

It was set up in 1977. Its main functions include organizing, promoting and participating in industrial trade fairs and other exhibitions, setting up showrooms in India and abroad, to undertake trading activities in items related with such fairs, to promote exports of new items and diversify India' s exports. The journals it brings out include (a) Journal of Industry and Trade (b) Udyog Vyapar patrika (c) Indian Export Service Bulletin, and (d) Economic and Commercial New.

(ix) Federation of Indian Export Organisation (FIEO)

It is an apex body of various export promotion organisations. It was set up in 1965 . This Federation is a common co- coordinating platform for the various export organisations, including the commodity councils and boards, and service institutions and organisations. It is the primary servicing agency to provide integrated assistance to government and organized export houses.

(x) Export-Import Bank (EXIM Bank)

The Export-Import Bank of India is a public sector financial institution, established on January 1 , 1982 . It was established by an Act of Parliament, for the purpose of financing, facilitating and promoting foreign trade of India. It is the principal financial institution for co-coordinating the working of institutions engaged in financing exports and imports.

The EXIM Bank grants in and outside India, loans and advances by itself or in participation with any bank or financial institution for the purpose of export or import.

8.11 EXPORT CORPORATIONS

I. The State Trading Corporation of India Ltd. (STC)

The Corporation was set up as a Private Limited Company in 1956 and later converted into a Public Ltd. Company in 1959. The Corporation helps the development and promotion of exports of commodities on a long term basis, exploring new markets, canalizing import of bulk commodities to bridge temporary gaps between supply and demand in commodities essential for the economic and industrial development of the country, internal distribution of any commodity in short supply with a view to stabilize prices and rationalize distribution. The Corporation has five subsidiaries :

(i) The Handicrafts and Handlooms Export Corp. of India Ltd.

(ii) Projects and Equipment Corp. of India Ltd.

(iii) Cashew Corporation of India Ltd.

(iv) Central Cottage Industries Corps. of India Ltd., a subsidiary of HHEC.

(v) Tea Trading Corporation of India Ltd.

II. Minerals and Metals Trading Corporation (MMTC)

The Minerals & Metals Trading Corporation deals with export and import of canalized items like iron ore, manganese ore, coal, chrome ore, bauxite and non- canalized items like barytes, diamonds and import of non-ferrous metals, industrial raw materials, steel, raw materials for fertilizer and finished fertilizers, sulfur and rock phosphate.

E. Indian Government Trade Representatives Abroad

The Government of India's Trade Representatives (Trade Commissioners, Commercial Counsellors and Commercial Secretaries) function in almost all the important trading centers of the world as the government' s ' Yes and ears" and help in furthering trading relations between India and the countries falling within their jurisdiction.

8.12 OTHER COMMITTEES AND AGENCIES

(i) Drawback Committee

Problems relating to rebate of excise duty on export or drawback of customs and excise duty on the export of manufactured products, and procedural difficulties in exports, are looked after by a Drawback Committee in the Ministry of Finance (Department of Revenue).

(ii) Freight Investigation Bureau

A Freight Investigation Bureau has been set up in the office of the Director-General of Shipping, Bombay, to look into the problems of high, or discriminatory ocean freight rates, the non- availability of shipping space or shipping services and other allied problems.

(iii) Railway Freight Committee

A Committee in the Ministry of Railways, with representatives of other Ministries, considers requests from exporters for reduction in railway freight for the export of goods.

(iv) Customs and Central Excise Department

All the exports from the country have to pass through the Customs. There are Customs Houses at Bombay, Madras, Calcutta and Cochin and at a number of smaller centres, land customs offices at border stations and foreign post offices at Bombay, Madras, Calcutta and New Delhi.

(v) Reserve Bank of India (RBI)

The Reserve Bank of India is concerned with the administration of the Foreign Exchange Regulation Act. Exporters have to satisfy it (under the G.R., etc., form procedure) about the receipt of foreign exchange on exports, such payment being collected through banks authorized to deal in foreign exchange. Applications for the sanction of foreign exchange for business visits and for opening foreign offices have to be made to the Reserve Bank, which has its major offices at Bombay, Calcutta, Madras and New Delhi.

(vi) Central Warehousing Corporation

This government Corporation maintains a chain of warehouses run along scientific lines at important centres, including port towns.

8.13 SUMMARY

Export promotion organizations must evaluate where they are, what are their core strengths, how their performance is perceived by exporters, what lies ahead in future and how to create capacity to adapt to changing trade opportunities. The basic objective of this book is to evaluate the performance of network of institutional support to Indian exporters. This study becomes important and significant as today's export promotion strategies must reflect the changing nature of the international trade environment, if they are to have an impact.

8.14 ANSWER TO SELF-CHECK EXERCISE

1. c) Facilitating collaboration between exporters
2. c) Ministry of Commerce and Industry
3. c) By enhancing transparency and reducing transaction costs

8.15 SHORT QUESTIONS

1. Discuss the role of department of commerce to promote trade in India.
2. Discuss the various functions of export promotion councils.
3. List various export corporations of India.

8.16 LONG QUESTIONS

1. In the context of India's institutional infrastructure for export promotion, how are financial institutions and trade facilitation agencies playing a role in supporting exporters?
2. How does the institutional framework address the unique challenges faced by various industries and sectors in the export landscape?
3. What measures are being taken to adapt and strengthen this framework in response to evolving global trade dynamics and challenges?

8.17 KEY WORDS

Export promotion organizations, export corporations of India, State Trading Corporation of India, State Trading Corporation of India

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FOREIGN MARKET ENTRY

STRUCTURE

9.0 OBJECTIVES

- To know about various methods of doing business in foreign markets.
- To know about the advantages and disadvantages of each method of entry in the foreign market.
- To know about type of research required to be done for international market.

9.1 INTRODUCTION

Businesses can enter foreign markets via exporting, use of agents and/or distributors, licensing and franchising, joint ventures, management contracts, contract manufacturing or direct foreign investment. Also, the firm might wish to establish branches in various nations. Exporting, joint ventures and the operation of branches are dealt with in this chapter: other forms of market entry are covered elsewhere.

9.2 TYPES OF MARKET ENTRY

9.2.1 Exporting

Exporting means the sale abroad of an item produced, stored or processed in the supplying firm's home country, some firms regard exporting as little more than a convenient way of increasing total sales; others see it as a crucial element of overall corporate strategy. 'Passive* exporting occurs when a firm receives orders from abroad without having canvassed them, ' Active' exporting, conversely, result from a strategic decision to establish proper systems for organizing the export function and for procuring foreign sales. Exporting may be direct or indirect. With direct exporting the exporter assumes full responsibility for the transfer of goods to foreign customers, for customs-clearance, local advertising and local sale of the goods. Indirect exporting uses intermediaries. Export merchants, for example, reside in the exporter' s country, acting as principals in export transactions (that is; buying and selling on their own accounts). They are wholesalers who operate in foreign markets through their own salespeople, stockists and, perhaps, retail outlets.

Advantages and Disadvantages of Exporting

Exporting is cheap and convenient to administer and carries no risk of failure of direct foreign investments. The revenues from foreign sales accrue entirely to the exporting company (rather than it having to repatriate profits from foreign subsidiaries), and the firm builds up a network of contacts with foreign agents, distributors, retail outlets, etc. Direct exporting provides total control over the selling process; avoids the need to share know- how with foreign partners; and cuts out expensive intermediaries. Exporting can be severe strain on the business's resources.

Sound reasons for not actively exporting, on the other hand, include :

1. Cost of financing long periods between obtaining export orders, delivering the goods to distant destinations and getting paid
2. Problem of acquiring and retaining staff competent to undertake till extensive-paperwork associated with international marketing (expect for EU firms selling within the Union) and who possess the linguistic and specialist foreign trade skills necessary for selling abroad
3. Managerial resources necessarily have people visit foreign markets regularly, monitor and control agents and distributors, meet important customers, attend foreign exhibitions, etc.
4. Costs and inconvenience of finding foreign agents and distributors and of investigating the market characteristics and trading rules of various foreign countries
5. Difficulty of forecasting sales in foreign countries rather than in the firm' s home nation. Sales forecasting can be far more difficult for foreign countries than in the firm' s home base. Changes in the political, legal, social and economic superstructures of other nations are hard to predict, as are the behaviour of actual and potential competing companies.
6. Higher degree of risk typically involved in selling abroad rather than in the home country. Common problems experienced with exporting are that :

(a) A firm' s export department might not be taken seriously by senior management. Note how export managers are necessarily involved in a wide range of functions: foreign market research, negotiation of agency and distribution contracts, product modification for foreign markets, liaison with foreign advertising media, transport, arranging the clearance of letters of credit packaging, organizing after- sales service in foreign countries, and so on.

(b) In consequence of its self- contained nature the export department might pursue its own objectives rather than those of the wider enterprise.

(c) Staff possessing the requisite (specialist and wide-ranging) export skills are difficult to recruit.

Use of Intermediaries

The engagement of intermediaries to handle the export of a company' s products has a number of advantages, including :

- Their expert knowledge of export markets and procedures. Intermediaries may be more objective when assessing the probabilities of the exporter' s products succeeding in various foreign markets. Their wide- ranging experience of the export problems of other firms and industries enables them to identify solutions quickly and to appreciate all the options available and the difficulties involved.
- Not having to train in-house staff in the details of the export function
- Savings on the overheads associated with a large export department
- The fact that intermediaries are driven by the need to make a profit (rather than simply drawing on employee' s salary)
- Their extensive contacts with other specialists in the export field

In-house Export Departments

Advantages to having the firm' s in- house staff assume total control over exports include the accumulation of skill within the export department and (hopefully) employees' genuine commitment to expanding export sales. Staff should possess detailed knowledge of all aspects of the company's products and operations; control is straightforward, and there is continuity in till' personnel employed on export work. Disadvantages to using in- house staff include the following :

(a) Internal employees are not subject to penetrating expert criticism from outside. Mistakes made by in- house employees in consequence of lack of specialist skills and knowledge might never be revealed.

(b) Staff usually have limited experience of other industries and firms.

fc) Internal staff might be apathetic and lack the management skills and innovative attitudes needed to complete an unusual or exceptionally difficult project on time.

(d) The export department might become obsessed with export method- and procedures, regardless of the profitability of export sales.

9.2.2 Joint Ventures

Joint ventures (JVs) are collaborative arrangements between unrelated parties which exchange or combine various resources while remaining separate and independent legal entities. There are two types of JV: equity and contractual. The former involves each partner taking an equity stake in the venture (e.g., through setting up a joints subsidiary with its own share capital); the latter rely on contractual agreements between the partners.

Usually, JVs are formed to undertake a specific project that has to be completed within a set period. JVs are a flexible form of business arrangement, can be quickly entered into and are a flexible form of business arrangement; can be quickly entered into and shut down; enable the sharing of costs; yet are frequently just as effective a means for entering markets as more direct forms of foreign investment (Lorange and Roos, 1992). Advantages to joint ventures include the following :

(a) Firms can expand into several foreign markets simultaneously for low capital cost.

(b) Shared cost of administration.

(c) Partners can avoid the need to purchase local premises and hire new employees.

(d) Shared risk of failure.

(e) JVs may be available in countries where outright takeovers of local firms by foreigners is not allowed.

(f) Less costly than acquisitions.

(g) Higher returns than with licensing/franchising.

(h) Firms can gain instant access to local expertise and to partners distribution systems.

(i) Possibly better relations with national governments in consequence of having a local partner.

Problems with JVs include the possibility of disagreements over organisation and control, and over methods of operation and belong-term goals of the venture. Other disputes might arise concerning pricing policy, the confidentiality of information exchanged between members, and about how w underperformance by any one of the participants is to be dealt with (e.g., whether equal compensation is to be payable to each of the parties if the project is abandoned). Further possible difficulties are listed below.

(a) Partners may become locked into long term investments from which it is difficult to withdraw.

(b) Possible arguments over which partner is responsible for budget overspends aid how these should be financed. *

(c) Problems of coordination.

(d) Profits have to be shared with partners.

(e) Possible differences in management culture among participating firms.

(f) Completion of JV project might overburden a company's staff.

(g) Need to share intellectual property.

(h) Difficulties associated with the integration of a JV into an overall corporate strategy

(i) Partners are not free to act independently.

(j) The corporate objectives of partners may conflict

(k) Transfer pricing problems may arise as goods pass between partners.

(i) The importance of the venture to each partner might change over time.

9.3 CHOICE OF MARKET ENTRY METHOD

Criteria for selecting a market entry method should relate to the organization's overall corporate strategy and the extent, depth and geographical coverage of its present and intended foreign operations. Major factors that should influence the choice include the following :

(a) How quickly the firm wishes to commence operations in the market (outright purchase of a fully operational lo al business is usually the speediest method).

(b) Volatility of competition and competitive intensity in the countries concerned.

(c) The ease with which intellectual property can be protected (this is particularly important for licensing and joint ventures).

(d) The degree of market penetration desired (deep penetration normally requires a permanent presence within the relevant country).

(e) The firm's experience and expertise in selling and operating abroad.

(f) Sizes of the margins taken by intermediaries in particular nations.

(g) Tariff levels, quotas and other non-tariff barriers to market entry.

(h) Availability of trained and competent personnel for staffing foreign subsidiaries.

(i) Political stability of the foreign countries the firm wishes to enter, and other risk factors.

(j) The business's financial resources and hence its capacity to purchase or set up foreign establishments.

(k) Physical and technical characteristics of the product (simple products are easy to manufacture abroad.

(I) Availability of marketing, financial and general business services in target foreign markets.

(m) Ease of communication with intermediaries (agents, consortium buyers etc.) in specific countries.

(n) Local constraints on the foreign ownership of businesses and / or licensing arrangements involving foreign firms.

Ownership

The most extensive form of participation is 100% ownership and this involves the greatest commitment in capital and managerial effort. The ability to communicate and control 100 % may outweigh any of the disadvantages of joint ventures and licensing. However, as mentioned earlier, repatriation of earnings and capital has to be carefully monitored. The more unstable the environment the less likely is the ownership pathway an option.

These forms of participation : exporting, licensing, joint ventures or ownership, are on a continuum rather than discrete and can take many formats. Anderson and Coughlan (1987) summaries the entry mode as a choice between company owned or controlled methods - "integrated" channels - or "independent" channels. Integrated channels offer the advantages of planning and control of resources, flow of information, and faster market penetration, and are a visible sign of commitment. The disadvantages are that they incur many costs (especially marketing), the risks are high, some may be more effective than others (due to culture) and in some cases their credibility amongst locals may be lower than that of controlled independents. Independent channels offer lower performance costs, risks, less capital, high local knowledge and credibility. Disadvantages include less market information flow, greater coordinating and control difficulties and motivational difficulties. In addition, they may not be willing to spend money on market development and selection of good intermediaries may be difficult as good ones are usually taken up anyway.

9.4 BRANCHES AND SUBSIDIARIES

As firms' international activities expand, the inadequacy of exporting as a means foreign business might become progressively evident. The firm will (or-should) have acquired detailed knowledge of foreign markets and export procedures and thus might be capable of dispensing with export intermediaries. Accordingly, the company may set up its own branches and/or subsidiaries, possibly to oversee production operations in other countries. The difference between a branch and subsidiary is that whereas a branch is regarded in law as a direct extension of the parent firm into a foreign country (so that the parent legally responsible for all the branch's debts and activities), a subsidiary is seen as a separate business from the parent company. A subsidiary is responsible for its own debts and (unlike a branches) is subject to exactly the same taxes, auditing, registration and accounting regulations as any other local business.

Branches are easy to set up and to dismantle, but complicated tax situations can arise because some nations' relate the amounts of tax payable by branches to the worldwide profits of their parent companies. Normally branches are concerned with the transport and storage of goods, marketing, the provision of after-sales service; and liaison with local banks, advertising agencies, suppliers and distributors, and so on.

Advantages to operating a branch rather than a subsidiary are that :

- A branch need not have its own capital or directors.
- Assets can be transferred from the parent to the branch without incurring tax liability.
- No company formation or winding-up procedures are required.
- Losses can be offset against the parent's profit

Factors that might encourage the establishment of a subsidiary rather than a branch include :

- Limited liability.
- The ability to apply for government regional development assistance and R & D grants on the same terms as any other local business.
- A local identity.
- The capacity to raise capital in the subsidiary's own name and (importantly) to sell shares to outsiders.
- Not having to disclose the annual accounts of the parent organisation .
- The ability to undertake internal reorganisations without having to report this to the foreign authorities.

9.5 LOCATING EXPORT MARKETS

There are two approaches to the location of suitable foreign markets. The first seeks to defined characteristics of customers who will be attracted to the product, and then go through a list of countries picking out these most likely to contain significant numbers of that customer type. The other approach involves exporting only to predetermine easy markets (say because of a common language or ready convertibility of local currencies) and adapting output to meet local needs.

Criteria for eliminating countries offering little chance of success include the following :

(a) Demographic factors. Large populations may be essential for sales of low- value mass- produced items. Age structures could be crucially important for products that appeal to particular age groups.

(b) Local incomes. There is little point in exporting to a poor country whose residents cannot afford the goods offered for sale. National income might be unevenly distributed with a small handful of people owning nearly all the country's wealth. An even distribution of income and wealth is desirable for marketing consumer durables and other basic products; uneven distribution might help sales of extremely expensive, super luxury items. Another relevant factor is the country' s rate of inflation, which determines real (as opposed to nominal) changes in standards of living.

(c) Existence of local competitors. Foreign markets already serviced by many suppliers are, of course, difficult to enter. Note also that existing local firms of often enjoy easy access to local capital markets and may control local distribution channels.

(d) Tax policies in the importing country. Import duties reduce export profitability.

Additionally, high internal sales taxes may be imposed.

(e) Local laws and customs. Consumption of certain, goods (alcohol for example) is illegal in some countries. Local religious or cultural norms may prohibit particular products; pork for instance is not eaten by members of several religious groups. Invariably, countries at war will not allow importation of goods that have passed through enemy territory. Local laws could demand special guarantees, after-sales service, safety standards, and so on, not required in the exporter's country.

(1) Potential Market growth. Early entry to a foreign market that is expected to expand can offer lucrative rewards, since distribution networks capable of excluding competing firms can sometimes be set up.

(g) Storage and transport facilities. The climatic conditions that prevail in certain countries make them unsuitable for particular products. Some motor cars, for example, cannot withstand extremely cold winters. There are drinks and foodstuffs that need refrigeration which may not be commonly available locally. Road and railway systems might be inadequate for effective distribution of the exported good.

9.6 INTERNATIONAL MARKETING RESEARCH

Discovery of overseas marketing opportunities requires the assembly of information about the following :

(a) The size of various market segments, their buoyancy and prospects fu' expansion.

(b) Demographic structures of prospective markets in terms of age, sex composition, family structures, geographical spread of the population, etc.

(c) Market stability, local rates of inflation and economic growth.

(d) Whether local cultural norms and values might affect consumer perceptions of the firm's product, and if so the implications of this.

(e) Foreign tastes, lifestyles and spending patterns.

(f) Average local incomes and the distribution of wealth; living standards, housing and education.

(g) Number of competitors, their strength; and weaknesses and modes of response to other firms' activities.

(h) Competitors' prices, Product quality, credit terms, delivery periods, after-sales service, etc.

(i) How easily the firm will be able to monitor competitors' behavior (Price changes, product modifications, etc.).

(j) How frequently competitors change their price, (this is a crude indicator of the stability of the local market and whether, local firms do actually compete).

(k) The selling points that competitors stress in their local advertising, and why these characteristics are emphasized.

(1) Local technical product standards and labeling requirements.

(m) Local preferences regarding package size, colouring and design, weights and volume, shapes and ease of package disposal.

(n) Local taxation; investment grants for establishing subsidies and/or owned distribution outlets.

(o) Nature of local distribution channels.

(p) Availability of commercial services (advertising agencies, debt collectors, warehousing facilities and so on).

(q) Frequency and whereabouts of local trade fairs and exhibitions.

9.6.1 SELF-CHECK EXERCISE

1. What is the primary purpose of market entry strategies in the context of international business?
a) To limit competition
b) To increase domestic market share
c) To facilitate expansion into foreign markets
d) To establish trade barriers

2. Which of the following is an example of a direct market entry strategy?
a) Exporting
b) Licensing
c) Franchising
d) Establishing a wholly-owned subsidiary

3. What is a joint venture in the context of foreign market entry?
a) A market research partnership
b) A collaboration between two or more companies to enter a foreign market
c) A government-led initiative to promote exports
d) An exclusive distribution agreement

9.7 SUMMARY

When an organisation has made a decision to enter an overseas market, there are a variety of options open to it. These options vary with cost, risk and the degree of control which can be exercised over them. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former, or countertrade, in the case of the latter. More complex forms include truly global operations which may involve joint ventures, or ex port processing zones. Having decided on the form of export strategy, decisions have to be made on the specific channels. Many agricultural products of a raw or commodity nature use agents, distributors or involve Government, whereas processed materials, whilst not excluding these, rely more heavily on more sophisticated forms of access.

9.8 ANSWER TO SELF-CHECK EXERCISE

1. c) To facilitate expansion into foreign markets
2. d) Establishing a wholly-owned subsidiary
3. b) A collaboration between two or more companies to enter a foreign market

9.9 SHORT QUESTIONS

1. What are the methods by which business can enter into foreign markets?
2. List various advantages and disadvantages of exporting.
3. Why do many firms use intermediaries to handle the export of their products?

9.10 LONG QUESTIONS

1. Discuss the advantages and challenges associated with each entry mode, considering factors such as risk, control, and resource requirements.
2. Examine the role of cultural, political, and economic factors in shaping the success or failure

of foreign market entry strategies.

3. Explore the concept of strategic alliances as a foreign market entry strategy.

9.11 KEY WORDS

Exporting, firm's home country, Joint ventures, collaborative arrangements, independent legal entities.

9.12 SUGGESTED READINGS

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MARKETING STRATEGY : PRODUCT MIX, PRICING, DISTRIBUTIONS AND PROMOTION

STRUCTURE

10.0 OBJECTIVES

- Examine the process used in conducting international market assessment of goods and services.
- To know about the factors which play an important role in the decision in regard to alter a good or service in order to adapt the offering to local taste and preference.
- Describe some ways which are used by companies to promote their products worldwide.

10.1 INTRODUCTION AND PURPOSE

Every company which is interested in foreign market has to decide upon a marketing strategy. Marketing products and services around the world, transcending national and political boundaries, is a fascinating phenomenon. This plan of action typically involves consideration of four primary areas: the product to be sold, the way in which it will be promoted, the pricing of the goods and the distribution strategy to be used in getting the goods to the customer. We will discuss what kind of changes needs to be evolved in the product, modifications required in the product, pricing, advertising and in what way distribution system needs to be adjusted.

10.2 PRODUCTS STRATEGIES

Product strategies will vary depending on the specific good and the customers. Some products can be manufactured and sold successfully both in the United States and abroad by using the same strategies. Other products must be modified or adapted and sold according to a specially designed strategy. Fig. 1 shows a range of possibilities. Products and services located on the left side of the continuum require little modification; those on the right must be modified to fit the marker.

Fig. l Selected Examples of Product Modification in the International Arena

Little if any modification required	Little if any modification required	Extensive modification 1 required
Heavy equipment Electronic watches Notebook computers Chemical processes Writing implements Cameras Tennis rackets Cigarettes	Heavy equipment Electronic watches Notebook computers Chemical processes Writing implements Cameras Tennis rackets Cigarettes	High-style consumer goods Cosmetics Prepackaged foods Education products Advertising Packaging Restaurant meals Health services Cultural products Consumer distribution

Little or No Modification

Industrial goods and technical services are good examples of products that need little or no modification. A bulldozer, a notebook computer, and a photocopying machine serve the same purposes and are used the same way in the United States as they are in France or in China. Alterations would be minor and include such things as adapting the machine to the appropriate electric voltage or changing the language used for instructions and labels on the machine. The same is true for many types of services. For example, international engineering and construction firms find that their product strategies are similar worldwide. People interested in having a dam or a power plant constructed uses the same basic concepts and have similar needs throughout the world.

Moderate to High Modification

A number of factors will result in an MNE using moderate to high product modification. These include economics, culture, local laws, level of technology, and the product's life cycle.

Economics : There are many examples of how economic considerations affect the decision to modify a product. For example, in the United States chewing gum packages often contain 10 to 20 sticks. But in many other countries weak purchasing power of the customers necessitates packaging the gum wit'" only ^ sticks.

Economics is also important when the cost of a product is either too high or too low to make it attractive in another country. For example, in economically advanced countries cash registers are electronic; virtually no one uses hand cranked machines. However, in many countries of the world electronic cash registers are too expensive and sophisticated for most retail stores and small establishments.

Similarly, in economically advanced countries products are likely to have frills or extras, whereas in less economically advanced countries only the basic model is offered, For example, in the United States, bicycles are used for exercise and recreation and will have a number of special features that make bicycle riding particularly enjoyable. However, in many countries bicycles are a primary source of transportation.

Culture : In some cases, a product must be adapted to different ways people are accustomed to doing things. For example, the French prefer washing machines that load from the top, whereas the British like front- loading units. The Germans prefer high- speed machines that take out most of the moisture in the spin- dry process, whereas the Italians like slower spin speeds because they prefer to hang duty laundry in the sun. So, manufacturers who sell washing machines in the EC must produce a variety of different units.

Food is often an item that must be modified or sold differently. In fast-food franchises like Mc Donald's, portions of the menu are similar throughout the world and some items are designed to cater specifically to local tastes. For products that are not modified the marketing focus will be different because of the way the item is used. Schweppes conic water, for example, typically serves as a mixer in the United States and Britain where drinks like gin and tonic are popular.

Culture also influences purchasing decisions made on the basis of style or aesthetics. Cosmetics and other beauty aids are good examples, Perfumes that sell well in Europe often have difficulty gaining market share in the United States because they do not appeal to American women. Similarly, many products that sell well in the United States, such as shampoos and deodorants, have limited market appeal elsewhere, People may not use these products or may have difficulty differentiating the product from local offering. For example, Gillette has found that it is difficult to develop a distinctive edge in selling toiletries because many people feel that these products are all basically the same.

Local laws : Local laws can require modification of products in order to meet environmental and

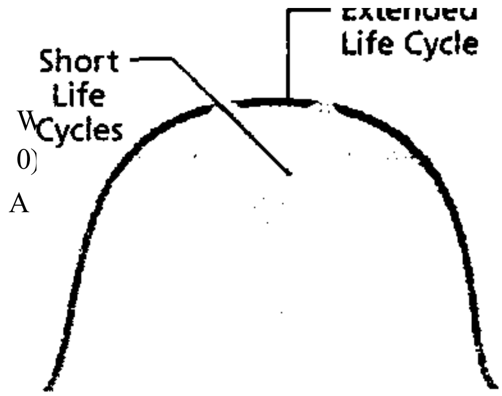
safety requirements. For example, U.S. emission-control laws have required Japanese and European car importers to make significant model changes before their autos can be sold in the United States. Food and pharmaceutical regulations require packaging and labeling that are often quite different from those in the home country. For example, in Saudi Arabia the label of any product containing animal fat or meat must clearly state the kind of animal used and the fact that no swine products were used.

Product Life Cycle : Another reason for modifying a product is to cope with the limited product

life cycle (PLC) of the good. Ford Motor, for example, was extremely profitable in Europe during the 1980 s, but those earnings disappeared by the early 1990 s because Ford did not develop new, competitive products. This is in contrast to Coca-Cola of Japan, which introduces an average of one new soft drink per month and has the competition scurrying to keep up.

One of the most effective strategies has been to shorten the PLC by offering new goods and services before the demand for the old ones has dropped significantly. Note in the figure 2 there are two types of PLCs. One is the standard PLC which covers an extended time continuum, often 4 to 5 years. The other is a short life cycle that lasts much less. Many companies are discovering that by shortening PLC
and offering new product adaptations, they are able to capture and retain large market share.

M



Time

Figure

10.3 PROMOTION

Promotion is the process of stimulating demand for a company' s goods and services. MNEs promote their goods and services through advertising and personal selling. The specific approach that is used, however, will be determined by the nature of the product.

Nature of the Product

In promoting a product, a company can use a variety of approaches. The choice will be heavily influenced by whether the firm believes that the same message can be used worldwide or that it needs to be adapted, and whether the product will remain the same or be modified.

- Identical product and identical message.
- Identical product but different message.
- Modified product but same message.
- Modified product and modified message.

Advertising

Advertising is a nonpersonal form of promotion in which a firm attempts to persuade consumers to a particular point of view. In many cases MNEs use the same advertising message worldwide, and since many products fill similar worldwide needs, the company can use a universal message and reduce advertising costs at the same time. However, there are times when the advertising must be adapted to the local market. Two of the most common reasons are that (1) the way in which the product is used is different from that in the home country and (2) the advertising message does not make sense if translated directly. An example of the latter is the Nike commercials that encourage the viewer to " just do it," or Budweiser commercials that ask, "Why ask why?" These make sense to U.S. viewers, but they are too culturally grounded to be used in many other countries.

As in the United States, MNEs use a number of media to carry their advertising messages. The three most popular media are television, radio, and newspapers. Some of the major differences between the approach used in the United States and that employed in other countries include government regulation of media advertising and the fact that many stations do not carry advertising, although in recent years this has been changing.

However, there are restrictions regarding what can be presented. Examples include: (1) some countries prohibit comparative advertising, in which companies compare their products with those of the competition; (2) some countries do not allow certain products to be advertised because they want to discourage their use (alcoholic beverages and cigarettes, for example) or because they want to protect national industries from MNE competition; and (3) some (such as Islamic) countries censor the use of any messages that are regarded as erotic.

10.4 PRICING

The pricing of goods and services in the international marketplace is often influenced by factors present in home market pricing. These factors include government controls, market diversity, currency fluctuations, and price escalation forces.

Government Controls

Every nation has government regulations that influence pricing practices. In some countries there are minimum and maximum prices that can be charged to customers. Minimum prices can help to protect local companies from more efficient international competitors because of a floor on prices that can help to ensure profit for national firms. For example, if the minimum price for a particular type of personal computer is $1000 and local companies can produce and sell the product for $ 700, they will make $300 a Unit.

Governments also prohibit dumping, or the selling of imported goods at a price below cost or below the cost in the home country. The General Agreement on Tariffs and Trade (GATT) specifically prohibits this practice, which is designed to help MNEs drive out the local competition and then establish a monopoly and subsequently increase prices at will.

Market Diversity

Consumer tastes and demands vary widely in the international marketplace, and this result in MNEs having to price some of their products differently. For example, companies have found that they can charge more for goods sold overseas because of the demand.

A second factor influencing market diversity is the perceived quality of the product. For example, in the United States, German auto makers such as Mercedes found that some Americans are willing to pay a premium for German car.

Another factor is the tax laws and attitudes about carrying debt. In the United State some interest payments are tax deductible, and most people have no aversion to assuming at least some debt. In many other countries interest payments are not tax deductible and people are unaccustomed to carrying debt. In Japan, for example, little use is made of consumer credit. In pricing products, MNEs will adjust the local strategy to accommodate the impact of the tax laws and the consumer's willingness to assume debt.

Currency Fluctuations

As noted, when selling products overseas, MNEs often end up assuming the risks associated with currency fluctuations. This risk is particularly important when multinationals have a return on investment target because this objective can become unattainable if the local currency is devalued. For r example, if it costs Mercedes $30 ,000 to manufacture and ship a particular model to the United ‘States and the company sells the car to its dealer for $ 40,000, .Mercedes is making a 33 percent profit on the sale {$10,000/ $30,000). However, if the dollar decreases in value by 10 percent against the German mark, then the company's profit percentage will decline and the firm will have only two options:
(1) to increase the price of the car to the dealer to make up the loss of dollar value, or (2) to absorb the loss and leave the price the same.

Beginning in the late 1980 s U.S. firms found that their products were becoming much more attractive to European buyers, thanks to the devaluation of the dollar, and the accompanying increase in purchasing power of buyers on the continent.

Price Escalation Forces

A problem similar to that discussed above is price escalation forces that drive up the cost of imported goods. In the case of overseas, for example, if the cost of the car rose from $30,000 to $ 33,000, the company would want to pass this along to the dealer. In the case of MNEs that sell through a marketing channel where there is a

The Effect of MNE Pricing on Final Consumer Costs

Price charged by each middleman

MNE Price	1	2	3	4	5
$10	$12.0 0	$14.4 0	$17.2 8	$20.7 4	$24.8 8
$13	$15.6 0	$18.7 2	$22.4 6	$26.9 6	$32.3 5

Ultimate effect of a $3 increase in MNE price: $32.35 - $24.88 = $7.47 or 30 percent

series of middlemen, the effect of a price escalation can be even greater because everyone in the channel will add a percentage increase. For example, if an MNE exports and sells a consumer good for $10 to a large wholesaler and there are five additional middlemen in the channel, each of whom marks up the good by 20 percent.

10.4.1 SELF-CHECK EXERCISE

1. What is the term used to describe the set of all products and items a company offers for sale?
a) Market basket
b) Product mix
c) Inventory assortment
d) Merchandise spectrum
2. When a company adjusts its product prices based on factors such as demand, competition, and perceived value, which pricing strategy is it employing?
a) Penetration pricing
b) Cost-plus pricing
c) Dynamic pricing
d) Skimming pricing
3. In the context of marketing strategy, what does the distribution element focus on?
a) Product development
b) Getting the right product to the right place at the right time
c) Pricing optimization
d) Advertising and promotion

10.5 DISTRIBUTION

The focus of attention here will be on the distribution differences among countries and conditions with which MNEs must be familiar. Distribution is the course that goods take between production and the final consumer. This course often differs on a country-by- country basis, and MNEs will spend a considerable amount of time in examining the different systems that are in place, the criteria to use in choosing distributors and channels, and how distribution segmentation will be employed.

Different Distribution Systems

It is often difficult to standardize the distribution system and to use the same approach in every country because there are many individual differences to be considered.

Consumer spending habits can also negate attempts to standardize distribution. In the United States, many middlemen are geared to handling credit sales, whereas in Japan, most consumer purchases are on a cash basis.

The location where consumers are used to buying will also influence distribution. In economically developed countries where supermarkets have become commonplace, customers purchase a wide variety of food and other products under one roof. In most countries, however, purchases are made in smaller stores and distribution requires the MNE or the local sales manager to deal with a large number of
retailers, each of whom is selling a small amount of merchandise.

Choosing the Best Distribution system

MNEs use a number of criteria in creating the most efficient distribution system. One is to get the best possible distributors to carry their products. A key factor in evaluating potential distributors is the financial strength of the- Wholesaler or retailer because the multinational wants to know that the distributor will be able to survive the long run. A second factor is how well connected the distributor is in terms of knowing the right people and of providing assistance in handling governmental red tape. This is an important consideration for Coca-Cola when choosing overseas distributions. A third factor is the number and types of product line' s the distributor carries currently so that the multinational can identify middlemen who are most likely to give its goods a strong marketing push.

10.6 SUMMARY

The marketing strategy begins with international market assessment, an evaluation of the goods and services the company can sell in the global marketplace. There are number of factors which need to be considered like the modifications required in the product, its price, promotion and distribution. There are a variety of marketing strategies that are being used by companies when formulating their strategic plans. Depending on the nature of the product, nature of the market and the kind of competition in the market the strategies are evolved.

10.7 ANSWER TO SELF-CHECK EXERCISE

1. b) Product mix
2. c) Dynamic pricing
3. b) Getting the right product to the right place at the right time

10.8 SHORT QUESTIONS

1. Why can some goods and services be sold internationally without changes where as others have to be modified. Explain.
2. What factors influence the need for moderate to high modification of goods and services that have to be sold well in the home country and will now be marketed overseas.

10.9 LONG QUESTIONS

1. Explain the concept of product mix and its significance in a marketing strategy. How can a company strategically design and manage its product mix to cater to diverse market segments?
2. Analyze the various pricing strategies that companies employ in the marketplace, such as penetration pricing, skimming pricing, and value-based pricing. How do these strategies align with consumer behavior and market dynamics?
3. Explore the role of distribution channels in a company's marketing strategy. How do different distribution models, such as direct selling, intermediaries, and online platforms, impact a product's market reach?

10.10 KEY WORDS

Global/transnational, evolutionary phases, global company, marketing plan, market leader.

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EXPORT FINANCING

STRUCTURE

11.0 OBJECTIVES

After reading this chapter, the student should be able :

- To know the meaning & need of export financing.
- To study the types of export financing
- To study the role of banks in export financing
- To know about the procedures of export financing.

11.1 INTRODUCTION

Arranging export finance and seeking risk management solutions have always been at the heart of businesses engaged in cross border trade. A financial facility that helps meet the ever increasing international trade finance demands of international traders by freeing- up their funds involved in international trade transactions.

An importer may often be attracted by payment terms, which allows good credit. It is up to exporter to decide whether it is safe and can he afford to give such credit at the price he calculated. He may find that he cannot afford to do this also finds that his inability is only hindrance preventing him from doing business with good buyers. The only way-out to borrow money is from a bank and or any other financial institution. For providing reshipment credit to Indian exporters at internationally competitive rates of interest, the Reserve Bank of India had issued a Master Circular IECD No. 7/04.02.02/ 2002 -03 dated July 1, 2003 on the captioned subject, which is updated as on 1st July, 2004.

Export financing starts after the order form the buyer has been received, the export order has been accepted, manufacturing for the export order begins, and shipping documents are issued; and it ends when goods are cleared and payments are received by exporter.

Borrowers have a variety of international trade finance funding options through the wide range of funding programs offered that can provide them with the flexibility they need to increase their profits and decrease transaction costs.

Financial assistance is extended by the banks to the exporters at two stages :

- pre-shipment financing
- post-shipment financing

Financial assistance extended to the exporter prior to shipment of goods from India falls within the scope of pre- shipment finance while that extended after shipment of the goods falls under post- shipment finance.

11.2 PRE-SHIPMENT FINANCING

11.2.1 Definition

Pre-shipment financing means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgment of export orders or letter of credit with the bank has been waived.

With a view to making credit available to exporters at internationally competitive rates, authorized dealers have been permitted to extend Pre- shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at LIBOR/ EURO LIBOR/EURIBOR related rates of interest. The main objectives behind pre- shipment finance or pre export finance are to enable exporter to:

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers.
- Meet other financial cost of the business.

11.2.2 Types of Pre Shipment Finance

- Packing/Pre-shipment Credit/finance
- Advance against Cheques/Draft etc. representing Advance Payments.

11.2.3 Pre-shipment finance is extended in the following forms

- Packing/Pre-shipment Credit in Indian Rupee
- Packing/Pre-shipment Credit in Foreign Currency (PCFC)

11.2.4 Eligibility

(a) Packing Credit Facilities to Physical Exports

Pre shipment credit is only issued to that exporter who has the export order in his own name. However, as an exception, financial institution can also grant credit to a third party manufacturer or supplier of goods who does not have export orders in their own name when some of the responsibilities of meeting the export requirements have been out sourced to them by the main exporter. In other cases where the export order is divided between two more than two exporters, pre shipment credit can be shared between them.

(b) Packing Credit Facilities to Deemed Exports

Deemed exports made to multilateral funds aided projects and programmes, under orders secured through global tenders for which payments will be made in free foreign exchange, are eligible for concessional rate of interest facility both at pre and post supply stages.

(c) Packing Credit facilities for Consulting Services

In case of consultancy services, exports do not involve physical movement of goods out of Indian Customs Territory. In such cases, Pre- shipment finance can be provided by the bank to allow the exporter to mobilize resources like technical personnel and training them.

11.2.5 Quantum of Finance

The Quantum of Finance is granted to an exporter against the LC or an expected order. The quantum of finance is fixed depending on the FOB value of contract / LC or the domestic values of goods, whichever is found to be lower. The only guideline principle is the concept of Need Based Finance. Banks determine the percentage of margin, depending on factors such as :

- The nature of Order.
- The nature of the commodity.
- The capability of exporter to bring in the requisite contribution.

The exporter will have the following options to avail of export finance :

(a) to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/rediscounting of export bills under EBR (Export Bills Abroad Scheme) Scheme.

(b) to avail of pre-shipment credit in foreign currency and discount/rediscounting of the export bills in foreign currency under EBR Scheme.

(c) to avail of pre-shipment credit in rupees and then convert withdrawals into PCFC at the discretion of the bank.

11.2.6 Different Stages of Pre Shipment Finance

(a) Appraisal and Sanction of Limits

Before making any an allowance for Credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. To check all these information, banks can seek the help of institution like ECGC or International consulting agencies like Dun and Brad street etc.

The Bank extended the packing credit facilities after ensuring the following :

- The exporter is a regular customer, a bona fide exporter and has a good standing in the market.

- Whether the exporter has the necessary license and quota permit or not.
- Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries (RCC) or not.

(b) Disbursement of Packing Credit Advance

Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents or not. Disbursement is normally allowed when all the documents are properly executed.

Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provides a special packing credit facility and is known as Running Account Packing.

The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods.

The maximum duration of packing credit period is 180 days; however, bank may provide a further 90 days extension on its own discretion, without referring to RBI.

In case if the export does not take place, then the entire advance can also be recovered at a certain interest rate. RBI has allowed some flexibility in to this regulation under which substitution of commodity or buyer can be allowed by a bank without any reference to RBI. Hence in effect the packing credit advance may be repaid by proceeds from export of the same or another commodity to the same or another buyer. However, bank need to ensure that the substitution is commercially necessary and unavoidable.

(c) Overdue Packing

Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure.

Banks however, ensure that there is no double financing and the total period of packing credit does not exceed the actual cycle of production of the commodity.

11.2.7 Pre-shipment Credit in Foreign Currency (PCFC)

Authorized dealers are permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) with an objective of making the credit available to the exporters at internationally competitive price. This is considered as an added advantage under which credit is provided in foreign currency in order to facilitate the purchase of raw material after fulfilling the basic export orders. The exporter has freedom to avail PCFC in convertible currencies like USD, Pound, Sterling, Euro, Yen etc. However, the risk associated with the cross currency truncation is that of the exporter.

The rate of interest on PCFC is linked to London Interbank Offered Rate (LIBOR).

11.2.8 Advance against Cheque/Drafts received as advance payment

Where exporters receive direct payments from abroad by means of cheques/drafts etc. the bank may grant export credit at concessional rate to the exporters of goods track record, till the time of realization of the proceeds of the cheques or draft etc. The Banks however, must satisfy themselves that the proceeds are against an export order.

11.3 POST-SHIPMENT FINANCE

Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds. Exporters do not wait for the importer to deposit the funds.

11.3.1 Definition

'Post-shipment Credit' means any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending credit after shipment of goods to the date of realization of export proceeds.

11.3.2 Purpose of Finance

Post-shipment finance is meant to finance export sales receivable after the date of shipment of goods to the date of realization of exports proceeds. In cases of deemed exports, it is extended to finance receivable against supplies made to designated agencies. The Scheme will cover mainly export bills with issuance period up to 180 days from the date of shipment (inclusive of normal transit period and grace period, if any). There is, however, no bar to include demand bills if overseas institution has no objection to it.

11.3.3 Basis of Finance

Post shipment finances are provided against evidence of shipment of goods or supplies made to the importer or seller or any other designated agency.

11.3.4 Types of Finance

Post shipment finance can be secured or unsecured. Since the finance is extended against evidence of export shipment and bank obtains the documents of title of goods, the finance is normally self- liquidating. In that case it involves advance against undrawn balance, and is usually unsecured in nature. Further, the finance is mostly a funded advance. In few cases, such as financing of project exports, the issue of guarantee (retention money guarantees) is involved and the financing is not funded in nature.

Buyer's Credit is a special type of loan that a bank offers to the buyers for large scale purchasing under a contract. Once the bank approved loans to the buyer, the seller shoulders all or part of the interests incurred. Post shipment finance can also be provided for Deemed exports, Capital goods and project exports :

- Deemed export : Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- Capital goods and project exports : Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.
- Supplier's Credit

11.3.5 Quantum of Finance

As a quantum of finance, post shipment finance can be extended up to 100% of the invoice value of goods. In special cases, where the domestic value of the goods increases the value of the exporter order, finance for a price difference can also be extended and the price difference is covered by the government. This type of finance is not extended in case *of pre* shipment stage.

Banks can also finance undrawn balance. In such cases banks are free to stipulate margin requirements as per their usual lending norm.

11.3.6 Period of Finance

Post shipment finance can be off short terms or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21 days from the date of shipment.

11.3.7 Types of Post Shipment Finance

The post shipment finance can be classified as :

(a) Export Bills purchased/discounted.

(b) Export Bills negotiated

(c) Advance against export bills sent on collection basis.

(d) Advance against export on consignment basis

(e) Advance against undrawn balance on exports

(f) Advance against claims of. Duty Drawback.

(a) Export Bills Purchased/ Discounted (DP & DA Bills)

Export bills (Non L/C Bills) is used in terms of sale contract/ order may be discounted or purchased by the banks. It is used in indisputable international trade transactions and the proper limit has to be sanctioned to the exporter for purchase of export bill facility.

(b) Export Bills Negotiated (Bill under L/C)

The risk of payment is less under the LC, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the LC. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under LC. However, this arises two major risk factors for the banks:

- The risk of nonperformance by the exporter, when he is unable to meet his terms and conditions. In this case, the issuing banks do not honor the letter of credit.
- The bank also faces the documentary risk where the issuing bank refuses to honour its commitment. So, it is important for the negotiating bank, and the lending bank to properly check all the necessary documents before submission.

(c) Advance against Export Bills Sent on Collection Basis

Bills can only be sent on collection basis, if the bills drawn under LC have some discrepancies. Sometimes exporter requests the bill to be sent on the collection basis, anticipating the strengthening of foreign currency.

Banks may allow advance against these collection bills to an exporter with a concessional rates of interest depending upon the transit period in case of DP Bills and transit period plus usance period in case of issuance bill.

The transit period is from the date of acceptance of the export documents at the bank's branch for collection and not from the date of advance.

(d) Advance against Export on Consignments Basis

Bank may choose to finance when the goods are exported on consignment basis at the risk of the exporter for sale and eventual payment of sale proceeds to him by the consignee.

However, in this case bank instructs the overseas bank to deliver the document only against trust receipt /undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports.

In case of export through approved Indian owned warehouses abroad the times limit for realization is 15 months.

(e) Advance against Undrawn Balance

It is a very common practice in export to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. Banks do finance against the undrawn balance, if undrawn balance is in conformity with the normal level of balance left

undrawn in the particular line of export, subject to a maximum of 10 percent of the export value. An undertaking is also obtained from the exporter that he will, within 6 months from due date of payment or the date of
shipment of the goods, whichever is earlier surrender balance proceeds of the shipment.

(f) Advance Against Claims of Duty Drawback

Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the in-house cost of production is higher in relation to international price. This type of financial support helps the exporter to fight successfully in the international markets.

In such a situation, banks grants advances to exporters at lower rate of interest for a maximum period of 90 days. These are granted only if other types of export finance are also extended to the exporter by the same bank.

After the shipment, the exporters lodge their claims, supported by the relevant documents to the relevant government authorities. These claims are processed and eligible amount is disbursed after making sure that the bank is authorized to receive the claim amount directly from the concerned government authorities.

11.4 ROLE OF EXPORT-IMPORT BANK OF INDIA IN EXPORT FINANCING

EXIM Bank, wholly owned by Government of India, was established in 1982 under the Export- Import Bank of India Act 1981. Export-Import Bank of India is the premier export finance institution of the country, set up in 1982 under the Export-Import Bank of India Act 1981 with initial authorized capital of Rs. 200 crore (increased to Rr.500 and then to Rs.2000 crore), which took over the export finance activities of IDBI with the objective of promoting India's international trade and to function as the principal financial institution for coordinating the working of institutions engaged in financing exports and imports of goods and services.

Government of India launched the institution with a mandate, not just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, Exim Bank of India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalization efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, reshipment and post- shipment and overseas investment.

Responding to the challenges of globalization of production processes, accretion in private investment flows, diminishing role of financial intermediaries for large multinationals and emergence of world class commercial banks capable of infusing large capital and undertaking risks in project and trade financing, Exim Bank has over the years transformed its operations. Its major operations include financing projects, products and service exports, building export competitiveness, import financing for exports, foreign trade guarantee programmes, export and consultancy services. With a view to enlarging networking with international organisations and other service providers and promoting exports, the Bank is increasingly co-financing projects overseas with multilateral funding institutions, its counterparts in other countries and commercial banks. Exim Bank offers the following Export Credit facilities, which can be availed of by Indian companies, commercial banks and overseas entities

11.4.1 Pre-shipment Credit

Exim Bank's Pre-shipment Credit facility, in Indian Rupees and foreign currency, provides access to finance at the manufacturing stage - enabling exporters to purchase raw materials and other inputs.

11.4.2 Supplier's Credit

This facility enables Indian exporters to extend term credit to importers (overseas) of eligible goods at the post-shipment stage.

11.4.3 For Project Exporters

Indian project exporters incur Rupee expenditure while executing overseas project export contracts i.e., costs of mobilization/acquisition of materials, personnel and equipment etc. Exim Bank’s facility helps them meet these expenses.

11.4.4 For Exporters of Consultancy and Technological Services

Exim Bank offers a special credit facility to Indian exporters of consultancy and technology services, so that they can, in turn, extend term credit to overseas importers.

11.4.5 Guarantee Facilities

Indian companies can avail of these to furnish requisite guarantees to facilitate execution of export contracts and import transactions.

EXPORT DOCUMENTATION

STRUCTURE

12.0 OBJECTIVES

After reading this chapter, the student shall be able to :

- To know about documents required for exports.
- To know from where these documents can be arranged.
- To know about the process of documentation.

12.1 INTRODUCTION

At the outset it must be mentioned that improved system of documentation for exports announced by the government should be adopted be the exporters as far as possible. However, a word of caution would be in order. To date we have arrangements with only 80 countries around the world where UN Key Layout (Master Documents) is followed. With these countries Indian exporter could jolly well use the improved version of documents announced by the government of India as per the New Exim policy.

For the remaining countries [other than 80 countries where UN Key Layout (Master Documents)] is not in use, the Indian exporter has to ascertain from the importer of his requirements and must comply with his dictates for documentation. The basic dictum for the exporter is "complying 100% the Letter of Credit requirements for Documentation," otherwise exporter could be in problem and his payment may be stopped. Moreover, exporter prepares export documents not for his own convenience but largely to meet the requirements of the overseas importer who largely conveys it through the Letter of Credit. Treatment in this chapter is therefore; slightly exhaustive of documents where the old requirements have also been kept in view while introducing master documents.

Export documentation work constitutes a heavy charge on our export activity. It is complex, cumbersome and costly. This is partly due to the nature of export trade itself involving, as it does, a number of intermediary organisations and authorities at different stages of export activity between the seller and the buyer. All these in turn, generate a lot of paperwork and procedural formalities.

The documents used 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 had to be completed individually. This method of preparation Of documents was susceptible to errors and discrepancies which, even though minor, caused delays at different stages in the processing of documents, costly hold up of consignments at checkpoints and terminals, and in the ultimately realization of export proceeds.

12.2 MASTER DOCUMENTS

All these problems of late have been avoided by following a system which provides an alternative to the repetitive, unproductive and time consuming work necessitated by the exporters' compulsion to prepare separately a number of documents, all containing practically the same information. This system is known as the' Aligned Documentation System'. Already in use in a number of countries, this system is reported to have made for simplicity, convenience, speed, accuracy and economy in documentation-work.

The introduction of simplified export documents has reduced the burden of the exporter's 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.

Earlier Indian exporters were required to submit 25 documents to various agencies and authorities merely to ship the goods. Each document had to be individually prepared. The new system standardised these documents and aligned them to each other on the basis of the United Nations Key Layout which has already been adopted by most of India's 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 alignment and minimum cost and time for preparing individual documents.

The two-master documents contain all the information that was common to individual documents.

Considerable simplification of RBI and customs procedures has taken place. Under the new procedure, numerous port trust documents have been replaced by one form.

Simplification of pre-shipment documentation is only the first step. The post shipment documentation and numerous procedures connected with clearance of import and export goods, inspection, warehousing in bound operations, road haulage of import/export goods, operations at ICS' s and CF s are also important areas which call for rationalization and simplification in keeping with the recognized international practices.

The government of India, therefore, identified some export documents for standardization with the help of the concerned official and commercial interests in the country. The documents taken up for standardization include: Invoice, Certificate of Origin, Packing List, Bill of Lading. Mate's Receipt, Shipping Order. Shipping Bill, Port Trust Document, Insurance Declaration Form and Certificate of Insurance.

The System

Thus, the one-run method of preparation of documents involves the use of standardized and aligned documents. A standard document means that different forms in respect of a document presently used by different exporters, agencies and bodies are printed on the same size of paper with identical layout and design.

Advantages

The one-run method of reproduction of documents from a common master has a number of advantages. These can be slimmed up in one word: efficiency. The whole set of documents included in the aligned series can be reproduced with economy, speed, accuracy and convenience.

12.3 PRINCIPAL DOCUMENTS

Export invoice

Invoice is a document of contents. It is the exporter's bill for goods and sets forth the terms of sale. The invoice is a basic document. The standard document in respect of invoice is based on the United Nations Key Layout which has been accepted as the basis of this document in many countries. The Standard Invoice can be reproduced from the master by masking only three columns, i.e., Notify Party, Insured Value and No. of Original Bs/L.

There may be cases when exporters are required to give detailed descriptions or specifications of the various items forming part of the consignment exported in one lot. In such cases, exporters are advised to use Continuation Sheets' to the Invoice.

Packaging List

This may be shown on invoice or separately, and should contain item by item, the contents of cases or containers or of a shipment with its weight and description set forth in such a manner as to permit checks of the contents by the customs on arrival at the port of destination as well as by the recipient.

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.

Certificate of Origin

This certificate certifies the place of origin of the merchandise. Besides the Federation of Indian Chambers of Commerce and Industry, EPCs and various other trade associations have been authorized by government of India to issue certificates of origin. These certificates are important in the case of shipments to countries which '6ave preferential rates of tariff for Indian goods. Certificate of Origin are issued by chambers of commerce on their own printed forms differing in sizes and layout.

Bill of Lading

A bill of lading is a document issued and signed by a shipping company or its agents acknowledging that the goods mentioned in the bill of lading have been duly received for shipment, or shipped on board a vessel, and undertaking to deliver the goods in the like order and condition as received, to the consignee, or his order or assignee, provided that freight and other charges specified in the bill of lading have been duly paid.

Bill of lading serves the following purposes :

(i) is receipt for goods received by shipment company;

(ii) A Contract with the Carrier. It contains the terms of the contract between the shipper and the shipping company, between stated points at a specific charge; and

(iii) Evidence of Title. It is a certificate of ownership or title to the goods.

Endorsement on Bill of Lading

By practice and custom the bill of lading has been transferable. If, however, the bill requires the goods to be delivered to a particular named person and does not include a reference to his assignees, the bill of lading is not transferable.

Shipping Bill

Shipping bill is required by the customs. It is only after the shipping bill is stamped by the customs that cargo is allowed to be carted to the docks.

PORT TRUST DOCUMENTS

Dock Challan/Export Application/Port Trust Copy of Shipping Bill

Port trusts in India have prescribed their own documents for payment of port charges and handling shipments through their respective ports. Differing widely in sizes and layout, these documents are known differently at different port, e.g.," Dock Challan at Calcutta, Export Application in Madras and Cochin and Port Trust Copy of Shipping Bill at Bombay.

Marine Insurance Declaration Form and Marine Insurance Certificate/Policy

The Standard Marine Insurance Declaration and the Marine Insurance Certificate included in this chapter are based on the \format approved by Lloyd's and The Institute of London Underwrites.

BILL OF EXCHANGE

One of the common moods of payment in international trade invoice use of bill of exchange (BIE), also known as drafts, provide documentary evidence of obligation and the financial risk of the transaction is more widely spread.

12.4 AUXILIARY DOCUMENTS

(1) Letter of Credit

It is a written instrument issued by the buyer's bank, authorizing the seller to draw in accordance with certain terms and stipulating in a legal form that all such bills (drafts) will be honored.

The letter of credit is a means of payment that provides the exporter with more security than open accounts or bills of exchange. A commercial letter of credit is issued by a bank at the request of a buyer of merchandise whereby the bank itself undertakes to honour drafts drawn upon liby~ the seller of the merchandise concerned. Thus, the letter of credit substitutes the bank's promise to pay for that of the importer.

There are three essential parties to a commercial letter of credit :

1. The opener or importer - the buyer who opens the credit.
2. The issuer - the bank that issues the letter of credit.
3. The beneficiary - the seller in whose favour the credit is opened.

(2) Inspection Certificate

Inspection certificate by an established inspection authority is needed under some contracts or by some countries. This certificate is issue by several authorised inspection agencies in the country. Inspection certificate is issued by EIC of India (Export Inspection Council of India.

(3) Business Travel Application for Foreign Exchange

Applications for grant of foreign exchange allotment to meet the maintenance, travelling and entertainment expenses of businessmen proceeding abroad on ground of business, should be made to the office of the Reserve Bank in whose jurisdiction the Head Office of the firm, on whose behalf the travel is undertaken, is situated.

12.4.1 SELF-CHECK EXERCISE

1. Which document serves as a detailed list of the contents, quantities, and weights of each package in a shipment?

a) Certificate of Origin
b) Commercial Invoice
c) Packing List

d) Bill of Lading

2. What is the primary purpose of a Certificate of Origin in export documentation?
a) To specify the quality and specifications of goods
b) To authenticate the country of origin of the goods
c) To outline the terms of payment
d) To serve as a receipt of the shipped goods

3. Which export document serves as evidence of a contract of carriage and a receipt for the goods, as well as a document of title to the goods?
a) Certificate of Inspection
b) Proforma Invoice
c) Bill of Lading
d) Letter of Credit

12.5 DOCUMENTS FOR CLAIMING EXPORT ASSISTANCE

1. Application Form for Registration
2. Import License for Raw Materials, Intermediates Including Components and Spares.
3. Allotment of Indigenous Raw Materials on Priority Basis.
4. Advance Allotment of Indigenous Raw Materials
5. Drawback of Import and Excise Duties
5. General Security/General Surety for Executing Bond (Form B~l)
6. AR-4 Form
7. Drawback Shipping Bill!
8. Drawback Bill

12.6 SUMMARY

Certain documentation takes place while exporting from India. Special documents may be required depending on the type of product or destination. Certain export products may require a quality control inspection certificate from the Export Inspection Agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.

12.7 ANSWER TO SELF-CHECK EXERCISE

1. c) Packing List
2. b) To authenticate the country of origin of the goods
3. c) Bill of Lading

12.8 SHORT QUESTIONS

1. Discuss various types of documents required for export?
2. Discuss the principal documents for export?

12.9 LONG QUESTIONS

1. Explore the ways in which export documentation serves as a crucial tool for mitigating risks and ensuring compliance in international trade.
2. Provide an in-depth analysis of the customs procedures associated with export documentation.
3. Examine the role of documentary credits (letters of credit) in international trade and export documentation.

12.10 KEY WORDS

Export Invoice, Certificate of Origin, Merchandise, Export Inspection Agency

12.11 SUGGESTED READINGS

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ROLE OF EXIM BANK AND OTHER INSTITUTES FOR EXPORT PROMOTION IN INDIA

STRUCTURE

13.0 OBJECTIVES

After reading this chapter, the student should be able :

- An understanding need and setup of various agencies involved in Export Promotion.
- Major functions of these agencies.
- Role of Government in co-ordination.
- An understanding of Government supported institutions.
- An understanding of Services specific organizations.

13.1 INTRODUCTION

An exporter needs guidance and assistance at different stages of his export efforts. For this purpose, the government of India has set up several institutions whose main function is to help an exporter in his works. The fields in which these institutions have been active include development of export management personnel, market research, export credit insurance, export publicity, organization of trade fair and exhibitions, collection and dissemination of market information, inspection and quality control, development in packing etc. a brief review of the activities and functions of some of these institutions is given below :

13.2 EXPORT IMPORT BANK OF INDIA (EXIM BANK)

13.2.1 Introduction

EXIM Bank, wholly owned by Government of India, was established in 1982 under the Export- Import Bank of India Act 1981 Export-Import Bank of India is the premier export finance institution of the country, set up in 1982 under the Export-Import Bank of India Act 1981 with initial authorized capital of Rs. 200 crore (increased to Rs.500 and then to Rs.2000 crore), which took over the export finance activities of IDBI with the objective of promoting India's international trade and to function as the principal financial institution for co-ordinating the working of institutions engaged in financing exports and imports of goods and services.

Government of India launched the institution with a mandate, not just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, Exim Bank of India having its Head office at Mumbai and nine domestic and six overseas offices, has over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalization efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and postshipment and overseas investment.

Responding to the challenges of globalization of production processes, accretion in private investment flows, diminishing role of financial intermediaries for large multinationals and emergence of world class commercial banks capable of infusing large capital and undertaking risks in project and trade financing, Exim Bank has over the years transformed its operations. Its major operations include financing projects, products and service exports, building export competitiveness, import financing for exports, foreign trade guarantee programmes, export and consultancy services. With a view to enlarging networking with international organisations and other service providers and promoting exports, the Bank is increasingly co-financing projects overseas with multilateral funding institutions, its counterparts in other countries and commercial banks.

13.2.2 Objective of Exim Bank

"... for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade..."

"... shall act on business principles with due regard to public interest"

13.2.3 The Board

Exim Bank's board consists of Directors (16 in nos.) as follows :

- Chairman and Managing Director
- 5 Directors : Government of India
- 3 Directors : Scheduled Banks
- 4 Directors : Professionals/Experts
- 1 Director nominated by RBI
- 1 Director nominated by IDBI
- 1 Director nominated by ECGC

13.2.4 The Initiatives and Functions of Exim Bank

Exim bank is playing the pioneering Role in Promoting Project Exports. In its efforts few of the initiatives taken by the institute are :

- Exim Bank of India has been the prime mover in encouraging project exports from India. The Bank provides Indian project exporters with a comprehensive range of services to enhance the prospect of their securing export contracts, particularly those funded by Multilateral Funding Agencies like the World Bank, Asian Development Bank, African Development Bank and European Bank for Reconstruction and Development.
- The Bank extends lines of credit to overseas financial institutions, foreign governments and their agencies, enabling them to finance imports of goods and services from India on deferred credit terms. Exim Bank's lines of Credit obviate credit risks for Indian exporters and are of particular relevance to SME exporters.
- The Bank's Overseas Investment Finance programme offers a variety of facilities for Indian investments and acquisitions overseas. The facilities include loan to Indian companies for equity participation in overseas ventures, direct equity participation by Exim Bank in the overseas venture and non-funded facilities such as letters of credit and guarantees to facilitate local borrowings by the overseas venture.
- The Bank provides financial assistance by way of term loans in Indian rupees/ foreign currencies for setting up new production facility, expansion/ modernization/upgradation of existing facilities and for acquisition of production equipment/technology. Such facilities particularly help export oriented Small and Medium Enterprises for creation of export capabilities and enhancement of international competitiveness.
- Under its Export Marketing Finance programme, Exim Bank supports Small and Medium Enterprises in their export marketing efforts including financing the soft expenditure relating to implementation of strategic and systematic export market development plans.
- The Bank has launched the Rural Initiatives Programme with the objective of linking Indian rural industry to the global market. The programme is intended to benefit rural poor through creation of export capability in rural enterprises.
- In order to assist the Small and Medium Enterprises, the Bank has put in place the Export Marketing Services (EMS) Programme. Through EMS, the Bank seeks to establish, on best efforts basis, SME sector products in overseas markets, starting from identification of prospective business partners to facilitating placement of final orders. The service is provided on success fee basis.
- Exim Bank supplements its financing programmes with a wide range of value- added information, advisory and support services, which enable exporters to evaluate international risks, exploit export opportunities and improve competitiveness, thereby helping them in their globalisation efforts.

Exim bank undertakes following kind of functions:

- Direct finance to exporter of goods.
- Direct finance to software exports and consultancy services.
- Finance for overseas joint ventures and turnkey construction project
- Finance for import and export of machinery and equipment on lease basis
- Finance for deferred payment facility
- Issue of guarantees
- Multi-currency financing facility to project exporters.
- Export bills re-discounting
- Refinance to commercial banks in India

- Guaranteeing the obligations.

13.2.5 Export Credit facilities of Exim Bank

Exim Bank offers the following Export Credit facilities, which can be availed of by Indian companies, commercial banks and overseas entities.

13.2.5.1 Services for Indian Companies

(a) Pre-shipment credit

Exim Bank's Pre-shipment Credit facility, in Indian Rupees and foreign currency, provides access to finance at the manufacturing stage - enabling exporters to purchase raw materials and other inputs.

(b) Supplier's Credit

This facility enables Indian exporters to extend term credit to importers (overseas) of eligible goods at the post-shipment stage.

(c) For Project Exporters

Indian project exporters incur Rupee expenditure while executing overseas project export contracts i.e., costs of mobilization/acquisition of materials, personnel and equipment etc. Exim Bank’s facility helps them meet these expenses.

(d) For Exporters of Consultancy and Technological Services

Exim Bank offers a special credit facility to Indian exporters of consultancy and technology services, so that they can, in turn, extend term credit to overseas importers.

(e) Guarantee Facilities

Indian companies can avail of these to furnish requisite guarantees to facilitate execution of export contracts and import transactions.

(f) For commercial Banks

Exim Bank offers Rediscounting Facility to commercial banks, enabling them to rediscount export bills of their SSI customers, with usance not exceeding 90 days.

(g) Other Facilities for Indian Companies

Indian companies executing contracts within India, but which are categorized as Deemed Exports in the Foreign Trade Policy of India or contracts secured under international competitive bidding or contracts under which payments are received in foreign currency, can avail of credit under our Finance for Deemed Exports facility, aimed at helping them meet cash flow deficits.

13.2.5.2 For Overseas Entities

(a) Buyer's Credit

Overseas buyers can avail of Buyer’s Credit from Exim Bank, for import of eligible goods from India on deferred payment terms for Capital goods, plant and machinery, industrial manufactures, consumer durables and any other items eligible for being exported under the 'Exim Policy' of the Government of India.

13.2.6 Highlights of Business initiatives of Exim Bank in 2008-09

- The Bank lays special emphasis on extension of Lines of Credit (LOCs) as an effective market entry mechanism and market diversification. During the year, 25 LOCs were extended aggregating US$ 783.5 mn to support export of projects, goods and services from India.
- The Bank plays a pivotal role in supporting India's project exports. Rigorous efforts in

this direction have seen 25 Indian exporters securing 72 project export contracts amounting to Rs. 267.1 billion covering 29 countries during the year.

- With Indian companies having established themselves as global investors, the Bank has endeavoured to provide a further impetus to such outward oriented corporates. Towards this end, 16 corporates were sanctioned funded and nonfunded assistance during the year for part financing their overseas investments in diverse sectors covering different markets.
- The Bank, during the year, signed an agreement for a long term loan of Euro 150 mn with European Investment Bank (EIB), the European Union's major long term lending institution. This is the first time in the past 15 years that EIB has extended a credit line to an Indian entity. The purpose of the EIB loan to Exim Bank is for supporting projects that contribute to climate change mitigation and to EU presence in India through FDI, transfer of technology or know-how from Europe

13.3 EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

13.3.1 Introduction

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss

Export Credit Guarantee Corporation of India Limited was established in the year 1957 by the Government of India to strengthen the export promotion drive by covering the risk of exporting on credit.

Being essentially an export promotion organization, it functions under the administrative control of the Ministry of Commerce & Industry, Department of Commerce, Government of India. It is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, insurance and exporting community.

ECGC is the fifth largest credit insurer of the world in terms of coverage of national exports.

The present paid-up capital of the company is Rs.800 crores and authorized capital Rs.1000 crores.

13.3.2 Functions of ECGC

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

13.3.3 ECGC helps exporters by

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities

- Makes available information on different countries with its own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debts
- Provides information on credit-worthiness of overseas buyers

13.4 INDIAN INSTITUTE OF FOREIGN TRADE (IIFT)

13.4.1 Introduction

The Indian Institute of Foreign Trade (IIFT) was set up in 1963 by the Government of India as an autonomous organization to help professionalize the country's foreign trade management and increase exports by developing human resources; generating, analyzing and disseminating data; and conducting research.

IIFT has, over the years, undertaken path-breaking research studies with organisations like WTO, World Bank, UNCTAD and the Ministry of Commerce & Industry, Government of India. The Institute has also trained more than 40,000 business professionals across 30 countries in various facets of international business and trade policy via its Management Development Programmes

13.4.2 Role of IIFT

- A catalyst for new ideas, concepts and skills for the internationalisation of the Indian economy.
- The primary provider of training and research-based consultancy in the areas of international business, both for the corporate sector, Government and the students community.

13.5 INDIA TRADE PROMOTION ORGANIZATION (ITPO)

13.5.1 Introduction

India Trade Promotion Organization (ITPO) is the nodal agency of the Government of India for promoting the country's external trade. ITPO, during its existence of nearly three decades, in the form of Trade Fair Authority of India and Trade Development Authority, has played a proactive role in catalyzing trade, investment and technology transfer processes. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer- Seller Meets, Contact Promotion Programmes, Product Promotion Programmes, and Promotion through Overseas Department Stores, Market Surveys and Information Dissemination.

ITPO, the premier trade promotion agency of the Ministry of Commerce & Industry, Govt, of India is committed to showcase excellence achieved by the country in diverse fields especially trade and commerce.

ITPO provides a wide spectrum of services to trade and industry and acts as a catalyst for growth of India's trade. ITPO approves holding of international trade fairs in India and regulates holding of various expositions in India primarily to avoid any duplication of efforts while ensuring proper timing. It manages India's world class exhibition complex which is constantly upgraded to keep it in a high standard of readiness. Spread over 149 acres of prime land in the heart of India's capital, New Delhi, Pragati Maidan offers about 61,290 sq. mtrs. of covered exhibition space in 16 halls, besides 10,000 sq. mtrs. of open display area. The state-of-the-art exhibition halls have enhanced the appeal of Pragati Maidan as the ideal center for an increasing number of fair organisers and business visitors from different parts of the world.

ITPO has an extensive infrastructure as well as marketing and information facilities that are availed by both exporters and importers. ITPO's overseas offices assist buyers seeking information relating to sourcing products from India. ITPO's overseas offices at New York, Frankfurt, Tokyo" Moscow and Sao Paulo are pursuing opportunities for enhancement of India's trade and investment.

Similarly, ITPO's regional offices at Bangalore, Chennai, Kolkata and Mumbai, through their respective profile of activities, ensure a concerted and well coordinated trade promotion drive throughout the country.

With the commissioning of the state-of-the-art Chennai Trade Centre (CTC) in January 2001 and the Trade Centre Bangalore in September 2004, ITPO has successfully completed the first phase of the setting-up of modern exhibition facilities outside Delhi. The Chennai Trade Centre which addresses a long-felt need for a permanent and modern exhibition venue in Tamil Nadu, has already emerged as a hub of trade-related activities in the region. During the year 2006-07, CTC hosted 49 trade fairs and 85 conventions related programmes.

Likewise, the formal commissioning of the Trade Centre Bangalore (TCB), at Whitefield on September 20, 2004 as a joint initiative of TPO and the Karnataka State Industrial Area Development Board, is the harbinger of an added impetus to trade promotion through fairs, exhibitions and associated activities of the State and Southern region. During 2006-07, TCB hosted 21 trade-related events.

ITPO has been coordinating the construction of an exhibition-cum-trade complex 'North East Trade Centre' at Sarusajai, Guwahati under 'Assistance to Sates for Developing Export Infrastructure and Allied Activities (ASIDE)' Scheme, for facilitating trade in North- Eastern States. Spread over an area of 10 acres on the NH-37; the constructed exhibition complex under Phase-I of development, consists of three fully air-conditioned halls of 800 sq. mtrs. each, entrance lobby and plaza, mini convention-cum-conference room in a total plinth area of 8,700 sq. mtrs.

ITPO is also providing assistance to State Governments in setting up Regional Trade Promotion Centers (RTPC) in various State's Capital and major cities. Initiatives have been taken by ITPO for establishing Trade Fair Complexes and Convention Centers at Kolkata (West Bengal), Bhopal (Madhya Pradesh) and Srinagar (Jammu & Kashmir), in close association by the State Governments and Industrial Development Corporations/Boards of these States

13.5.2 The Main Activities & Services of ITPO are

- Managing the extensive trade fair complex, Pragati Maidan in the heart of Delhi
- Organizing various trade fairs and exhibitions at its exhibition complex in Pragati Maidan and other centers in India
- Facilitating the use of Pragati Maidan for holding of trade fairs and exhibitions by other fair organisers both from India and abroad.
- Timely and efficient services to overseas buyers in vendor identification, drawing itineraries, fixing appointments and even accompanying them where required
- Establishing durable contacts between Indian suppliers and overseas buyers
- Assisting Indian companies in product development and adaptation to meet buyers' requirements
- Organising Buyer-Seller Meets and other exclusive India shows with a view to bringing buyers and sellers together
- Organising India Promotions with Department Stores and Mail Order Houses abroad.
- Participating in overseas trade fairs and exhibitions.
- Arranging product displays for visiting overseas buyers.
- Organising seminars/conferences/workshops on trade-related subjects
- Encouraging small and medium scale units in export promotion efforts.
- Conducting in-house and need-based research on trade and export promotion.
- Enlisting the involvement and support of the State Governments in India for

promotion of India’s foreign trade.

- Trade information services through electronic accessibility at Business Information Centre.

13.5.3 Other activities of ITPO

- Buyer Seller Meets
- Contact Promotion Programmes
- Products Promotion Programmes
- Export oriented Seminars in India
- Sales Mission abroad

13.5.4 SELF-CHECK EXERCISE

1. What is the primary role of the EXIM Bank in India's export promotion efforts?
a) Regulating customs duties
b) Providing financial assistance and support to exporters
c) Conducting market research for exporters
d) Setting trade policies

2. Which organization in India is responsible for formulating and implementing export policies and programs, with a focus on promoting and regulating foreign trade?
a) Reserve Bank of India (RBI)
b) Ministry of Finance
c) Export Credit Guarantee Corporation (ECGC)
d) Directorate General of Foreign Trade (DGFT)

3. What is the role of Export Credit Guarantee Corporation (ECGC) in the context of export promotion in India?
a) Providing financial assistance to exporters
b) Offering insurance coverage against payment risks in export transactions
c) Conducting market research for importers
d) Regulating exchange rates

13.6 FEDERATION OF INDIAN EXPORTERS ORGANIZATION (FIEO)

13.6.1 Introduction

The Federation of Indian Export Organisations (FIEO), no-profit organizations set up by the Ministry of Commerce, Govt, of India in 1965 to co-ordinate and focus the efforts of all organizations in the country engaged in export promotion. The Federation has evolved into a key player in the promotion of trade, investment and collaboration. FIEO provides the content, direction and thrust to India's expanding international trade. FIEO represents the interest of professional government recognized exporting firms, consultancy firms, service exporters, banks, export management training institutes etc. FIEO members representing large, medium & small scale exporting units contribute more around 70% global exports of our country. Its membership comprises of exporting firms with strong credentials, called Government-recognised Export House, Star Export House, Trading House, Star Trading House and Premier Trading House besides Consultancy firms.

FIEO provides a unique platform to the businessmen dealing in Multi Products. FIEO membership is offered to exporters dealing in various goods and services and nearly all the products fall under its gamut. It is the only body authorized in India to register exporters not covered under any other Export Promotion Council of India. With customer oriented approach, the confidence and satisfaction of the business community on FIEO has grown which has reflect in the continuous rise in membership.

The scope of the Federation reaches out throughout India. It has a well- established network throughout India and has offices at all major business centers of India. In addition to its Head Office in New Delhi, it has offices at Mumbai, Ahmedabad, Chennai, Bangalore, Hyderabad, Kolkata, Bhubaneshwar, Shillong and Kanpur.

FIEO works as a partner of the Government of India in providing inputs on various trade policy issues and also acts a strong linkage between the Government and the Industry. It takes up problems/issues of its members, organizes capacity building courses to provide a conducive domestic atmosphere and to increase their competitive edge on one hand and organizes international activities to give its members a global reach.

FIEO has forged strong links with counterpart organizations in several countries as well as international agencies to enable direct communication and interaction between India and world businessmen. It has access to information/data originating from UN bodies and world agencies like IMF, ADB, ESCAP, WORLD BANK, FAO, UNIDO, UNCTAD and others. In addition, it has bilateral arrangements for exchange of information as well as for liaisoning with several overseas chambers of commerce, and trade and industry associations.

13.6.1 Activities of FIEO

(a) Export Promotion Activities (Trade Fair/ Exhibition/BSM/ Interactive Meetings/ Workshop)

FIEO Organises various activities like Seminars, Workshops, Open House Meets, Buyer-Seller Meets and Exchanging Business Delegations etc. In the last financial year FIEO organised activities pertaining to China, MERCOSUR, Italy, Botswana, Argentina, Fiji, Israel, Syria, Jordan, EU, Ethiopia, Uzbekistan, Kyrgyzstan, Romania and many more countries covering all regions of the World.

Forthcoming Events

(b) Market Development Assistance

Market Development Assistance (MDA) Scheme is under operation through the Department of Commerce, Government of India to assist exporters for export promotion activities abroad. Assistance is permissible on air travel expenses and /or charges of built up furnished stall. The Federation is one of the agencies nominated by the Government of India for processing applications and also disbursing grants. Eligible exporters can avail MDA as per the MDA Guidelines. MDA Guidelines.

(c) Certificate of Origin

Certificate of Origin is required by most countries to establish proof of origin of the goods being imported by them. FIEO has been authorized to issue Certificate of Origin under SAPTA and BANGKOK Agreement and non-preferential purposes.

(d) Taking up Issues/Problems of Members

FIEO takes up problems of members relating to Foreign Trade Policy, Banking, Income Tax, Customs, Central Excise etc. with Policy makers in the Government's various Departments/ Ministries.

(e) Live Chat with Members

Members can chat live with Director General FIEO on every Wednesday from 3.00 p.m. to 5.00 p.m. and seek clarifications/advices on any matter relating to foreign trade

(f) International Exposure and Guidance through Website

Provides 24x7 exposure to members through Search with FIEO. Buyers can reach members through FIEO search. Members can have access to commercial reports, buyers list, trade & tender inquiries and Updates on trade policy, exhibitions, fairs etc.

(g) Disseminating Commercial Intelligence

FIEO brings out a monthly bulletin 'FIEO News' to keep its members updated with policy changes, changing market trends, upcoming export opportunities etc. FIEO News is circulated among all the members free of cost. FIEO News is available on website FIEO News

(h) Awards to Members and Export Facilitators

FIEO gives away annual export awards "Niryat Shree" to its members for their outstanding export performances. FIEO also gives away "Niryat Bandhu" awards to export facilitators such as banks, export promotion councils and commodity boards for recognizing their support to the exporting
community.

(i) Setting up Warehouse at various Trade Centers Overseas

FIEO is planning to set up warehouses/India Trade Centres in various countries in the near future which can serve as the gateway of our member's export to these countries. The trade centres will have permanent display galleries for showcasing the products.

13.7 SUMMARY

To stimulate and support the export efforts of the country, various organizations and institutes have been established by Government of India. These institutions have been supporting development of export management personnel, market research, export credit insurance, export publicity, organization of trade fair and exhibitions, collection and dissemination of market information, inspection and quality control, development in packing etc. besides working as consultative bodies for various measures, acts, rules and regulations to Government of India.

13.8 ANSWER TO SELF-CHECK EXERCISE

1. b) Providing financial assistance and support to exporters
2. d) Directorate General of Foreign Trade (DGFT)
3. b) Offering insurance coverage against payment risks in export transactions

13.9 SHORT QUESTIONS

1. Critically examine the contribution of following agencies in the export promotion efforts of India :
   (a) ECGC (b) ITPO (c) FIEO
2. Name the important export promotion organizations established in India and evaluate them.
3. Discuss constitution and role of Exim Bank in export promotion.

13.10 LONG QUESTIONS

1. Explore the various financial instruments and services offered by EXIM Bank to support Indian exporters.
2. Examine the pivotal role of the Directorate General of Foreign Trade (DGFT) in shaping and implementing India's export policies.
3. Analyze the various insurance products and services offered by ECGC to protect exporters against commercial and political risks.

13.11 KEY WORD

Market Development Assistance, Federation of Indian Export Organisations, Star Export House, EXIM BANK

13.12 SUGGESTED READINGS

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House, New Delhi.

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PROCESSING OF AN EXPORT ORDER- EXPORT PROCEDURE

STRUCTURE

14.0 OBJECTIVES

- Procedure s to export goods and services.
- Preliminaries for starting export.
- Understanding foreign exchange rate and check against their adverse effects.

14.1 INTRODUCTION TO EXPORT PROCEDURE

One should recognize the importance of business correspondence as it is an introduction with the buyer in proxy which may clinch his response according to the impression created by the correspondence. For creating a very favorable and excellent impression, one must use a beautiful letter head on airmail paper and a good envelope, nicely printed, giving fully particulars of your firm's name, telephone, telex and fax number etc. The language should be polite, soft, brief and to the point, giving a very clear picture of the subject to be put before the customer. Letters should be typed/ computer typed set, preferably in the language of the importing country. Also make sure that the full and correct address is written and the envelope is duly stamped.

Having sent out letters and leaflets, it is necessary to be prepared to answer in a proper manner the enquiries which will be received as a result of these first efforts.

STEPS OF EXPORT PROCEDURE

14.2 STEP I: RECEIPT OF AN ENQUIRY

It is impossible to attend personally to all of these enquiries, as it would not be economical to do so; but there may be several enquiries from one country and all of them asking for sole agency rights. There will always be a certain number of enquiries from firms which import the same product or products from competitors and merely want to have information to serve their own ends. The best way to do this is to ask the enquirers themselves to supply information about their business, stating

(i) Whether or not they already handle any competing products;

(ii) How long they have been in that business;

(iii) What area of their country they cover for sales purpose;

(iv) Whether they intend to purchase goods on their own account or whether they intend to act only as commission agents;

(v) What other products they already sell; and

(vi) The names and addresses of at least two firms which they already represent or have represented in the past. When the aforesaid information has been supplied, it is advisable to write t6 the firms whose names are given as references and ask for the following information, giving the full name and address of the party about whom the enquiry is made
:

 (i) How long they have dealt with the party about whom the enquiry is made?

 (ii) Has the party been their sole agent for the concerned territory?

 (iii) Does he order goods for himself or does he merely act as a commission agent?

 (iv) If he orders for himself, does he pay through a letter of credit, through a sight draft or by 30 days or 60 days term draft, or in any other way?

 (v) If he is allowed to pay through a sight or term draft, it has to be seen whether the partly honors draft drawn on him according to the conditions specified therein?

 (vi) Has the party in the past done good work in promoting sales?

The answers received will show whether the enquirer is responsible and whether he will do business only against a letter of credit. If, however, no information on the score is received, the aforesaid information to some extent may be had from the Indian Embassy or Consulate or from an export promotion council.

The exporter, after having satisfied himself that the enquirer abroad is a fit person to represent him and is capable of meeting his obligations, should provide him with a price list, giving details of the terms of business and payment which, he is expected to adhere to.

14.3 STEP II : CHECK ON RESTRICTIONS ON FOREIGN EXCHANGE AND IMPORT IN IMPORTER'S COUNTRY.

When an order is received, the first decision as to whether it will be filled is based upon the approval of credit. The approval of the order for shipment should also be contingent upon the ability of the customer to secure foreign exchange in those countries where there are exchange restrictions. A list of such countries should be kept, and whenever an order comes in from one of these countries, a special approval on the exchange should be required.

a. Understand Foreign Exchange Rates & Protect Against their Adverse Movement Exchange Rates : Export contracts are concluded either in Indian rupee or in foreign currency.

Where the contracts are in Indian rupee, the related documents are also prepared in Indian rupees and no conversion is involved. However, where the bill is drawn in foreign currency, like US $ DM etc., you will get Indian rupees only after the conversion of foreign currency at the appropriate exchange rate. Thus, the exchange rates become very important to determine the Indian rupees payable. A favorable exchange rate will fetch you more rupees and vice-versa. It, therefore, becomes essential for you to gain some basic knowledge about exchange rate, the working out of its quotation by the banks, the factors determining the exchange rates in the market and the precautions you should take so as to avoid possible losses in future, due to adverse movement of the exchange rates. In the following paragraphs we shall endeavor to explain these issues. The rates applied by the banks for converting foreign currency into Indian rupees and vice versa are known as exchange rates. In other words, exchange rate is the rate at which one currency can be exchanged for another. There are two systems of quoting exchange rates:

a. **Direct Quotation :** Where the price of foreign currency is quoted in terms of home or local currency. In these system variable units of home currency equivalent to a fixed unit of foreign currency is quoted. For example : US $ 1 = Rs. 40.00

b. **Indirect Quotation :** Where exchange rates are quoted in terms of variable units of foreign currency as equivalent to a fixed number of units of home currency. For example : US $ 2,500 = Rs. 40.00 Till 1.8.1993 banks were required to quote all the rates on indirect basis as foreign currency equivalent to Rs. 100 except in case of sale/purchase of foreign currency notes and traveler cheques where exchange rates on direct quotation basis were quoted.

14.4 STEP-III SCRUTINISE THE ORDER

The exporter should carefully scrutinize and check the contents of an export order before its confirmation.

(A) Terms of Payment. The buyer should have agreed to the terms of payment conveyed to him. Where a letter of credit (LC) has been received, it should provide that :

(a) Payment will be available in India. It implies that LIC issued by a foreign bank must be confirmed by Indian bank;

(b) Documents stipulated in LIC will be submitted to an Indian bank in India.

(c) Drafts to be drawn under LIC are to be Usance or Sight drafts, and to be drawn on the bank or the buyer.

(d) Credit validity period is sufficient for the collection of relevant documents.

(e) Payment is permissible according to exchange control regulations.

(B) Documents : What are the documents required by the buyer along with the bill of exchange (draft) to be drawn-on him? These documents could be either Master document or:

(a) Commercial and/or consular invoice and customs invoice.

(b) Clean on board bill of lading.

(c) Certificate of origin in general, or for availing GSP concessions.

(d) Packing list.

(e) Marine insurance policy.

(C) Delivery Schedule. It should be in conformity with the exporter's manufacturing/ procurement programme.

(D) Inspection Of Goods. The pre-shipment inspection stipulated by the buyer is to be affected by the Export Inspection Agency (EIA) and/or any other agency.

(E) It has to be seen whether labelling/packing requirements are usual or some special type of packing is to be affected.

14.5 STEP IV: ACKNOWLEDGEMENT OF THE ORDER.

Another step in filling the order is to acknowledge it. It may seem pointless to, acknowledge an order before the manufacturer or exporter is able to state definitely when or, in fact, whether he will be able to fill it.

The acknowledgement of the order should contain the following specific facts :

(i) A courteous acknowledgement' of the receipt of the order and "thank you letter".

(ii) The expected date of shipment from the factory and from the seaboard.

(iii) The price which should, of course, correspond to the original quotation or established Price list, and if there is any variation, a sound explanation for the same.

(iv) Credit terms under which the merchandise will be shipped. This, too~'-should correspond with the original quotation.

(v) The method of shipment, that is, whether it is by ship, railway, air, parcel-post or any other mode.

(vi) Method of packing.

(vii) Marks, which will be placed on the package, should be shown in the acknowledgement.

(viii) If the shipper must apply for an export license, a statement to that effect should be made and shipment should be contingent upon the shipper's ability to secure the export license.

(ix) The name of the bank, which will be used for the purpose of collecting if some special bank is preferred for a letter of credit, this fact should be mentioned.

14.6 STEP V: ARRANGING THE GOODS - EXPORT PRODUCTION/PROCUREMENT

As soon as the export order has been confirmed or finalized, preparations are made for the production or procurement of the goods to be exported. The manufacturer-exporter has to raise an internal indent on the production department/division, which may also be sent either to the works Manager or the Factory Manager. The indent should contain the description of the goods given in the export order, together with a copy of the instructions given by the importer. The other details, such as the date by which the goods must be manufactured, the date by which the necessary formalities, must be completed, the date, of shipment, etc., are also mentioned.

14.7 STEP VI: EXPORT LICENCE

If the item being exported requires an export license, the same should be procured by the exporter from the licensing authority, i.e., Chief Controller of Imports and Exports.

14.8 STEP VII : CENTRAL EXCISE CLEARANCE

The excisable goods can be exported outside India either under claim for rebate of excise duty or under bond. The difference between these two procedures is that in the case of former the duty is first paid and its refund claimed after exportation and in the latter case the goods are allowed to be exported without payment of duty provide a bond is executed in form B (General Security) or form B-l (General Surety).

Before excisable goods are removed from the factory for export each consignment is required to be presented to the Central Officer having jurisdiction over the facto to ether with an application in form AR-4 for claiming rebate of excise duty.

14.9 STEP VIII : APPLY TO EXPORT INSPECTION COUNCIL FOR INSPECTION

Exporter should apply to EIC for reshipment inspection. Under the Export (Quality Control and Inspection) Act, 1963, the EIC will depute an inspector for carrying out quality control and inspection of exportable products. After carrying out the inspection, if the consignment is found to conform to the prescribed specification, each package in the consignment is sealed by the inspecting officers. For each consignment declared export worthy, a certificate of inspection is issued by the inspection agency, in which the details of each consignment are incorporated. The original copy of the certificate is valid for the customs authorities, who ensure that only the consignment whose details are given on the certificate is permitted for shipment.

14.10 STEP IX : APPLY FOR MARINE INSURANCE POLICY, IF IT IS A C.I.F. QUOTATION

As soon as the goods are ready for export, the exporter has to apply to insurance company for an insurance cover/policy as the case may be. Where an Insurance policy is insisted upon by the importer, an insurance cover will not do. The policy would be for C.I.F. value plus 10 per cent to cover expenses. The insurance policy should be obtained in duplicate by the exporter.

14.11 STEP X : ISSUE INSTRUCTIONS TO THE CLEARING AND FORWARDING AGENT

A detailed is prepared for the clearing and forwarding agent, giving instructions regarding the shipment of the consignment (e.g., the shipment may be made under claim for drawback). Along with this note, a master document and form of bank guarantee should be forwarded to the forwarding agent.

14.12 STEP XI : CLEARING AND FORWARDING AGENT'S ROLE FOR SHIPPING AND CUSTOMS AT THE PORT

On receipt of the above documents, the clearing and forwarding agent takes delivery of the consignment from the railway/road authorities and arranges or Its storage in a warehouse.

14.13 STEP XII : DOCUMENTS RETURNED BY THE FORWARDING AGENT

The master document is returned by the clearing and forwarding agent to the exporter at this stage along with :

(a) Shipping bill

(b) Original LIC (Contract) Order;

(c) AR-4/AR-4A form in duplicate;

(d) Full set of clean-on-board bill of lading together with the required number of non- negotiable copies.

14.14 STEP XIII : SHIPMENT ADVICE TO IMPORTER

An intimation is sent to the importers, indicating the date of dispatch of goods and the name of the ship by, which they have been sent. The following documents are also enclosed :

(i) A non-negotiable copy of the B/L;

(ii) Master Document copy.

An important stage after manufacturing of goods or their procurement is their preparation for shipment. This involves labeling, packaging, packing and marking of export consignments. Labeling requirements differ from country to country and the same should be ascertained well in advance from the buyer. The label should indicate quality, quantity, method of use etc. Special international care labels have been specified for the textile items by GINITEX, and the same should be scrupulously adhered to. Packaging fulfills a vital role in helping to get your export products to the market in top condition, as well as in presenting your goods to the overseas buyer in an attractive way. While packaging, quality should not be compromised merely to cut down costs, packaging should also be in conformity with the instructions issued by the importer. Packing refers to the external containers used for transportation . The shape of packing cases plays a very important role in packing the cargo, and the nature of packing material to be used will depend upon the items exported As regard specification for the size, weight and strength care must be taken to ensure that the weight of standard case does not exceed 50 Kg. for easy handling of the cargo. Before packing and sealing the goods, it should be ensured that all the contents are properly placed in the case and the list of contents of packing notes should be prepared so that the buyer, the Customs authorities and the Insurance authorities can easily check the contents of each and every case.

14.15 STEP XIV : PRESENTATION OF DOCUMENTS BY THE EXPORTER TO BANK

The following documents are now presented by the exporter for negotiation/ collection :

(a) Master Document;

(b) GR-I forms (duplicate and triplicate);

(c) Full set of clean-on-board bill of lading (all negotiable copies plus one non-negotiable copy);

(d) Original LIC;

(e) Bank certificate in prescribed form (in duplicate);

(j) Marine Insurance policy (in duplicate);

(g) Export contract/order; and

(h) Bill of exchange

14.16 THE NEW EXCISE PROCEDURE

All excisable goods exported out of India are exempt from payment of Central Excise Duties, for which two different procedures have been approved

Rebate of Duty on Goods Export Procedure

Under the first procedure, known as Rebate of duty on Goods Export. The manufacturer has first to pay the excise duty on goods meant for export and then claim refund of the same after exportation of such goods to countries except Nepal and Bhutan. This is done under Rule 12 of Central Excise Rules. Under this rule, rebate of duty is granted for the finished stage as well as input stage. Rebate of duty in respect of the excisable materials used in the manufacture of the exported goods shall not be allowed if the exporter avails of the drawback allowed under the Customs and Central Excise Duties Drawback Rules, 1995 or Modvat. The following procedure should be followed while exporting under the rebate of duty. Removal of goods under claim of rebate from a factory or warehouse without examination by the Central Excise Officers. The exporters are allowed to remove the goods for export on their own without getting the goods examined by the Central Excise Officers. Form AR4 in such cases should be prepared in sixtuplicate, giving all particulars and declarations. The exporter shall deliver triplicate, and quadruplicate, quintuplicateand sixtuplicate copies of AR4 to the Superintendent of Central Excise having jurisdiction over the factory or the warehouse, within 24 hours of the removal of the consignment and would retain the original and duplicate copies for presenting along with the consignment to the Customs Officer at the point of export. The jurisdictional superintendent of Central Excise examines the information contained in AR4 and verifies the facts of payment of duty and other certificates/declarations made by the exporter. After he is satisfied that the information contained in the AR4 is true, he signs at appropriate places in the four copies of AR4 submitted to him and plus his stamp with his name and designation below his signature. He would then dispose of the triplicate, quadruplicate, quintuplicate and sixtuplicate copies of AR4 as under:-

I. **Triplicate:** To their bate sanctioning authority viz. Maritime Commissioner of Central Excise or the assistant commissioner of Central Excise declared by the exporter on the AR4. This copy on the request of exporter may be sealed and handed over to the exporter / his authorized agent for presenting to the rebate sanctioning authority.

ii. **Quadruplicate:** To the Chief Accounts Officer in the Commissionerate Headquarters.

iii. **Quintuplicate:** Office copy to be retained by the Central Excise Officer.

iv. **Sixtuplicate:** To be given to the exporter.

Procedure for exports under Central Excise Seal Where the exporter desires the sealing of the goods by the Central Excise Officers so that the export goods may not be examined by the Customs Officers at the Port/Airport of shipment, he should present an AR4 application in sixtuplicate to the Superintendent of Central Excise having jurisdiction over the factory/warehouse at least 24 hours before the intended removal of the export goods from the factory/warehouse. The Superintendent of Central Excise may depute an Inspector of Central Excise or may himself go for sealing and examination of the export consignment. Where the AR4 indicates that the export is in discharge of an export obligation under a Quantity-based advance License or a Value-based Advance License issued under the Duty Exemption Scheme, in such cases the consignment is invariably examined and sealed by the Superintendent of Central Excise himself. The Central Excise Officer examining the consignment would draw samples wherever necessary in triplicate. He would hand over two sets of samples, duly sealed, to the exporter or his authorized agent, for delivering to the Customs Officers at the point of export. He would retain the third set for his records. The export consignment is carefully examined vis-'-vis the description of goods, their value and other particulars/declarations on the AR4. The Central Excise Officer verifies the facts of payment of duty and other certificates/declarations made by the exporter. After he is satisfied that the information contained in the AR4 is true he would allow the clearances and also sign all the six copies of the AR4 at appropriate places and put his stamp with his name and designation below his signature. The copies of AR4 are disposed of as under:

Original and Duplicate : To the exporter for presenting to Customs Officer at the point of export along with the export consignment.

Triplicate : To the rebate sanctioning authority i.e., Maritime Commissioner of Central Excise or the jurisdictional Assistant Commissioner of Central Excise, as declared by the exporter on the AR4. The Central Excise officer may handover this copy under the sealed cover on exporter's request.

Quadruplicate : To the Chief Accounts Officer at his Commissionerate Headquarters.

Quintuplicate : To be retained for records.

Export under Bond Procedure

Under the second procedure known as "Exports under Bond" goods can be exported out of India except to Nepal or Bhutan without prior payment of duty subject to the execution of the Bond with security / security for a sum equivalent to the duty chargeable on the goods to be exported. This is done under Rule 13 of Central Excise Rules which deals with export of goods in Bond as well as utilization of raw materials etc. without payment of duty for manufacture and export of excisable goods. The following procedure has been prescribed in this regards.

14.16.1 SELF-CHECK EXERCISE

1. What is the primary purpose of a commercial invoice in the processing of an export order?
a) To serve as a receipt of payment
b) To authenticate the country of origin
c) To provide a detailed listing of shipped goods and their value
d) To specify the terms of payment

2. Which document serves as a contract of carriage and a receipt for the goods in the context of an export order?
a) Certificate of Origin
b) Bill of Lading
c) Letter of Credit
d) Packing List

3. In the export procedure, what does "Incoterms" refer to?
a) International trade regulations
b) Insurance coverage for exports
c) International shipping companies
d) International commercial terms defining responsibilities in a sale transaction

14.17 SUMMARY

Imports and Exports (control) Act, 1947 regulates exports of goods from India. The Central Government announces rules, policies, procedures and incentives for exports from time to time. The procedure of export of goods from India is guided by these rules and regulations of the Government of India. But, in general, an export transaction has to pass through the various stages discussed. But from time to time the Indian government keeps on bringing several change to further simplify and relax the export procedure.

14.18 ANSWER TO SELF-CHECK EXERCISE

1. c) To provide a detailed listing of shipped goods and their value

2. b) Bill of Lading

3. d) International commercial terms defining responsibilities in a sale transaction

14.19 SHORT QUESTIONS

1. What are the various preliminaries which an exporter has to identify before starting to export?
2. Discuss the various steps which need to be dealt with for export procedure.
3. What is the importance of foreign exchange rate for an exporter?

14.20 LONG QUESTIONS

1. Provide a detailed step-by-step breakdown of the processing of an export order, from initial inquiry to the shipment of goods.

2. Examine the critical role of documentation in the export procedure.

3. Discuss the planning and execution of transportation, warehousing, and distribution activities to ensure timely delivery of goods to international markets.

14.21 KEY WORDS

Imports and Exports (Control) Act, Marine Insurance Policy, Export Procurement, Foreign Exchange

14.22 SUGGESTED READINGS

- Paul Justin, *Export Import Management,* Oxford
- Cherunilam, F., *International Trade & Export Management,* Himalaya.
- Cateora & Graham, *International Marketing,* McGraw Hill.
- Keegan, *Global Marketing Management,* Pearson Education Asia.
- Daniels, *J. International Business,* Pearson Education.

QUALITY CONTROL AND PRE-SHIPMENT INSPECTION STRUCTURE

STRUCTURE

15.0 OBJECTIVES

- To examine the importance of quality control for exports.
- To know about various government and private agencies involved in quality control for exports.
- To examine the procedure and methods adopted for the same.

15.1 INTRODUCTION

In today's sophisticated world market, a product can move with any measure of success only if it is competitive enough in price and quality. Our exports can be sustained and improved only by raising the quality of our products as it would be very difficult to reduce the price in our present day high-cost economy. With a view to achieve this objective of raising the quality of our export products the Government of India enacted the legislation entitled "The Export (Quality Control and Inspection) Act" in the year 1963, and the Export Inspection Council was also set up with effect from 1st January, 1964.

- The main function of the Export Inspection Council is to advise the government with regard to measures to be taken for quality control and preshipment inspection of exportable commodities.

- NO consignment of any notified commodity can be exported unless it is accompanied by a certificate issued by a recognised inspection agency or the article carries a recognised mark indicating that it conforms to the standard specifications.
- A number of existing agencies, both government as well as private have been recognized under the Act for carrying out pre-shipment inspection of various goods.
- To supplement the work of these agencies; the government also established five Export Inspection agencies, one each at Bombay, Calcutta, Cochin, Madras and Delhi in 1966 exclusively for export inspection. These agencies work under the administrative and technical control of the Export Inspection Council.
- Striking progress has been made in the field of compulsory reshipment inspection as about 85 per cent of exports from India have been covered under one or the other system of quality control.

15.2 DOCUMENTS FOR QUALITY CONTROL

As soon as the goods are ready, the exporter should make out an application in the prescribed from giving details of the shipment to the inspection agency. Along with the application he should furnish the following documents.

(i) Commercial invoice giving evidence of the F.O.B value of export consignment.

(ii) A crossed cheque/demand draft/I.P.O/ for the amount of inspection fee

(iii) copy of the export contract}order giving details of importers specifications and/or a sample approved by the importer.

Application should be submitted well in advance of the expected date of shipment. Different days have been fixed for different products; information on which may be sought from the nearest Eltport Inspection Agency,

The panel approved i.e. Export-worthy units need not submit all these documents, The procedure for pre-shipment inspection of their goods is reduced to submission of intimation application only.

The inspection agency will depute an Inspector to conduct the preshipment inspections at the exporter's factory or warehouse. After the inspection is complete, and the consignment is passed, a certificate of inspection will be issued to the exporter. This certificate has to be presented by the exporter to the Export Department of the Custom House at the time of seeking customs clearance of export cargo.

15.3 EXPORT (QUALITY CONTROL AND INSPECTION) ACT, 1963

To ensure a high quality of Indian goods the government enacted a legislation known as the Export (Quality Control and Inspection) Act, 1963. Under this ACI, the Government of India has been given powers to :

(i) notify commodities which shall be subject to quality control or inspection or both prior to export;

(ii) specify the type of quality control or inspection which will be applied to the notified commodity;

(iii) establish; adopt or recognise one or more standard specifications for a notified commodity; and

(iv) Prohibit the export, in the course of international trade, of a notified commodity unless it is accompanied by a certificate that it satisfies the conditions relating to quality control or inspection or that it has affixed or applied to it a mark or seal recognised by the government indicating that it conforms to the standard specification applicable to it.

15.4 EXPORT INSPECTION COUNCIL

The Export Inspection Council of India was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 to provide for the sound development of export trade through quality control and pre-shipment inspection. The Council is an apex body for controlling the activities of the quality control and preshipment inspection of all the commodities meant for export. The main functions of the Council as assigned in the Act are (i) advise the Central Government regarding measures for enforcing quality control and inspection in respect of commodities intended for export and to draw programme therefore; (ii) to arrange pre-shipment inspection of notified commodities for export; and (iii) to perform such other activities as may be assigned under the Act for matters connected therein for quality control and inspection.

The EIC is to advise the Indian Government on matters relating to preshipment inspection and quality control measures for export items. Considerable progress has been made by the EIC in:

(a) defining the technical specifications for various products;

(b) providing testing/survey facilities; and

(c) Working out appropriate procedures.

EIC is a statutory body. Eminent technologists and representatives of industry and trade government departments and technical organisations are represented on it. As a result, the specialised knowledge, experience and technical knowledge of the various agencies in the country in the field of grading, standardisation and inspection have been pooled together under the overall coordinating role of the EIC to enable it to carry out its pre-shipment inspection programme in the most-scientific manner.

15.5 QUALITY STANDARDS FOR EXPORTS

In almost all the products, for which the pre-shipment inspection scheme has been introduced, great care has been taken to accept the buyer's requirements, wherever known, as the basis of inspection. In many cases, where the buyer's requirements are known through-an approved sample of, for example, footwear or handicrafts, inspection is carried out on the basis of the approved sample. However, for items involving safety, such as cables and conductors, only the national standards, either Indian or those of the importing country, have been adopted. In the case of commodities involving health hazard, such as fish and fishery products, statutory laws as applicable in the importing country for these products, are adhered to. This particular approach has been found to be extremely practical and has helped the exporters to maintain the quality of their products. For adopting or establishing technical specifications, detailed discussions are held with the trade and industry and other organisations, such as the Indian Standards Institution and the Directorate of Marketing and Inspection.

The procedural details of the pre-shipment inspection schemes, which have' been introduced, have been worked in close collaboration and in consultation with the representative of trade and industry. Officers of the Export Inspection Council discuss the details of the schemes with the representatives of trade and industry in the light of the comments they receive. In many cases, where the existing trade practices so require, the scheme in the first instance is introduced on a voluntary basis for a period of about 3 to 6 months; and only thereafter it is made compulsory. All the preshipment inspection schemes are periodically reviewed to keep abreast of technological developments and to ensure continuous improvement in quality.

At present, the Export Council of India, the Indian Standards Institution, the Indian Statistical Institute, Calcutta, the National Productivity Council, the Indian Society of Quality Control and the Indian Institute of Foreign Trade are, by and large, responsible for generating an awareness of the problem of quality control. These organisations hold seminars, etc., and are, by and large, responsible for improvements in quality and for the formulation and implementation of standards.

Certain legislative measures, which have helped in the production of quality goods, include the Prevention of Food Adulteration Act. the Drugs Act, and the Fruit Products Control Order promulgated under the Essential Commodities Act.

The Acts which are directly concerned with exports are the Export (Quality Control and Inspection) Act, 1963, the Textile Committee Act, the Certification of Goods under ISI Certification Marks Act and the Agriculture Produce (Grading and Marketing) Act. Since the enforcement of the Export (Quality Control and Inspection) Act, 1963. definite improvements have taken place in the field of compulsory quality control and pre-shipment inspection.

EXPORTWORTHY CERTIFICATES

After carrying out the inspection, and if the consignment is found to conform to the prescribed specification, each package in the consignment is sealed by the inspecting officers. Three types of seals are used, depending upon the mode of packing. For wooden packages, for which iron hoops are used, sealing is done with decorative codes signoid seals. For cardboard packages, paper stickers are used, and for gunny packing, lead seals are employed, For those items which do not involve any packing such as cast iron soil pipes, etc." each pipe is marked in paint with a rubber stamp.

FEE FOR INSPECTION

The expenses incurred on carrying out pre-shipment inspection are realized from the exporters by the levy of inspection fees. The initial non-recurring expenditure, such as the expenditure incurred on the establishment of an inspection office and laboratory facilities for running a new scheme, is met by the Government of India.

15.6 COMMODITIES COVERED UNDER THE QUALITY CONTROL AND PRE-SHIPMENT INSPECTION

The Export (Quality Control and Inspection) Act empowers the Government to notify the commodities under the purview of compulsory quality control and pre-shipment inspective notified commodities cannot be exported unless it is accompanied by a certificate of export worthiness from the Inspection Agencies recognised under the Act.

As many as 1055 items of exportable commodities under various product groups such as engineering product, chemicals, and allied products, coir, and coir products, food and agricultural products, mica, jute and jute products, footwear and footwear components etc., have been brought under the purview of compulsory quality control and pre-shipment inspection schemes.

15.7 EXPORT INSPECTION AGENCIES

In addition to the main offices of Export Inspection Agencies at Bombay, Calcutta, Cochin, Delhi and Madras, these agencies have a network of 62 sub-offices located at important manufacturing/processing centres, ports and export point.

The export Inspection Agencies also undertake voluntary inspections of those items which had not so far been brought under the ambit of the Act. These inspections are normally done at the instance of the overseas buyers or the Indian exporters.

The government have recognised 39 private Inspection Agencies and 10 Governmental agencies to supplement the work of fumigation and quality control certification for certain specified commodities under the Act.

Systems of Inspection

The following three inspection systems are in operation at present for the purpose of ensuring quality of the product meant for exports.

(i) Consignment-wise inspection.

(ii) In process Quality Control (IPQC).

(iii) Self-Certification.

(i) Consignments Inspection : Under the first system, each consignment is subject to inspection and testing by the inspection agency on the basis of statistical sampling plan.

(ii) In-process Quality Control (IPQC) : Under the second system, the quality is built into the products by the manufacturing units themselves by exercising raw material and bought out component control and packaging control. The certificates of inspection axe issued by the inspection agency on the basis of adequacy of the above controls and after spot checks of consignment by the Agency were felt necessary.

(iii) Certification : Under self-certification system, the manufacturing units fulfilling the stringent norms prescribed for product quality, &sign and development, raw materials and bought out components, quality control laboratory, process control, meteorological control, independent quality audit, packaging, after sales service, houseke eping and maintenance are allowed to issue certificates of inspection themselves.

15.7.1 SELF-CHECK EXERCISE

1. What is the primary objective of pre-shipment inspection in international trade?
a) To determine the market value of goods
b) To assess the quality and compliance of goods before shipment
c) To expedite customs clearance
d) To negotiate shipping terms

2. Which entity is typically responsible for conducting pre-shipment inspections?
a) Exporting country's customs authority
b) Importing country's customs authority
c) International trade organization
d) Exporter's quality control team

3. What role does a Certificate of Inspection play in the pre-shipment inspection structure?
a) It serves as a shipping document
b) It provides details of the goods shipped
c) It certifies compliance with quality standards after inspection
d) It specifies payment terms in the export transaction

15.8 PILOT TEST HOUSE

A thrust has been made by shifting the regulatory functions of the Exports Inspection Agency to quality development activities. For this purpose, a Pilot Test House has been set up in Bombay with necessary infrastructural facilities of testing the product to the requirement of the international standards.

The Test House has three major sectioned laboratories namely (i) chemical laboratory, (ii) electric laboratory, and (iii) mechanical laboratory.

Training Facilities

In order to achieve the overall objectives of the Export Development through quality control and inspection, the Export Inspection Council has set up a full-fledged training centre at Madras where training is imparted to the inspecting officers and the officers in the middle management.

15.9 PROCEDURES FOR HANDLING COMPLAINTS

Apart from enforcing compulsory pre-shipment inspection and quality control, some procedures have also been evolved to assess and evaluate complaints on quality received from buyers, by the regional standing committees at Bombay, Calcutta, Cochin, Madras and Delhi. Complaints received on quality are investigated, evaluated and used as a feedback system to remove the loopholes in the system of inspection and to improve the quality of the products.

Voluntary Inspection

In addition to carrying out compulsory quality control and preshipment inspection of commodities notified by the government under the Export (Quality Control) Inspection Act, 1963, the Export Inspection Council undertakes voluntary pre-shipment inspecti9n at the specific requests received of foreign buyers or Indian exporters.

15.10 QUALITY CONTROL AS PER THE EXIM POLICY 1992

The Central government has launched in association with trade and industry, a: major nation- wide campaign on quality awareness and is taking steps to bring Indian products to world standards.

Government though introduced a nation-wide programme on quality awareness in order to promote the concept of total quality management.

The Central government have introduced a scheme to recognise and suitably reward manufacturers who have acquired the ISO 9000 (Series) or BIS 14000 (Series) or any other internationally recognised equivalent certification of quality. Such manufacturers are eligible for grant of special import licences.

The Central government will assist in the modernisation and upgradation of test houses and laboratories in order to bring them at par with international standards so that certification by such test houses and laboratories is recognised within the country and abroad.

It may however, mentioned that quality control rigidities have been relaxed considerably as far as it goes to the established large scale units, however, rigid inspection is still there for the products of small scale units. Logically, they have to be quality wise more competitive if they wish to gain a foothold in international markets.

15.11 SUMMARY

An important aspect about the goods to be exported is compulsory quality control and pre-shipment inspection. For this purpose, Export Inspection Council (E1C) was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963. It includes more than 1000 commodities which are organized into various groups for a compulsory pre-shipment inspection. It includes Food and Agriculture, Fishery, Minerals, Organic and Inorganic Chemicals, Rubber Products, Refractoriness, Ceramic Products, Pesticides, Light Engineering, Steel Products, Jute Products, Coir and Coir Products, Footwear and Footwear Products.

An important aspect about the goods to be exported is compulsory quality control and pre-shipment inspection. For this purpose, Export Inspection Council (EIC) was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963. It includes more than 1000 commodities which are organized into various groups for a compulsory pre-shipment inspection. It includes Food and Agriculture, Fishery, Minerals, Organic and Inorganic Chemicals, Rubber Products, Refractoriness, Ceramic Products, Pesticides, Light Engineering, Steel Products, Jute Products, Coir and Coir Products, Footwear and

Footwear Products.

15.12 ANSWER TO SELF-CHECK EXERCISE

1. b) To assess the quality and compliance of goods before shipment
2. b) Importing country's customs authority
3. c) It certifies compliance with quality standards after inspection

15.13 SHORT QUESTIONS

1. Discuss the various functions of export inspection council.
2. Which are the agencies involved and their functioning.

15.14 LONG QUESTIONS

1. Examine the importance of a robust quality control framework in the context of international trade.
2. Discuss the steps involved in pre-shipment inspections, including documentation review, physical inspection, and testing.
3. Explore the role of technology, data analytics, and real-time monitoring in enhancing quality assurance in the supply chain.

15.15 KEY WORDS

Export Inspection Council, legislative measures, Export (Quality Control and Inspection) Act, Quality control

15.16 SUGGESTED READINGS

- Paul Justin, *Export Import Management,* Oxford
- Cherunilam, F., *International Trade & Export Management,* Himalaya.
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LEGAL FRAMEWORK OF INTERNATIONAL TRADE STRUCTURE

STRUCTURE

16.0 OBJECTIVES

After reading this chapter, the student should be able :

- To know the meaning & need of legal framework.
- To understand nature of legal framework in India.
- To study legal Acts governing issues in international trade.

16.1 INTRODUCTION

Export and import are the key ingredients for restoring a healthy growth to the economy of a nation. To maintain a balance between the BOP and the other economic issues such as inflation, Exports and Imports, Act is an indispensable part. This provides a set of legal framework in the form of acts and policies.

A robust legal framework can help build a good brand as a safe country to do business with, in the international space.

1. Set up a legal framework for security and privacy of health info.
2. Set up a licensing mechanism to ensure quality of service for Indian cross border service providers.
3. Set up a legal entity to settling disputes over financial transaction and delivery of services through an electronic medium such as the Internet.

16.2 LEGAL AND REGULATORY FRAMEWORK

For any business venture to flourish evenly and take the shape of an invincible entity, legal aspects are considered to acquire key positions. Indian Government has made a number of such acts and policies available for the growth of the economy. These are :

- Imports and Exports (Control) Act, 1947 which has been taken over by the Foreign Trade (Development and Regulation) Act, 1992
- Custom Act
- Excise Act
- Foreign Exchange Management Act
- The Prevention of Money Laundering Bill, 1999

These acts and policies have empowered the Indian Government for :

- Enactment of the provisions pertaining to regulation and the development of trades in the national and the international markets
- Limitation and regulation of all types of exports and imports and declaration of tariff exemption by reaching to special needs.
- Announcement of EXIM policy and the amendment of the same in intervals in notification.
- Authorization of the concerned officials for issuing 'IEC Number to both the exporters and importers.

16.2.1 Foreign Trade (Development and Regulation) Act, 1992

(a) Definition

An Act to provide for the development and regulation of foreign trade by facilitating imports into and augmenting exports from India and for matters connected therewith or Incidental thereto.

(b) Highlights

- The Central Government may by Order published in the Official Gazette, make provision for the development and regulation of foreign trade by facilitating imports and increasing exports.
- The Central Government may also, by Order published in the Official Gazette, make provision for prohibiting, restricting or otherwise regulating, in all cases or in specified classes of cases and subject to such exceptions, if any, as may be made by or under the Order, the import or export of goods.
- The Central Government may, from time to time, formulate and announce by notification in the Official Gazette, the export and import policy and may also, in the like manner, amend that policy.
- No person shall make any import or export except under an Importer-exporter Code Number granted by the Director General or the officer authorized by the Director General in this behalf, in accordance with the procedure specified in this behalf by the Director General.
- No export or import shall be made by any person except in accordance with the provisions of this Act, the rules and orders made there under and the export and import policy for the time being in force.
- The Central Government may levy fees, subject to such exceptions, in respect of such person or class of persons making an application for a license or in respect of any license granted or renewed in such manner as may be prescribed.
- The Central Government may, by notification in the Official Gazette, authorize any person for the purposes of exercising such powers with respect to entering such premises and searching inspecting and seizing of such goods, documents, things and conveyances subject to such requirements and conditions, as may be prescribed.
- No order made or deemed to have been made under this Act shall be called in question in any court, and no suit, prosecution or other legal proceeding shall lie

against any person for anything in good faith done or intended to be done under this Act or any order made or deemed to have been made there under.

16.2.2 Custom Act

The Custom Act is an Act to consolidate and amend the law relating to customs.

(a) Highlights

- The Central Government may, by notification in the Official Gazette, appoint the ports and airports which alone shall be customs ports or customs airports for the unloading of imported goods and the loading of export goods or any class of such goods / the places which alone shall be inland container depots for the unloading of imported goods and the loading of export goods or any class of such goods the places which alone shall be land stations / the places which alone shall be land customs stations for the clearance of goods imported or to be exported by land or inland water or any class of such goods / the routes by which alone goods or any class of goods specified in the notification may pass by land or inland water into or out of India, or to or from any land customs station from or to any land frontier / the ports which alone shall be coastal ports for the carrying on of trade in coastal goods or any class of such goods with all or any specified ports in India.
- Central Government if found necessary for any of the purposes it may by notification in the Official Gazette, prohibit either absolutely or subject to such conditions (to be fulfilled before or after clearance) as may be specified in the notification, the import or export of goods of any specified description.
- Every person who owns, possesses or controls, On the notified date, any notified goods, shall, within seven days from that date, deliver to the proper officer a statement (in such form, in such manner and containing such particulars as may be specified by rules made in the notified goods owned, possessed or controlled by him and the place where such goods are kept or stored. If any person intends to shift any notified goods to any place other than the intimated place, he shall, before taking out such goods from the intimated place, deliver to the proper officer an intimation containing the particulars of the place to which such goods are proposed to be shifted.
- Dutiable goods except as otherwise provided in this Act, or any other law for the time being in force, duties of customs shall be levied at such rates as may be specified under the Customs Tariff Act or any other law for the time being in force, on goods imported into, or exported from, India. Custom duty is a tax which a state collects on goods imported or exported out of the boundaries of the country. It forms a significant source of revenue for all countries especially in developing countries like India. In India, custom duties are levied on the goods and at the rates specified in the schedules to the Custom Tariff Act, 1975.

Objectives of Custom Duties

- Restricting Imports for conserving foreign exchange
- Protecting Indian Industry from undue competition
- Prohibiting imports and exports of goods for achieving the policy objectives of the Government.
- Regulating exports
- Co-ordinating legal provisions with other laws dealing with foreign exchange such as Foreign Trade Act, Foreign Exchange Regulation Act, Conservation of Foreign Exchange and Prevention of Smuggling Act, etc.

- Valuation of goods for purposes of assessment where under a duty of customs is chargeable on any goods by reference to their value, the value of such goods shall be deemed to be the price at which such or like goods are, ordinarily sold, or offered for sale, for delivery at the time and place of importation or exportation, as the case may be, in the course of international trade, where the seller and the buyer have no interest in the business of each other and the price is the sole consideration for the sale or offer for sale
- After an import any imported goods or an exporter has entered any export goods, the imported goods or the export goods, without undue delay, be examined and tested by the proper officer the duty, if any, leviable on such goods be assessed.
- For Refund of export duty in certain cases Where on the exportation of any goods any duty has been paid, such duty shall be refunded to the person by whom or on whose behalf it was paid, if the goods are returned to such person otherwise than by way of re-sale; the goods are re-imported within one year from the date of exportation ; or an application for refund of such duty is made before the expiry of six months from the date on which the proper officer makes an order for the clearance of the goods.

16.2.3 Central Excise Act

Central Board of Excise and Customs (CBEC) is a part of the Department of Revenue under the Ministry of Finance, Government of India. It deals with the tasks of formulation of policy concerning levy and collection of Central Excise duties, prevention of smuggling and administration of matters relating to Central Excise to the extent under CBEC's purview. Central Excise duty is an indirect tax levied on goods manufactured in India. It is indirect tax because the duty, which is paid by the manufacturer, is added in the price of the product and the incidence falls ultimately on the consumer. The Central Excise duty is levied in terms of the Central Excise Act, 1944 and the rates of duty, ad valorem or specific, are prescribed under the Schedule I and II of the Centred Excise Tariff Act, 1985. The liability of Central Excise duty arises as soon as the goods are manufactured.

The major laws governing the central excise levy are :

(1) the Central Excise Act, 1944;
(2) the Central Excise Rules , 2002;
(3) the Central Excise tariff Act, 1985; and
(4) the Central Excise Valuation (Determination of the Price of the Excisable Goods), Rules 2000.

(a) Brief History and Developments

Till 1969, there was physical control system wherein each clearance of manufactured from the factory was done under the supervision of the Central Excise :Officers. Introduction of Self-Removal procedure was a watershed in the excise procedures. Now, the assesses were allowed to quantify the duty on the basis of approved classification list and the price list and clear the goods on payment of appropriate duty.

In 1994, the gate pass system gave way to the invoice-based system, and all clearances are now effected on manufacturer’s own invoice. Another major change was brought about in 1996, when the Self-Assessment system was introduced. This system is continuing today also. The assessee himself assesses his Tax Return and the Department scrutinizes it or conducts selective audit to ascertain correctness of the duty payment. Even the classification and value of the goods have to be merely declared by the assessee instead of obtaining approval of the same from the Department.

In 2000, the fortnightly payment of duty system was introduced for all commodities, an extension of the monthly payment of duty system introduced the previous year for Small Scale Industries.

In 2001, new Central Excise (No.2) Rules, 2001 have replaced the Central Excise Rules, 1944 with effect from 1st July, 2001. Other rules have also been notified namely, CENVAT Credit Rules, 2001, Central Excise Appeal Rules, 2001 etc. With the introduction of the new rules several changes have been effected in the procedures. The new procedures are simplified. There are less numbers of rules, only 32 as compared to 234 earlier. Classification declaration and Price declarations have also been dispensed with, the CENVAT Declaration having been earlier dispensed with in 2000 itself.

(b) Administration of Central Excise

The Central Excise law is administered by the Central Board of Excise and Customs (CBEC or Board) through its field offices, the Central Excise Commissionerates. For this purpose, the country is divided into 10 Zones and a Chief Commissioner of Central Excise heads each Zone. There are total 61 Commissionerates in these Zones headed by Commissioner of Central Excise. Divisions and Ranges are the subsequent formations, headed by Deputy/Assistant Commissioners of Central Excise and Superintendents of Central Excise, respectively.

(c) Tax payers' assistance and responsiveness

The CBEC have issued instructions from time to time for rendering assistance to the taxpayers in the Commissionerates of Central Excise and Divisional Offices. These offices are duty bound to provide necessary guidance to the public in all matters concerning Central Excise Law, procedure, tariff and exemptions etc.

16.2.4 FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

In India, the most important law which regulates all foreign exchange transactions including investments abroad is the Foreign Exchange Management Act (FEMA), 1999. It is an investor friendly legislation which aims to facilitate external trade and payments as well as promote an orderly development and maintenance of foreign exchange market. Under the Act, Reserve Bank of India (RBI) has been authorized to frame various rules, regulations and norms pertaining to overseas investments in consultation with the Central Government.

When a business enterprise imports goods from other countries, exports its products to them or makes investments abroad, it deals in foreign exchange. In India, all transactions that include foreign exchange were regulated by Foreign Exchange Regulations Act (FERA), 1973. The main objective of FERA was conservation and proper utilization of the foreign exchange resources of the country. It also sought to control certain aspects of the conduct of business outside the country by Indian companies and in India by foreign companies. It was a criminal legislation which meant that its violation would lead to imprisonment and payment of heavy fine. It had many restrictive clauses which deterred foreign investments.

In the light of economic reforms and the liberalized scenario, FERA was replaced by a new Act called the Foreign Exchange Management Act (FEMA), 1999. The Act applies to all branches, offices and agencies outside India, owned or controlled by a person resident in India. FEMA emerged as an investor friendly legislation which is purely a civil legislation in the sense that its violation implies only payment of monetary penalties and fines. However, under it, a person will be liable to civil imprisonment only if he does not pay the prescribed fine within 90 days from the date of notice but that too happens after formalities of show cause notice and personal hearing. FEMA also provides for a two year sunset clause for offences committed under FERA which may be taken as the transition period granted for moving from one 'harsh' law to the other 'industry friendly' legislation.

OBJECTIVES OF FEMA

(i) To facilitate external trade and payments;

(ii) To promote the orderly development and maintenance of foreign exchange market. The Act has assigned an important role to the Reserve Bank of India (RBI) in the administration of FEMA. The rules, regulations and norms pertaining to several sections of the Act are laid down by the Reserve Bank of India, in consultation with the Central Government.

FEMA permits only authorized person to deal in foreign exchange or foreign security. The Act thus prohibits any person who:

- Deal in or transfer any foreign exchange or foreign security to any person not being an authorized person;
- Make any payment to or for the credit of any person resident outside India in any manner;
- Receive otherwise through an authorized person, any payment by order or on behalf of any person resident outside India in any manner;
- Enter into any financial transaction in India as consideration for or in association with acquisition or creation or transfer of a right to acquire, any asset outside India by any person is resident in India which acquire, hold, own, possess or transfer any foreign exchange, foreign security or any immovable property situated outside India.

16.2.5 The Prevention of Money Laundering Bill, 1999 (PMLA)

(a) Definition

"Money laundering is the disguising or concealing of illicit income in order to make it appear legitimate."

A Bill to prevent money-laundering and to provide for confiscation of property derived from, or involved in, money-laundering and for matters connected therewith or incidental thereto. The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. PMLA and the Rules notified there under came into force with effect from July 1, 2005.

Indian anti-money laundering law encompasses the money generated from numerous different crimes - e.g., drug trafficking, murder for hire, racketeering, and embezzlement. The word laundering is used for cleaning dirty clothes. Money Laundering is used to clean the dirty money just as soap and water are used for cleaning clothes. In the same way Placement, Layering and integration are used for Cleaning Dirty Money.

Money laundering may look like a polite form of white collar crime, but it is the companion of brutality, deceit and corruption. Money laundering deprives governments of some tax revenues, thereby raising the relative burden of honest citizens. Because of rapid movements of large amounts of money, normally stable financial institutions become destabilized, threatening savings accounts and retirement funds of innocent citizens.

(b) Concept of Money Laundering

Most crimes such as drug trafficking, fraud, extortion, smuggling, arms sales etc. are motivated by profit. To avoid detection and possible confiscation of money acquired through illegal means, criminals need to provide a clock of legitimacy to such proceeds. This process is called money laundering.

The concept of Money Laundering can be traced back to the "Hawala" transactions well known in India for long time now. Hawala mechanism facilitates the conversion of money from black to white. "Hawala" is an Arabic word meaning the transfer of money or information between two persons using a third person. The Hawala mechanism usually does not leave any paper trail and thus is a nightmare for the investigative agencies. The profits generated from Hawala transactions are covertly invested in real estate, films etc. so as to launder them.

(c) General Steps in any money laundering process.

The PMLA and rules notified there under impose obligation on banking companies, financial institutions and intermediaries to verify identity of clients, maintain records and furnish information to FIU-IND. PMLA defines money laundering offence and provides for the freezing, seizure and confiscation of the proceeds of crime.

The Act also lists modalities of disclosure by financial institutions regarding reportable transactions, confiscation of the proceeds of crime, declaring money laundering as an extraditable offence and promoting international cooperation in investigation of money laundering.

The Act allows for confiscation of property derived from or involved in money laundering. Co- operative banks, non-banking financial companies, chit funds and housing financial institutions come under its ambit.

The Act also makes it mandatory for banking companies, financial institutions and intermediaries to maintain a record of all transactions of a prescribed value and to furnish information whenever sought within a prescribed time period. Thus, these entities are required to maintain the record of the transactions for 10 years.

The minimum threshold limit for certain categories of offences under the Indian Penal Code and other legislations has been fixed at Rs 30 lakh in the Bill. This limit is further likely to be reduced to Rs. 10 lakh.

The purpose of prohibition may be: (a)the maintenance of the security of India; (b)the maintenance of public order and standards of decency or morality ; (c)the prevention of smuggling; (d)the prevention of shortage of goods of any description; (e)the conservation of foreign exchange and the safeguarding of balance of payments; (f)the prevention of injury to the economy of the country by the uncontrolled import or export of gold or silver ; (g) the prevention of surplus of any agricultural product or the product of fisheries ; (h) the maintenance of standards for the classification, grading or marketing of goods in international trade; (i) the establishment of any industry; (j) the prevention of serious injury to domestic production of goods of any description ; (k) the protection of human, animal or plant life or health; (1) the protection of
:national treasures of artistic, historic or archaeological value ; (m) the conservation of exhaustible natural resources; (n) The protection of patents, trade marks and copyrights; (o) the prevention of deceptive practices; (p)the carrying on of foreign trade in any goods by the State, or by a Corporation owned or controlled by the State to the exclusion, complete or partial, of citizens of India; (q) the fulfillment of obligations under the Charter of the United Nations for the maintenance of international peace and security ; (r)the implementation of any treaty, agreement or convention with any country; (s) the compliance of imported goods with any laws which are applicable to similar goods produced or manufactured in India 1182 (t)the prevention of dissemination of documents containing any matter which is likely to prejudicially affect friendly relations with any foreign State or is derogatory to national prestige ; (u)the prevention of the contravention of any law for the time being in force ; and (v)any other purpose conducive to the interests of the general public.

16.2.6 SELF CHECK QUESTIONS

1. Which international organization plays a significant role in the development and enforcement of rules governing international trade?
a) United Nations (UN)
b) International Monetary Fund (IMF)
c) World Trade Organization (WTO)
d) International Chamber of Commerce (ICC)

2. What is the purpose of Incoterms in international trade transactions?
a) To regulate customs duties
b) To define the responsibilities of buyers and sellers in a sale transaction

c) To set international shipping rates
d) To facilitate currency exchange

3. In the context of international trade law, what is the function of a letter of credit?
a) It certifies the origin of goods
b) It serves as a contract of carriage
c) It provides insurance coverage for exported goods
d) It guarantees payment to the exporter upon compliance with specified terms

16.3 SUMMARY

An entrepreneur can successfully expand and grow his/her business abroad by taking into account the basic legal framework of the home country as well as of the particular foreign country. It is necessary for him/ her to abide by such laws and regulations in order to ensure efficient and healthy functioning of the organization and face the various challenges that he/ she may encounter abroad.

16.4 ANSWER TO SELF-CHECK EXERCISE

1. c) World Trade Organization (WTO)
2. b) To define the responsibilities of buyers and sellers in a sale transaction
3. d) It guarantees payment to the exporter upon compliance with specified terms

16.5 SHORT QUESTIONS

1. Explain meaning and need of Legal Framework for international trade.
2. Critically evaluate the legal and regulatory framework for international trade in India.
3. Write highlights of following acts in India
   (a) Foreign Trade (Development and Regulation) Act, 1992
   (b) Custom Act
   (c) Foreign Exchange Management Act
4. Explain the concept of Money Laundering.

16.6 LONG QUESTIONS

1. Provide a detailed overview of the role and functions of the World Trade Organization (WTO) in regulating international trade.
2. Examine the importance of Incoterms in international trade contracts.
3. Explore the various legal instruments and mechanisms available to mitigate risks in international trade.

16.7 KEY WORDS

Legal Framework, Foreign Exchange, Custom duty, Excise duty, Money laundering

16.8 SUGGESTED READINGS

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