Centre for Distance & Online Education
(CDOE)

BACHELOR OF COMMERCE

BCOM 406

INDIA's FOREIGN TRADE & POLICY

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CONTENTS

Subject: INDIA'S FOREIGN TRADE AND POLICY	
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Lesson No.: 01	

India's Foreign Trade: Recent Trends and Directional Pattern in Global Context; Objectives of foreign trade policy

Structure

1.0 Learning Objective

After reading this lesson the students will be able to

- Describe the role and importance of foreign trade in the economic development of a country

- Evaluate the changing scenario of global trade
- Explain the trends and patterns in India’s foreign trade
- Describe the functioning of India’s foreign trade policy
- Identify challenges and problems in foreign trade policy

1.1 Introduction

In the present globalized world, any country's development is dependent on its ability to trade internationally as each country must purchase the commodities and services it requires from other countries, which it cannot produce, and sell the excess production to other countries. Foreign trade or international business refers to the process of purchasing required goods and services from other countries and selling surplus goods and services to other countries. It is critical for countries to encourage international business for them to prosper economically. The advantages of doing business on a global scale are enormous. International business, when encouraged by governments of nations and prioritized by companies results in national as well as global economic growth. Every firm and government has multiple compelling reasons to grow its operations globally. However, various globalization constraints must be addressed. Foreign Trade Policies (FTP) are announced from time to time in various countries to regulate and promote foreign trade.

1.2 Understanding FOREIGN TRADE

When trade takes place between two countries, either bilaterally or multilaterally, it is referred to as "international trade" involving two or more states. This is a general phrase for external trade; when our country's trading activity with other countries is discussed, it is referred to as "foreign trade," implying that the trade is foreign from our country's perspective. The word "foreign trade" refers to a certain country. A country's foreign trade includes its imports and exports of goods and services.

1.2.1 NEED FOR FOREIGN TRADE

Nature has unevenly divided the factors of production across the globe. Natural resource endowments, climatic circumstances, mineral resources and mines, labour and capital resources, technological capabilities, entrepreneurial and managerial skills, and a slew of other elements all influence a country's ability to generate goods and services. Because of these disparities in production capabilities, some countries can create some goods and services more efficiently than others, and no country can manufacture all commodities and services in the most efficient manner.

Middle Eastern countries produce oil and gas products more efficiently due to natural resource availability; Japan produces electronic goods more efficiently due to technological know-how, and Indonesia has more palm oil-producing resources than other countries. Their ability to generate these products, such as natural gas, electronics, or palm oil, significantly outweighs their ability to consume them. As a result, these countries export these items to other nations at a competitive price. Thus, international trade helps consumers globally to obtain goods and services in a more efficient, effective, and cost-effective manner.

1.2.2 IMPORTANCE OF FOREIGN TRADE

Foreign Trade (FT) is unavoidable in today's economic environment for a country's growth and development. Following are some of the important reasons for FT:

- Capital goods such as machinery and know-how are critical for the country's development, but with the support of FT, we may reap the benefits of enhanced technology through imports. FT thus also contributes to the improvement of local product quality.
- Through imports, it helps to close the gap between domestic demand and supply, it aids in the eradication of a shortage of products. If a commodity is in limited supply, it can be imported from the worldwide market, thereby eliminating the shortage. Thus, allowing price parity between countries. The concept of demand and supply will eventually minimize the large price disparity.
- Increased exports lead to increased output, which leads to a rise in employment because increased production necessitates more labour. Increased exports also promote related sectors as increased exports result in increased packing and transportation, which leads to the rise of these sectors.
- Foreign competition contributes to a country's price stability. If the price of a thing is extremely high, that commodity can be imported, keeping the price stable.

- In the presence of FT, resources are correctly employed, which aids in increasing the nation's exports and, as a result, per capita income and national revenue increase.
- FT broadens the market and leads to large-scale production to reap the benefits of economies of scale while also improving specialization and modernization. Through FT, any invention in any part of the country spreads to all countries.

1.2.3 ROLE OF FOREIGN TRADE IN ECONOMIC GROWTH

Foreign trade has historically served as an "engine of growth" for many countries for example Great Britain and Japan in the nineteenth and twentieth century respectively. In recent times, the external growth-driven strategies adopted by emerging economies of Asia like the Republic of China, Taiwan, South Korea, and Singapore, have facilitated them to overcome the various economical and natural resource constraints faced by such underdeveloped nations.

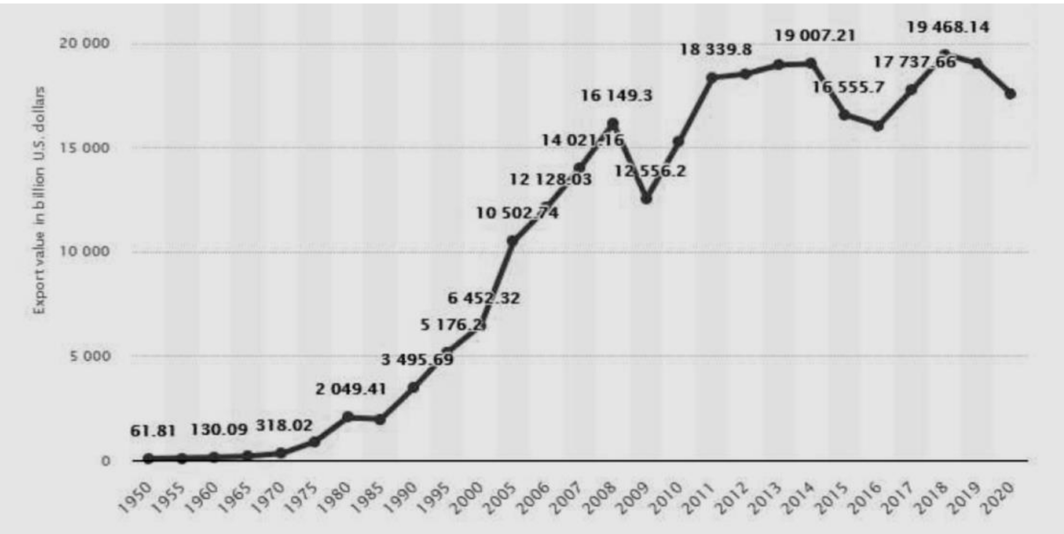
- FT helps economic development in a variety of ways. FT investigates methods of obtaining capital goods imports, which are a must to initiate a nation's development process.
- It allows for the sharing of technological methodologies, resulting in advances in productivity as well as some short-run multiplier effects for countries with high unemployment.
- FT forces nations for continuous change through pressure from (a) competitive imports, (b) search for export markets, and (c) efficient resource allocation.
- Exports enable greater capacity utilization resulting in economies of scale and price competitiveness, decreasing the dependency of production on domestic demand, and facilitating the adoption of new technology.
- FT improves the well-being of the native workforce. It does so by (a) increased exports results in increased salaries; (b) because employees are also consumers, FT rewards them through economical imports; and (c) FT increases worker's productivity as the value of the items they create rises. Also, increased trade openness has been substantially linked to poverty alleviation.

- FT generates the foreign currency needed to pay for imports and repay foreign debts. It lessens the burden of foreign obligations. Foreign exchange obtained through FT stimulates economic development.
- FT boosts economic activity, resulting in higher income and a higher level of living. Price reductions resulting from more competition, thus contributing to the country's national income.

1.3 GLOBAL TRADE: AN OVERVIEW

The exchange of capital, goods, and services between different countries and territories is referred to as global trade. Exports of products on the other hand are goods sold worldwide that were grown, produced, or made in another country. Post World Wars I and II, all the nations were straggling with resource shortages and were searching for means to revive their economies. International relations were explored through trade, as figure 1. reflects, global exports stood at mere approximately 62 million U.S. dollars. The global trade value of products exported worldwide in 2000 was around 6.45 trillion US dollars (at current prices,) whereas in 2019 this value rose to roughly 19 trillion US dollars. The rise in the value of commodities exported around the world reflects changes in international trade, globalization, and technological advancements.

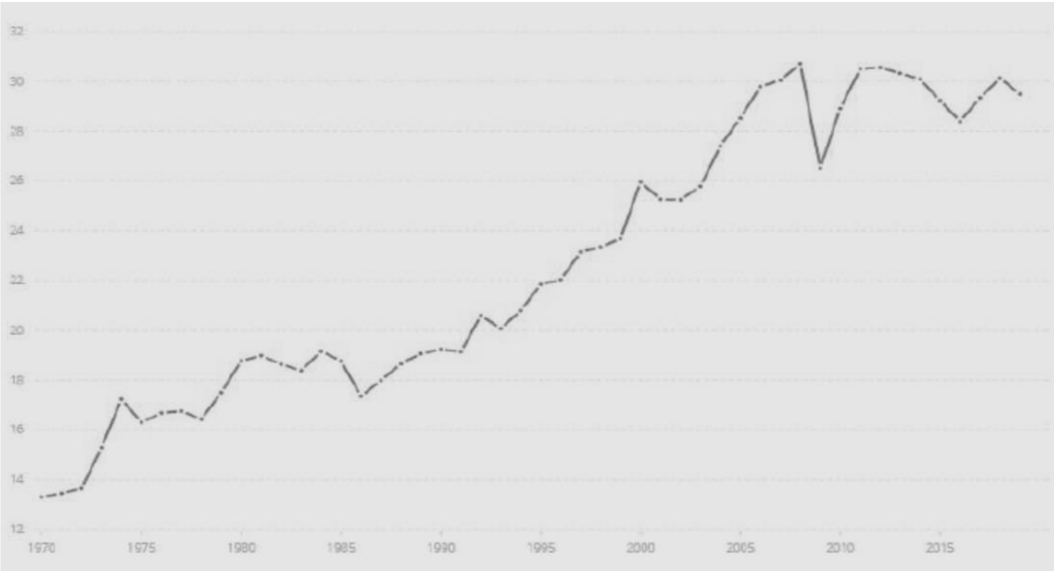
Figure 1: Global Export Value (million U.S. dollars)



Source: Statista.com

Global trade has been growing faster than global output, an increasing proportion of GDP being traded abroad. The foreign trade-GDP ratio (the value of exports expressed as a percentage of GDP) rises in general with economic progress. When compared to less developed countries, this ratio has generally been high for developed countries. However, by the early 1990s, developing countries had surpassed developed countries in the trade-GDP ratio, which is now significantly higher for developing countries than for developed countries. The significance of international trade in the growth of nations can also be understood from the ratio of exports to the GDP of a nation. As shown in figure 2. This ratio was 13.3% in the year 1970, which increased to 25.9% in 2000, and reached an all-time high of 30.7% in the year 2008, and is ranging between 28% and 30% for the last decade.

Figure 2.: Global exports of goods and services (% of GDP)

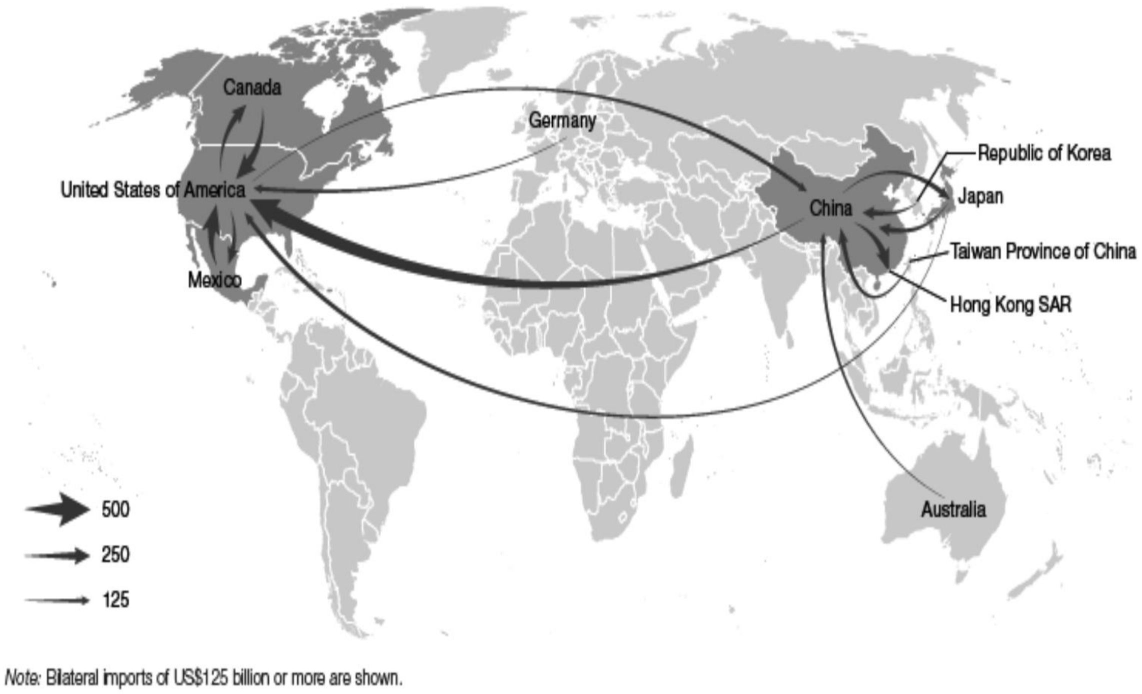


Source: IMF, World Economic Outlook

1.3.1 INTRA-TRADE AND EXTRA-TRADE

In the present dynamic politico-social global environment, it is also important to understand the concept of Intra-trade and Extra-trade, as it has shown prominent global partners and patterns. Intra-trade refers to commerce between economies that are members of the same group. Extra-trade refers to commerce between economies within the same group and all economies outside the group. It denotes the difference between a group's overall and intra-trade.

Figure 3.: Main world import flows, 2019 (Billions of US dollars)



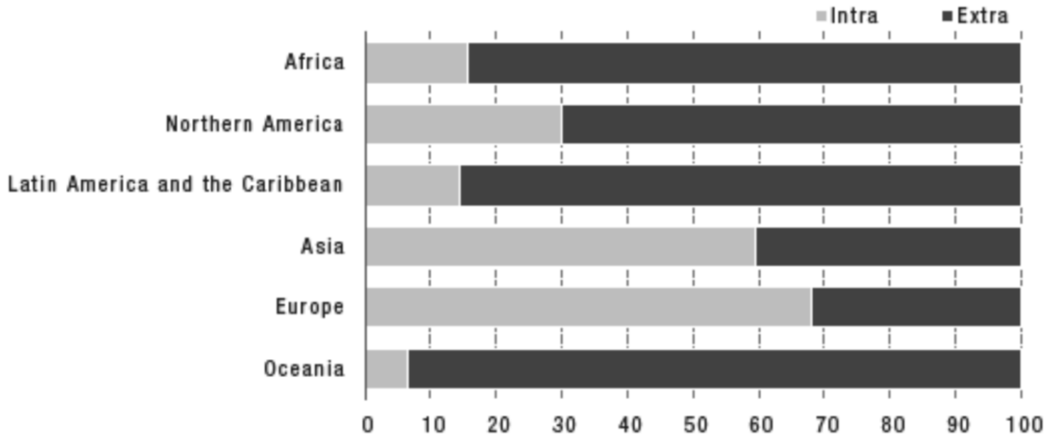
Source: UNCAD, 2020, Handbook of statistics

The world's largest bilateral trade flows are between China and the U.S.A. (figure 3.), as well as between their respective bordering economies. The United States imported items from China valued at $472 billion in 2019. Whereas china imports a total of US$132 billion worth of goods from the U.S.A.

China's trade – both exports and imports – with the Hong Kong Special Administrative Region (SAR), Japan, Taiwan, and the Republic of Korea was USD 1.16 trillion in 2019. The value of trade between the U.S.A. and Mexico and Canada was US$1.12 trillion, reflecting trade of both blocks is roughly the same.

Europe had the most intra-regional trade (Figure 4). In 2019, 68% of European exports were with partners from the same continent. In Asia, this figure was 60%. Whereas, Africa, Northern America, Latin America & the Caribbean, and Oceania nations traded more with extra-regional.

Figure 4.: Intra- and extra-trade exports, 2019 (% of total exports)

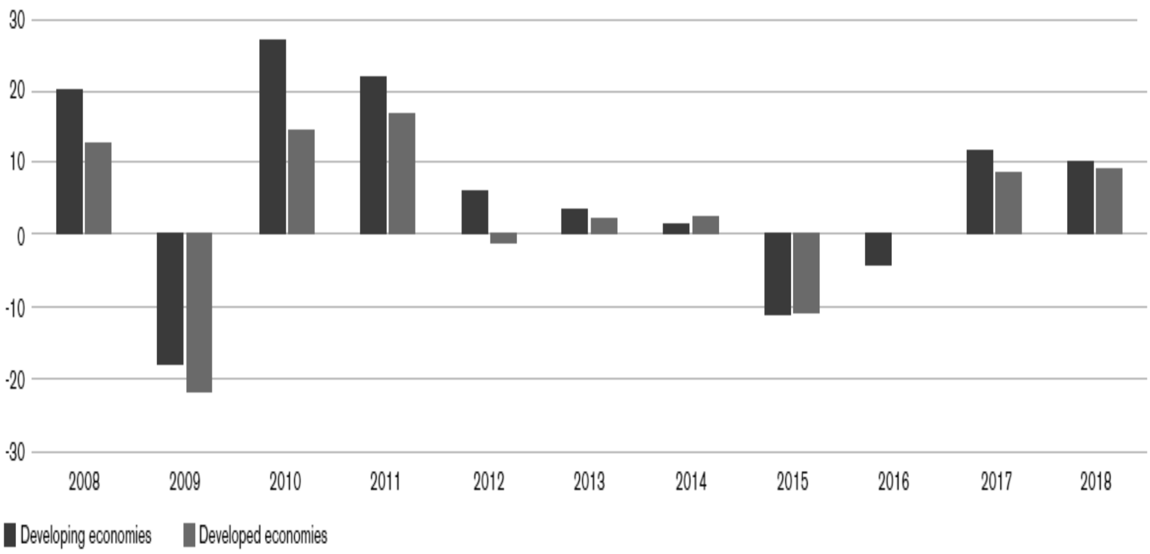


Source: UNCAD, 2020, Handbook of statistics

1.3.2 DEVELOPED VS DEVELOPING ECONOMIES

Post global economic downturn of 2008 the GDP of developed nations has seen a flattened growth while the developing nations have shown major growth in their output proving their significance in global trade.

Figure 5: Trade in goods and services, 2008-2018 (Annual percentage change)



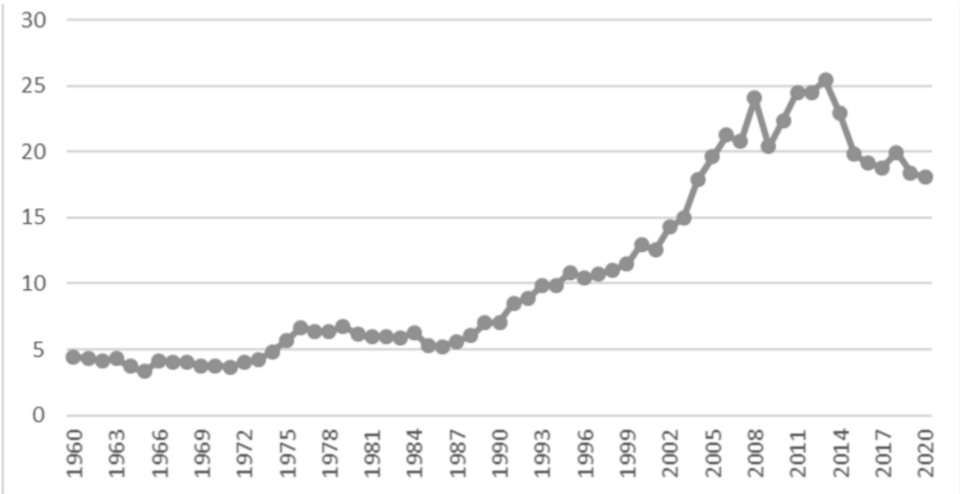
Source: WTO-UNCAD-ITC

According to WTO-UNCAD, In the past decade, developing economies has either outperformed or equaled the performance of developed economies in annualized performance of world trade

1.4 INDIA'S FOREIGN TRADE AND NEED FOR FOREIGN TRADE POLICY (FTP)

India represents an intriguing case study. Since the beginning of development planning, the country's foreign trade-to-GDP ratio has been near-stagnant, it was less than 7.5 percent during this period (Figure 6). This was caused by inward-looking economic policies, import constriction, and modest development on the export front. However, since the start of economic liberalization in 1991, India's foreign trade-to-GDP ratio has risen from 8.5 percent in 1991 to 25.4 percent in 2013, and it is currently hovering around 18 percent.

Figure 6: India's foreign trade-to-GDP ratio



Source: WTO data

1.4.1 ANALYSIS OF THE GROWTH OF INDIA'S FOREIGN TRADE

Till 1930's foreign trade of India was deeply affected the due decrease in purchasing power and the corrupt practices of colonial government. During the world war, second raw materials from India were exported and the final product was imported from the UK which discouraged the production of the final product in India. Before the independence, India's primary goods and agriculture commodities were the major portions of the exports, oil, machinery, cotton, etc. were the major imports, and Britain was the major trade partner.

In 1950-1960 main exports of India includes cashew kernels, black pepper, tea, coal, mica, manganese ore, raw and tanned hides, skins, vegetable oils, and raw cotton which was 34% of the total exports. The post-independence horizon of Indian exports and imports has increased due to many structural changes that have taken place from time to time, after India's independence USA, Germany, Japan and UK emerged as new trading partners. The reason for the increased FT of Indian companies in the early twenty-first century has been attributed to the globalization of activities and the expansion of scales through liberalization of trade and investment regimes under structural changes implemented by the government since 1991. Indian firms began to acquire global ambitions and emerged as significant participants in global markets in sectors like generic pharmaceuticals and IT software services.

A nation's international trade can be explored by evaluating three important components of international trade viz.: (a) volume, (b) composition, and (c) direction.

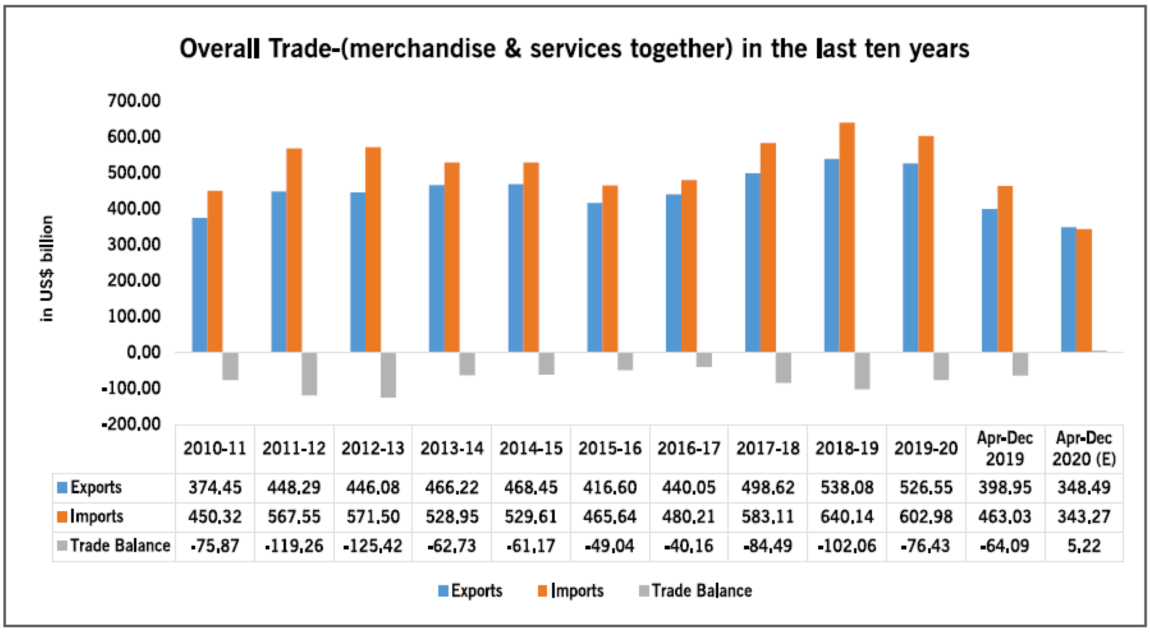
1.4.2 Volume of Trade

The size of foreign transactions is related to the volume of trade. As a large number of commodities are traded internationally, to analyze the volume of trade, the monetary aggregate of these commodities is estimated to determine the volume of trade. Apart from considering the absolute changes, two more factors, namely (i) at the country level and (ii) at the global level are also required to properly understand the volume of trade.

The contribution of exports/imports to GDP at the country level reflects the degree of outward orientation or openness of the economy in terms of trade activity. The ratio of exports to GDP can alternatively be read as the economy's ability to supply exports. It is also known as the average proclivity to export. The average proclivity to import is determined by the similarity of imports to GDP. Figure 6 reveals India's export to GDP ratio. 1991 is the crucial year, divides the data into two-part viz. pre-1991 period shows a closed economy, whereas post-1991 period reflects the opening of the Indian economy.

At the global level, foreign trade analyst usually employs the ratio of the percentage of exports/imports to the global trade of a country as an indicator of the degree of openness of an economy. This ratio reflects the nature of the country's trading strategy in general. The share of exports in global trade reflects the country's status as a nation in the global economy. It represents the country's market position in the global market. A positive change in this ratio reflects the country's comparative advantage position.

Figure 7: India's trend of overall trade (Merchandise & Services)



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Apr-Dec 2019	Apr-Dec 2020 (E)
Exports	374.45	448.29	446.08	466.22	468.45	416.60	440.05	498.62	538.08	526.55	398.95	348.49
Imports	450.32	567.55	571.50	528.95	529.61	465.64	480.21	583.11	640.14	602.98	463.03	343.27
Trade Balance	-75.87	-119.26	-125.42	-62.73	-61.17	-49.04	-40.16	-84.49	-102.06	-76.43	-64.09	5.22

Source: Dept. of Commerce, GOI, Annual Report 2020-21.

India's total exports crossed the $500 billion mark for the first time in 2018-19 (Figure 7). However, India's foreign trade growth rate (average of 0.7% from 2015-2020) and share in world trade is low, which is approximately 2.2%, and is not very impressive when compared with other emerging economies.

India's imports were also on a rising trend from 2009 till 2015 (Figure 7), with a few declining years, it was peaked in the year 20018-19, with a trade deficit of $102.06 billion.

1.4.3 Composition of Trade

The composition of commerce reflects an economy's status of development. For example, most developing nations rely on a few primary commodities for their export revenues; these countries sell agricultural raw resources and import processed or manufactured products, thus are unable to reap the benefits of value addition. As a nation develops, its international trade also becomes more diverse and is no longer reliant only on primary goods. It starts exporting more secondary (manufactured and industrial) goods and importing raw materials, capital goods, and technical know-how. To further understand the composition of trade, the factors must also be analysed: commodity-wise concentration of the export/import; change in the composition over a period of time; share of primary and secondary products in foreign trade.

Table 1: Year-wise top exported commodities from India (Value in US$ Million) (% of total India's Export)

Exports of top ten commodities in 2019-20

(Values in US$ billion)

Rank	Commodity	2018-19	2019-20	Growth(%)	Share(%)
1	Petroleum products	46.55	41.29	-11.31	13.18
2	Pearl, precious, semi-precious stones	25.97	20.69	-20.33	6.6
3	Drug formulations, biologicals	14.39	15.94	10.78	5.09
4	Gold and other precious metal jewellery	12.95	13.75	6.15	4.39
5	Iron and Steel	9.74	9.28	-4.77	2.96
6	Electric machinery and equipment	8.42	8.97	6.45	2.86
7	RMG cotton incl accessories	8.69	8.64	-0.6	2.76
8	Organic chemicals	9.33	8.35	-10.47	2.66
9	Motor vehicle/cars	8.50	7.80	-8.26	2.49
10	Products of iron and steel	7.26	7.01	-3.49	2.24

Source: DGCI&S, Kolkata

Imports of top ten commodities in 2019-20

(Values in US$ billion)

Rank	Commodity	2018-19	2019-20	Growth(%)	Share(%)
1	Petroleum: crude	114.04	102.75	-9.90	21.64
2	Gold	32.91	28.23	-14.22	5.95
3	Petroleum products	26.88	27.80	3.43	5.86
4	Pearl, precious, semi-precious stones	27.08	22.46	-17.05	4.73
5	Coal, Coke and Briquittes etc.	26.18	22.46	-14.22	4.73
6	Electronics components	15.75	16.32	3.64	3.44
7	Telecom instruments	17.92	14.22	-20.61	3.00
8	Organic chemicals	14.25	12.22	-14.23	2.57
9	Industrial machinery for dairy etc.	12.47	11.98	-3.93	2.52
10	Electric machinery and equipment	9.86	11.28	14.37	2.38

Source: DGCI&S, Kolkata

Commodity	2015-16	2016-17	2017-18	2018-19	2019-20
Mineral Fuels, Mineral Oils, and Products of Their Distillation; Bituminous Substances; Mineral Waxes.	31231.5 (11.91%)	32435.7 (11.76%)	38469.4 (12.67%)	47920.3 (14.52%)	42708.8 (13.63%)
Natural or Cultured Pearls, Precious or Semiprecious Stones, Pre. Metals, Clad with Pre. Metal and Articles Thereof; Imit. Jewellery; Coin.	39554 (15.08%)	43623.2 (15.81%)	41743.5 (13.75%)	40449.2 (12.25%)	36085.9 (11.52%)
Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof.	13518.5 (5.15%)	14100.6 (5.11%)	17867.8 (5.89%)	20965.5 (6.35%)	20835 (6.65%)
Organic Chemicals	11504.7	11688.5	14796.7	18239.6	17487.2

	(4.39%)	(4.24%)	(4.87%)	(5.53%)	(5.58%)
Vehicles Other Than Railway or Tramway Rolling Stock, And Parts and Accessories Thereof.	14356 (5.47%)	14950.1 (5.42%)	17255.4 (5.69%)	18096.3 (5.48%)	16711.8 (5.33%)
Pharmaceutical Products	12910 (4.92%)	12930.5 (4.69%)	13255.6 (4.37%)	14754.1 (4.47%)	16289.3 (5.2%)
Electrical Machinery and Equipment and Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, And Parts.	8013.99 (3.06%)	8232.02 (2.98%)	9324.52 (3.07%)	12727.8 (3.86%)	15187.7 (4.85%)
Iron And Steel	5492.54 (2.09%)	8682.99 (3.15%)	11244.7 (3.7%)	9741.99 (2.95%)	9277.45 (2.96%)
Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted.	9324.6 (3.56%)	9164.61 (3.32%)	8724.53 (2.87%)	8335.96 (2.53%)	7994.76 (2.55%)
Articles of Apparel and Clothing Accessories, Knitted or Crocheted.	7665.06 (2.92%)	8223.74 (2.98%)	7997.21 (2.63%)	7820.41 (2.37%)	7514.83 (2.4%)

Table 1. summarises India's top exported commodities from 2016 to 2020. Mineral fuels, their distillation, and related products are consistently the top exported commodity from India and are approximately 14% of the total exports. Other commodities that have increased their share in India's total exports, in the said period are pharma, organic chemical, electronic products, and, iron and steel products. Precious gems, jewellery, and related products, though are the second most exported commodity, but their share in reducing in the total export.

1.4.4 Direction of Trade

Similarly, trade direction reflects the structure and amount of economic development. As a country grows and its commerce diversifies, it must seek new markets for its exports. Its options for imports are also expanding. Pre-independence India's trade was limited to Great Britain, post-independence India begin trading with many countries. The U.S.A., U.A.E., and China are the top destinations for India's export (Table 2). During the period of 2015-16 to 2019-20, exports to the USA, China, Netherland, and Nepal have shown an upward trend. Exports to U.A.E., Hong Kong, and the U.K. has declined during the period.

Table 2: Year-wise top destination countries of India's Export (Value in US$ Million) (% of total India's Export)

Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Country	Value	Value	Value	Value	Value
U S A	40336.01 (15.4)	42212.27 (15.3)	47878.48 (15.8)	52406.27 (15.9)	53088.77 (16.9)
U ARAB EMTS	30316.5 (11.6)	31175.5 (11.3)	28146.12 (9.3)	30126.73 (9.1)	28853.59 (9.2)
CHINA P RP	9011.36 (3.4)	10171.89 (3.7)	13333.53 (4.4)	16752.2 (5.1)	16612.75 (5.3)
HONG KONG	12092.28 (4.6)	14047.24 (5.1)	14690.27 (4.8)	13001.99 (3.9)	10967.12 (3.5)
SINGAPORE	7719.81 (2.9)	9564.58 (3.5)	10202.82 (3.4)	11572.27 (3.5)	8922.66 (2.8)
U K	8828.48 (3.4)	8530.07 (3.1)	9691.07 (3.2)	9309.29 (2.8)	8737.85 (2.8)
NETHERLAND	4725.1 (1.8)	5069.69 (1.8)	6261.14 (2.1)	8812.84 (2.7)	8366.11 (2.7)
GERMANY	7092.87 (2.7)	7181.61 (2.6)	8687.8 (2.9)	8902.43 (2.7)	8290.9 (2.6)

BANGLADESH	6034.94 (2.3)	6820.11 (2.5)	8614.35 (2.8)	9210.06 (2.8)	8200.75 (2.6)
NEPAL	3902.7 (1.5)	5453.59 (2.0)	6612.96 (2.2)	7766.2 (2.4)	7160.35 (2.3)

Top ten export destinations of India in 2019-20

(Values in US$ billion)

Rank	Country	2018-19	2019-20	Growth(%)	Share(%)
1	U S A	52.43	53.11	1.30	16.95
2	United Arab Emirates	30.13	28.85	-4.23	9.21
3	China	16.75	16.61	-0.83	5.30
4	Hong Kong	13.00	10.97	-15.65	3.50
5	Singapore	11.57	8.92	-22.90	2.85
6	U K	9.33	8.77	-6.04	2.80
7	Netherland	8.81	8.37	-5.05	2.67
8	Germany	8.90	8.29	-6.89	2.65
9	Bangladesh	9.21	8.20	-10.96	2.62
10	Nepal	7.77	7.16	-7.80	2.29

Source: DGCI&S, Kolkata

Top ten import sources of India in 2019-20

(Values in US$ billion)

Rank	Country	2018-19	2019-20	Growth (%)	Share (%)
1	China	70.32	65.26	-7.19	13.75
2	U S A	35.55	35.82	0.76	7.55
3	United Arab Emirates	29.79	30.27	1.61	6.38
4	Saudi Arabia	28.48	26.86	-5.69	5.66
5	Iraq	22.37	23.74	6.11	5.00
6	Hong Kong	17.99	16.94	-5.85	3.57
7	Switzerland	18.09	16.90	-6.57	3.56
8	South Korea	16.76	15.66	-6.56	3.30
9	Indonesia	15.85	15.07	-4.97	3.17
10	Singapore	16.28	14.75	-9.43	3.11

Source: DGCI&S, Kolkata

NEED FOR FOREIGN TRADE POLICY

In order to regulate and control the flows in international trade i.e. imports and exports of goods from and to a nation, with various objectives like gaining foreign exchange; strategizing technological adaptation; reduced transaction cost; expanding markets for domestic products; stabilizing demand, and supply; enhancing the competitiveness; managing resources and labour; and for generating employment through international trade, every nation formulate an export-import policy also known as Foreign Trade Policy (FTP). FTP is helpful in regulating not only international trade but domestic trade as well.

FTP facilitates in building a nation's image in the world trade for a specific product or industry, by synchronizing with other national-level policies to achieve a pre-defined objective.

Making trade policy is a difficult undertaking in any country, but it is extremely onerous for officials in developing countries. What appears to be a totally external endeavour is inextricably linked to overall development policy and entails a number of domestic trade-offs. Consumer and producer interests must be balanced when making policy in this area, and the ambitions of the most efficient and export-oriented industries must be weighed against those that are still fighting to reach competitiveness.

HISTORICAL PERSPECTIVE ON INDIA'S FOREIGN TRADE POLICY

Since independence India's foreign trade policy (FTP) has been an important tool for national development. It has evolved based on the learnings from the past, anticipating future needs, and incorporating changing politico-social environment. India's FTP which was earlier also known as Export-Import Policy (EXIM Policy) is announced by the Union Commerce Ministry, Government of India. The major milestones of India's FTP progression are chronologically summarized in Table 3 below.

Table 3: Chronological progress of India's FTP

Year	Major FTP developments
1952-53	Liberal export and import policies.
1956-57	Restrictive trade policies focus on measures to curb imports to promote national industries.

1970	Export Policy Resolution passed in the Parliament.
1975-76	Promotion of Export oriented units (EOUs), including liberal import policies for EOUs to import raw material, capital goods, technology, etc.
1978	Export-Import and procedures by Alexander committee, simplification of the Import Licensing procedure and provided a framework involving a shift in the emphasis from “control” to “development”.
1980	Export strategies for the eighties by Tandon Committee, promoting EOU to boost exports.
1982	Setting up of EXIM Bank
1984	Trade Policies by Abid Hussain committee, “Growth Led Exports, rather than Export-Led Growth”, stressing the need for harmonizing the foreign trade policies with other domestic policies.
1985	Joint Exim Policy was introduced for the first time by Viswanath Pratap Singh Government.
1990-93	3-year Import-Export Policy, L.P.G policy, trade liberalization and departure from restrictions on trade, reduction in the maximum rate of duty as per Chelliah Committee (1991)
1992-97	Export-Import Policy to coincide with Plan period, hence first five-year FTP, focusing on increasing Indian exports. Major policy reforms: Liberalization, Privatization, Globalization (LPG) were initiated.
1997-02	Second five-year EXIM Policy, with major changes such as reduction in documentation, single-window scheme, enhancing the quality of Indian exports.
2001-02	Removal of quantitative restrictions, major focus on agro exports, import of agro and petro product through state agencies, FDI permitted in Special Economic Zones.
2002-07	The third five-year policy, the shift from import liberalization to export promotion,

	focuses on increasing the competitiveness of Indian exports.
2004-09	New Foreign Trade Policy (NFTP) was introduced due to change in Government, increasing contribution of foreign trade in national growth.
2009-14	Concerns about the downward trend of India's exports, to double India's exports of goods and services by 2014.
2015-20	Making India an important participant in World Trade

Economists are of the opinion that post-independence, India's FTP can be divided or classified into five phases, each phase having its own objectives with macro and micro environmental constraints.

Phase 1 (1950 to 1973): This phase was characterized by restrictive trade policy and inward-looking strategy, which led to the falling of India's share in traditional exports. The policy was primarily dedicated to national development and reconstruction, through a focus on the development of the agriculture sector. This period saw wars with Pakistan and China, shortages of food grains due to natural calamities, international price hike of oil; Imports surged dramatically due to increased imports of capital goods and agricultural commodities; the rapid industrialization process demanded more imports of machinery, equipment, raw materials, and technical know-how; and India was experiencing a severe foreign exchange crisis. The industrial base was poor and exports were insignificant. Significant policy decisions during this phase were: Devaluation to reduce imports cost, to boost exports & to correct BoT deficit; Green revolution leading to grain self-sufficiency and focus on rapid industrialization. During 1972-73 BoT surplus was recorded for the first time since independence, but it disappeared the very next year due to a rise in prices of oil imports.

Phase 2 (1974 to 1990): In this phase, trade policy was influenced by the protectionist tendencies in international trade; Swadeshi (self-sufficiency) philosophy, and the license raj (system of restrictions) on production and imports. But at the same time exports were accorded as high priority as the focus was on "Export promotion and Import liberalization", the government undertook many steps to increase exports. Foodgrains imports declined & exports rose due to devaluation, initially green revolution started bearing results leading to less dependency on grain imports, substantial rise in exports of fish, coffee, tea, cotton. But later due to drought, essential commodities were imported in large quantities, exports of agricultural products from India were also constrained.

Export growth slowed in 1977-78 due to a slowdown in industry investment. Petroleum prices rose throughout the time, notably during the Gulf War in the 1990s, necessitating domestic production of oil and natural gas as well as demand for major investments, including imported capital goods. Falling demand in India's foreign markets resulted in a drop in exports. Significant untapped export potential in a variety of industries; Extensive borrowings from foreign countries and international agencies such as the IMF to overcome the BoP, putting repayment pressure on these and previous borrowings. Important policy decisions during this phase were: Establishment of EXIM Bank in 1981-82; Announcement of three-Year EXIM policy in 1988. This phase also witnessed a sharp decline in foreign exchange reserves from US$3.11 billion in September 1990 to US$896 million in January 1991 as the government was forced to pledge gold and failed to curb imports.

Phase 3 (1991 to 2004): This phase is remembered as a phase of reforms. This phase witnessed the first generation of reforms, through first (1992-1997) and second (1997-2002) five-year EXIM policies. To liberalize trade by strengthening export production, facilitating technological advancement, reducing imports and relaxing import tariffs on essential items, removing quantitative restrictions, reforming exchange rates, enhancing multilateral and bilateral trade arrangements, and deregulating industry, yearly growth rates of around 7% are expected (compared with 3 percent before the reforms). In 1999, the second round of reforms was launched to address challenges such as lack of competitiveness, insufficient infrastructure, and overregulation. India has set an ambitious objective of achieving annual sustainable growth of 8% while also doubling per capita income over the next ten years.

During this era, the export promotion plan took a more positive turn. While export production incentives were increased, on the one hand, exports themselves were now viewed as an essential component of industrial development programs. This era stressed technological advancement, plant expansion, freer imports, and domestic and international competitiveness for the whole industrial sector as important for export development.

Phase 4 (2004 to 2014): In this phase nomenclature of EXIM Policy was replaced by Foreign Trade Policy (FTP). The Government of India launched a new Foreign Trade Policy for the period 2004-09, with the goals of doubling India's percentage share of global merchandise trade throughout the policy term and utilizing FTP as an instrument of economic growth to boost job creation in the country. The new FTP focused on diversification initiatives, which encompassed both product and market diversity. Until 2007, India's GDP and foreign trade hit new highs, but the 2008 financial crisis caused a global economic recession that affected all countries. India's key commercial partners, the United States, and the European Union were also severely impacted, which had a significant negative impact on India's exports.

With the backdrop of India's remarkable trade performance and the contagion effect of the global crisis in 2008-09, Foreign Trade Policy 2009-14 was announced with the short-term goal of reversing the declining trend of exports and providing additional support, particularly to those sectors hit hard by the recession in the developed world. The long-term goal of the FTP 2009-14 was to achieve a 25% average annual growth rate in exports over the next six years; to double merchandise exports from $250 billion in 2010-11 to $450 billion in 2013-14 and then to $750 billion in 2016-17, and to double India's share of global trade by the end of 2020.

Phase 5 (from 2015 onwards): The New Government arrived with fresh ideas and ambitions to put India on the global map. The government of India has taken many steps to re-energize the economy, including initiatives such as "Make in India," "Digital India," and "Skills India," all of which are expected to improve export prospects. Foreign trade is also widely acknowledged for providing energy to the government's ambitious aims and plans.

HIGHLIGHTS OF FOREIGN TRADE POLICY OF 2015-2020

The FTP 2015-2020 incorporates a number of new initiatives, laws, and processes aimed at creating a stable and sustainable environment for foreign trade in both goods and services. The new policy's aim is on supporting both the manufacturing and service sectors, with a special emphasis on boosting 'ease of doing business.' The objective is for India to become a significant player in global trade by 2020, and for the country to assume leadership in the worldwide trade discourse. The government intends to expand India's merchandise and services exports from USD 465.9 billion in 2013-14 to around USD 900 billion by 2019-20, as well as to enhance India's share of global exports from 2% to 3.5 percent.

The FTP for 2015-2020 aims to achieve the following goals:

(i) to provide a stable and sustainable policy environment for foreign trade in goods and services;

(ii) to link export and import rules, procedures, and incentives with other initiatives such as Make in India, Digital India, and Skills India to create an Export Promotion Mission for India;

(iii) to promote the diversification of India's export basket by assisting various sectors of the Indian economy;

(iv) To develop an architecture for India's global trade engagement with the goal of expanding markets and better integrating with major regions, thereby increasing demand for Indian products and contributing to the government's flagship "Make in India" initiative; and

(v) To establish a mechanism for regular appraisal in order to rationalize imports and reduce trade imbalances.

Salient features of Foreign Trade Policy 2015-20 are –

- Merchandise Exports from India Scheme (MEIS) is launched which has replaced 5 different schemes of earlier FTP (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports which had varying
- Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS) which shall apply to ‘Service Providers located in India’ instead of ‘Indian Service Providers’.
- Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under several forms of trade agreements.
- Specific Export Obligation under EPCG scheme, is reduced from 90% of the normal export obligation to 75%, to boost make in India.
- Online filing of documents/ applications and Paperless trade-in 24x7 environment Mandatory documents required for export and import reduced to 3 each.

CHALLENGES AND PROBLEMS IN FOREIGN TRADE

As previously stated, foreign commerce can contribute numerous benefits to growth. However, the majority of non-oil-producing emerging countries, including India, are encountering a variety of challenges in terms of global trade as an "engine of growth." Among these, we would like to highlight the following:

Firstly, demand for primary commodities, which are the major exports of a developing economy, has not kept pace with global trade growth or income levels in different countries. The phenomenon of the fall in world trade in primary commodities can be explained by four factors: (a) the increasing tendency of market economies to protect their agriculture by imposing tariffs and non-tariff barriers; (b) an insufficient increase in demand for primary commodities in the developed market economies in the wake of industrialization; (c) the development of synthetic alternatives; and (d) developed-country population growth rates are currently at or near replacement levels, implying that minimal expansion from this source can be expected.

Secondly, developing economies' exports have been slow to develop as a group. As a result, the percentage of developing economies in total world commerce has continued to fall. The establishment of trade blocs, restrictive commercial laws, and the growth of monopolies have all contributed to this downturn. These tendencies indicate that developing economies must confront overseas trade as a barrier to overcome, which may necessitate concentrated efforts.

Thirdly, the diminishing demand for primary products in developed countries has exacerbated the problem of emerging economies' worsening terms of trade. Whereas prices of manufactured commodities, particularly capital goods, have been growing in global markets, prices of primary goods have been gradually falling. Similarly, according to another estimate, developing countries lost 1 to 3% of their GNP due to falling non-oil raw material costs in the 1980s. Any negative foreign trade price shift acts as a brake on economic progress.

Finally, industrialized countries' restrictive trade policies have an impact on the prospects for manufacturing exports from developing countries. As a result of rising globalization, developed countries have experienced significant adjustment challenges. Their reaction to this change has taken the form of an insistence on "fair" commerce. It is a significant development that makes it more difficult for developing countries to raise their income levels by relying heavily on international trade and foreign investment.

To summarise, developing economies have numerous challenges in their foreign trade activities. The countless multinational initiatives launched to address these issues have left them largely unresolved. As a result, in the given conditions, developing economies must devise a proper trade policy-mix that can both establish export outlets and ensure the supply of needed imports.

1.5 CHECK YOUR PROGRESS

1. A country’s ‘foreign trade’ includes …………… and …………. of goods and services.

a. internal, external

b. exports, imports

c. capital, technological

d. resources, mines

2. One of the natural reasons for foreign trade is…………….distribution of natural resources across nations.

a. uniform

b. evenly

c. unevenly

d. perfect

3. Foreign competition helps in stabilizing the price of a commodity in a country.

a. True

b. False

4. Annual growth of global export was highest in the …………….period.

a. 1978-1988

b. 1988-1998

c. 1998-2008

d. 2008-2018

5. Currently India's share in world trade is around……….

a. 2%

b. 5%

c. 8%

d. 10%

6. …………. is the top destination country of India's Exports.

a. Singapore

b. China

c. U.A.E.

d. The U.S.A.

7. India's Foreign Trade Policy was earlier known as Export-Import Policy.

a. True

b. False

8. First five-year FTP was announced in which year?

a. 1990

b. 1992

c. 1997

d. 2002

9. New Foreign Trade Policy was announced in which year?

a. 2000

b. 2002

c. 2004

d. 2006

10. FTP 2015-2020 intended to increase India's share of global share from 2% to …………%.

a. 2.5

b. 3

c. 3.5

d. 4

1.6 SUMMARY

Foreign trade contributes to the improvement of local product quality. Foreign trade helps the agricultural and industrial sectors of the economy. Foreign competition contributes to a country's price stability. It contributes to increased employment prospects, revenue generation, and a good level of living. Imports from foreign trade help to close the gap between domestic demand and supply. The pattern of India's foreign commerce has experienced significant change as a result of rapid development, resulting in changes in the composition and direction of India's foreign trade. Prior to independence, primary goods and agricultural commodities made up the majority of India's exports, while oil, machinery, cotton, and other commodities were major imports. However, after independence, engineering goods, pearls, gems, and jewellery became important exports, while capital goods, petroleum, iron, and steel became important imports. India's foreign investment policy is the most liberalized in the world, allowing 100 percent foreign direct investment in numerous areas and undergoing considerable modifications from time to time to make it more investor-friendly. India's share of global commerce has increased since the liberalization process began, and trade with the rest of the world continues to grow. The year 1990-91 is historically regarded as a "watershed" year for FTPs. Following that, FTPs became more liberal than before. The first five-year trade policy was implemented in 1992, followed by another in 1997. FTPs have recently moved their focus from 'import liberalization' to 'export promotion.' The current focus has been on boosting indigenous industries in order to increase the country's export competitiveness. The current FTP (2015-20) intends to make India a major player in global trade by increasing goods and service exports from $465.9 billion in 2013-14 to $ 900 billion by 2019-2020.

1.7 KEYWORDS

Composition of Trade: Refers to the nature of goods traded between the countries.

Capital Goods: Plant, machinery, equipment, or accessories required for the production process.

The direction of Trade: Refers to the countries with which a country exchanges goods.

Duty Drawback: Scheme of refund of import duty on raw materials, components, and packing materials used in the export product.

Extra-trade: It refers to commerce between economies within the same group and all economies outside the group.

Foreign Direct Investment (FDI): FDI inflow or outflows are with the intention of buying physical assets to start a business in the home country or abroad on a long-term basis.

Import Substitution: An industrialization policy whereby new industrial development emphasizes products that would otherwise be imported.

Intra-trade: It refers to commerce between economies that are members of the same group.

Manufacturer Exporter: A person who exports goods manufactured by him.

Merchant Exporter: A person engaged in trading activity and exporting.

Non-tariff Barriers: Different types of restrictions imposed by a country on imports from other countries.

Primary Commodities: The commodities that are extracted from nature like crops, marine products, minerals, etc.

Tariffs: Import duties imposed by a country.

Terms of Trade: Refers to the ratio of prices of exports to the prices of imports.

Trade Deficit: Excess of imports over exports.

Trade Policy: Refers to all the policies that have either direct or indirect bearing on the trading behaviour of a country.

Value of Trade: The monetary value of goods traded between countries.

The volume of Trade: The physical quantity of goods traded between countries.

WTO: A voluntary organization through which groups of countries negotiate a trading agreement and which has authority to overseas trade disputes among countries.

1.8 SELF-ASSESSMENT TEST

Q1. Write a brief note of the current global business scenario?

Q2. Why is foreign trade for a nation’s economic growth?

Q3. How has India’s global trade changed since independence?

Q4. Describe the evolution of trade policy in India.

Q5. Why is the trade policy of 1991 considered an important landmark in India’s trade policy?

Q6. Describe the major provisions and policies of the New Trade Policy.

Q7. Write short notes on:

(a) Trade to GDP ratio (b) Openness of an Economy

(c) Need for Trade Policy (d) Intra and Extra Trade

Q8. Briefly discuss India’s share in global trade and the means to enhance it.

1.9 ANSWERS TO CHECK YOUR PROGRESS

1. b	4. c	7. a	10. c
2. c	5. a	8. b	
3. a	6. d	9. c	

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Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 2	

Structure and Equilibrium of India's BOP, Major Exports and Imports, Prohibited and Restricted items

Structure

2.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Explain the concept of Balance of Payment (BOP)

- Describe the components of BOP
- Explain structure, equilibrium, and trends in India’s BOP
- Evaluate recent policy measures to manage BOP
- Describe major exports and imports items from India
- Identify prohibited and restricted trade items in India.

2.1 INTRODUCTION

Balance of payment (BOP) refers to all economic transactions between domestic and foreign residents over a stipulated period. The balance of payment of a country provides an overall view of its international economic position. It is very much helpful for tile policymakers and the business communities. In this unit, you will learn the concept of balance of payment, the balance of payment accounting procedure, trends in India's balance of payment, and recent policy measures. BOP is the difference between a nation’s total payments to foreign countries and its total receipts from them. In other words, it is a systematic record of a country’s receipts and payments in international economic transactions in a specific period.

2.2 UNDERSTANDING BALANCE OF PAYMENT, REASONS AND MEASURES OF DISEQUILIBRIUM IN BOP

BOP is referred to as a systematic record that consists of economic transactions in a period (quarter or year) between one country and the rest of the world. It is also about the relationship between the country of origin’s total payment to all other countries and its total payment. Moreover, it is an important instrument for maintaining external economic stability. A close understanding of the dependence of international business upon the balance of payments is necessary for the successful strategy of international business.

- Through BOP, the economic and financial details of a country are revealed.
- It helps the government with trade and fiscal policies.

- Providing important information and data to understand and analyse the economic dealings of one country with another.

In BOP, a country has to take care of three items:

a) Visible items: consists of physical goods that are exported and imported.

b) Invisible items: consists of services carried during import and export are which are not visible. E.g. medical services, transport services.

c) Capital transfer: is concerned with capital payments and capital receipts.

2.2.1 Structure of balance of payment

The structure of the balance of payment is differentiated or includes three components: current account, capital account, and financial account.

1. Current Account/Balance of trade: It consists of inflow and outflow of goods and services which becomes useful to monitor. It also consists of all the payments and receipts of manufactured goods and raw materials. Other receipts which are also considered in the current account from tourism, engineering, business services, transportations, etc. Examples: private transfer payments like grants, remittances, etc.

2. Capital Account: It consists of capital transactions which are taken place between the countries. The capital account includes the sale and purchase of assets like properties, the flow of taxes, sale and purchases of fixed assets for the migrants moving in or out of the country. CA consists of three major elements as investments, foreign exchange reserves, and loans & borrowings. Examples: commercial borrowings, foreign investments, other flows, etc.

3. Financial Account: It consists of the flow of funds to and from foreign countries through various investments in real estate, FDI (foreign direct investment), business ventures or joint ventures, etc. Financial account measures the variation in foreign ownership. When the analysis is done in the financial account we get to know or understand about a country is acquiring or selling more.

2.2.2 Equilibrium of BOP

In BOP, the equilibrium is the state of BOP over a relevant period which makes it possible to sustain an open economy without severe unemployment continuingly. During the BOP of a country is equilibrium the demand for domestic currency is equal to its supply. When excluding the accommodating items there is neither deficit nor surplus overall of the BOP. Since BOP takes into account the exchange of both visible and invisible items, therefore, it represents a wider and better picture of a country's international transactions than the balance of trade. Each transaction is entered on the credit and debit side of the balance sheet.

Main items (or components) on the credit side are:	Main items (or components) on the debit side are:
(i) Exports of Goods (visible exports), (ii) Exports of Services [invisible exports), (iii)Unrequited Receipts [unilateral transfers) and (iv) Capital Receipts.	(i) Imports of Goods, (ii) Imports of Services, (iii) Unrequited Payments and (iv) Capital Payments.

The principle of double-entry book-keeping is used in constructing the BOPs account. Every transaction of a country is entered in the balance sheet under two heads namely Credit (+) and debit (-). There is a difference between business accounting and BOPs accounting. The debit account composes the left-hand side and the credit account composes the right-hand side in business accounting. Whereas in BOPs, accounting credits are shown on the RHS and debit on the LHS of balance sheets. The balance of payment is an application of double-entry book-keeping with the result that debits and credits will always balance. In other words, the balance of payment will always be in equilibrium.

BOPs are always in balance means the total of the net credit and debit of all the three accounts – the current, the capital, and the official settlements account should be zero.

The BOPs can be written as BOPs

$X + B = M + If$

Where, X = exports, M = imports, If = investment by foreigners, B = borrowings of foreigners.

Or X - M = If - B

Or (X - M) - (If - B) = 0.

Equilibrium in BOPs is shown by the above equation. A current account surplus will be offset by a capital account deficit and vice versa. BOPs balance always in an accounting sense. It can be also be shown as in the following equation

C + S + T = C + I + G + (X - M) Or Y = C + I + G (X - M).

Where C= Expenditure on consumption. S= Domestic saving. T= Receipts from taxation. I= Expenditures on investment G= Expenditures incurred by the government. X= Goods and services exported, and M= Goods and services imported.

In the equation C + S + T is National Income (Y) or Gross national income. In a country, its savings (Sd) must be equal to its investment (Id). Similarly, the Current account surplus must be offset by the excess savings of a country over its investment (Sd >Id). Thus, in the accounting sense BOPs is in equilibrium always. As the inflows and outflows of any transactions are recorded on the credit and debit sides of the BOPs, the credit and debit items are always in balance. Of the current account record debit, it will be offset by the surplus in the capital account by borrowing or lending and vice versa. Thus, in this sense also BOPs are always in balance.

2.2.3 Disequilibrium of BOP

As discussed above BOPs always tends to be balanced, the question arises, why does a country experiences a surplus or deficit in its BOPs?

The answer is only when all items of BOPs are included in BOPs there is no chance to witness surplus or deficit. If some items are excluded in BOPs, then it will give rise to surplus or deficit. That is when total receipts from abroad are more than the payments of a country then BOPs are said to be 'favorable' or 'surplus' when total payments of a country are more than the total receipts from abroad then BOPs are said to be 'unfavorable' or 'deficit'.

Measuring of deficit or surplus in BOPs can be taken up in three ways. First basic balance – when the long-term capital account balance is included in the current account balance it is called basic balance. The second balance is net liquidity balance – along with basic balance it includes short-term private non–liquid capital balance, allocation of SDRs, and errors and omissions. The third balance is the official settlement balance. It includes short-term liquid capital balance and total net liquid balance.

Disequilibrium is measured by its external assets and liabilities balance and a surplus or a deficit shows the strength or weakness of a country's external capital positions.

2.2.4 REASONS FOR DISEQUILIBRIUM IN BOP

Various reasons are known to bring in disequilibrium in the balance of payments. These various factors may be classified as economic, political, and sociological factors.

2.2.4.1 ECONOMIC FACTORS

DEVELOPMENT DISEQUILIBRIUM

This disequilibrium may be common in developing countries. Because expenditure on developmental activities is on a large scale which merely alters the prices, aggregate demand, and purchasing power. This will lead to increasing imports. Its imports consist of intermediate goods, machinery, capital equipment, and services need to speed up developmental programs, this will result in a BOPs deficit.

CYCLICAL DISEQUILIBRIUM

Depression always brings in characteristic changes in the world trade which further shrinks and stimulates under-prosperity. These changes are due to cyclical fluctuation in business activity. A country experiences rapid growth in importation than exportation when enjoying the boom.

SECULAR DISEQUILIBRIUM

Due to some secular trends in the economy, sometimes BOPs disequilibrium persists for a long period. Persistent, deep-rooted dynamic changes are the reasons for secular disequilibrium over a long period. For example, disposable income and purchasing power in developed countries are generally very high. At the same time, due to higher wages, the cost of production naturally increases too. Therefore, higher prices are observed. This particular situation may lead to observing higher imports than corresponding exports. Similarly, in newly developing countries investments exceed the level of saving in the initial stages of growth. Due to levels of abysmally low capital formation, dependence on importing huge amounts of capital from foreign countries is a must thereby leading to a situation where the country's imports exceed its exports. The insufficient inflow of capital may result in a secular deficit in BOPs.

STRUCTURAL DISEQUILIBRIUM

Structural changes in some sectors will change the demand and supply of imports and exports which will result in a structural disequilibrium in the balance of payments. For example: if the demand for Indian Jute products declined in foreign countries due to some substitutes, then in India, the production of jute goods needs to be changed significantly to the production of other variety of exports. If India does not make it, then it has to face a decline in its export levels. Whereas if imports remain the same Bops disequilibrium arises.

Similarly, other reasons for the decline in the supply of exports may be crop failure in case of primary products, unavailability or fluctuating demands of raw materials or labour union strikes, etc., in that case, manufactured products also try to bring changes in export items and finally these changes will result in BOPs disequilibrium structurally. Changes in tastes, fashions, habits, income, economic progress, etc., also may shift demand and bring change in import propensity. Demand for imports may increase or decrease may lead to structural change and thus bringing disequilibrium in BOPs. International capital movements also may have such change directly on the country's BOPs.

2.2.4.2 POLITICAL FACTORS

BOPs disequilibrium may occur due to some political factors also. If a country is having political instability for a long period may experience a large outflow of capital and a decline in domestic investment and production. War or changes in world trade direction also may result in difficulties that lead to disequilibrium in BOPs.

2.2.4.3 SOCIAL FACTORS

Social factors such as a change in tastes and preferences will show an impact on import and export, thereby affecting BOPs.

2.2.5 MEASURES FOR MANAGING DISEQUILIBRIUM OF BOP

Consequences of disequilibrium and various measures to correct the deficit in the balance of payments.

2.2.5.1 TRADE POLICY MEASURES

Expanding Exports and Restraining Imports: Trade policy measures to improve the balance of payments refer to the measures adopted to promote exports and reduce imports. Exports may be encouraged by reducing or abolishing export duties and lowering the interest rate on credit used for financing exports. Exports are also encouraged by granting subsidies to manufacturers and exporters.

Besides, on export earnings lower income tax can be levied to provide incentives to the exporters to produce and export more goods and services. By imposing lower excise duties, prices of exports can be reduced to make them competitive in the world markets. On the other hand, imports may be reduced by imposing or raising tariffs (i.e., import duties) on imports of goods. Imports may also be restricted by imposing import quotas, introducing licenses for imports. Imports of some inessential items may be totally prohibited.

2.2.5.2 MONETARY AND FISCAL POLICIES MEASURES

The important way to reduce imports and thereby reduce the deficit in the balance of payments is to adopt monetary and fiscal policies that aim at reducing aggregate expenditure in the economy. The fall in aggregate expenditure or aggregate demand in the economy works to reduce imports and help in solving the balance of payments problem.

The two important tools of reducing aggregate expenditure are the use of (1) Tight monetary policy and (2) Concretionary fiscal policy.

TIGHT MONETARY POLICY

Tight monetary is often used to check aggregate expenditure or demand by raising the cost of bank credit and restricting the availability of credit. This bank rate is raised by the Central Bank of the country which leads to higher lending rates charged by the commercial banks. This discourages businessmen to borrow for investment and consumers to borrow for buying durable consumers goods.

This, therefore, leads to a reduction in investment and consumption expenditure. Besides, the availability of credit to lend for investment and consumption purposes is reduced by raising the cash reserve ratio (CRR) of the banks and also undertaking open market operations (selling Government securities in the open market) by the Central Bank of the country. This also tends to lower aggregate expenditure or demand which will help in reducing imports. But there are limitations to the successful use of monetary policy to check imports, especially in a developing country like India. This is because tight monetary policy adversely affects investment increase which is necessary for accelerating economic growth.

If a developing country is experiencing inflation, a tight monetary policy is quite effective in curbing inflation by reducing aggregate demand. This will help in reducing aggregate expenditure and, depending on the income propensity to import, will curtail imports. Besides, the tight monetary policy helps to reduce prices or lower the rate of inflation. A lower price level or lower inflation rate will curb the tendency to import, both on the part of businessmen and consumers.

CONTRACTIONARY FISCAL POLICY

Appropriate fiscal policy is also an important means of reducing aggregate expenditure. An increase in direct taxes such as income tax will reduce aggregate expenditure. A part of a reduction in expenditure may lead to a decrease in imports. An increase in indirect taxes such as excise duties and sales tax will also cause a reduction in expenditure. The other fiscal policy measure is to reduce Government expenditure, especially unproductive or non-developmental expenditure. The cut in Government expenditure will not only reduce expenditure directly but also indirectly through the operation of the multiplier.

It may be noted that if tight monetary and contractionary fiscal policies succeed in lowing aggregate expenditure which causes a reduction in prices or lowering the rate of inflation, they will work in two ways to improve the balance of payments. First, a fall in domestic prices or a lower rate of inflation will induce people to buy domestic products rather than imported goods. Second, lower domestic prices or a lower rate of inflation will stimulate exports. A fall in imports and a rise in exports will help in reducing the deficit in the balance of payments.

However, it may be emphasized again that the method of reducing expenditure through contractionary monetary and fiscal policies is not without limitations. If a reduction in aggregate demand lowers investment, this will adversely affect economic growth. Thus, correction in the balance of payments may be achieved at the expense of economic growth. Further, it is not easy to reduce substantially government expenditure and impose heavy taxes as they are likely to affect incentives to work and invest and invite public protest and opposition. We thus see that correcting the balance of payments through contractionary fiscal policy is not an easy matter.

2.2.5.3 CURRENCY MANAGEMENT AND EXCHANGE CONTROL MEASURE

A significant method that is quite often used to correct fundamental disequilibrium in the balance of payments is the use of expenditure-switching policies. Expenditure switching policies work through changes in relative prices. Prices of imports are increased by making domestically produced goods relatively cheaper. Expenditure switching policies may lower the prices of exports which will encourage exports of a country. In this way by changing relative prices, expenditure-switching policies help in correcting disequilibrium in the balance of payments.

The important form of expenditure switching policy is the reduction in the foreign exchange rate of the national currency, namely, devaluation. By devaluation, we mean reducing the value or exchange rate of a national currency with respect to other foreign currencies. It should be remembered that devaluation is made when a country is under a fixed exchange rate system and occasionally decides to lower the exchange rate of its currency to improve its balance of payments. Under the Bretton Woods System adopted in 1946, a fixed exchange rate system was adopted, but to correct fundamental disequilibrium in the balance of payments, the countries were allowed to make devaluation of their currencies with the permission of IMF. Now, Bretton Woods System has been abandoned and most of the countries of the world have floated their currencies and have thus adopted the system of flexible exchange rates as determined by market forces of demand for and supply of them.

However, even in the present flexible exchange rate system, the value of a currency or its exchange rate as determined by the demand for and supply of it can fall. Fall in the value of a currency with respect to foreign currencies as determined by demand and supply conditions is described as depreciation. If a country permits its currency to depreciate without taking effective steps to check it, it will have the same effects as devaluation. Thus, in our analysis, we will discuss the effects of a fall in the value of a currency whether it is brought about through devaluation or depreciation.

Now, the question is how the devaluation of a currency works to improve the balance of payments. As a result of a reduction in the exchange rate of a currency with respect to foreign currencies, the prices of goods to be exported fall, whereas prices of imports go up. This encourages exports and discourages imports. With exports so stimulated and imports discouraged, the deficit in the balance of payments will tend to be reduced. Thus the policy of devaluation is also referred to as expenditure switching policy since as a result of reduction of imports, people of a country switches their expenditure on imports to domestically produced goods.

Finally, there is the method of exchange control. We know that deflation is dangerous; devaluation has a temporary effect and may provoke others also to devalue. Devaluation also hits the prestige of a country. These methods are, therefore, avoided, and instead, foreign exchange is controlled by the government. Under it, all the exporters are ordered to surrender their foreign exchange to the central bank of a country and it is then rationed out among the licensed importers. None else is allowed to import goods without a license. The balance of payments is thus rectified by keeping the imports within limits.

2.3 INDIA'S BALANCE OF PAYMENT

India had faced pressures on BOP from time to time either due to certain domestic compulsions or due to external factors. The whole period, covering nearly six decades, can be divided into two sub-periods, viz. (i) Before 1991, and (ii) After 1991.

i) Period I (Before 1991)

The entire period was very difficult for India's BOP, partly because of the slow growth of exports in relation to import requirements and partly because of adverse external factors. Foreign exchange reserves were at a low level, generally less than necessary to cover three months' imports. Almost the entire CAD (92 percent) was financed by inflows of external assistance. Therefore, India had to face great difficulties with the balance of payments. On several occasions, it approached IMF to bail it out of the foreign exchange crisis that emerged as a result of huge deficits in the balance of payments. At long last, the economic crisis caused by persistent deficits in the balance of payments forced India to introduce structural reforms to achieve a long-lasting solution to the balance of payments problem. In July 1991, when India was under the Bretton-Woods fixed exchange rate system, it devalued its rupee to the extent of about 20%. (From Rs. 20 per dollar to Rs. 25 per dollar) to correct disequilibrium in the balance of payments.

ii) After 1991

The prominent features of the BOP situation as it has emerged over the last two decades can be briefly summarised as follows:

1) On the current account: (i) Trade deficits have been widening. Both exports and imports have multiplied fast, but imports have risen at a faster rate than exports. Expanding imports in turn reflect (a) the impact of liberalization measures, and (b) increasing manufacturing activity in the domestic economy.

(ii) There has been a phenomenal increase in net surplus on account of invisible. This, in turn, is principally due to (a) buoyancy in private transfers (i.e., inward remittances), and fast expansion in exports of services, especially software. India is unique among emerging economies to have a sizable invisible surplus that substantially offsets the merchandise trade deficit. As a result, although India has been running a current account deficit (except during 2002-04 when India experienced a current account surplus), the deficit has been conveniently manageable, largely because of a huge surplus on capital accounts.

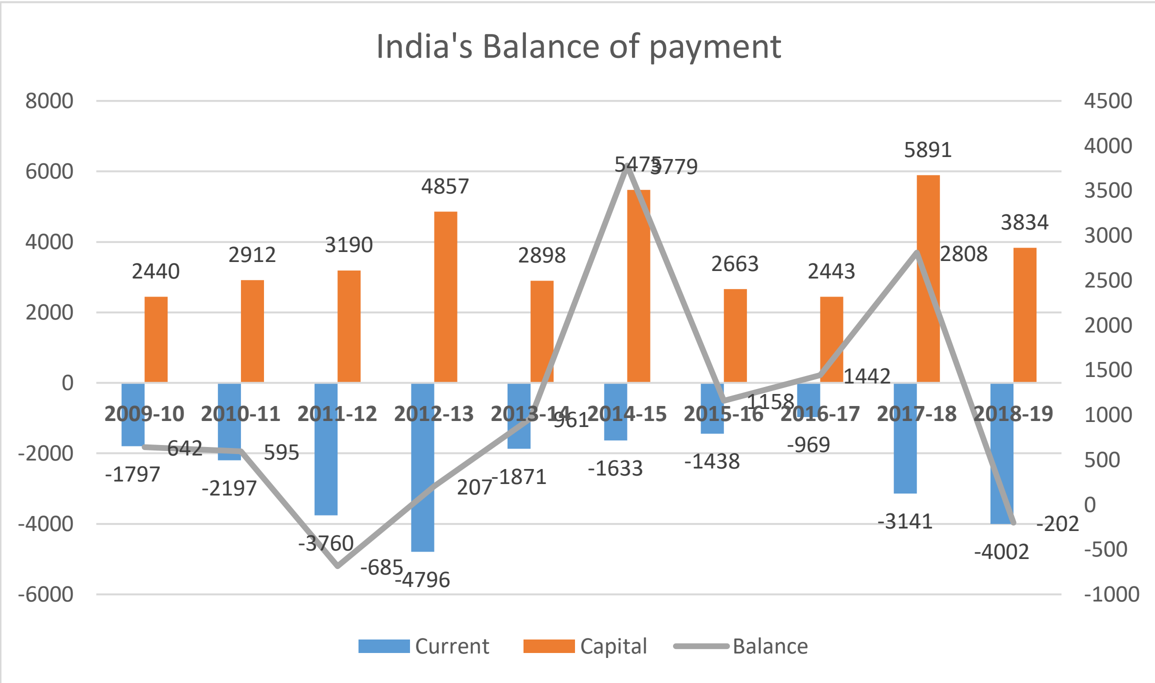
2) On the capital account, India has been running a big surplus. The size of the surplus has been much more than what is required to finance the current account deficit. As a result, India has been rapidly building up its foreign exchange reserves. The capital account demonstrates the following features: (i) Both inflows and outflows of capital have increased, especially since 2003.

(ii) The composition of capital flows is undergoing a change: (a) Official external assistance has been gradually losing out its significance; (b) FDI and portfolio investment have surged, and among the two, the inflows on account of FDI have been more than on account of portfolio investment (except 2010-11 when the trend got reversed). (c) With the easing of controls, external commercial borrowings have been coming back into prominence.

Overall, India’s balance of payments (current account plus capital account) has been in surplus, resulting in a rapid build-up of foreign exchange reserves. This has been due largely to massive inflows of foreign capital. Indeed, the acceleration in India’s growth momentum since 2003 owes partly to the exceptionally easy global liquidity conditions that have increased risk-taking and also amplified the volume of capital inflows into India.

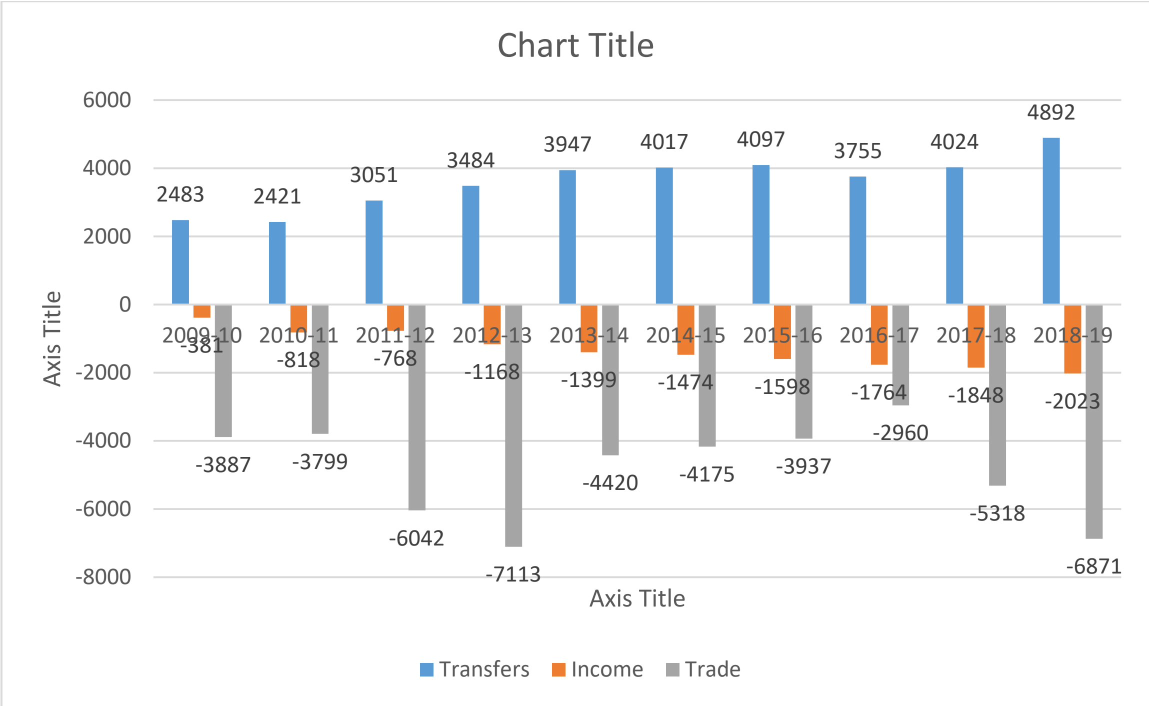
Current Scenario

The current account deficit for 2018-19 was Rs. 4,002 billion which is a substantial increase over 2017-18, when it was Rs. 3,141 billion. However, there is a fall in the value of the capital account in 2018-19 (Rs. 3,834 billion) compared to that of 2017-18 (Rs. 5,891 billion) resulting in the capital account not being able to cover up the current account's deficit leading to negative BoP.



The last time there was a deficit in BoP was in 2011-12, when it was Rs. 685 billion. During that year, the current account deficit grew substantially, while the corresponding growth in the capital account was not to that extent. In the subsequent year, even though the current account deficit increased, the corresponding capital account net value increased, thereby covering the deficit.

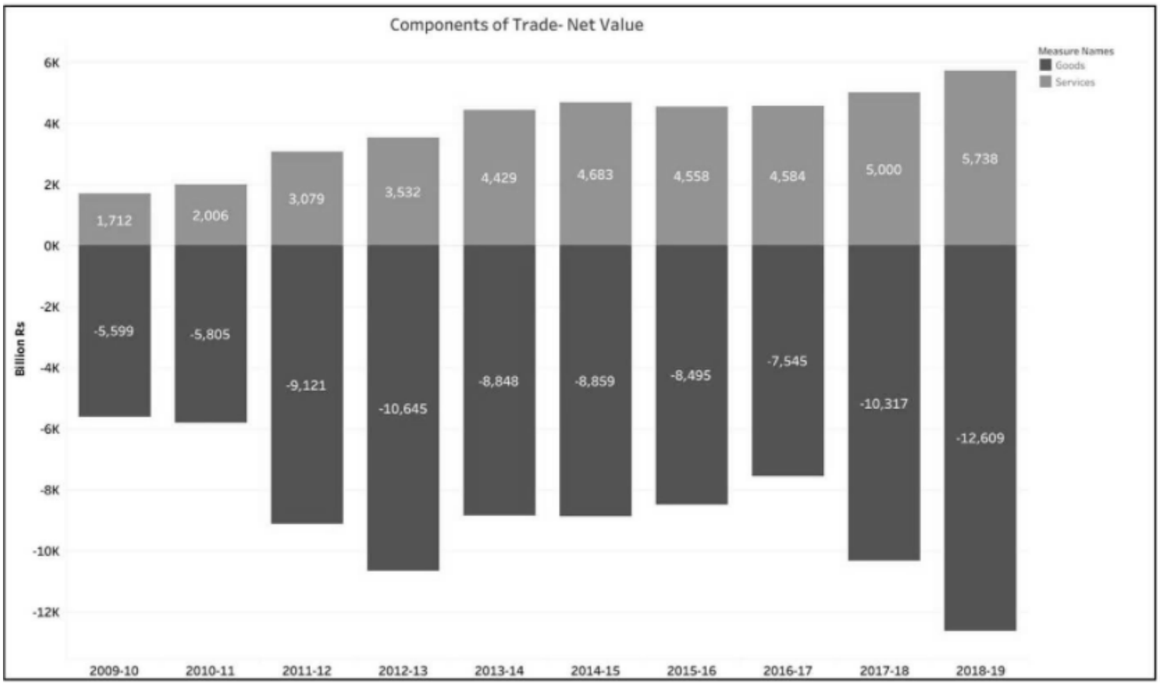
While the net value of the current account has been varying over the last decade, it has always been in the negative. This implies that the value of imports exceeded that of the exports.



A closer look at current account numbers reveals that the net transfers have remained positive over the years, while net income and net trade values were always in the negative and thereby contributing to the current account deficit. At the beginning of the decade i.e. 2009-10, the net value of transfer was Rs. 2483 billion which has gradually increased over the decade, and for the year 2018-19, it is Rs. 4892 billion. However, the trend is opposite for Net Income and Net Trade whose deficit has been on a gradual increase.

Over the last decade, the surplus from the trade of services has increased by 3.35 times. In 2009-10, the surplus through services was Rs. 1,712 billion which increased to Rs. 5,738 billion in 2018-19. The different components of the services include – Travel, Transportation, Software services, financial services, etc. During the same period, the trade deficit when it comes to goods has more than doubled. In 2009-10, the deficit for trading goods was Rs. 5,599 billion which has increased to Rs. 12,609 billion in 2018-19.

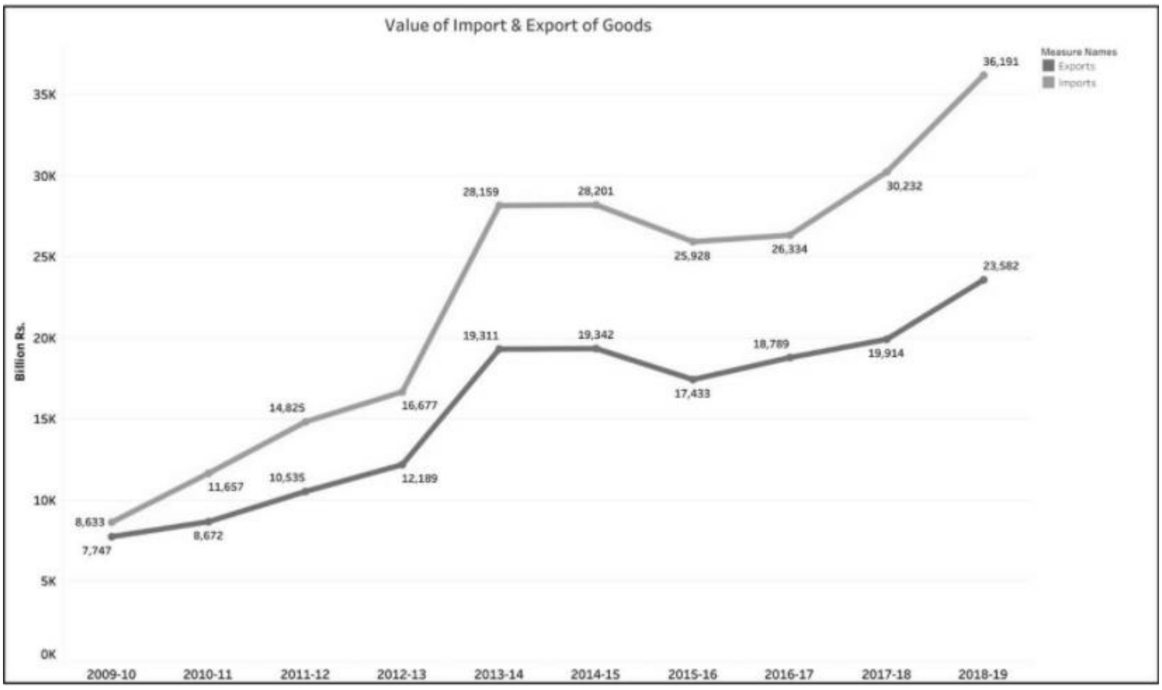
The earlier highest deficit of trade in goods was in 2012-13 when it was Rs. 10,645 billion. Over the subsequent years, the volume of this deficit has come down to reach Rs. 7,545 billion in 2016-17. But the last two years have seen an increase in the deficit of trade in goods with Rs. 10,317 billion and Rs. 12,609 billion in 2017-18 and 2018-19 respectively.



Over the past decade, India's exports of goods have increased by 3 times. However, during the same period, the value of India's imports has increased by nearly 4.2 times. This higher corresponding increase in the value of imports over the exports is contributing towards the increasing trade deficit.

During 2013-14, there was a major spike in the volume of imports of goods wherein it increased to Rs. 28,159 billion from Rs. 16,677 billion the previous year. After a slight increase in the next year, the value of goods imported has come down to in 2015-16 and 2016-17. During these two years also, the exports have shown a corresponding increase.

However, in 2017-18 and 2018-19, the value of imports increased by Rs. 3,898 billion and Rs. 5,959 billion respectively. Correspondingly, the exports only increased by Rs. 1,125 billion and Rs. 3,668 billion respectively. Hence, despite a higher increase in exports during 2018-19, the increase in imports has widened the deficit gap.



With the increase in the value of exports, it does appear that decreasing the imports could help cover up the trade deficit. A quick look at the different commodities being imported would reveal that Petroleum products, machinery, organic & inorganic chemicals form a major part of the imports. These commodities have a significant impact on the economy as they are vital to the commercial activity of the country. While alternate solutions can be sought out, a decrease in imports in the short term might not be a plausible solution. On the other hand, increasing exports, more specifically the value of the services (where India has a surplus) can help to cut down on the deficit.

2.4 MAJOR EXPORTS AND IMPORTS ITEMS FROM INDIA AND IMPORT/EXPORT PROHIBITIONS UNDER CUSTOM LAW

Exports of top ten commodities in 2019-20

(Values in US$ billion)

Rank	Commodity	2018-19	2019-20	Growth(%)	Share(%)
1	Petroleum products	46.55	41.29	-11.31	13.18
2	Pearl, precious, semi-precious stones	25.97	20.69	-20.33	6.6
3	Drug formulations, biologicals	14.39	15.94	10.78	5.09
4	Gold and other precious metal jewellery	12.95	13.75	6.15	4.39
5	Iron and Steel	9.74	9.28	-4.77	2.96
6	Electric machinery and equipment	8.42	8.97	6.45	2.86
7	RMG cotton incl accessories	8.69	8.64	-0.6	2.76
8	Organic chemicals	9.33	8.35	-10.47	2.66
9	Motor vehicle/cars	8.50	7.80	-8.26	2.49
10	Products of iron and steel	7.26	7.01	-3.49	2.24

Source: DGCI&S, Kolkata

Imports of top ten commodities in 2019-20

(Values in US$ billion)

Rank	Commodity	2018-19	2019-20	Growth(%)	Share(%)
1	Petroleum: crude	114.04	102.75	-9.90	21.64
2	Gold	32.91	28.23	-14.22	5.95
3	Petroleum products	26.88	27.80	3.43	5.86
4	Pearl, precious, semi-precious stones	27.08	22.46	-17.05	4.73
5	Coal, Coke and Briquittes etc.	26.18	22.46	-14.22	4.73
6	Electronics components	15.75	16.32	3.64	3.44
7	Telecom instruments	17.92	14.22	-20.61	3.00
8	Organic chemicals	14.25	12.22	-14.23	2.57
9	Industrial machinery for dairy etc.	12.47	11.98	-3.93	2.52
10	Electric machinery and equipment	9.86	11.28	14.37	2.38

Source: DGCI&S, Kolkata

2.7 IMPORT / EXPORT PROHIBITIONS UNDER CUSTOMS LAW

Under sub-section (d) of section 111 and sub-section (d) of Section 113, any goods which are imported or attempted to be imported and exported or attempted to be exported, contrary to any prohibition imposed by or under the Customs Act or any other law for the time being in force shall be liable to confiscation. Section 112 of the Customs Act provides for penalty for improper importation and Section 114 of the Customs Act provides for penalty for attempt to export goods improperly. In respect of prohibited goods, the Adjudicating Officer may impose a penalty up to five times the value of the goods. It is, therefore, necessary for the trade to know what are the prohibitions or restrictions in force before they contemplate import or export any goods.

2. The terms "Prohibited Goods" have been defined in sub-section 33 of Section 2 of the Customs Act as meaning "any goods the import or export of which is subject to any prohibition under the Customs Act or any other law for the time being in force"

3. Under section 11 of the Customs Act, the Central Government has the power to issue a Notification under which export or import of any goods can be declared as prohibited. The prohibition can either be absolute or conditional. The specified purposes for which a notification under section 11 can be issued are maintenance of the security of India, prevention and shortage of goods in the country, conservation of Foreign Exchange, safeguarding balance of payments, etc. The Central Govt. has issued many notifications to prohibit the import of sensitive goods such as coins, obscene books, a printed waste paper containing pages of any holy books, armored guard, fictitious stamps, explosives, narcotic drugs, rock salt, saccharine, etc.

4. Under Export and Import Policy, laid down by the DGFT, in the Ministry of Commerce, certain goods are placed under restricted categories for import and export. Under sections 3 and 5 of the Foreign Trade (Development and Regulation) Act, 1992, the Central Government can make provisions for prohibiting, restricting, or otherwise regulating the import or export of the goods. For example, the import of second-hand goods and second-hand capital goods is restricted. Some of the goods are prohibited for import and export whereas some goods can be imported or exported against a license. For example, the export of human skeletons is prohibited whereas the export of cattle is allowed against an export license. Another example is provided by Notification No.44 (RE-2000) 1997 dated 24.11.2000 in terms of which all packaged products which are subject to provisions of the Standards of Weights and

Measures (Packaged Commodities) Rules, 1997, when produced/packed/sold in the domestic market, shall be subject to compliance of all the provisions of the said Rules when imported into India. All packaged commodities imported into India shall carry the name and address of the importer, net quantity in terms of standard unit of weights measures, month and year of packing, and maximum retail sale price including other taxes, local or otherwise. In case any of the conditions is not fulfilled, the import of packaged products shall be held as prohibited, rendering such goods liable to confiscation.

5. Another restriction under the aforesaid Notification issued by the Ministry of Commerce is that the import of a large number of products, presently numbering 133, are required to comply with the mandatory Indian Quality Standards (IQS) and for this purpose exporters of these products to India are required to register themselves with Bureau of Indian Standards (BIS). Non-fulfilment of the above requirement shall render such goods prohibited for import.

6. Import and export of some specified goods may be restricted/prohibited under other laws such as Environment Protection Act, Wild Life Act, Indian Trade and Merchandise Marks Act, Arms Act, etc. The prohibition under those acts will also apply to the penal provisions of the Customs Act, rendering such goods liable to confiscation under section 111(d) of the Customs Act (for import) and 113 (d) of the Customs Act (for export).

7. Any Importer or Exporter for being knowingly concerned in any fraudulent evasion or attempted evasion of any prohibition under the Customs Act or any other law for the time being in force in respect to any import or export of goods, shall be liable to punishment with imprisonment for a maximum term of three years (seven years in respect of notified goods) under section 135 of the Customs Act. Any person who is reasonably believed to be guilty of an offense, punishable under section 135, may be arrested under the provisions of section 104 of the Customs Act.

8. Keeping in view the above penal provisions in the Customs Act to deal with any deliberate evasion of prohibition/restriction of import of export of specified goods, it is advisable for the Trade to be well conversant with the provisions of EXIM Policy, the Customs Act, as also other allied Acts. They must make sure that before any imports are effected or export planned, they are aware of any prohibition/restrictions and requirements subject to which alone goods can be imported/exported so that

they do not get penalized and goods do not get involved in confiscation, etc. proceedings at the hands of Customs authorities.

2.5 CHECK YOUR PROGRESS

Q1. The difference between the value of export of goods and the value of import of goods is called……………….. (balance of trade, deficit, profit)

Q2. The difference between the value of export of invisible and the value of import of Invisibles is called ………. (invisible balance, surplus, deficit)

Q3. Ever since Independence, India has been generally having………………. on the balance of trade account and ………………………. on balance on the invisible account. (deficit, surplus)

Q4. By adding together balance of trade and balance on invisible, we get……………………… (balance on current account, balance of payments)

Q5. For the last many years, India has ……………………. on its current account balance. (surplus, deficit)

Q6. Current account deficit means that a country has purchased ………… of goods and services from other countries than what it has sold to them (more, less).

Q7. The capital account of BOP's records all the inflows and outflows of ………………… (goods, capital)

Q8. The item in the capital account of BOPs can be divided into …………….. and …………….. transactions. (autonomous, accommodating, goods, services)

Q9. Autonomous capital flows are ………………….. on the deficit or surplus on the current account of BOPs (dependent, independent)

Q10. That part of the deficit on the current account which is offset by arranging accommodating capital inflows represents the ……………………. in the balance of payment. (deficit, surplus)

2.6 SUMMARY

The balance of payments of a country is a summary of all of its economic dealings with the rest of the world during a specific period, generally a year. On a double-entry bookkeeping system, international transactions are recorded in the balance of payments account. This implies that each overseas transaction is recorded/or entered twice, first as a credit and then again as a debit for the same amount. a credit transaction occurs when a payment is received from a foreigner. Payment to foreigners is made through a debit transaction. Capital inflows can take one of two forms: a gain in foreign assets in the country or a decrease in the country's foreign assets.

When total debits in the current and capital accounts exceed total credits, the balance of payments is said to be in deficit (including the statistical discrepancy). An actual or projected shortage is referred to as disequilibrium. When a country applies import or other limitations with the intent of reducing a real or open deficit, it creates a potential deficit.

2.7 KEYWORDS

Balance of Payments: A country's balance of payments is a summary description of all of its economic dealings with the rest of the world during a specific period, generally a year.

Balance of Trade: The difference between goods exports and imports is known as the balance of trade, merchandise trade, or visible trade balance.

Capital Account: The capital account of a country comprises its financial asset transactions, which include short- and long-term lending and borrowing, as well as private and public investments other than official reserve assets. It depicts the change in the nation's foreign assets and foreign assets in the country that are not part of the official reserve assets.

Current Account: All transactions linked to trade in products, services, revenue from foreign investment, and unilateral (or unrequited) transfers are included in a country's current account.

Double Entry Book Keeping: Almost all given economic transactions have two sides i.e., a debit side and a credit side. Each international transaction is recorded twice an equal amount recorded once on the credit side and once on the debit side. When we sell something we get income, it is entered on the credit side. When we buy something we pay for it, which is entered on the debit side. This is called double-entry bookkeeping.

International Transactions: An international transaction is defined as the exchange of an item, service, or asset (for which payment is normally needed) between citizens of two or more countries. Gifts and some other transfers (for which no payment is needed) are, nonetheless, included in the balance of payments of the country.

Official Reserve Account: The official reserve account, also known as the official settlement account, tracks changes in a country's official reserve assets and foreign official assets over a year.

The deficit in BOPs: If the sum of all the following – the capital, the current, and the financial accounts is summarily negative, then there occurs a deficit in the BOPs. The deficit will be covered by the official settlement account.

The surplus in BOPs: If the sum of three given accounts – capital, the financial, and the current account is summarily positive, then there occurs a surplus in the BOPs. This situation can be corrected by increasing the international reserves or by reducing foreign official holdings.

2.8 SELF-ASSESSMENT TEST

Q1. What is a balance of payments? Explain different components of the balance of payments.

Q2. Differentiate between capital account and current account.

Q3. Discuss different causes for disequilibrium in the balance of payments and explain measures to correct disequilibrium in the balance of payments.

Q4. Differentiate between deficit and disequilibrium.

Q5. What do you mean by a surplus in the balance of payments?

Q6. Discuss the favourable and unfavourable balance of payments.

2.9 ANSWERS TO CHECK YOUR PROGRESS

Q1. Balance of trade

Q2. Invisible balance

Q3. Deficit, surplus

Q4. Balance on current account

Q5. Deficit

Q6. More

Q7. Capital

Q8. Autonomous, accommodating

Q9. Independent

Q10. deficit

2.10 REFERENCES/SUGGESTED READINGS

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Subject: INDIA’S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 03	
Ministry of Commerce and Role of DGFT in India’s Trade Policy	

Structure

3.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Understand the functions and contributions of the Ministry of Commerce

- Understand the structure and functioning of the Ministry of Commerce
- Learn the role and functioning Directorate General of Foreign Trade
- Explain the role of the Ministry of commerce and DGFT in India’s trade policy

3.1 INTRODUCTION

The Foreign Trade Policy (FTP), which provides the basic framework of policy and strategy to be followed for encouraging exports and trade, is formulated, implemented, and monitored by the Department of Commerce, which is part of the Ministry of Commerce and Industry. In addition, the Department is in charge of multilateral and bilateral commercial relations, Special Economic Zones, state trading, export promotion, and trade facilitation, as well as the development and regulation of specific export-oriented sectors and commodities. The Directorate General of Foreign Trade (DGFT) is a department of India's Ministry of Commerce and Industry and is the main governing and administrative body for exports and imports from India.

3.2 DEPARTMENT OF COMMERCE

The Ministry of Commerce and Industry is the nodal authority for formulating and implementing the foreign trade policy in a matter related to Import. The Department of Commerce plays a key role in matters related to multilateral and bilateral commercial relations, state trading, export promotion measures, and the development and regulation of certain import-oriented industries and commodities.

There are two departments under the Ministry of Commerce and Industry. The first one is the Department of Commerce and the second is the Department of Industrial Policy & Promotion. The department of the Ministry of Commerce which is sometimes also termed as the Department of Industrial Policy & Promotion was established in the year 1995, and in the year 2000 Department of Industrial Development was merged with it. Ministry of Commerce and Industry has its offices in all the major cities.

The Department of Commerce formulates, implements, and monitors the Foreign Trade Policy (FTP) which provides the basic framework of policy and strategy to be followed for promoting exports and trade. Besides managing Foreign Trade Policy (FTP), the Department is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special Economic Zones, state trading, export promotion, and trade facilitation, and development and regulation of certain export-oriented industries and commodities

The Department of Commerce is headed by a Secretary who is assisted by one Officer on Special Duty(OSD), one Special Secretary, one Special Secretary & Financial Advisor, three Additional Secretaries, two Additional Secretary rank officers, thirteen Joint Secretaries, and Joint Secretary Level Officers and several other senior officers. The Department is functionally organized into the following 10 Divisions:

i. International Trade Policy Divisions
ii. Foreign Trade Territorial Division
iii. Export Products Division
iv. Export Industries Division
v. Export Services Division
vi. Economic Division
vii. Administration & General Service Division
viii. Finance Division
ix. Supply Division
x. Logistics Division

3.3 FUNCTIONS OF DEPT. OF COMMERCE

Work Allocated to Department of Commerce in accordance with the Allocation of Business Rules, 1961. Ministry of Commerce and Industry (Vanijya Aur Udyog Mantralaya). The mandate of the Department of Commerce is the regulation and development of India's international trade and commerce.

I. International Trade:

- International Trade and Commercial Policy including tariff and non-tariff barriers.

- International Agencies connected with Trade Policy (e.g. UNCTAD, ESCAP, ECA, ECLA, EEC, EFTA, GATT/WTO, ITC, and CFC).
- All issues connected to the WTO including interpretation of WTO rules and its dispute settlement mechanism.
- International Commodity Agreements other than agreements connected to wheat, sugar, jute, and cotton.
- Residual work of Tariff Commission.

II. Foreign Trade (Goods & Services):

- All matters connected to foreign trade.
- Foreign Trade Policy and Control, excluding matters connected to import of feature films; export of Indian films- both feature-length and short; and import and distribution of cine-film (unexposed) and other goods required by the film industry.
- Setting up of Agricultural Export Zone (AEZ) and 100% Export Oriented Units (Eos) including policy and regulatory framework and all other related matters.
- Development, expansion of export production, and regulation of foreign trade about all commodities and products (excluding jute products and handicrafts).
- Matters connected to Export Promotion Board, Board of Trade, and International Trade Advisory Committee.
- Matters connected to concerned Export Promotion Councils/ Export Promotion Organizations.
- Coordination for export infrastructure.
- Projects and programs for assisting the export efforts.

III. State Trading

- Policies of State Trading and performance of organizations established for the purpose.

- Production, distribution (for domestic consumption and exports), and development of plantation crops, viz., tea, coffee, rubber, FCV tobacco, spices (production development and export promotion of cardamom & pepper and export activities of all other spices). Export promotion of cashew and tobacco & their allied products.
- Regulation and export promotion of Flue-Cured Virginia (FCV) tobacco and export promotion of all other types of tobacco & its allied products.
- Processing and distribution for domestic consumption and exports of Instant Tea and Instant Coffee.

IV. Special Economic Zones

- All matters connected to development, operation, and maintenance of special economic zones and units in special economic zones, including foreign trade policy, fiscal regime, investment policy, other economic policy, and regulatory framework.

V. Cadre Management of Specific Central Services

- Cadre Management and all matters about training and manpower planning for the following services-
- Indian Trade Service;
- Indian Supply Service;
- Indian Inspection Service.

VI. Attached and Subordinate Offices

The following are attached and subordinate offices under this Department-

Attached Offices

- Directorate General of Anti-Dumping and Allied Duties (DGAD).
- Directorate General of Foreign Trade (DGFT).
- Directorate General of Supplies and Disposals (DGS&D).

Subordinate Offices

- Directorate General of Commercial Intelligence and Statistics(DGCI&S).
- Office of Development Commissioner of Special Economic Zones-
- Cochin Special Economic Zone, Kochi.
- Falta Special Economic Zone, Kolkata.
- Kandla Special Economic Zone, Gujarat.
- MEPZ Special Economic Zone, Chennai.
- Noida Special Economic Zone, Noida.
- Santa Cruz Special Economic Zone, Mumbai.
- Visakhapatnam Special Economic Zone, Visakhapatnam.

VII. Statutory/autonomous Bodies / Public Sector Undertakings / Other Organisations

The following are Statutory/Autonomous Bodies, Public Sector Undertakings, and Other Autonomous Organisations under the oversight of this Department: -

Statutory/autonomous Bodies

- Agricultural & Processed Food Products Export Development Authority (APEDA).
- Coffee Board.
- Export Inspection Council of India (EIC).
- Rubber Board.
- Spices Board.
- Tea Board.
- The Marine Products Export Development Authority (MPEDA).
- Tobacco Board.

Public Sector Undertakings

- ECGC (Export Credit Guarantee Corporation of India Limited).
- ITPO (India Trade Promotion Organization).
- MMTC Limited (formerly Minerals and Metals Trading Corporation of India Limited).
- PEC Limited (formerly The Projects and Equipment Corporation of India Limited).
- STC Limited (State Trading Corporation of India Ltd.).
- STCL Limited (formerly Spices Trading Corporation Ltd.).

Other Autonomous Organisations

- Footwear Design & Development Institute (FDDI).
- Indian Diamond Institute (IDI).
- Indian Institute of Foreign Trade (IIFT).
- Indian Institute of Packaging (IIP).
- National Centre for Trade Information (NCTI).
- Price Stabilisation Fund Trust (PSFT).

VIII. Acts/ Legislations

Acts/ Legislations directly about Department of Commerce

- Agricultural and Processed Food Products Export Development Authority (APEDA) Act, 1985.
- Coffee Board Act, 1942.
- Export (Quality Control and Inspection) Act, 1963.
- Foreign Trade (Development and Regulation) Act, 1992.
- Rubber Board Act, 1947.
- Spices Board Act, 1986.

- Tea Board Act, 1953.
- The Marine Products Export Development Authority (MPEDA) Act, 1972.
- The Special Economic Zones Act, 2005.
- Tobacco Board Act, 1975.

3.4 DIRECTORATE GENERAL OF FOREIGN TRADE (DGFT)

Directorate General of Foreign Trade (DGFT), formerly known as the Chief Controller of Imports and Exports (CCI&E), is India's official administrating body for imports and exports. It is an attached office of the Department of Ministry and Commerce and is headquartered in New Delhi. It is headed by the Director-General of Foreign Trade. Its zonal offices are situated in Delhi, Mumbai, Kolkata, and Chennai. DGFT is accountable for implementing the Foreign Trade Policy, with the primary objective of promoting the Nation's exports. It implements necessary laws, issues export licenses, introduces trade incentives, and develops trade relations with other nations.

8.4.1 STRUCTURE OF DGFT

The Directorate General of Foreign Trade is headed by the Director-General who is appointed by the Central Government. To be eligible for this position, the candidate should be a member of the Indian Administrative Service (IAS) with a public service of 30 or more years. The Director-General advises the Central Government in the formulation of the Foreign Trade Policy of EXIM Policy and its execution.

DGFT has two types of offices known as Regional Authority (RA) and Zonal Offices. The zonal offices of DGFT are in Kolkata, Delhi, Chennai, and Mumbai. The zonal offices are headed by The Additional Director General of Foreign Trade, whereas the Regional Offices are headed by Joint Director-General, Deputy Director-General, and Assistant Director-General. The Director-General sits at Udyog Bhawan in New Delhi.

8.4.2 FUNCTIONS OF DGFT

Followings are the main task performed by DGFT: -

i. Implement EXIM Policy/Foreign Trade Policy

Exim Policy or Foreign Trade Policy is a set of guidelines and instructions related to the import and export of goods developed by the Directorate General of Foreign Trade. The Government of India announces the EXIM Policy which is applicable for 5 years under Section 5 of the Foreign Trade Act 1992. The objective of the policy is to encourage exporters in the country, thereby increasing exports and maintaining a favorable balance of payments position. Currently, Foreign Trade Policy 2015-2020 is in effect and will remain applicable till 31st March 2020.

ii. Implement Foreign Trade Procedures

DGFT formulates and announces Foreign Trade Procedures which are to be followed by an exporter or importer for the purpose of implementing provisions of the Foreign Trade Act and Foreign Trade Policy. The objective is to lay down simple EDI-compatible procedures which are easy to understand and user-friendly for efficient execution of foreign trade in the country. Parallel to the current Foreign Trade Policy, the Handbook of Foreign Trade Procedure 2015-2020 is in effect at present.

iii. Issue IEC Code to Exporters and Importers

IEC Code is a must for all import and export businesses in India. It is a unique 10-digit registration code issued by DGFT. This code helps in tracking and managing shipments of an exporter or importer. The IEC Code is now integrated with PAN, and only one IEC can be issued against one PAN. An exporter or importer can apply for IEC Code or e-IEC online on DGFT’s website.

iv. Document and Maintain Classifications of ITC HS Codes

ITC HS Codes are based on the International Harmonized System of Coding and were adopted in India for facilitating foreign trade. The Indian customs use 8 digit ITC HS Code in trading activities. The ITC HS Codes are divided into two schedules wherein, Schedule 1 is for Import Activities and Schedule 2 is for export activities. Any changes or addition such as changes in the description of commodities, removing defunct codes, adding new codes, etc. are carried out by DGFT.

v. Platform for updating and viewing eBRC

eBRC or Bank Realization Certificate is issued by Banks to exporters so that they may claim benefits under various export promotion schemes under the Foreign Trade Policy. To promote paperless trade DGFT introduced the eBRC module for Banks to electronically transmit Foreign exchange realization directly to the exporter's account.

vi. Inform about Goods which can or cannot be exported freely under Export Policy Schedule 2

In accordance with Schedule 2 – Export Policy formulated by DGFT all goods other than those listed in the export licensing schedule along with its appendices are freely exportable. Exports are free except when they are regulated by way of any “Prohibition”, “Restriction” and “STE”.

vii. Grant Export Licenses for Restricted Items

All items which are defined as restricted in the Export Policy, are permitted for exports subject to the license granted by DGFT. The license for these items can be applied online on the website.

viii. Promote Trade

DGFT has played a crucial role in launching several export promotion schemes such as MEIS, SEIS, Advance Authorization Scheme, Duty-Free Import Authorization Scheme, Export Promotion of Capital Goods Scheme (EPCG), Export Oriented Units (EOU) Scheme, Deemed Exports, etc. These schemes have been implemented under Foreign Trade Policy and the procedure to apply for them has been outlined under Foreign Trade Procedure. Apart from this, this body also undertakes implementing “Ease of Doing Business” for exporters and importers by simplifying and digitizing export-import procedures to promote foreign trade.

ix. Facilitate Application for MEIS

As a part of the “ease of doing business” measure, DGFT facilitates claiming rewards under MEIS to exporters with the help of an online application system. The MEIS application is to be filed online using Digital Signature with the concerned RA in Form ANF 3A. The relevant shipping bills and e- BRC are to be linked in the application. If the exports are made from EDI ports, then hard copies of these documents are not required to be submitted to the respective RA.

x. Control DEPB Rates

Duty Entitlement Passbook Scheme (DEPB) is an export incentive scheme which is regulated by DGFT. Under this scheme, the exporter is incentivized on the customs duty paid on import of goods such as raw materials which will be further exported. The exporter is entitled to apply for credit which is a fixed percentage of the FOB value of the goods exported. The DEPB rates are decided and notified by the DGFT.

xi. Address Quality Complaints and Trade Issues

In order to instill confidence in the quality of trade services provided by India, under a Chapter of Foreign Trade Policy a mechanism has been defined to resolve complaints or trade disputes relating to Foreign Trade by DGFT. It takes care of complaints received from foreign buyers for Indian exporters as well as complaints of Indian importers against foreign suppliers through this platform. Any quality complaints or trade disputes relating to foreign trade can be filed online on its website.

xii. Regulate Transit of Goods

DGFT regulates the transit of goods from or to India in accordance with the bilateral treaties in effect between India and other countries.

3.5 CHECK YOUR PROGRESS

Q1. What among below is not governed/administered by the Ministry of Commerce?

a. Foreign Trade Policy

b. Special Economic Zone

c. State Trading Corporation

d. International Shipping Cargos

Q2. Which among the following is not an autonomous organization governed by the Department of Commerce?

a. Indian Statistical Institute (ISI)
b. Footwear Design & Development Institute (FDDI).
c. Indian Diamond Institute (IDI).
d. Indian Institute of Foreign Trade (IIFT).

Q3. Is the Coffee Board Act, 1942 related to the Department of Commerce?

a. No
b. Yes

Q4. Directorate General of Foreign Trade (DGFT), formerly known as the Chief Controller of International Trade.

a. True
b. False

Q5. Head office of DGFT is in………

a. Kolkata
b. Chennai
c. New Delhi
d. Mumbai

Q6. Which among the following is not an export promotion scheme launched by DGFT?

a. MGNREGA
b. MEIS
c. SEIS
d. EPCG

3.6 SUMMARY

The Ministry of Commerce and Industry is the nodal authority for creating and implementing international trade policy. The Department of Commerce is responsible for multilateral and bilateral commercial relations, state trading, export promotion measures, as well as the development and regulation of certain import-oriented businesses and commodities.

Directorate General of Foreign Trade (DGFT), formerly known as the Chief Controller of Imports and Exports (CCI&E), is India’s official administrating body for imports and exports. It is an attached office of the Department of Ministry and Commerce and is headquartered in New Delhi.

3.7 KEYWORDS

BRC: Bank Realization Certificate is issued by Banks to exporters so that they may claim benefits under various export promotion schemes under the Foreign Trade Policy.

EOU: The Export Oriented Units (EOU) scheme was introduced to boost exports, increase foreign earnings, and created employment in India.

IEC Code: IEC or Importer Exporter Code is a unique 10-digit alphanumeric code issued based on the PAN of an entity.

3.8 SELF-ASSESSMENT TEST

Q1. Discuss the governance structure of the Ministry of Commerce and Industry?

Q2. Briefly discuss various activities performed by the department of commerce.

Q3. How has a department of commerce helped India in international trade?

Q4. What is the role of the Directorate General of Foreign Trade in promoting Indian products in international markets?

Q5. Discuss various schemes govern and administered by DGFT.

Q6. Write a short note on:

(a) Export Oriented Units

(b) IIFT

(c) ITC HS Codes

(d) Duty Entitlement Passbook Scheme (DEPB)

3.9 ANSWERS TO CHECK YOUR PROGRESS

1. d
2. a
3. b
4. d
5. c
6. c

3.10 REFERENCES/SUGGESTED READINGS

https://www.dgft.gov.in/CP/?opt=export-import-guide

https://commerce.gov.in/

Handbook On Foreign Trade Policy 2015-2020 Paperback – 1 May 2015

by Abhishek A. Rastogi (Author)

Foreign Trade Policy of India Paperback – 1 January 2021 by Pramod Kumar Rai (Author), Jayant Kumar (Contributor)

Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 4	
Role of State Trading Organization, Specific Service Institutions, Quality Complaints, and other Trade Disputes	

Structure

4.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Explain the role and working of the State Trading Organization.
- Identify the service institutions of relevance.

- Explain the measures to manage quality complaints and other Trade Disputes.

4.1 INTRODUCTION

In 1949, the Ministry of Commerce reviewed a proposal to establish a company for foreign trade for the first time in India, to expand and develop commercial operations both within and beyond the country. Following the depreciation of the rupee in September 1949, it became a major source of anxiety. The government of India created a committee under the chairmanship of Dr. P. S. Deshmukh to provide recommendations on the establishment of STC, keeping in view the degradation of the trade environment in the country. The report of this committee was submitted in 1950. However, due to changes in the domestic economic climate, it was necessary to re-establish a three-member committee in 1956, which was chaired by Shri S. V. Krishna Murti Rao. The State Trading Corporation of India was established in 1956 as a result of this committee's recommendations.

4.2 ORGANISATIONAL STRUCTURE OF STC

The corporate office of STC is situated in New Delhi. It has 13 branch offices in India, the major of which are in Mumbai, Kolkata, Chennai, Ahmedabad, Bangalore, and Hyderabad. The corporation's corporate office is organized into several business and service groups. These groups are headed by the Chief Manager / General Manager, who in turn reports to their respective Chief General Managers / Directors.

The Board of Directors of STC consists of a full-time Chairman-cum-Managing Director, five full-time Directors (three Marketing, one Finance, and one Personnel), two ex-officio Directors of the Ministry of Commerce, and independent Government-appointed Directors.

STC has a wholly-owned subsidiary named STCL Limited, which is based in Bangalore and is engaged in the spice trade/auction. The corporation has its tank farms, godowns for the storage of liquid / dry cargo at various places in the country.

4.2.1 VISION AND MISSION OF STC

STC has the vision to be a world-class leading organization, continuously diversifying and delivering excellence in all areas of its operations thereby increasing stakeholder value. It has a concrete mission to have the advantage of upcoming business opportunities and trends with the Proactive

Entrepreneur Spirit, thereby achieving substantial year-on-year growth and contributing to India's share in world trade.

4.2.2 OBJECTIVES AND EVALUATION OF STC

The Government of India's State Trading Corporation of India Limited (STC) is a renowned international trading organization that specializes in export and import activities. It functions under the administrative jurisdiction of the Ministry of Commerce and is registered as an independent business under the Companies Act, 1956. The corporation was established primarily to conduct business with Eastern European nations and to assist private trade and industry's efforts in the growth of the country's exports.

It initiated a price support campaign, urging the government to do the same, to ensure that producers of raw jute, shellac, tobacco, rubber, and vanilla receive fair compensation. The Corporation halted the export and import of a variety of items, including vast amounts of chemicals and medications, edible oils, cement, sugar, newsprint, wheat, and urea, among others, resulting in the timely supply of mass-market goods and equal distribution. STC has ceased all new commercial activities and will continue to operate as a non-operative firm for the time being.

The following are some of the important objectives of STC:

1. Organizing and conducting commerce in socialist and other nations in commodities entrusted to the corporation by the Government of India from time to time: purchasing, selling, and transporting such items in India and throughout the world.

2. Importing or internal distribution of any product in low supply at the request of the Union Government of India to stabilize prices and streamline distribution.

3. Putting in place any special import, export, international commerce, or distribution arrangements that the Union Government deems necessary in the public interest.

4. Reversing a downward trend in exports or increasing exports by bringing new items into new markets.

5. Assisting export-oriented firms with their financial and organizational activities, as well as their export.

The STC has been instrumental in attaining the goals for which it was established. Its performance can be assessed along these lines:

1. Turnover: In the beginning, STC's activities were led by government policy. However, it eventually produced non-canalized exports of maritime products, apparel, engineering goods, food, textiles, and other items.

2. Product range: The STC sells a wide range of items. Agricultural, consumer, construction, software, miscellaneous engineering goods, processed foods, leather and leather products, meat, and marine products are among the approximately 30 commodities included. Edible oil, cement, explosives, natural rubber, and standard and glazed prints are among the numerous things available. It works with a total of 84 nations.

3. Other connected fields: The STC has focused on the following operations in addition to trading in a wide range of commodities.

a. Diversification: The STC has taken attempts to diversify its export basket by adding new commodities such as orthopaedic shoes, sports shoe uppers, compressors, and HD Pipes, among others.

b. Market expansion: The STC has led national efforts to cultivate new markets for Indian manufactured goods and commodities. On a long-term basis, the STC has established itself in new markets.

c. Export-oriented Units: The STC has supported 100% export-oriented manufacturing units, mostly through international partnership and equity involvement, as well as 100% buy-back agreements.

d. Solid Supply Base: In collaboration with state undertakings, cooperative organizations, and others in specific and specified areas, the STC has built a reliable supply base for the creation of high-quality items.

e. Facilitating function: The STC brings buyers and sellers together and assists them in completing business contracts. It assists government agencies and businesses in obtaining equipment and machinery from other countries. It also resolves trade disputes between Indian and non-Indian parties.

f. Commerce with socialist nations: The STC was established with the goal of expanding overseas trade with socialist countries in the socialist bloc while also expanding its activities with non-communist parties.

g. Small business marketing skills: Small businesses have benefited from the STC's marketing knowledge in establishing their businesses. Small industrial units will be unable to participate in international commerce without the assistance of STC.

4.2.3 MAIN ITEMS OF EXPORTS AND IMPORTS BY STC

Major items of exports of STC include (i) Agriculture products like wheat, rice, cashew, coffee, tea, sugar, spices, groundnut, etc. (ii)Chemical and pharmaceutical products (iii)Leather products. (iv) Readymade governments and textiles (v) Engineering products and consumer durables (vi) Leather products (vii) Meat and fish preparations (viii) Tobacco and rubber (ix) Jute goods (x) Irons are and steel row materials.

Major items of imports are: (i) Edible oil (ii) Hydrocarbons (ii) Newsprint (iv) Gold and silver (v) Natural rubber (vi) Scientific instruments (vii) Chemicals (viii)Safety /security equipment (ix) Sugar (x) Avionics like helicopter planes and their spares (xi) Fertilizers (xii) I.T. goods (xiii) FMCG (xiv) Pulses (xv) Fatty acids

4.2.4 LIMITATIONS AND SCOPE OF IMPROVEMENT OF STC

In a study conducted by the Indian Institute of Management, Ahmedabad, some of the inherent weaknesses of STC are:

1. Although the objectives of STC were quite clear and well defined, it has not yet made any major entrepreneurial decisions.

2. There seem to be no guidelines for the choice of new products to be exported and new markets to sell their products.

3. Not much expertise has been developed for locating and developing sources of supply for exporting products and for procuring imports from sources of supply abroad.

4. Most of the expertise is operating as an agent, not in indents and tenders of processing, transportation, and distribution of goods, purchasing, and marketing.

5. The setback in the export of non-canalized goods can be attributed to the failure of STC to develop a suitable supply base and to take adequate promotional steps among the importers.

6. Periodic changes in the staff of STC seem to have affected the efficiency and continuity of its functions.

7. Despite technological developments on the part of STC, there are certain technical problems involved in foreign trade with its buyers and sellers or producers, not solved by it.

Steps to improve performance: STC has taken the following steps to improve performance:

1. The STC has added new items to its export basket-like orthopedic shoes, peacock feathers, clutch, and security bags.

2. The STC has taken efforts to identify new markets for Indian commodities and manufactured goods. It has also established itself in the new markets on a long-term basis.

3. The STC has developed a strong production base and manufactured quality goods. With the help of state undertakings, cooperative organizations, and other sectors, the STC has a real supply base.

4. The STC has established 100 % export-oriented production units. Their product range includes leather products, processed fruits and vegetables, meat and marine products, sports goods, and engineering goods.

4.3 SPECIFIC SERVICE INSTITUTIONS

State Trading Companies (STEs) are governmental and non-governmental enterprises that deal with items for export and/or import, including marketing boards. Any good whose import or export is controlled by an exclusive or special privilege given to State Trading Enterprises (STE) may be imported or exported by the concerned STE in accordance with the ITC's requirements (HS).

Such STEs shall make any such purchases or sales involving imports or exports solely on the basis of commercial considerations, including price, quality, availability, marketability, transportation, and other purchase or sale conditions, in a non-discriminatory manner, and shall provide enterprises from other countries with an adequate opportunity to compete for participation in such purchases or sales, in accordance with customary business practices.

However, the DGFT has the authority to authorize any other person to import or export any of the items that have been designated for exclusive trade through STEs. The list of State Trading Enterprises (STEs) for FTP Purpose (as per appendix 2J of FTP) is as follows:

SNO	STATE-TRADING ENTERPRISES
1	Food Corporation of India (FCI)
2	State Trading Corporation (STC)
3	Indian Oil Corporation (IOC)
4	Bharat Petroleum Corporation Ltd (BPCL)
5	Hindustan Petroleum Corporation Ltd (HPCL)
6	Oil and Natural Gas Corporation Ltd (ONGC)
7	Minerals and Metals Trading Corporation (MMTC)
8	Indian Potash Ltd (IPL)
9	National Dairy Development Board (NDDB)
10	National Cooperative Dairy Federation(NCDF)
11	National Agriculture Cooperative Marketing Federation of India Ltd (NAFED)
12	Projects and Equipment Cooperation of India Ltd (PEC)
13	Spices Trading Corporation Limited (STCL)
14	Central Warehousing Corporation (CWC)

4.4 QUALITY COMPLAINTS AND OTHER TRADE DISPUTES

To encourage exports, exporters must create a positive image of their nation overseas. Maintaining a long-term connection with international purchasers is critical, and any complaints or trade disputes should be resolved amicably at the earliest. Importers may have their complaints. A system is being established to address such complaints or trade disputes amicably to settle such complaints or trade disputes and to restore trust in the country's economic climate.

The following type of complaints may be considered:

(a) Complaints received from foreign buyers in respect of the poor quality of the products supplied by exporters from India;

(b) Complaints of importers against foreign suppliers in respect of the quality of the products supplied; and

(c) Complaints of unethical commercial dealings categorized mainly as non-supply/ partial supply of goods after confirmation of order; supplying goods other than the ones as agreed upon; non-payment; non-adherence to delivery schedules, etc.

4.4.1 OBLIGATION ON THE PART OF IMPORTER/ EXPORTER

(a) Rule 11 of the Foreign Trade (Regulation) Rules, 1993, requires that on the importation into, or exportation out of, any customs ports of any goods, whether liable to duty or not, the owner of such goods shall in the Bill of Entry or the Shipping Bill or any other documents prescribed under the Customs Act, 1962 (52 of 1962), state the value, quality and description of such goods to the best of his knowledge and belief and in case of exportation of goods, certify that the quality and specification of the goods as stated in those documents are by the terms of the export contract entered into with the buyer or consignee in pursuance of which the goods are being exported and shall subscribe a declaration of the truth of such statement at the foot of such Bill of Entry or Shipping Bill or any other documents. Violation of this provision renders the exporter liable for penal action.

(b) Certain export commodities have been notified for Compulsory Quality Control & Pre-shipment Inspection before their export. Penal action can be taken under the Export (Quality Control & Inspection) Act, 1963 as amended in 1984, against exporters who do not conform to these standards and/ or provisions of the Act as laid down for such products.

4.4.2 PROVISIONS IN FT (D&R) ACT & FT (REGULATION) RULES FOR NECESSARY ACTION AGAINST ERRING EXPORTERS/ IMPORTERS

Action against erring exporters can be taken under the Foreign Trade (Development and Regulation) Act, 1992, as amended and under Foreign Trade (Regulation) Rules, 1993, as follows: -

(a) Section 8 of the Act empowers the Director-General of Foreign Trade or any other person authorized by him to suspend or cancel the Importer Exporter Code Number for the reasons as given therein.

(b) Section 9 (2) of the Act empowers the Director-General of Foreign Trade or an officer authorized by him to refuse to grant or renew a license, certificate, scrip, or any other instrument bestowing financial or fiscal benefit granted under the Act.

(c) Section 9(4) empowers the Director-General of Foreign Trade or the officer authorized by him to suspend or cancel any license, certificate, scrip, or any instrument bestowing financial or fiscal benefit granted under the Act.

(d) Section 11(2) of the Act provides for the imposition of fiscal penalty in cases where a person makes or abets or attempts to make any import or export in contravention of any provision of the Act, any Rules or Orders made thereunder or the Foreign Trade Policy.

4.4.3 MECHANISM FOR THE HANDLING OF COMPLAINTS/ DISPUTES

(a) Committee on Quality Complaints and Trade Disputes (CQCTD)

To deal effectively with the increasing number of complaints and disputes, a ‘Committee on Quality Complaints and Trade Disputes’ (CQCTD) will be constituted in the 22 offices of the RA’s of DGFT. Names of RAs, where CQCTD has been constituted and jurisdiction of CQCTD are given in Chapter 8 of the Handbook of Procedures.

(b) Composition of the CQCTD

The CQCTD would be constituted under the Chairpersonship of the Head of Office. The constitution of CQCTD is given in Chapter 8 of the Hand Book of Procedures.

(c) Functions of CQCTD

The Committee (CQCTD) will be responsible for inquiring and investigating all Quality related complaints and other trade-related complaints falling under the jurisdiction of the respective RAs. It will take prompt and effective steps to redress and resolve the grievances of the importers, exporters, and overseas buyers, preferably within three months of receipt of the complaint. Wherever required, the Committee (CQCTD) may take the assistance of the Export Promotion Councils/FIEO/Commodity Boards or any other agency as considered appropriate for settlement of these disputes.

4.4.4 PROCEEDINGS UNDER CQCTD

CQCTD proceedings are only reconciliatory and the aggrieved party, whether the foreign buyer or the Indian importer, is free to pursue any legal recourse against the other erring party.

4.4.5 PROCEDURES TO DEAL WITH COMPLAINTS AND TRADE DISPUTES

The procedure for making an application for such complaints or trade disputes and the procedure to deal with such quality complaints and disputes is given in the Handbook of Procedures.

4.4.6 CORRECTIVE MEASURES

The Committee at the RA level can authorize the Export Inspection Agency or any technical authority to assess whether there has been any technical failure of not meeting the standards, manufacturing/ design defects, etc. for which complaints have been received.

The Director-General of Foreign Trade would appoint an officer, not below the rank of Joint Director General, in the Headquarters, to function as the ‘Nodal Officer’ for coordinating with various Regional Authorities of DGFT.

4.5 CHECK YOUR PROGRESS

Q1. When was State Trading Corporation established?

a. 1950

b. 1955

c. 1956

d. 1960

Q2. Can STC be evaluated on total turnover?

a. No

b. Yes

Q3. As of the last quarter of 2021, what is the status of STC?

a. Non operational

b. Operational

c. Growing

d. Dissolved

Q4. Where is the corporate office of STC situated?

a. Mumbai

b. Kolkata

c. Chennai

d. New Delhi

Q5. Can non-governmental enterprises act as State Trading Companies?

a. Yes

b. No

Q6. Which section of Foreign Trade (Development and Regulation) Act empowers the Director-General of Foreign Trade or any other person authorized by him to suspend or cancel the Importer Exporter Code Number?

a. Section 9(2)

b. Section 9(4)

c. Section 8

d. Section 11(2)

Q7. Is the foreign buyer or the Indian importer, free to pursue any legal recourse against the other erring party?

a. Yes

b. No

Q8. The ……………. is responsible for enquiring and investigating all Quality related complaints and other trade-related complaints falling under the jurisdiction of the respective RAs.

a. Excise department

b. STC

c. CQCTD

d. DGFT

4.6 SUMMARY

STC is a renowned international trading organization specializing in export and import activities. The corporation was established primarily to conduct business with Eastern European nations. It functions under the administrative jurisdiction of the Ministry of Commerce and is registered as an independent business under the Companies Act, 1956.

State Trading Companies (STEs) are governmental and non-governmental enterprises that deal with items for export and/or import. Goods whose import or export is controlled by an exclusive or special privilege given to STEs may be imported or exported by the concerned STE in accordance with the ITC's requirements (HS).

A committee on Quality Complaints and Trade Disputes (CQCTD) is constituted in the 22 offices of the RA's of DGFT. The Committee will take prompt and effective steps to redress and resolve the grievances of the importers, exporters, and overseas buyers.

4.7 KEYWORDS

Bill of Entry: A bill of entry is a legal document that is filed by importers or customs clearance agents on or before the arrival of imported goods.

Pre-shipment inspection: It is a step taken by trade operators (buyers, suppliers, agencies) to inspect newly manufactured products before they are shipped for export/import. The purposes of a pre-shipment inspection are to Check the quantity and quality of the merchandise.

Shipping Bill: The shipping bill is an essential document issued by the Customs Service Centre after the exporter applies to acquire this bill. This bill facilitates the exporter to get customs clearance, load the goods, and claim duty drawbacks.

State Trading Companies (STEs): STE is governmental and non-governmental enterprises that deal with items for export and/or import, including marketing boards.

4.8 SELF-ASSESSMENT TEST

Q1. Discuss the role of State Trading Corporation in the Indian economy.

Q2. Critically evaluate the need and performance of STC in India.

Q3. Write a note on the following: -

a. Minerals and Metals Trading Corporation (MMTC)

b. Spices Trading Corporation Limited (STCL)

c. Projects and Equipment Cooperation of India Ltd (PEC)

Q4. Discuss the functioning of the Committee on Quality Complaints and Trade Disputes (CQCTD).

Q5. Briefly discuss the provisions in FT(D&R) act & FT(regulation) rules for necessary action against erring exporters/ importers.

4.9 ANSWERS TO CHECK YOUR PROGRESS

1. (c)

2. (b)

3. (a)

4. (d)

5. (a)

6. (c)

7. (a)

8. (c)

4.10 REFERENCES/SUGGESTED READINGS

Foreign Trade Policy 2015-2020, Chapter 8

Hand Book on FTP, 2015-20

Customs Tariff of India (Customs Duty Rates & Exemptions): Vol. 1 & 2 - 71st Edition, Centax Publications Pvt. Ltd.

Mathur Vibha, Export Policy & Management in India, New Century Publications.

Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 5	
SEZ, Agriculture Export Zones, EHTPS, STPS scheme, and BTPS	

Structure

5.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Understand the importance and significance of Special Economic Zone
- Learn the approval mechanism of setting up of SEZ

- Understand various export-oriented unit schemes in India
- Learn to function of Agriculture Export Zones,
- Learn to function of Software Technology Parks and Electronic and Hardware Technology Parks
- Learn to function of Bio-Technology Parks

5.1 INTRODUCTION

One of the key export promotion schemes is the Special Economic Zone (SEZ) scheme. The SEZ scheme was launched by the Ministry of Commerce and Industry of the Government of India on April 1, 2000, with the goal of creating an internationally competitive and hassle-free environment for earning foreign exchange, attracting Foreign Direct Investment (FDI), creating jobs, facilitating technology transfer, increasing exports of goods and services, and developing skilled manpower in India.

5.2 HISTORICAL PERSPECTIVE OF EXPORTING ZONES IN INDIA.

The first Export Processing Zone (EPZ) was formed in Ireland to enhance the local industry, this concept was later implemented on a huge scale in China. In today's world, special economic zones play a critical part in any country's economic development. In 1965, India established the first Export Processing Zone in Kandla, Gujarat, as a mechanism to encourage exports, build foreign exchange reserves, and create new jobs. With the formation of the Kandla Special Economic Zone, India became the first Asian government to understand the value of a Free Zone plan in boosting international commerce. The Santacruz Electronic Export Processing Zone (SEEPZ) was established as the country's second zone.

During the 1980s, four more zones concentrating on regional economic growth were formed in various sections of the nation. In 1986, the Export Processing Zones of Cochin (Kerala), Chennai (Madras) (Tamil Nadu), Falta (West Bengal), and Noida (Uttar Pradesh) were formed. These zones were all designed to be multi-product zones. Cochin EPZ and Fatla EPZ were established with the goal of developing the country's backward areas. In 1989, Vishakhapatnam, Andhra Pradesh, became the eighth export processing zone.

Initially, the Central Government was solely responsible for establishing and running the zones; however, in 1994, this policy was changed to allow state governments and the private sector to participate in the development and operation of the zones.

During a visit to China's Special Economic Zones in 1999, India's Commerce and Industries Minister Mr. Murosoli Maran conceived the Special Economic Zones (SEZs) Scheme. The development of Special Economic Zones in India was announced in the Indian EXIM policy of 2000, with more provisions and amenities than the Export Processing Zone concept. Zones in SEEPZ, Cochin, and Kandla were transformed into Special Economic Zones under this program. All of the remaining EPZs were transformed into Special Economic Zones in 2003.

5.3 SPECIAL ECONOMIC ZONE (SEZ) AND AGRI EXPORT ZONE (AEZ)

5.3.1 SPECIAL ECONOMIC ZONE

A Special Economic Zone (SEZ) is a delineated duty-free zone that is treated as a foreign territory for the purposes of trade activities, duties, and tariffs. A special economic zone (SEZ) is a territory with more permissive economic regulations than the rest of the country, and where all of the units enjoy special advantages. The primary goal of a special economic zone (SEZ) is to attract foreign investment and offer a cost-effective and hassle-free environment for exports.

5.3.1.1 LEGAL DEFINITION OF SEZ

As per section 2(za) - "Special Economic Zone" means each Special Economic Zone notified under the proviso to sub-section (4) of section 3 and sub-section (1) of section 4 (including Free Trade and Warehousing Zone) and includes an existing Special Economic Zone.

"SEZ" means Special Economic Zone deemed to be a territory outside the customs territory of India to undertake the authorized operations in terms of section 53 (1) of the Special Economic Zone Act, 2005.

5.3.1.2 UNIQUE FEATURE OF SEZ

Supplies of goods & services into SEZ from Domestic Tariff Area (DTA) are treated as exports and goods & services coming from SEZ into DTA are to be treated as if these are being imported.

5.3.1.3 STATUTORY PROVISIONS FOR FUNCTIONING OF SEZ

Initially, SEZ units / Developer was governed by the provisions of the Customs Act, 1962, erstwhile Central Excise Act, 1944, Finance Act, 1994, and Rules made thereunder. The Government of India in the Ministry of Commerce & Industries enacted the Special Economic Zone Act, 2005, and Special Economic Zone Rules, 2006. Both SEZ Act and SEZ Rules were operationalized with effect from 10-2-2006.

Thus, as of date, SEZs are governed by the provisions of the SEZ Act, 2005 and the SEZ Rules, 2006.

Exemption from taxes, duties or cess: (Section 7)

Any goods or services exported out of, or imported into, or procured from the Domestic Tariff Area by,

(i) a Unit in a Special Economic Zone; or

(ii) a Developer,

shall, subject to such terms, conditions, and limitations, as may be prescribed, be exempt from the payment of taxes, duties, or cess under all enactments specified in the First Schedule.

5.3.1.4 ADMINISTRATIVE FRAMEWORK OF SEZ

Distinct components of the SEZ have been entrusted to three different Ministries by the Indian government. The Special Economic Zones' regulatory regulations are created by the Ministry of Commerce and Industry. Environmental approvals for SEZ units are taken care of by the Ministry of Environment, Forests, and Climate Change. The financial and fiscal issues of the SEZ are of relevance to the Ministry of Finance.

A three-tier administrative structure governs the operation of SEZs: The Board of Approval, the Approval Committee, and the Development Commissioner. The apex body is the Board of Approval, which is led by the Secretary of Commerce. The Zone Approval Committee oversees the approval of units in SEZs as well as other associated problems. Each Zone is led by a Development Commissioner, who also serves as the Approval Committee's ex-officio chairperson.

Units may be established in an SEZ when it has been approved by the Board of Approval and the area of the SEZ has been announced by the Central Government. The Approval Committee, which consists of the Development Commissioner, Customs Authorities, and State Government members, approves all requests for the establishment of units in the SEZ at the Zone level.

The Development Commissioner grants all post-approval permissions, such as an importer-exporter code number, a change in the firm or implementing agency's name, wide banding diversification, and so on, at the Zone level. The Approved Committee monitors the performance of SEZ units regularly, and units that violate the approval government's requirements are subject to penalties under the Foreign Trade (Development and Regulation) Act, 1992.

5.3.1.5 SETTING UP A SEZ

An SEZ can start as any type of business entity, such as a public limited company, a private limited company, a sole proprietorship, a partnership, or any other legal entity. Following that, it can apply to become an SEZ by submitting an application form, supporting papers, and following the authorized procedure. According to the SEZ Act 2005, an SEZ may be established jointly or severally by the Central Government, State Governments, or any other entity for manufacturing products, performing services, or both, or as a Free Trade Warehousing Zone (FTWZ).

The developer makes an application to the state government for the creation of a special economic zone. The plan, together with the State Government's recommendation, must be submitted to the Board of Approval. The applicant has the option of submitting the proposal to the Board of Approval directly. However, in such a circumstance, he must acquire the State Government's approval within six months.

An application in Form A under Rule 3 of the SEZ Rules 2006 must be submitted to the concerned Development Commissioner of the State where the SEZ is proposed to be established, who will forward it to the Board of Approval (BOA) with his inspection report, State Government's recommendation, the recommendation for National Security Clearance as per guidelines issued by the Ministry of Home Affairs, and other details to be furnished for the issuance of notification for the declaration of an area. There will be no minimum land area requirement for establishing an SEZ for IT/ITES, Biotech, or Health (other than a hospital) services, but there would be a minimum built-up processing area need as per the SEZ (3rd Amendment) Rules, 2019, which were notified on December 17, 2019.

5.3.1.6 MINIMUM AREA REQUIREMENTS FOR SETTING UP A SEZ

The SEZ Rules provide for the different minimum land requirements for different classes of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

Rule 5(2) of the SEZ Rules, 2006 lays down the minimum area requirement for the development of SEZ. However, there shall be no minimum area requirement for setting up a Special Economic Zone for Information Technology or Information Technology Enabled Services, Biotechnology and Health Sector (excluding hospitals)," but a minimum built-up processing area requirement shall apply to them as per rule 5(2) (b) (ii) of SEZ Rules.

The Ministry of Commerce and Industry, Government of India vide Notification No. G.S.R. 940(E) dated 17th November 2019 eased the minimum land area requirement norms for SEZ. As per the Notification, the position as to the minimum land area requirement norms is as under.

The requirements of minimum area of land for a class or classes of Special Economic Zone shall be the following, namely: -

(a) A Special Economic Zone or Free Trade Warehousing Zone other than a Special Economic Zone for Information Technology or Information Technology enabled Services, Biotech or Health (other than a hospital) service, shall have a contiguous land area of fifty hectares or more: Provided that in case a Special Economic Zone is proposed to be set up in the States of Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttarakhand, Sikkim, Goa or in a Union territory, the area shall be twenty-five hectares or more.

(b) There shall be no minimum land area requirement for setting up a Special Economic Zone for Information Technology or Information Technology enabled Services, Biotech or Health (other than a hospital) service, but a minimum built-up processing area requirement shall be applicable, based on the specified category of cities

(c) The minimum processing area in any Special Economic Zone cannot be less than fifty percent. of the total area of the Special Economic Zone.

(d) All existing notified Special Economic Zone shall be deemed to be a multi-sector Special Economic Zone. A "multi-sector Special Economic Zone" would mean a Special Economic Zone for more than one sector where Units may be set up for the manufacture of goods falling in two or more sectors or the rendering of services falling in two or more sectors or any combination thereof including trading and warehousing.";

5.3.1.7 EXIT POLICY OF SEZ

As per Rule 74 of SEZ Rules, 2006, an SEZ Unit may opt-out of Special Economic Zone with the approval of the Development Commissioner and such exit shall be subject to payment of applicable duties on the imported or indigenous capital goods, raw materials, components, consumables, spares, and finished goods in stock:

Provided that if the unit has not achieved positive Net Foreign Exchange, the exit shall be subject to a penalty that may be imposed under the Foreign Trade (Development and Regulation) Act, 1992.

As per Rule 74A of SEZ Rules, 2006, the Unit may opt-out of Special Economic Zone by transferring its assets and liabilities to another person by way of transfer of ownership including the sale of Special Economic Zone units' subject to the following conditions:-

(i) the Unit has held a valid Letter of Approval as well as lease of land for not less than a period of five years on the date of transfer;

(ii) the Unit has been operational for a minimum period of two years after the commencement of production as on the date of transfer;

(iii) such sale or transfer transactions shall be subject to the approval of the Approval Committee;

(iv) the transfer fulfills all eligibility criteria applicable to a Unit; and

(v) the applicable duties and liabilities, if any, as calculated under Rule 74 of SEZ rules 2006 as mentioned above, as well as export obligations of the transferor Unit, if any, shall stand transferred to the transferee Unit which shall be under obligation to discharge the same on the same terms and conditions as the transferor Unit.

5.3.1.8 FACILITIES AND INCENTIVES TO SEZ UNITS

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment, include: -

i. Duty-free import/domestic procurement of goods for development, operation, and maintenance of SEZ units

ii. 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for the first 5 years, 50% for the next 5 years thereafter, and 50% of the plowed back export profit for the next 5 years. (Sunset Clause for Units will become effective from 01.04.2020)

iii. Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act. (withdrawn w.e.f. 1.4.2012)

iv. Exemption from Central Sales Tax, Exemption from Service Tax, and Exemption from State sales tax. These have now been subsumed into GST and supplies to SEZs are zero-rated under IGST Act, 2017.

v. Other levies as imposed by the respective State Governments.

vi. Single window clearance for Central and State level approvals.

The major incentives and facilities available to SEZ developers include:

i. Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.

ii. Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act. (Sunset Clause for Developers has become effective from 01.04.2017)

iii. Exemption from Minimum Alternate Tax (MAT) under Section 115 JB of the Income Tax Act. (withdrawn w.e.f. 1.4.2012)

iv. Exemption from Dividend Distribution Tax (DDT) under Section 115 O of the Income Tax Act. (withdrawn w.e.f. 1.6.2011)

v. Exemption from Central Sales Tax (CST)

vi. Exemption from Service Tax (Section 7, 26, and Second Schedule of the SEZ Act).

5.3.1.9 SEZ FACTSHEET

There were 7 Central Government Special Economic Zones (SEZs) and 12 State/Private Sector SEZs before the enactment of the SEZs Act, 2005. In addition, 425 proposals for setting up SEZs in the country have been accorded formal approval under the SEZ Act, 2005. Presently, 378 SEZs are notified, out of which 265 are operational. States/Union Territories-wise details of SEZs is as follows: -

States/Union Territories-wise distribution of approved SEZs					
States/UTs	Central Government SEZs set up before the enactment of SEZs Act, 2005	State Government/ Private Sector SEZs set up before the enactment of SEZs Act, 2005	Formal Approvals granted under the SEZs Act, 2005	Notified SEZs under the SEZ Act, 2005	Total Operational SEZs (Including before SEZs Act + under the SEZs Act, 2005)
Andhra Pradesh	1	0	32	27	24
Chandigarh	0	0	2	2	2
Chhattisgarh	0	0	2	1	1

Delhi	0	0	2	0	0
Goa	0	0	7	3	0
Gujarat	1	2	26	22	21
Haryana	0	0	25	22	7
Jharkhand	0	0	2	2	0
Karnataka	0	0	63	52	34
Kerala	1	0	29	25	20
Madhya Pradesh	0	1	12	7	5
Maharashtra	1	0	51	45	37
Manipur	0	0	1	1	0
Nagaland	0	0	2	2	0
Odisha	0	0	7	5	5
Puducherry	0	0	1	0	0
Punjab	0	0	5	3	3
Rajasthan	0	2	5	4	3

Sikkim	0	0	0	0	0
Tamil Nadu	1	4	56	53	48
Telangana	0	0	63	56	34
Tripura	0	0	1	1	0
Uttar Pradesh	1	1	24	21	14
West Bengal	1	2	7	5	7
GRAND TOTAL	7	12	425	359	265

The performance of SEZ, in a nutshell, is summarized below: -

Number of Formal approvals (A*s of 30.11.2021*)	**425**
Number of notified SEZs (A*s of 30.11.2021*)	***376*** *(Including 7 Central Govt.+12 State Govt. / Private Sector SEZs setup before the enactment of SEZ Act, 2005)*
Number of In-Principle Approvals (A*s of 30.11.2021*)	**35**
Operational SEZs *(As of 30th September 2021*)	**268** *(Break up: 25 are multi-product SEZs, remaining are sector-specificSEZs)*
Units approved in SEZs	**5,604**

<table>
<tr><td>(As of 30th September 2021))</td><td colspan="5"></td></tr>
<tr><td rowspan="4">Land for SEZs
(As of 30.11.2021)</td><td>7 Central Govt. +12 State Govt. /Pvt. SEZs notified before SEZ Act, 2005.</td><td>Notified SEZs under the SEZAct, 2005</td><td>Total Notified SEZs Area (1+2)</td><td>Formally Approved SEZs(425-357)</td><td>Total Area (3+4)</td></tr>
<tr><td>(1)</td><td>(2)</td><td>(3)</td><td>(4)</td><td>(5)</td></tr>
<tr><td>2132.18 Ha</td><td>39576.43 Ha</td><td>41708.61 Ha</td><td>5510.03 Ha</td><td>47218.64 Ha</td></tr>
<tr><td colspan="5">The land is a State subject. Land for SEZs is procured as per the policy and procedures of the respective State Governments.</td></tr>
</table>

INVESTMENT	**Investment (*As of February 2006)***	**Incremental Investment**	**Total Investment *(As of 30th September 2021*)**
Central Government SEZs	Rs. 2,279.20 cr.	Rs. 19,812.48 cr.	Rs. 22,091.68 cr.
State/Pvt. SEZs set up before 2006	Rs. 1,756.31 cr.	Rs. 11,872.44 cr.	Rs. 13,628.75 cr.
SEZs Notified under the Act	-	Rs. 5,92,845.46 cr.	Rs. 5,92,845.46 cr.
Total	**Rs. 4,035.51 cr.**	**Rs. 6,24,530.38 cr.**	**Rs. 6,28,565.89 cr.**

EMPLOYMENT	**Employment (*As of February 2006)***	**Incremental Employment**	**Total Employment *(As of 30th September 2021*)**
Central Government SEZs	1,22,236 person	71,351 person	1,93,587 person
State/Pvt. SEZs set up before 2006	12,468 person	97,286 person	1,09,754 person
SEZs Notified under the Act	0 person	22,56,945 person	22,56,945 person
Total	**1,34,704 person**	**24,25,582 person**	**25,60,286 person**

Exports in 2019-20	**Rs. 7,96,669 Crore [112.37 Billion USD]** (Growth of 13.62% over FY 2018-19)
DTA Sale (Deemed exports)	***Rs. 19,662 Crore (2% of total production)***
DTA Sale (Not counted for +ve NFE)	***Rs. 1,14,445 Crore (12% of total production)***
Exports in 2020-21	**Rs. 7,59,524 Crore [102.32 Billion USD]** (Decrease of -4.66% over FY 2019-20)
DTA Sale (Deemed exports)	***Rs. 20,167 Crore (2% of total production)***
	Rs. 1,76,634 Crore (18% of total

DTA Sale (Not counted for +ve NFE)	***production)***
Exports in 2021-22 ***(As of 31st October 2021)*** ***DTA Sale (Deemed exports)*** ***DTA Sale (Not counted for +ve NFE)***	**Rs. 5,29,333 Crore [71.46 Billion USD]** (Growth of 31% over the exports of the corresponding period of FY 2020-21) ***Rs. 12,931 Crore (2% of total production)*** ***Rs. 1,46,050 Crore (21% of total production)***

5.3.2 AGRI EXPORT ZONE

Under chapter 16 of Exim Policy 2001, a new concept of Agri Export Zone (AEZ) has been inserted by Govt. of India. Agricultural and Processed Food Products Export Development Authority (APEDA) has been nominated as the Nodal Agency to coordinate the efforts on the part of Central Govt. negotiations. This concept has been explained below:

Sporadic efforts have been made in the past for promoting the export of agricultural produce/products from the country. Thus, on the one hand, Research and Development have taken place with little bearing on the development of particular agricultural produce for export, on the other hand, financial and fiscal incentives are being provided for exporting particular product without actually addressing pre-harvesting and post-harvesting practices. The concept of the Agri export zone thus attempts to take a comprehensive look at a particular produce/product located in a contiguous area to develop and source the raw materials, their processing/packaging, leading to final exports.

Thus, the entire effort is centered around the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market. There would also be a need to identify/enlist difficulties/ problems encountered at each stage.

These difficulties could be procedural or may relate to a particular quality standard. A package needs to be developed to suggest solutions to these problems and agencies/agencies identified to implement these in a given time frame.

5.3.2.1 MEASURES ENVISAGED PROMOTING EXPORTS FROM AEZ

i. Financial Assistance

Both Central, as well as State governments and their agencies, are providing a variety of financial assistance to various agri-export related activities. These extend from providing financial assistance for Training and Extension, R&D, Quality Upgradation, Infrastructure, Marketing, etc. Thus, whereas Central Government Agencies like APEDA, NHB, Deptt. of Food Processing Industries, Ministry of Agriculture assist, several State Governments have also extended similar facilities. All these facilities would have to be dovetailed and extended to promote Agri exports from the proposed Zones in a coordinated manner. Some additional features like providing grants from the Market Access Initiative fund could also be considered.

ii. Fiscal Incentives:

The benefits under Export Promotion Capital Goods Scheme, which were hitherto available only to direct exporters, have now been extended to service exporters in the Agri Export zones. Thus, even service provided to ultimate exporters will be eligible for import of capital goods at a concessional duty for setting up of common facilities. They shall fulfill their export obligation through receipt of foreign exchange from ultimate exporters who shall make the payments from their EEFC account.

Exporters of value-added Agri products will be eligible for sourcing duty-free fuel for generation of power, provided the cost component of power in the ultimate product is 10% or more and the input-output norms are fixed by the advance licensing committee of the DGFT. Given the power-intensive nature of most of the value addition, almost all the exporters of value-added agriculture produce will become eligible for such facility. Similarly, input-output norms can also be fixed for sourcing other inputs, like fertilizer, pesticides, etc. duty-free for cultivation purposes.

5.3.2.2 ANTICIPATED BENEFITS OF AEZ

i) Strengthening of backward linkages with a market-oriented approach.

ii) Product acceptability and its competitiveness abroad as well as in the domestic market.

iii) Value addition to basic agricultural produce.

iv) Bring down the cost of production through economy of scale.

v) Better price for agricultural produce.

vi) Improvement in product quality and packaging.

vii) Promote trade-related research and development.

viii) Increase employment opportunities.

5.3.2.3 OPERATION OF THE CONCEPT

The entire approach of promoting the Agri-Export Zone would have to be taken on a project mode. This would mean that the State Governments would need to identify potential export products which could be selected for development with a cluster approach. State Governments will have to evolve Projects which are feasible and are possible to be implemented immediately. They have also to conform to the indicative guidelines given below.

The States will forward such project proposals to APEDA which will conduct the initial scrutiny of the proposals. If found feasible, APEDA may provide necessary guidance in preparing the detailed project report. This report, after preliminary scrutiny, will be placed before the Steering Committee which has been constituted under the chairmanship of Commerce Secretary with the following members:

i) Director General of Foreign Trade, Member

ii) Joint Secretary (EP Agri Division, DOC) Member

iii) Joint Secretary (Dept. of F.P.I., MOA) Member

iv) Joint Secretary [Infrastructure Division, DOC] Member

v) Executive Director, NHB Member

iv) Representative of DG, ICAR Member

vii) Director (Finance, Deptt. of Commerce) Member

viii) Chairman, APEDA Convenor

Once the project proposal of a State has been approved by the Committee, an MOU would be signed between APEDA (on behalf of the Central Government) and the State Government for providing possible assistance at each stage of the project. The responsibilities of the State government would also be defined in the MOU, a draft of which is under preparation.

5.3.2.4. GUIDELINES FOR STATE GOVERNMENTS

The proposal of the State Government for developing an Agri Export Zone would need to take into account all activities necessary to set up projects in such a Zone. Some basic guidelines for developing such projects are detailed below:

i) Identification of agricultural produce (cash crop) that would be developed for export through a cluster approach. This would be based on the concentration of production of a given product or a set of products in a particular area which could be promoted as an Agri Export Zone.

ii) The Zone could be a block/group of blocks or a district/group of districts.

iii) An Agricultural University would need to be identified which will assist in the R&D work relating to the development of the project. Such a University should preferably be in the vicinity of the Zone.

iv) In the case of horticulture-based projects, an exporter should be identified who would source products from 100-200 orchards in a contiguous area. In case there are more exporters/ farmers interested in exports, then a single packhouse operator or a processing unit to serve the exporters/farmers may be identified.

v) Efforts should be made to ensure enough production crops to enable the unit to run around the year.

vi) The proposal should indicate the entire range of activities involved in the process, list out interventions being provided by the State Governments at different levels and also suggest the facilitation that can be provided by the Central Government. Interventions from the Centre could be, inter-alia in areas of feasibility studies, setting up backward linkages, training, and extension, pre, and post-harvest activity, packaging, transportation, market promotion, etc.

5.3.2.5 RESPONSIBILITIES OF THE STATE GOVERNMENT

To enable the Agri-Export Zone to achieve the objectives of the concept and to make the projects viable, it is necessary that the Central and State Governments work closely with each other. This would imply certain pro-active steps to be taken by the States with regard to the following:

i) Identification of a State Government institution/agency which will be responsible for implementation and coordination of the entire activity.

ii) Single window problem-solving desks should be created in the offices promoting a zonal approach to agriculture exports.

iii) Adequate availability of infrastructure, inputs, electricity, etc.

iv) Redeployment of extension officers in the Export Zones who would interact regularly with APEDA and organize training/activity on a regular basis with a definite action program.

5.4 SOFTWARE TECHNOLOGY PARKS (STPS) AND BIOTEHNOLY PARKS (BPTS)

5.4.1 Software Technology Parks (STPS),

Software Technology Parks (STPs) are export-oriented projects catering to the needs of software development for exports. STPs can be set up by the Central Government, State Government, Public or Private Sector Undertakings, or any combination thereof. An STP may be an individual unit by itself or it may be one of such units located in an area designated as an STP Complex by the Ministry of Information Technology. The Government has already set up Software Technology Parks at Pune, Bangalore, Bhubaneshwar, Hyderabad, Thiruvananthapuram, Gandhinagar, and Noida. In these Parks, all the required facilities are made available. The STP Scheme is administered by the Ministry of Information Technology.

For encouraging exports of electronic hardware items including hard disk drives, computers, television, etc., such parks have been developed by the Ministry of Information Technology. An Electronic Hardware Technology Park (EHTP) may be an individual unit by itself or a unit located in an area designated as EHTP Complex. As in the case of the STP Scheme, the EHTP Scheme is also administered by the Ministry of Information Technology.

Under STP Scheme, a software development unit can be set up for the development of software, data entry and conversion, data processing, data analysis, and control data management or call center services for exports. Under EHTP Scheme, a unit can be set up for the manufacture and development of electronics hardware, or electronics hardware and software in an integrated manner for exports.

5.4.1.1 POLICIES FOR STP AND HELP

The policy provisions for STP and EHTP Schemes are substantially the same as those applicable to the general EOU Scheme. Thus, the provisions of EXIM Policy regarding portability of goods, DTA sale, clearance of samples, sub-contracting, inter-unit transfer, repairs, reconditioning and re-engineering, sale of unutilized material, de-bonding, etc. are more or less the same for STP/EHTP units as well as general EOUs.

However, considering the special requirements of the software/hardware development sector, some specific provisions have been made for the STP/EHTP units in the EXIM Policy as well as in the Customs notifications governing the Scheme, which may be referred to.

To implement the STP scheme, the Government has issued two notifications, namely, 138/91-Cus, dated 22-10-1991 (for units located in Software Technology Park Complexes) and 140/91-Cus, dated 22-10-1991(for standalone software development units) allowing duty-free import of specified goods to such units. In respect of the EHTP scheme, notification Nos 95/93-Cus, dated 2- 3-1993 (for units located in Electronic Hardware Technology Park Complexes) and 96/93-Cus, dated 2-3-1993 (for standalone electronic hardware units) allow duty-free import of specified goods to such units. To enable such STP /EHTP units to procure specified goods from DTA without payment of duty, notification No. 1/95-CE, dated 4-1-1995 has been issued.

The sector-specific provisions in respect of STP/EHTP units are as follows: -

(i) EHTP/ STP units are allowed to make DTA sales of software through data communication/ telecommunication links. This is subject to the condition that the Director of STPI (Software Technology Park of India) certifies the valuation of such software sold in DTA. (Circular No. 54/98-Cus, dated 31-7-1998).

(ii) STP units are allowed to import telematics infrastructure equipment for creating a central facility for the export of software without payment of duty. The central facility so developed by STP units for transmission of data/software for export is allowed to be utilized by other STP units and units in DTA for export of software. In the case of the EHTP unit, such a facility is not available. However, the agency/society authorized to set up the EHTP Complex is allowed to create a central facility for use by EHTP units located within such Complex.

(iii) Under the STP scheme, the units are allowed to render consultancy services for the development of software “on-site” abroad and consultancy fees received by such units in convertible foreign currencies are deemed to be exports for the purposes of fulfillment of the export obligation under the Scheme.

(iv) The STP units are allowed to use the computer system for the purpose of training including commercial training provided the unit has achieved the prescribed NFEP. However, computer terminals are not allowed to be installed outside the bonded premises to impart training. In the case of EHTP, the units are allowed to use a computer system for imparting training to the workers only.

The provisions at serial (i), (iii), and (iv) are also applicable to the software development units under the general EOU scheme operating under notification Nos. 53/97-Cus, dated 3-6-1997 and 1/95-CE, dated 4-1-1995.

5.4.2 BIOTECHNOLOGY PARKS (BPTS)

Biotechnology is the manipulation (as through genetic engineering) of living organisms or their components to produce useful usually commercial products (such as pest-resistant crops, new bacterial strains, or novel pharmaceuticals).

Biotechnology parks are similar to information technology parks, which were introduced to develop the scope of the information technology sector, this was created with the same intention. These parks are established to advance products and technology in the field of biotechnology and to produce enough research and entrepreneurs to invest their time and energy into making this sector a much more prominent sector in India.

5.4.2.1 CONCEPT OF BIOTECHNOLOGY PARKS IN INDIA

The Ministry of Science and Technology in 1986 introduced the Department of biotechnology. India has been supporting the growing scope of biotechnology recently and for that, there has been a lot of development in the area of biotechnology-related institutes or to fulfill the requirements that are needed. Just like how the concept of Information Technology parks developed in India, biotechnology parks was also introduced so that there can be an increase in the growth of the biotechnology sector and not remain static as it was a few years back. The idea of these biotechnology parks has been borrowed from foreign countries, where attention was given to the sector of biotechnology, by doing so there are a lot of benefits such as:

i. It is huge support given to new companies that are just starting their business, which they have initiated through any technologically integrated innovative ideas.

ii. A closed environment is created where these biotechnology-related companies can interact with large global companies and this will prove to benefit the companies mutually.

iii. Formal connections can be maintained with various organizations that research areas related to biotechnology.

5.4.2.2 NEED FOR BIOTECHNOLOGY PARKS

There are many reasons which biotechnology parks are needed, there has been no growth in the field of biotechnology and it has been static for a very long time, because of which there are many difficulties that are being faced by the entrepreneurs who are starting their business in the field of biotechnology. Therefore, the introduction of biotechnology parks is needed for various reasons such as:

i. This industry needs a long time for their inventions to develop and progress in the commercial market, as well as a huge capital, is needed that is to be invested to start a venture in the field of biotechnology, for which getting any sort of financial help from any source is a very hard task to do.

ii. There are no proper incentives that are given for companies to take on high-risk projects

iii. There are no public-private relationships in the field of biotechnology.

iv. There is no adequate technological know-how in this field, and the only available technology is old machines which will not be of much use in this field, as the latest technology is needed for the latest inventions.

v. Lots of laws to follow in India, which makes it very hard for companies to set up a place in the commercial market individually.

vi. Manpower is very less in India, and this is one of the factors that is necessary.

vii. Projects are started without having proper knowledge about what it is that people are venturing out to, so there is always a risk of failure.

viii. Nobody has specialized in any domain-related areas that will help for the project, and there is only broad knowledge about a particular project topic, which makes it very difficult for people to analyze the pros and cons before starting with a project.

5.4.2.3 SCHEMES FOR BIOTECHNOLOGY PARKS

For the growth of the biotechnological field, there have been schemes that have been developed by the government called the ‘National Biotechnology Park Scheme’ under the Department of biotechnology, where the government will help fund and give financial help to set up these biotechnology parks throughout India. The objectives which are being aimed by making these biotechnology parks are the following:

i. To promote biotechnology and the scope of it through the whole country.

ii. To have high-quality facilities and infrastructure to help with the manufacturing and production of these inventions.

iii. To have an ecosystem that is favourable for these inventions to prosper.

iv. To encourage entrepreneurship.

v. To increase the competitiveness in the field of biotechnology by providing enough rewards and necessary items for promoting the field.

5.4.2.4 FUNCTIONS OF BIOTECHNOLOGY PARKS

i. Encourage and help in the process of developing innovative biotechnological inventions

ii. To provide sufficient facilities so that the process of developing biotechnological inventions is not hampered. Facilities include types of equipment etc.

iii. There should be separate units provided for trial and commercial purposes for these inventions.

iv. Consultancy services to be provided especially in fields such as Intellectual Property Rights to those who do not have sufficient knowledge about these areas and require help for the proper functioning of their inventions.

v. To provide land that is cost-effective so that, activities relating to biotechnology could be carried out.

5.4.2.5 BIOTECHNOLOGY AND TRIPS

Patent law applies to biotechnology aspects too, one set of issues relates to the scope and legal standards of patent protection. While in principle, following the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), patents are available for any invention in any fields of technology, the issue of the patentability of biological materials, isolated or derived from naturally occurring living organisms, has triggered widespread discussions. Some argue that such biological materials are mere "discoveries", and therefore not patentable, while others argue that they are man-made "inventions".

It was decided that the patent for any biotechnological development could only be given if it fulfilled certain criteria and where there can be the practical use of the invention made. Before these biological resources can be patented various other parts have to be looked into such as the World Trade organization, biodiversity, saving the ecosystem, etc.

There are certain items in biotechnology that cannot have a patent granted and they are the following:

1. An invention would not be patentable if it is immoral or against public order, harmful to human, animal, or plant life, or harmful to the environment.

2. Discovery of living things or non-living substances in nature.

3. Plants and animals in whole or any parts thereof other than micro-organisms but including seeds, varieties, and species.

4. Essentially biological processes for the production or propagation of plants and animals.

5. Any Process for the medicinal, surgical, curative, prophylactic, diagnostic or therapeutic, or other treatment of human beings or animals to render them free of disease or to increase their economic value or that of their products.

6. New use or new property of a known substance.

7. Methods of agriculture or horticulture.

8. Traditional knowledge.

5.5 CHECK YOUR PROGRESS

Q1. When was SEZ scheme launched?

e. 1980
f. 1990
g. 2000
h. 2010

Q2. Where was the first Asian Export Processing Zone established?

a. Beijing, China
b. Kandla, India
c. Moscow, Russia
d. Jakarta, Indonesia

Q3. There are ……. Central Government Special Economic Zones (SEZs).

a. 8
b. 7
c. 6

d. 5

Q4. Name the Nodal Agency to coordinate the efforts on the part of Central Govt. negotiations for Agri Export Zone.

a. NAPTA
b. SAPTA
c. SEPTA
d. APEDA

Q5. Are EHTP/ STP units allowed to make DTA sales of software through data communication/ telecommunication links?

a. Yes
b. No

Q6. When was the Department of biotechnology introduced?

a. 1966
b. 1976
c. 1986
d. 1996

Q7. Are BPTS covered under TRIPS?

a. Yes
b. No

Q8. Which item among the following cannot have a patent granted in biotechnology?

a. Discovered technology
b. Innovative technology
c. Invented technology

d. Traditional technology

5.6 SUMMARY

Special Economic Zones play a very important role in the economic growth of any nation. These are the specified notified geographic areas that enjoy special privileges in form of various tax concessions, low checks, and control, fewer formalities, liberal laws as compared to non-SEZs areas from the Government. The SEZ Rules provide for the different minimum land requirements for different classes of SEZs.

Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created. The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment, are Duty-free import/domestic procurement of goods for development, operation, and maintenance of SEZ units; 100% Income Tax exemption on export income; Exemption from Minimum Alternate Tax (MAT), Exemption from Central Sales Tax, Service Tax, State sales tax or GST.

The biotechnology industry in India is all set to emerge all the more as the importance of this industry is being known and acknowledged not just in India, but the whole world. With the present situation of the pandemic, biotechnological developments have been going up the roof with the inventions of new vaccines, testing kits, etc. The implementation of TRIPS was supposed to be a setback in the field of biotechnology, this was not the case and biotechnology parks will ensure that the field of biotechnology only keeps on improving over the years to come.

5.7 KEYWORDS

Export: Transfer of surplus production into another country.

Exporter: It refers to a business unit that is engaged in export business.

SEZ: It is a special economic zone i.e. specified notified geographic areas that enjoy special privileges.

EPZ: It is Export Processing Zone i.e. an area set up to enhance commercial and industrial exports by encouraging economic growth through investment from foreign entities.

Domestic Tariff Area (DTA): It means an area within India that is outside the Special Economic Zones and EOU/EHTP/STP/BTP. The Units operating under certain specific schemes such as EPZ/SEZ/EOU are expected to carry out their activities within a customs bonded area.

Free trade zone: It is a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured and re-exported under specific customs regulations and generally not subject to customs duty.

Infrastructure: The basic physical and organizational structures and facilities (e.g. buildings, roads, and power supplies) needed for the operation of a society or enterprise.

GST: Goods and Services Tax, is a tax that customers have to bear when they buy any goods or services, such as food, clothes, electronics, items of daily needs, transportation, travel, etc.

FDI: A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

Incentives: An incentive is anything that motivates a person to do something.

Economic growth: Economic growth is an increase in the production of economic goods and services, compared from one period of time to another.

Sub-contracting: Employ a firm or person outside one's company to do (work) as part of a larger project.

SEZ Developer: A person who, or a State Government, has been granted by the Central Government a letter of approval for setting up an SEZ.

Duty-free Import: It is an import arrangement that exempts international importers from paying tax on luxury goods.

Capital Goods: Goods that are used in producing other goods, rather than being bought by consumers.

Public sector undertaking: Those companies that are owned by the union government of India or one of the many state or territorial governments or both.

5.8 SELF-ASSESSMENT TEST

Q1. What do you mean by SEZ? What are the rules, objectives, and approval mechanisms in SEZ Act, 2005?

Q2. Describe SEZ. What are various incentives and facilities offered to Special Economic Zone in India?

Q3. Explain in detail Special Economic Zone, Act, 2005.

Q4. What are various Infrastructures available to Indian exporters? Explain.

Q5. Discuss the role of AEZ in positioning Indian Agri products.

Q6. Write a brief note on the following

a. STPS b. EHTPS

Q7. Discuss the significance of BTPS in promoting biotechnology in India.

5.9 ANSWERS TO CHECK YOUR PROGRESS

1. c
2. b
3. b
4. d
5. a
6. c
7. a
8. d

5.10 REFERENCES/SUGGESTED READINGS

http://dbtindia.gov.in/schemes-programmes/innovation-platform/biotech-parks-incubators

http://sezindia.nic.in/cms/facilities-and-incentives.php

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Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Dr. Rajiv Kumar
Lesson No.: 6	Vetter: Prof. Suresh K. Mittal
Foreign Investment in India	

STRUCTURE

6.0 LEARNING OBJECTIVES

After going through this lesson, the learner should be able to:

- Know the meaning and significance of Foreign Investment
- Understand the advantages and disadvantages of Foreign Investment
- Know the factors affecting International Investment
- Understand the Growth and Recent Trends in FDIs

6.1 INTRODUCTION TO FOREIGN INVESTMENT IN INDIA

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

The economic liberalizations that swept across the world, particularly since the late 1980s, have very significantly changed the environment for international investments. At the same time, the surging international capital flows, in its turn, are substantially impacting the business environment. As Peter F. Drucker in his Managing for the Future observers, "increasingly world investment rather than world trade will be driving the international economy. Exchange rates, taxes, and legal rules will become more important than wage rates and tariffs."

6.1.1 Significance of Foreign Investment

Following the analysis of Donald MacDougall and Paul Streeten, Gerald Meier observes that, from the standpoint of national economic benefit, the essence of the case for encouraging an inflow of capital is that the increase in real income resulting from the act of investment is greater than the resultant increase in the income of the investor. If the value added to output by the foreign capital is greater than the amount appropriated by the investor, social returns exceed private returns. As long as foreign investment raises productivity, and this increase is not wholly appropriated by the investor, the greater product must be shared with others, and there must be some direct benefits to other income groups as mentioned below:

1. Domestic Labour: Domestic labour may get higher real wages because of the increase in productivity. There might also be an expansion of the employment opportunities.

2. Consumers: If foreign investment is cost-reducing in a particular industry, consumers of the product may gain through lower product prices. If the investment is product-improving or product-innovating, consumers benefit from better quality products or new products.

3. Government: The increase in production and foreign trade resulting from foreign capital might increase the fiscal revenue of the government.

4. External economies: Foreign capital may bring in a number of indirect gains through the realisation of external economies. For instance, if foreign investment is used for the development of infrastructure, this could stimulate domestic investment in industrial and other sectors.

There are various factors that signify the importance of FDI in India some of which are listed below:

1) Helps in balancing international payments:

FDI is the major source of foreign exchange inflow in the country. It offers a supreme benefit to country's external borrowings as the government needs to repay the international debt with the interest over a particular period of time. The inflow of foreign currency in the economy allows the government to generate adequate resources which help to stabilize the BOP (Balance of Payment).

2) FDI boosts development in various fields:

For the development of an economy, it is important to have new technology, proper management and new skills. FDI allows bridging of the technology gap between foreign and domestic firms to boost the scale of production which is beneficial for the betterment of Indian economy. Thus, FDI is also considered an asset to the economy.

3) FDI & Employment:

FDI allows foreign enterprises to establish their business in India. The establishment of these enterprises in the country generates employment opportunities for the people of India. Thus, the government facilitates foreign companies to set up their business entities in the country to empower Indian youth with new and improved skills.

4) FDI encourages export from host country:

Foreign companies carry a broad international marketing network and marketing information which helps in promoting domestic products across the globe. Hence, FDI promotes the export-oriented activities that improve export performance of the country.

Apart from these advantages, FDI helps in creating a competitive environment in the country which leads to higher efficiency and superior products and services.

6.1.2 Types of Foreign Investment

Broadly, there are two types of foreign investment, namely, foreign direct investment (FDI) and portfolio investment. FDI refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Direct investment and management of the firms concerned normally go together. If the investor has only a sort of property interest in investing the capital in buying equities, bonds, or other securities abroad, it is referred to as portfolio investment. That is, in the case of portfolio investments, the investor uses his capital in order to get a return on it, but has no much control over the use of the capital.

FDIs are governed by long-term considerations because these investments cannot be easily liquidated. Hence, factors like long-term political stability, government policy, industrial and economic prospects etc. influence the FDI decision, However, portfolio investments, which can be liquidated fairly easily, are influenced by short-term gains. Portfolio investments are generally much more sensitive than FDIs. Direct investors have direct responsibility with the promotion and management of the enterprise. Portfolio investors do not have such direct involvement with the promotion and management. Since the economic liberalisation of 1991, there has been a surge in the FDI and portfolio investments in India. There are mainly two routes of portfolio investments in India, viz., by Foreign Institutional Investors (FIIs) like mutual funds and through Global Depository Receipts (GDRs), American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs). GDRs/ADRs and FCCBs are instruments issued by Indian companies in the foreign markets for mobilising foreign capital by facilitating portfolio investment by foreigners in Indian securities. Since 1992, Indian companies, satisfying certain conditions, are allowed to access foreign capital markets by Euro issues.

6.1.3 Disadvantages of FDI

Foreign capital, private and official (governmental and institutional) have certain limitations. Certain additional risks are associated with the private foreign capital. One of the important limitations to utilise the foreign capital is the absorptive capacity of the recipient country, i.e., the capacity of the country to utilise the foreign capital effectively. Lack of infrastructural facilities, technical know-how, personnel, inputs, market, feasible projects, inefficiency or inadequacy of administrative machinery etc. are important factors that affect the absorptive capacity. Sometimes 'strings' are attached to the official assistance—the recipient country may be pressurised to fall in line with the ideology or direction of the donor.

The following criticisms are levelled against foreign capital:

1. Private foreign capital tends to flow to the high profit areas rather than to the priority sectors.

2. The technologies brought in by the foreign investor may not be adapted to the consumption needs, size of the domestic market, resource availabilities, stage of development of the economy, etc.

3. Through their power and flexibility, the multinational corporations can evade or undermine economic autonomy and control, and their activities may be inimical to the national interests of particular countries.

4. Foreign investment, sometimes, have unfavourable effect on the Balance of Payments of a country because the drain of foreign exchange by way of royalty, dividend, etc., is more than the investment made by the foreign concern.

5. Foreign capital sometimes interferes in the national politics.

6. Foreign investors sometimes engage in unfair and unethical trade practices.

7. Sometimes, foreign investment can result in the dangerous situation of minimising/ eliminating competition and the creation of monopolies or oligopolistic structures.

8. FDI can also potentially displace domestic producers by pre-empting their investment opportunities.
9. Often, several costs are associated with encouraging foreign investment. Meier observes that these

costs may arise from special concessions offered by the host country, adverse effects on domestic saving, deterioration in the terms of trade, and problems of balance of payments adjustment.

10. **Other Disadvantages**

- **Disappearance of cottage and small scale industries:** Some of the products produced in cottage and village industries and also under small scale industries had to disappear from the market due to the onslaught of the products coming from FDIs. Example: Multinational soft drinks.

- **Contribution to the pollution:** Foreign direct investments contribute to pollution problem in the country. The developed countries have shifted some of their pollution-borne industries to the developing countries. The major victim is automobile industries. Most of these are shifted to developing countries and thus they have escaped pollution.

- **Exchange crisis:** Foreign Direct Investments are one of the reason for exchange crisis at times. During the year 2000, the Southeast Asian countries experienced currency crisis because of the presence of FDls. With inflation contributed by them, exports have dwindled resulting in heavy fall in the value of domestic currency. As a result of this, the FDIs started withdrawing their capital leading to an exchange crisis. Thus, too much dependence on FDls will create exchange crisis.

- **Cultural erosion:** In all the countries where the FDls have made an inroad, there has been a cultural shock experienced by the local people, adopting a different culture alien to the country. The domestic culture either disappears or suffers a setback. This is felt in the family structure, social setup and erosion in the value system of the people. Importance given to human relations, hither to suffers a setback with the hi-fi style of living.

- **Political corruption:** In order to capture the foreign market, the FDIs have gone to the extent of even corrupting the high officials or the political bosses in various countries. Lockheed scandal of Japan is an example. In certain countries, the FDIs influence the political setup for achieving their personal gains. Most of the Latin American countries have experienced such a problem. Example: Drug trafficking, laundering of money, etc

- **Inflation in the economy:** The presence of FDIs has also contributed to the inflation in the country. They spend lot of money on advertisement and on consumer promotion. This is done at the cost of the consumers and the price is increased. They also form cartels to control the market and exploit the consumer. The biggest world cartel, OPEC is an example of FDI exploiting the consumers.

- **Trade deficit:** The introduction of TRIPs (Trade Related Intellectual Property Rights) and TRIMs (Trade Related Investment Measures) has restricted the production of certain products in other countries. For example, India cannot manufacture certain medicines without paying royalties to the country which has originally invented the medicine. The same thing applies to seeds which are used in agriculture. Thus, the developing countries are made to either import the products or produce them through FDIs at a higher cost. WTO (World Trade Organization) is in favour of FDIs.

- **World Bank and lMF aid:** Some of the developing countries have criticized the World Bank and IMF (International Monetary Fund) in extending assistance. There is a discrimination shown by these international agencies. Only those countries which accommodate FDIs will receive more assistance from these international institutions.

- **Convertibility of currency:** FDIs are insisting on total convertibility of currencies in under-developed countries as a prerequisite for investment. This may not be possible in many countries as there may not be sufficient foreign currency reserve to accommodate convertibility. In the absence of such a facility, it is dangerous to allow the FDIs as they may withdraw their investments the moment they find their investments unprofitable.

6.1.4 Government Initiatives to Promote FDI

The Indian government has initiated steps to promote FDI as they set an investor-friendly policy where most of the sectors are open for FDI under the automatic route (meaning no need to take prior approval for investment by the Government or the Reserve Bank of India). The FDI policy is reviewed on a continuous basis with the purpose that India remains an investor-friendly and attractive FDI destination. FDI covers various sectors such as Defence, Pharmaceuticals, Asset Reconstruction Companies, Broadcasting, Trading, Civil Aviation, Construction and Retail, etc.

In the Union Budget 2018, the cabinet approved 100% FDI under the automatic route for single-brand retail trading. Under this change, the non-resident entity is permitted to commence retail trading of 'single brand' product in India for a particular brand. Additionally, the Indian government has also permitted 100% FDI for construction sector under the automatic route. Foreign airlines are permitted to invest up to 49% under the approval route in Air India.

The main purpose of these relaxations in foreign investment by the government is to bring international best practices and employee the latest technologies which propel manufacturing sector and employment generation in India. To boost manufacturing sector with a focus on 'Make in India' initiative, the government has allowed manufacturers to sell their products through the medium of wholesale and retail, including e-commerce under the automatic route.

6.2 FACTORS AFFECTING INTERNATIONAL INVESTMENT

The theories of foreign investment described above have indicated several possible reasons for foreign investment. This section is a further extension of the important factors affecting international investment.

1. Rate of interest: One of the most important stimuli to international capital movements is the difference in the rate of interest prevailing at different places. Capital has a tendency to move from a country with a low rate of interest to a country where it is higher, other things being equal, interest rates or foreign exchange rates.

2. Speculation: Short-term capital movements may be influenced also by speculation pertaining to anticipated changes in the interest rates or foreign exchanges rates.

3. Profitability: Private foreign capital movement is influenced by the profit motive. Hence, other things being equal, private capital will be attracted to countries where the return on investment is comparatively higher.

4. Costs of production: Private capital movements are encouraged by lower costs of production in foreign countries. As Kreinin points out, we may distinguish between two types of cost-reducing investment. The first arises from the need to obtain raw materials from abroad. Such materials may be either unavailable at home or obtainable only at extremely high costs, but they are essential for the production and sale of final products at home or abroad. Without them, profit opportunities would remain unexploited. Indeed, vast investments in the extractive industries are motivated by the fact that the capital must go where the resources are. The second type of cost-reducing investment pertains to costs of commodities other than materials, primarily labour.

5. Economic conditions: Economic conditions, particularly the market potential and infrastructural facilities, influence private foreign investment. The size of the population and the income level of a country have an important bearing on the market opportunities.

6. Government policies: Government policies, particularly towards foreign investment, foreign collaboration, remittances, profits, taxation, foreign exchange control, tariffs, and monetary, fiscal and other incentives, are important factors that may influence foreign investment in a country. Foreign investment can have many undesirable consequences if not properly monitored and regulated.

7. Political factors: Political factors like political stability, nature of important political parties and relations with other countries also influence capital movements.

6.3 GROWTH OF FDI

Following the sweeping changes in the economic policy, foreign investment has been surging in many countries. Today, the worldwide FDI flows and stocks are about 20 times their size in the early 1980s. Trends in Magnitude of Flows although foreign direct investment flows have their ups and downs; the long-term trend has been one of fast growth. For example, between 1970 and 2000, FDI inflows worldwide increased more than a hundred times. The growth has been the sharpest between 1990 and 2000 thanks to the universal liberalisation, privatisation and the surge in cross-border M&As by these developments. It was estimated at $1461 billion in 2013. After peaking in 2000, the FDI flows had a downturn. The upward trend in inflows began again in 2004. FDI inflows peaked in 2007 ($2100 billion but was lower in subsequent years). While the FDI flows had their ups and downs, the stock of FDI has increased tremendously over time. Worldwide FDI inward stock increased from $1779 billion in 1990 to $5810 in 2000 and further to $11999 billion in 2006. FDI inward stock as a percentage of GDP increased more than four times between 1990 and 2013, from 8.4 per cent to 34.3.

Cyclical Behaviour FDI flows are characterised by cyclical behaviour. The decline in FDI flows after peaking in 2000 followed rapid increases during the late 1990s. As the World Investment Reports point out, there was a similar pattern during the late 1980s and early 1990s, and in 1982- 1983. Thus, this is the third downward cycle in FDI, each punctuating a long upward trend in FDI every ten years or so. Factors Affecting the Trend in FDI Flows The swings in FDI flows reflect changes in several factors. The main ones are business cycles, stock market sentiment and M&As. These short-term factors (including factors such as the terrorist attack of September 11, 2000) work in tandem with longer-term factors, sometimes offsetting and at other times reinforcing them. There is, on the other hand, a stable and positive relationship between global FDI flows and the level and growth of world GDP. Technological change, shrinking economic distance and new management methods favour international production. Their impact is, however, countered by cyclical fluctuations in income and growth. The decline in FDI in 2001 reflected a slowdown in the world economy. More than a dozen countries – including the world's three largest economies fell into recession. On the supply side, FDI is affected by the availability of investible funds from corporate profits or loans, which is in turn affected by domestic economic conditions. On the demand side, growing overseas markets lead TNCs to invest, while depressed markets inhibit them. The more interdependent host and home economies become, and the more widely a recession or upswing spreads, the greater are the corresponding movements in global FDI. Data for 1980-2001 show that a bulge in global FDI accompanies high economic growth, and a trough accompanies low growth. However, the relationship between GDP growth and FDI is not uniform across groups of economies. They go together in developed but not in developing countries. One explanation for the different patterns of FDI flows is that business cycles spread much faster across developed countries than others. A supplementary explanation may be that some countries (as in CEE) had been cut off from substantial FDI flows for so long that they have a lot of "catching up" to do – short-term cycles do not affect their attractiveness. The rise in global FDI flows in 2006 was partly driven by increasing corporate profits worldwide and resulting higher stock prices that raised the value of cross-border mergers and acquisitions (M&As). M&As continued to account for a high share of FDI flows, but greenfield investment also increased, especially in developing and transition economies. As a result of higher corporate profits, reinvested earnings have become an important component of inward FDI. They accounted for an estimated 30 per cent of total inflows worldwide in 2006 and for almost 50 per cent in developing countries alone. One of the important determinants of the FDI trend is the trend in cross-border M&A. For example, the dramatic increases in cross-border M&As led to record flows in 1999 and 2000. Cross-border M&As made its contribution to the decline in the FDI too.

6.4 RECENT TRENDS IN FDIS

Enthused by a record foreign investment inflow, India is optimistic of continuing to be one of the world's favourite FDI destinations in 2020 on the back of the Modi government's liberalised norms and a significant jump in the ease of doing business ranking. Secretary in the Department for Promotion of Industry and Internal Trade (DPIIT) Guruprasad Mohapatra said that despite a slowdown in the global economy, inflows of foreign investment into the country have not been impacted. India received a USD 27.2-billion foreign investment in the first half of 2019 and the pace is said to have sustained thereafter. The healthy growth in the overseas investments is proving that there is a lot of optimism and enthusiasm about India as a foreign investment destination. All the ministries, departments and states are working to address issues and providing stable policies to facilitate entry of foreign companies. Ease of doing business is very critical for FDI. Foreign companies look into the World Bank's ranking and they have been very impressed with India's much-improved ranking so far. The improvement in the business environment gives a pleasant experience to foreign investors as it helps in making processes easier. Some of the states are also wooing investments. So there is a need to further work on the areas in which the investments are coming and see how quickly and seamlessly, we can give those approvals. The global companies which are looking to shift their bases from China to India, the government is focusing on those firms which are looking at India as a second investment destination. In the World Bank's doing business report, India's rank has improved to 63rd this year among 190 economies from 77th last year. The department is also holding a series of meetings to further relax foreign direct investment norms in the coming months in areas like AVGC (animation, visual effects, gaming and comics), and insurance. Although, the FDI is allowed through automatic route in most of the sectors, certain areas such as defence, telecom, media, pharmaceuticals and insurance, government approval is required for foreign investors. Under the government route, the foreign investor has to take prior approval of the respective ministry/department. Through the automatic approval route, the investor just has to inform the RBI after the investment is made.

6.5 CHECK YOUR PROGRESS

Multiple Choice Questions:

1. _______________ is a major source of non-debt financial resource for the economic development.

a. Balance of Payment

b. Foreign direct investment

c. GDP

d. None of the above

2. Which of these factors affect the international investment?

a. Economic Conditions

b. Cost of Production

c. Both a and b

d. Only a

3. Which among them is not a disadvantage of FDIs?

a. Exchange crisis

b. Political corruption

c. Cultural erosion

d. Boost to cottage industries

4. Introduction of__________ & __________has restricted the production of certain products in other countries.

a. M&As

b. TRIPs & TRIMs

c. Exchange crisis & Economic Condition

d. FDIs &FIIs

5. Which among these institutions is in favour of FDIs?

a. IMF

b. World Bank

c. World Trade Organisation

d. IDBI

6.6 SUMMARY

Encouraged by the favourable business environment fostered by the global liberalisation, the international private capital flows have been increasing rapidly. Cross-border M&As have been the major driver of the recent surge in the FDI. Foreign capital now contributes a significant share of the domestic investment, employment generation, industrial production and exports in a number of economies, including China. Broadly, there are the following two types of foreign investment;

- Foreign direct investment (FDI) where the investor has control over participation in the management of the firm.

- Portfolio investment where the investor has only a sort of property interest in investing the capital in buying equities, bonds, or other securities abroad. In the case of portfolio investments, the investor uses his capital in order to get a return on it, but has no much control over the use of the capital. The major portfolio investment in the Indian capital market is by the foreign institutional investors (FIIs).

Broadly there are three economic motives of FDI, viz., resources seeking (e.g., exploiting the natural resources of the host country); market seeking (i.e., to exploit the market opportunities of the host countries) and efficiency seeking (like low cost of production deriving from cheap labour). The presence of any (or even all) of these determinants alone need not attract FDI. Several other factors like the political environment, government policies, bureaucratic culture, social climate, infrastructural facilities etc. are also important determinants of FDI. Although the international capital flows to the developing countries have increased substantially in the last one decade or so, they are still predominantly between the developed countries. A small number of countries account for the lion’s share of the international capital inflows to the developing world. Although India has substantially liberalised its foreign investment policy, the FDI inflows had been much below the targets. India had not been getting even one-tenth the size of FDI flow to China. Even the cumulative FDI flow to India between 1991 and 2007 was less than the annual flow to China. Bureaucratic problems, certain unfavourable government attitudes, poor infrastructure, labour factors, high input costs etc. are regarded as the major reasons.

6.7 KEYWORDS

1. Foreign Direct Investment: A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

2. M&As: Mergers and acquisitions (M&A) is a general term used to describe the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions.

3. Government Initiatives: The Government takes initiatives to increase FDIs in India as it has amended FDI policy to increase FDI inflow.

4. Recent Trends: Recent trends mean the recent inflows and outflows of investments which affect the Indian economy.

6.8 SELF-ASSESSMENT TEST

1. What are Foreign Direct Investments and its significance?
2. What are the negative impacts of foreign direct investment for India?
3. Which all factors affect the international investment?
4. What are the recent trends and growth in FDIs?
5. Discuss the government initiatives to enhance FDIs.

6.9 ANSWERS TO CHECK YOUR PROGRESS

1. Foreign Direct Investment

2. Both a & b

3. Boost to cottage industries

4. TRIPs & TRIMs

5. World Trade Organisation

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Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Dr. Rajiv Kumar
Lesson No.: 7	Vetter: Prof. Suresh K. Mittal
Multinational Corporation in India	

STRUCTURE

7.0 LEARNING OBJECTIVES

After going through this lesson, the learner should be able to:

- Know about Multinational corporations and their Objectives.
- Understand the Opportunities and Challenges for MNCs in India.
- Know the problems in Growth of MNCs.
- Understand Current status and Criticisms against MNCs in India.

7.1 INTRODUCTION

The dynamics of the business environment fostered by the drastic political changes in the erstwhile communist and socialist countries and the economic liberalisation across the world has enormously expanded the opportunities for the multinational corporations, also known by names such as international corporation, transnational corporation, global corporation (or firm, company or enterprise) etc. The rapidity with which the MNCs are growing is indicated by the fact that while according to the World Investment Report 1997 there were about 45000 MNCs with some 2.8 lakh affiliates, according to the World Investment Report 2010 there were more than one lakh of them with about 9 lack affiliates. Only one-third of these affiliates were in the developed countries. China is host about to 36 per cent of the total number of affiliates. The MNCs account for a significant share of the world's industrial investment, production, employment and trade. Although the multinational corporation took birth in the early 1860s, it was after the Second World War that multinationals have grown rapidly. In the early days, the United States was the home of most of the MNCs. Now, there are a large number of Chinese, Japanese and European multinationals. There has been a fast increase of developing country firms in the Fortune 500. In 2014, China had 95, South Korea 17 and from India 8 companies in the list. MNCs of the US are more focused, i.e., they confine their business to one industry or product category. In fact, several American MNCs which attempted diversification, mostly by the acquisitions route, reverted to focus, after bitter experiences with the diversification. Compared with the US MNCs, most European companies have a much broader product line. Japanese companies, generally, have product lines that are much too broad. Of the top ten corporation in the US, only one (General Electric) is a classic conglomerate, while in Japan eight are conglomerates and only two are not (Toyota Motor and Nippon Telegraph and Telephone). Similarly, the Korean corporations are far too diversified. Recent trends indicate that the diversified corporations have many odds against them and the focus strategy is more successful.

As the concept of multinationality has several dimensions, there is no single universally agreed definition of the term multinational corporation. According to an ILO Report, “the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred to for convenience as the (“home country”) while the enterprise carries out operations in a number of other countries as well (“host countries”). Obviously, what is meant is “a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises.” Among the various other benchmarks sometimes used to define ‘multinationality’ is that the company in question must:

- Produce (rather than just distribute) abroad as well as in the headquarters country
- Operate in a certain minimum number of nations (six for example)
- Derive some minimum percentage of its income from foreign operations (e.g., 25 per cent)
- Have a certain minimum ratio of foreign to total number of employees, or of foreign total value of assets
- Possess a management team with geocentric orientations
- Directly control foreign investments (as opposed simply to holding shares in foreign companies).

The definitions of the terms transnational corporation (used to mean the same thing as MNC and similar terms) foreign affiliate, subsidiary and branch given in the UN’s World Investment Report are as follows. Transnational Corporations are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is deemed as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital state. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets. (In some countries, such as Germany and United Kingdom, the threshold is a stake of 20 per cent or more.) A Foreign Affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise). In the World Investment Report, subsidiary enterprise, a subsidiary enterprise, associate enterprise and branches are all referred to as foreign affiliates. A Subsidiary is an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholders' voting power and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body. An Associate is an incorporated enterprise in the host country in which an investor owns a total of at least 8 per cent, but not more than a half, of the shareholders' voting power.

7.2 MULTINATIONAL CORPORATION

This was the type of the corporation popular when many European companies internationalised during the pre-war (1920s and 1930s) when the trade barriers were very high. According to Bartlett and Ghoshal, the multinational organisation is defined by the following characteristics: a decentralised federation of assets and responsibilities, a management process defined by simple financial control systems overlaid on informal personal coordination and a dominant strategic mentality that viewed the company's worldwide operations as a portfolio of national businesses. In a multinational organisation, the decisions, obviously, are decentralised.

7.2.1 Characteristics of Multinationals

MNCs will always look out for opportunities. They carry out risk analysis and send their personnel to learn and understand the business climate. They develop expertise understanding the culture, politics, economy and legal aspects of the country that they are planning to enter. The essential element that distinguishes the true multinational is its commitment to manufacturing, marketing, developing R&D, and financing opportunities throughout the world, rather than just thinking of the domestic situation.

Some of characteristics of MNCs are:

(i) Mode of Transfer:

The MNC has considerable freedom in selecting the financial channel through which funds or profits or both are moved, e.g., patents and trademarks can be sold outright or transferred in return through contractual binding on royalty payments. Similarly, the MNC can move profits and cash from one unit to another by adjusting transfer prices on intercompany sales and purchases of goods and services. MNCs can use these various channels, singly or in combination, to transfer funds internationally, depending on the specific circumstances encountered.

(ii) Value for Money:

By shifting profits from high-tax to low-tax nations, MNCs can reduce their global tax payments. In addition, they can transfer funds among their various units, which allow them to circumvent currency controls and other regulations and to tap previously inaccessible investment and financing opportunities.

(iii) Flexibility:

Some to the internationally generated claims require a fixed payment schedule; other can be accelerated or delayed. MNCs can extend trade credit to their other subsidiaries through open account terms, say from 90 to 180 days. This gives a major leverage to financial status. In addition, the timing for payment of fees and royalties may be modified when all parties to the agreement are related.

7.2.2 Dominance of MNCs

The global liberalisation has paved the way for fast expansion and growth of the MNCs. The following paragraphs excerpted from the World Investment Reports 2000 and 2003 provide some indications of the economic dominance of the multinationals. Many countries and economic activities are dominated by MNCs, rendering them a formidable force in today’s world economy. According to UNCTAD’s World Investment Report 2009, there were more than 82,000 multinationals in the world with over 8 lakh foreign affiliates.

The size of large TNCs is sometimes compared to that of countries’ economies, as an indicator of the influence that the former have in the world economy. According to one comparison of the sales volume of firms with the GDP of countries, the sales of the top 200 firms accounted for 27.5 per cent of world GDP in 1999. Of the 50 largest “economies”, 14 were TNCs and 36 were countries. Their economic impact can be measured in different ways. In 2010, foreign affiliates accounted for about 68 million employees, compared to 21 million in 1990; their sales of almost $33 trillion were more than double the world exports in 2010, compared to 1990 when both were roughly equal; and the stock of outward foreign direct investment (FDD, increased from $1.7 trillion to $6.6 trillion over the same period. Foreign affiliates now account for one-tenth of world GDP and one-third of world exports. Moreover, if the value of worldwide TNC activities associated with non-equity relationships (e.g., international subcontracting, licensing, and contract manufacturers) is considered, TNCs would account for even larger shares in these global aggregates.

7.2.3 Perspective

Future holds out an enormous scope for the growth of MNCs. The changes in the economic environment in a large number of countries indicate this. For instance, the number of bilateral treaties that promote and/or protect FDI has increased markedly in recent times. A United Nation's Report described several developments that points to a rapidly changing context for economic growth, along with a growing role for transnational corporations in that process. These include:

1. Increasing emphasis on market forces and a growing role for the private sector in nearly all developing countries.

2. Rapidly changing technologies that are transforming the nature of organisation and location of international production.

3. The globalisation of firms and industries.

4. The rise of services to constitute the largest single sector in the world economy; and

5. Regional economic integration, which involve both the world's largest economies as well as selected developing countries.

7.2.4 Code of Conduct

It is widely felt that there must be a code of conduct to guide and regulate the MNCs. According to the Brandt Commission, the principal elements of an international regime for investment should include:

1. A framework to allow developing countries as well as transnational corporations to benefit from direct investments on terms contractually agreed upon. Home countries should not restrict investment or the transfer of technology abroad, and should desist from other restrictive practices such as export controls or market, not restrict current transfers such as profits, royalties and dividends, or the

repatriation of capital, so long as they are on terms which were agreed when the investment was originally approved or subsequently negotiated.

2. Legislation promoted and coordinated in home and host countries, to regulate the activities of transnational corporations in such matters as ethical behaviour, disclosure of information, restrictive business practices, cartels, anti-competitive practices and labour standards. International codes and guidelines are a useful step in that direction.

3. Cooperation by Governments in their tax policies to monitor transfer pricing and to eliminate the resort to tax havens.

4. Fiscal and other incentives and policies towards foreign investment to be harmonised among host developing countries, particularly at regional and sub-regional levels, to avoid the undermining of the tax base and competitive positions of host countries.

5. An international procedure for discussions and consultations on measures affecting direct investment and the activities of transnational corporations.

The Code of Conduct for MNCs, drawn up by the Commission on Transnational Corporations, set up by the UN's Economic and Social Council, required MNCs, inter alia, to:

• Respect the national sovereignty of host countries and observe their domestic laws, regulations and administrative practices.

• Adhere to host nations' economic goals, development objectives and socio-cultural values.

• Respect human rights.

• Not interfere in internal political affairs or in inter-governmental relations.

• Not engage in corrupt practices.

• Apply good practice in relation to payment of taxes, abstention from involvement in anti-competitive practices, consumer and environmental protection and the treatment of employees.

• Disclose relevant information to host country governments.

According to the 1976 declaration of the OECD Code of Practice on MNC operations, MNCs should contribute positively to economic and social progress within host nations. Its main provisions were that MNCs should:

- Contribute to host countries' science and technology objectives by permitting the rapid diffusion of technologies.
- Not behave in manners likely to restrict competition by abusing dominant positions or market power.
- Provide full information for tax purposes.
- Consult with employee representatives regarding major changes in operations, avoid unfair discrimination in employment and provide reasonable working conditions.
- Consider the host nation's balance of payments objectives when taking decisions.
- Regularly make public significant information on financial and operational matters, host countries themselves should, the Code insists, possess the absolute right to nationalise foreign-owned assets within their frontiers, but must pay proper compensation. It is very interesting to note that the demands by developing countries that the Code become legally binding were rejected by the UN General Assembly, at the behest of economically advanced countries.

7.2.5 Opportunities and Challenges for MNCs in India

For succeeding in India, you need to cater the locals with their local flavour, keep your prices competitive, value their diverse cultures, not hurt sentiments, provide outstanding services, and lot more things. India witnessed a number of foreign companies entering India since liberalisation in 1991. Out of these companies, many have shut down in short terms, since they could not survive India. Be it General Motors announcing its exit in mid-2017, or banks like Barclays and Royal Bank of Scotland shutting down their banking services, there were a number of reasons for their failure. Often times, the challenges they faced weren't accounted for in initial planning. Let us dwell deeper into some common challenges Multi-National Companies face while setting up business in India.

1. Infrastructure

Selecting a suitable place in India can be quite a challenge for Multinational Companies. Western companies tend to lease office spaces rather than owning it. Due to lack of professional infrastructure and high demands, companies need to book offices in under construction buildings way before they are completed. Not only this, they also need to lease large office spaces in the very beginning to keep a check on growth of the company, and availability of more space. This creates quite a hassle in the beginning for the spaces are too large for the amount of people it holds. Once the company grows, and there is scope of expansion, a company should be considered lucky if it gets another office near the existing ones. For instance, HP has more than 20 offices in Bangalore which are scattered all over the city. Now, it is looking towards constructing its own office campus, getting into real estate business, which was never in its initial plan.

2. Recruitment

Recruitment is another challenge for the companies as there is an enormous crowd applying for jobs in India, whereas the number of quality and talented professionals is very less. The fact that India has become a hub for IT/Software and Service sector, there is a race among top multinationals to hire the best available talent in the country. Also, the supply of labour is enormous in the country. To filter out the cream is a challenge in itself. For instance, there was once a time when there was a scarcity of software engineers in India, and hence, companies paid them high since the supply was low. Now, the tables have turned completely. Companies like Infosys receive more than 1.4 million applications in a year, out of which not more than 60–70k are interviewed. The final selection is as low as 25,000 per company. Since the supply has skyrocketed, the cost of labour has gone down. It is only a cream of students from top institutes who are employed by such companies.

3. Diverse culture

While Unity in Diversity is one of the top strengths of India, it is also one big weakness for the companies to set up their business. Since most companies are western, and the top management is foreign in the beginning, there is a huge problem in coping up with the culture of the diversity of employees they hire. This can stir quite unrest in the employees. In mono culture teams and countries, a person can freely express his views, whereas, in a diverse cultural nation like India, you are more likely to offend people with your thoughts and opinions.

4. Price centric customers

In India, another problem that companies face is the mentality of the people in buying goods and availing services. India is more of a price centric nation, which does not witness as much brand loyalty, as it does consider the price. Hence, not only do the companies need to provide quality products, they also need to charge a competitive price for that. People would compare features without going into the premium depth, and hence choose a cheaper version. The fall of the telecom sector is a perfect example for the price centric mentality of the people. For well settled companies which entered India are used to these challenges. Whereas, companies who have just started on a multinational path, have a long way to go to understand how the cultural, political and legal system works in India. The suggested solutions for all companies to deal with the government and also with cultural and recruitment problems is to hire Business Consultants or Senior Management who have in-depth knowledge of the same. India is a country that can provide you with vast business opportunities, only if you know how to utilize it the right way.

7.2.6 Problems from the Growth of MNCs

Much of the concern about MNCs stems from their size, which can be formidable. MNCs may impose on their host governments to the advantages of their own shareholders and the disadvantages of citizens and shareholders in the country of shareholders in the past. It can be difficult to manage economics in which MNCs have extensive investments. Since MNCs often have ready access to external sources of finance, they can blunt local monetary policy. When the Government wishes to constrain any economic activity, MNCs may nevertheless expand through foreign borrowing.

Similarly, efforts at economic expansion may be frustrated if MNCs move funds abroad in search of advantages elsewhere. Although it is true that any firm can frustrate plans for economic expansion due to integrated financial markets, MNCs are likely to take advantage of any opportunity to gain profits. As we have seen, MNCs can also shift profits to reduce their total 'tax burden by showing larger profits in countries with lower tax rates citizens and shareholders in the country of shareholders in the past.

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7.3 MULTINATIONAL CORPORATIONS IN INDIA

MNCs have been operating in India even prior to Independence like Singer, Parry, Philips, Unit- Lever, Proctor and Gamble. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. The entry of MNCs in India was controlled by existing industrial policy statements, MRTP Act, and FERA. In the pre-reform period the operations of MNCs in India were restricted.

New Industrial Policy 1991 and Multinational corporations:

The New Industrial Policy 1991 removed the restrictions of entry to MNCs through various concessions. The amendment of FERA in 1993 provided further concession to MNCs in India.

At present MNCs in India can—

(i) Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.

(ii) Borrow money or accept deposit without the permission of Reserve Bank of India.

(iii) Transfer shares from one non-resident to another non-resident.

(iv) Disinvest equity at market rates on stock exchanges.

(v) Go for 100 percent foreign equity through the automatic route in Specified sectors.

(vi) Deal in immovable properties in India.

(vii) Carry on in India any activity of trading, commercial or industrial except a very small negative list.

Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FERA.

7.4 CRITICISMS AGAINST MNCS IN INDIA

The operations of MNCs in India have been opposed on the following grounds:

(i) They are interested more on mergers and acquisitions and not on fresh projects.

(ii) They have raised very large part of their financial resources from within the country.

(iii) They supply second hand plant and machinery declared obsolete in their country.

(iv) They are mainly profit oriented and have short term focus on quick profits. National interests and problems are generally ignored.

(v) They use expatriate management and personnel rather than competitive Indian Management.

(vi) Though they collect most of the capital from within the country, they have repatriated huge profits to their mother country.

(vii) They make no effort to adopt an appropriate technology suitable to the needs. Moreover, transfer of technology proves very costly.

(viii) Once an MNC gains foothold in a venture, it tries to increase its holding in order to become a majority shareholder.

(ix) Further, once financial liberalizations are in place and free movement is allowed, MNCs can stabilize the economy.

(x) They prefer to participate in the production of mass consumption and non-essential items.

7.5 CHECK YOUR PROGRESS

Multiple choice questions:

1. In order to succeed in Indian market which activity is not major for MNCs.

e. Culture analysis
f. Competitive Price
g. Outstanding services
h. Ambiguous strategies

2. Which of these is the main objective of the MNCs which become a weak point for India?

e. Focus on Mergers and Acquisitions

f. Major eye on short term quick profit

g. Both a and b

h. None of the above

3. _______________a decentralised federation of assets and responsibilities.

e. Liberalisation

f. Multinational Corporation

g. Multilevel companies

h. None of the above

4. Higher growth of MNCs in India can cause:

e. Blunt of monetary policy

f. Advantages to own shareholders

g. Movement of funds outside India

h. All of the above

5. Which of these is not a major challenge or opportunity for MNCs?

e. Infrastructure

f. Finance

g. Diverse culture

h. Recruitment

7.6 SUMMARY

The lesson goes through all aspects of MNCs and their challenges and opportunities in India. *India* has been attracting various *multinational companies* with its attractive and friendly policies. India is an emerging country and the best reason for its development is *MNC's* of *India*. They are multi-process and multi-product enterprises. India is an investment-friendly nation and has attracted the attention of leading multinational organizations because of the population resources, the potential of our workforce, constantly improving when it comes to ease of doing business and a dynamic consumer-oriented market that is quick to absorb new ideas and services.

India benefits from the best multinational companies through their investments, coming in with new technology, contributions to infrastructure, capital and foreign exchange and boosting economic health. Employment generation is also a major aspect. But, at the same time MNC's are facing the challenges to survive and compete in the environment. A MNC always face the challenge of appropriate infrastructure, resources, consumers and many more hurdles to successfully implement their strategies.

Multinational companies are also coming out as a threat for Indian economy as they have their aims which are contradictory to host countries aim. MNCs concentrate on their own short term profits, transferring of funds to their country, recruitment of key personnel from home country and various other aspects. Multinational companies have a long way to go in India and with time it will face new challenges and will get new opportunities.

7.7 KEYWORDS

Multinational Corporation: A *multinational corporation* (*MNC*) is usually a large corporation incorporated in one country which produces or sells goods or services in various countries.

Challenges: MNCs entering a new country face lots of challenges such as availability of resources, infrastructure, labour and various other.

Opportunities: Opportunities are the best prospects available for the MNCs in their host country.

MNCs Growth: MNCs growth in India is causing harm to Indian economy or is boosting the economy is debatable issue.

Code of conduct: They are certain rules or acts to guide the conduct of MNCs.

7.8 SELF-ASSESSMENT TEST

1. What is a Multinational Corporation? What is its nature?
2. What are the major opportunities and challenges faced by MNCs in India?
3. Which are the major threats to Indian economy due to increased rate of MNCs?
4. What is the current status of MNCs in India?
5. "MNCs as Indian economy accelerators or decelerators" Discuss.

7.9 ANSWER TO CHECK YOUR PROGRESS

Answer of Multiple Choice Questions

1. Ambiguous strategies
2. Both a and b
3. Multinational Corporation
4. All of the above
5. Finance

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Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Dr. Sanjeev Kumar Garg
Lesson No.: 8	Vetter : Prof. Pardeep Kumar Gupta
Selection of Foreign Market and Modes of Entry in Foreign Market	

Structure

8.0 LEARNING OBJECTIVES

After going through this lesson, you will be able to:

- Understand how to select foreign market
- Evaluation matrix

- Various foreign market entry modes
- Essential conditions for entry in new market

8.1 INTRODUCTION

In the era of globalization every country wants to distribute their products & services worldwide in many countries. But due to limited resources, trade hurdles, tariff and non- tariff barriers, political risks, socio-cultural environment etc. it is not possible for a business unit to operate their businesses in all countries of the world. If all the above factors are in favor i.e. country not imposing trade restriction, no restriction on inflow and outflow of foreign direct investment or political stability is there, then it will be easy and profitable for businessmen to enter into new foreign markets. So, every country who wants to enter in the new foreign market is advised to make a rank list after evaluation of the countries according the compatibility with the above factors. A country with highest rank should be selected first for entry and use such rank list for future purpose also so that other options can be exercise accordingly.

8.2 STEPS IN COUNTRY EVALUATION AND SELECTION

Country evaluation and selection is not a onetime activity but it is continues activity. Country evaluation and selection **process include** five steps. Its main purpose is to gauge which international market or markets offer the best opportunities for our products or services to succeed. These steps are following:

Defining International Business objectives: First of allinternational business objectives have to be set before taking any decision to go outside from the domestic market. International business objectives can be the followings:

- to sell the surplus production in foreign market.
- to increase the foreign market share.
- to take the benefits of liberal policies of foreign countries.
- to earn profits after meeting competition in foreign market.
- to make strong relations with foreign companies to take benefits from other countries.

Country Evaluation and Selection Process

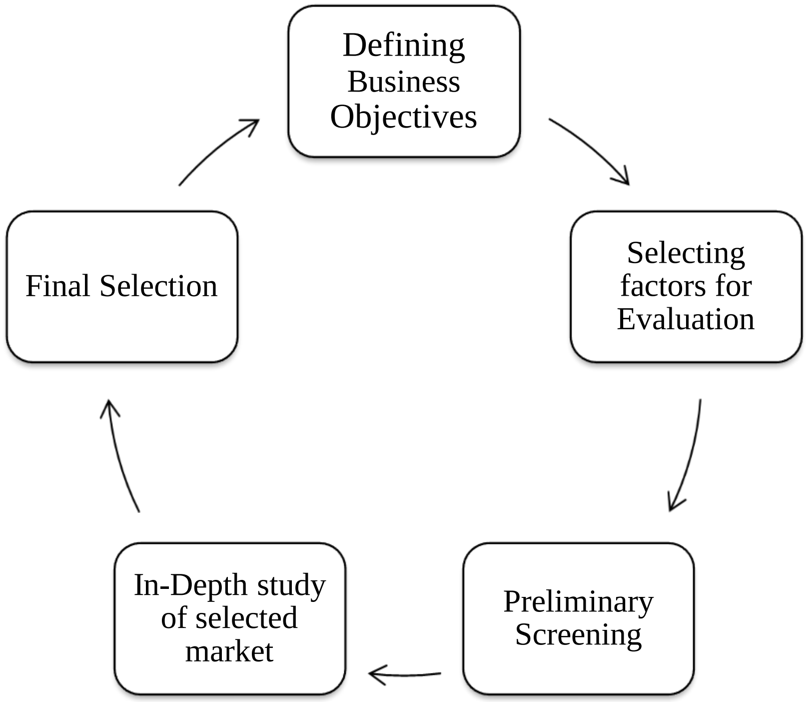


Figure 1

Selecting factors for evaluation: After defining the international business objectives the next step in the process of country evaluation and selection is to select the factors which are responsible for evaluation of a country. These can of two types, one for common for all countries and second those are country specific. These factors can be:

- Availability of raw material, labor, technology etc.
- Economic conditions, economic policies & economic legislation
- Demand of the product
- Political stability and ideology
- Socio-cultural factors
- Availability of Infrastructure
- Level of competition
- Government policies
- Tax incentives

Preliminary Screening: In preliminary screening various markets are evaluated and eliminated with the help of pre-determined factors as discussed above. The main objective of this step is to reduce the number of foreign markets for in depth evaluation and reject those markets which are disqualified according to the factors for evaluation. At this second stage one takes a more serious look at those countries remaining after undergoing preliminary screening. Now you begin to score, weight and rank nations based upon macro-economic factors such as currency stability, exchange rates, level of domestic consumption and so on. Now you have the basis to start calculating the nature of market entry costs. Some countries such as China require that some fraction of the company entering the market is owned domestically – this would need to be taken into account. There are some nations that are experiencing political instability and any company entering such a market would need to be rewarded for the risk that they would take. At this point the marketing manager could decide upon a shorter list of countries that he or she would wish to enter. Now in-depth screening can begin.

In-Depth Study of selected market: After preliminary screening, the next in the country evaluation and selection process is in-depth study of the selected market. The countries that make it to stage three would all be considered feasible for market entry. So it is vital that detailed information on the target market is obtained so that market decision-making can be accurate. For this evaluation matrix is to be prepared in which analysis on the bases of common and country specific factors and weight which are assigned to different factors according to their relevance are to be done. All of this information will form the basis of segmentation, targeting and positioning. One could also take into account the value of the nation's market, any tariffs or quotas in operation, and similar opportunities or threats to new entrants. At last weighted score are calculated by multiplication of raw score with weight.

Final Selection: Now a final short-list of potential nations is decided upon. Managers would reflect upon strategic goals and look for a match in the nations at hand. Those countries whose weighted score are high given top priority and whose score is less, the specific country rejected out rightly. The company could look at close competitors or similar domestic companies that have already entered the market to get firmer costs in relation to market entry. Managers could also look at other nations that it has entered to see if there are any similarities, or learning that can be used to assist with decision-making in this instance. A final scoring, ranking and weighting can be undertaken based upon more focused criteria. After this exercise the marketing manager should probably try to visit the final handful of nations remaining on the short-list. This final score can also be helpful in the near future also for the country selection and evaluation.

8.2.1 Factor affecting country evaluation and selection

Decision of entry into foreign market is based on number of factors which can influence this decision. These factors are:

Availability of raw material-Selection of foreign country decision can be taken on the basis of availability of raw material for finished product. Easy availability or good supply conditions of raw material give so many advantages to businessmen like less transportation cost etc.

Level of competition-If the number of competitors are less or level of competition is less for our product in foreign market then it will be beneficial to enter into that market.On the contrary, if cut-throat competition are there then it can be costly for us to enter into new foreign market.

Demand of the product-If population of a nation is large, their living standard is also high and cultural factors are favorable then the demand of a product is also high. Due to these factors most of MNC want to set-up their business in India and China.

Political environment- A country with stable govt. or political party is much favorable from the viewpoint of businessmen. If on the other side political parties are changing after completion of period then their ideology also will change. So, it become difficult to think about that country or to stay there.

Socio-cultural factors- Structure of society i.e. male or female, educated or uneducated, rich or poor, young or adult, value system, beliefs, preference, habits, taste, working style and customs plays important role in country selection. If our product match with this criteria then it will be beneficial for us to enter into that country otherwise not.

Infrastructure-Infrastructure play important role in the selection of new market in foreign country. It will be easy to do all activities with available infrastructure such as transport connectivity, banking &insurance, communication, power, ports etc.

Economic Environment-Economic environment includes economic regulations, economic policies and economic conditions. All these factors should be compatible with the business unit. This will help a MNC to do their business in new market.

Govt. policies and regulations- Policies of Govt. and their regulation also support to enter in new market by offering tax incentives, subsidies etc. Similarly, some Govt. may ban MNC's to enter into specific industry of a nation to save their domestic enterprises.

International trade agreements-agreement with the world level institutions like WTO, UNCTAD, IMF, World Bank, EU etc. allows countries to do business with one another with the liberal restrictions or policies. These countries do their trade in bilateral (trade agreements between two countries) or multilateral (trade agreements between many countries) form. Without these agreements globalization is ineffective.

8.2.2 Evaluation matrix or opportunity-Risk matrix

Evaluation or opportunity-risk matrix- It is a tool through which a country measure or evaluate the different opportunities in the light of risks available in other country in which the business unit wants to enter. In this evaluation matrix opportunities are compared with the factors, then ranking of all of the countries are done with the weighted score.

Weighted score= Raw score X Weights

Weighted score will be calculated by multiplication of raw score with weight. If the weighted score is high of a country then its ranking become high otherwise its ranking will be low. We will select the country with highest ranking because the possibilities of business are in favor. If a country have less score in this evaluation matrix then rejection will be profitable for business unit. This rank list must be handle with most care because in future this can be a source for business unit to enter or not in a specific country. Format of a evaluation matrix is given below:

Evaluation matrix or opportunity-Risk matrix

Sr. no	Factors	Weights	Country A		Country B		Country C	
			Raw score	Weighted score	Raw score	Weighted score	Raw score	Weighted score
1.	Tax rates, concessions and subsidies							
2.	Economic stability							

3.	**Growth rates**							
4.	**Infrastructure availability**							
5.	**Operating cost**							
6.	**Market size**							
7.	**Cultural factors**							
8.	**Government policies, rules and regulations**							
9.	**Political stability and ideology**							
10.	**Level of competition**							
11	**Availability of labor and their cost**							
12	**Availability of raw material**							
13	**Economic conditions**							
14	**Demand of product**							
15	**Inflation trends**							
	Sum of weighted score							
	Rank of countries on the basis of weighted score							

8.3 FOREIGN MARKET ENTRY STRATEGIES

Foreign market entry is most important decision of a business unit. Future of business unit depends on this decision whether it will survive or not. Mainly three modes of entry into foreign market can be exercise. These are trade mode, investment mode and contractual entry mode. Organization will make in the light 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. In direct method selling of goods and services directly in foreign market. In indirect are sold by an agent or countertrade.

Globalization made whole world a small village where anyone can easily contact with another. It brings domestic economy close with world economies. It promotes foreign trade in various nations. It not only brings economies like free trade, cheap labor, availability of capital etc. but new technological products also. More complex forms include involves joint ventures, or export 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.

In the era of globalization MNC’s are playing very important role because free movement of capital, labor, technology goods and services are now possible. With the improvement of infrastructure like transportation, communication technology, power, ports, tourism etc. it is possible to work with the link of world economies. With the liberalized approach, tariff free trade and ease of doing business in India, MNC’s are entering with a fast rate. So for entry into foreign it is necessary to give boost to globalization. Globalization includes:

- Integration of Indian economy with other economies;
- Free flow of factor of production i.e. labor, capital, technology etc;
- Elimination of trade barriers i.e. tariff and non-tariff barriers to ensure free flow of goods & services; and
- Expansion of MNC’s.

The main strategies to entry into foreign market are as follows:

8.3.1 Licensing

In an international licensing agreement one business unit of a country (licensor) allows the business unit of other country (licensee) or foreign firms, either exclusively or non-exclusively to use manufacturer know-how for a fixed term in a specific market.

In this foreign market entry mode, a licensor in the home country makes limited rights or resources available to the licensee in the host country. The rights or resources may include patents, trademarks, managerial skills, technology, and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without requiring the licensor to open a new operation overseas. The licensor earnings usually take forms of one time payments, technical fees and royalty payments usually calculated as a percentage of sales. For example 5 percent of sales or 7 percent of sales.

As in this mode of entry the transference of knowledge between the parental company and the licensee is strongly present, the decision of making an international license agreement depend on the respect the host government show for intellectual property and on the ability of the licensor to choose the right partners and avoid them to compete in each other market. Licensing is a relatively flexible work agreement that can be customized to fit the needs and interests of both, licensor and licensee.

Advantages of licensing:

- Obtain extra income for technical know-how, copy rights, patents.
- Reach new markets not accessible by export from existing facilities.
- Quickly expand without much risk and large capital investment.
- Pave the way for future investments in the market.
- Retain established markets closed by trade restrictions.
- Political risk is minimized as the licensee is usually 100% locally owned.
- Is highly attractive for companies that are new in international business.

Disadvantages of licensing

- Lower income than in other entry modes.
- Loss of control of the licensee manufacture and marketing operations and practices leading to loss of quality.
- Risk of having the trademark and reputation ruined by an incompetent partner.

- The foreign partner can also become a competitor by selling its production in places where the parental company is already in.

8.3.2 Franchising

In the franchising system one nation business unit grants the right to do business in a particular manner to the business unit of the other nation. It can be defined as: "A system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system."

Compared to licensing, franchising agreements tends to be longer and the franchisor offers a broader package of rights and resources which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way it is done by the franchisor. For example Domino provides the key part of their product to the franchisees in the other nations. Consider an example soft drink manufacturers like Pepsi and Coca-cola provide the key parts of their product to the franchisees in the other nations. The franchisees have their own bottling plants where they make soft drinks but they sell the same under the brand name of the franchiser. In addition to that, while a licensing agreement involves things such as intellectual property, trade secrets and others while in franchising it is limited to trademarks and operating know-how of the business.

Advantages of franchising

- Low political risk.
- Low cost i.e. royalty or a fixed percentage.
- Allows simultaneous expansion into different regions of the world.
- Well selected partners bring financial investment as well as managerial capabilities to the operation.

Disadvantages of franchising

- Maintaining control over franchisee may be difficult due to the foreign country.
- Conflicts with franchisee are likely, including legal disputes.

- Preserving franchisor's image in the foreign market may be challenging.
- Requires monitoring and evaluating performance of franchisees, and providing ongoing assistance.
- Franchisees may take advantage of acquired knowledge and become competitors in the future.

8.3.3 Turnkey projects

A turnkey project refers to a project in which business unit of one nation agrees to construct the entire plant for the business unit of the other nation. In other words, when clients pay contractors to design and construct new facilities and train personnels. A turnkey project is a way for a foreign company to export its process, expertise, experience and technology to other countries by building a plant in that country. Industrial companies that specialize in complex production technologies normally use turnkey projects as an entry strategy. Business unit of one nation agrees to construct the entire plant is called the licensor and the business unit of the other nation for which the plant has been constructed is called licensee.

Advantages of turnkey projects are:

- The possibility for a company to establish a plant and earn profits in a foreign country.
- Take benefits of foreign direct investment opportunities
- Take benefits of expertise in a specific area exists.

Disadvantages of a turnkey project are:

- Risk of revealing companies secrets to rivals.
- Takeover of their plant by the host country.
- Entering a market with a turnkey project can prove that a company has no long-term interest in the country which can become a disadvantage if the country proves to be the main market for the output of the exported process.

8.3.4 Wholly Owned Subsidiaries (WOS)

MNC's now a day's prefer to set up their subsidiaries in the other nations instead entering into any agreement of licensing or franchising or joint ventures etc. In this strategy a parent company set subsidiary which is known as wholly owned subsidiary company to control overall manufacturing activities of said subsidiary. For example LG electronics have set up a wholly owned subsidiary in India called LG India. It has its own manufacturing and marketing set-up in India. Wholly owned subsidiary has two types of strategies:

- **Greenfield investment; and**
- **Acquisition**

Greenfield investment is the establishment of a new wholly owned subsidiary. It is often complex and potentially costly, but it is able to provide full control to the firm and has the most potential to provide above average return. "Wholly owned subsidiaries and expatriate staff are preferred in service industries where close contact with end customers and high levels of professional skills, specialized know how, and customization is required." Greenfield investment is more likely preferred where physical capital intensive plants are planned. This strategy is attractive if there are no competitors to buy or the transfer competitive advantages that consists of embedded competencies, skills, routines, and culture.

Greenfield investment is high risk due to the costs of establishing a new business in a new country. A firm may need to acquire knowledge and expertise of the existing market by third parties, such as consultant, competitors, or business partners. This entry strategy takes much more time due to the need of establishing new operations, distribution networks, and the necessity to learn and implement appropriate marketing strategies to compete with rivals in a new market.

Acquisition has become a popular mode of entering foreign markets mainly due to its quick access. Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative.

Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power, which require buying a competitor, a supplier, a distributor, or a business in highly related industry to allow exercise of a core competency and capture competitive advantage in the market.

Acquisition is lower risk than Greenfield investment because of the outcomes of an acquisition can be estimated more easily and accurately. In overall, acquisition is attractive if there are well established firms already in operations or competitors want to enter the region.

On the other hand, there are many disadvantages and problems in achieving acquisition success.

- Integrating two organizations can be quite difficult due to different organization cultures, control system, and relationships. Integration is a complex issue, but it is one of the most important things for organizations.
- By applying acquisitions, some companies significantly increased their levels of debt which can have negative effects on the firms because high debt may cause bankruptcy.
- Too much diversification may cause problems. Even when a firm is not too over diversified, a high level of diversification can have a negative effect on the firm in the long-term performance due to a lack of management of diversification.

8.3.5 Joint Venture

In joint venture agreement foreign partners makes an arrangement with local unit of the other country in which ownership and management are shared by local unit and foreign partner. Local unit have full knowledge of local conditions and foreign partner provide advanced technology, capital etc. There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing, joint product development, and conforming to the government regulations. Profit and loss in joint venture is shared between foreign partner and local unit in pre-determined ratio in the agreement. The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intention.

Advantages

- Political connections and distribution channel access.
- Introduction of advanced technology.
- Proper utilization of the local resources for example raw material, labor, infrastructure.
- Shared ownership between foreign partner and local unit.

Disadvantages

- Conflict over asymmetric new investments.
- Mistrust over proprietary knowledge.
- Lack of parent firm support.
- Cultural clashes.

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative: the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

8.3.6 Strategic alliance

Strategic alliance is an agreement in which two countries make an arrangement or alliance to complete the specific task. For example a common customer cares number for grievances handling or common godown for storage. It is a type of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. The modern form of strategic alliances is becoming increasingly popular and has three distinguishing characteristics:

- They are frequently between firms in industrialized nations.
- The focus is often on creating new products and/or technologies rather than distributing existing ones.
- They are often only created for short term duration, non-equity based agreement in which companies are separated and are independent.

Advantages: Some advantages of a strategic alliance include:

Technology exchange: This is a major objective for many strategic alliances. The reason for this is that many breakthroughs and major technological innovations are based on interdisciplinary and/or inter-industrial advances. Because of this, it is increasingly difficult for a single firm to possess the necessary resources or capabilities to conduct their own effective R&D efforts. This is also perpetuated by shorter product life cycles and the need for many companies to stay competitive through innovation. Some industries that have become centers for extensive cooperative agreements are:

- Telecommunications
- Electronics
- Pharmaceuticals
- Information technology
- Specialty chemicals

Global competition: There is a growing perception that global battles between corporations be fought between teams of players aligned in strategic partnerships. Strategic alliances will become key tools for companies if they want to remain competitive in this globalized environment, particularly in industries that have dominant leaders, such as cell phone manufactures, where smaller companies need to ally in order to remain competitive.

Industry convergence: As industries converge and the traditional lines between different industrial sectors blur, strategic alliances are sometimes the only way to develop the complex skills necessary in the time frame required. Alliances become a way of shaping competition by decreasing competitive intensity, excluding potential entrants, and isolating players, and building complex value chains that can act as barriers.

Economies of scale and reduction of risk: Pooling resources can contribute greatly to economies of scale, and smaller companies especially can benefit greatly from strategic alliances in terms of cost reduction because of increased economies of scale.

In terms on risk reduction, in strategic alliances no one firm bears the full risk, and cost of, a joint activity. This is extremely advantageous to businesses involved in high risk / cost activities such as R&D. This is also advantageous to smaller organizations which are more affected by risky activities.

Alliance as an alternative to merger: Some industry sectors have constraints to cross-border mergers and acquisitions, strategic alliances prove to be an excellent alternative to bypass these constraints. Alliances often lead to full-scale integration if restrictions are lifted by one or both countries.

8.3.7 Exporting

Exporting is the most traditional and well established form of operating in foreign markets. Initially a business unit starts its international business by exporting to one nation. Exporting can be defined as the marketing of goods produced in one country and sell them into another. Whilst no direct manufacturing is required in an overseas country, significant investments in marketing are required. The tendency may be not to obtain as much detailed marketing information as compared to manufacturing in marketing country; however, this does not negate the need for a detailed marketing strategy.

Advantages

- Manufacturing is home based thus, it is less risky than overseas based.
- Gives an opportunity to "learn" overseas markets before investing in bricks and mortar.
- Reduces the potential risks of operating overseas.

The **disadvantage** is mainly that one can be at the "mercy" of overseas agents and so the lack of control has to be weighed against the advantages. For example, in the exporting of African horticultural products, the agents and Dutch flower auctions are in a position to dictate to producers.

8.3.8 Contract Manufacturing

In this type of agreement business unit of one nation allow to the manufacturer of other nation to manufacture the goods at their own, but right to market these goods retained by the parent foreign enterprises. In this form a foreign business unit can expand its business without setting up the plant into another country. Whenever the foreign business unit thinks that marketing into another country is unprofitable then it can have easy exit from that nation because it has not yet set any plant there. Under this a company doing international marketing contracts with firms in foreign countries to manufacturing or assemble the products while retaining the responsibility of marketing the product. This is a common practice in international business.

Advantages

- The company does not have to commit resources for setting up production facilities.
- It frees the company from the risks of investing in foreign countries.

- If idle production capacity is readily available in the foreign country, it enables the marketer to get started immediately.
- In many cases, the cost of the product obtained by contract manufacturing is lower than if it were manufactured by international firm.
- Contract manufacturing also has the advantage that it is a less risky way to start with.
- Contract manufacturing may enable the international firm to enlist national support.

Disadvantages

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

8.3.9 Management contracting

In this agreement, parent enterprises of one nation sets-up management agencies into other nation. These agencies are managed or controlled without any ownership or capital in them. A parent enterprise provides expertise to another country and gets back the fees or a fixed percentage. In other words under this contract, the firm providing the management know-how may not have any equity stake in the enterprise being managed. In a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

8.3.10 Countertrade

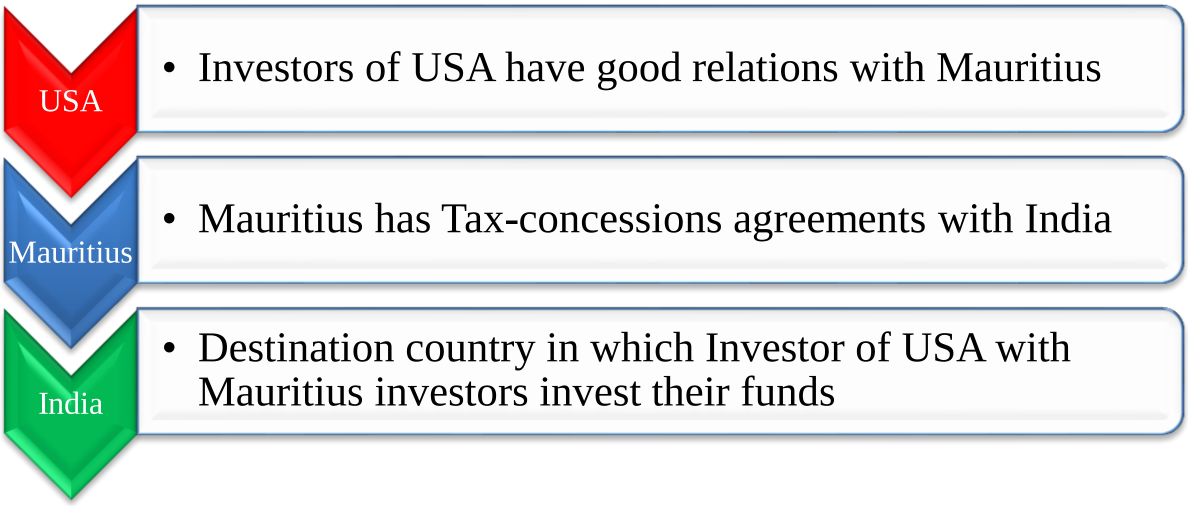
By far the largest indirect method of exporting is countertrade. Counter trade is a trade agreement that has a requirement to import as a condition to export. The UN defines countertrade as "commercial transactions in which provisions are made, in one of a series of related contracts, for payment by deliveries of goods and/or services in addition to, or in place of, financial settlement".

Competitive intensity means more and more investment in marketing. In this situation the organization may expand operations by operating in markets where competition is less intense but currency based exchange is not possible. Also, countries may wish to trade in spite of the degree of competition, but currency again is a problem. Countertrade can also be used to stimulate home industries or where raw materials are in short supply. It can, also, give a basis for reciprocal trade or bilateral trade between two business units under a business unit imports from other nations on the condition that the other business unit will also import the products of same value from the first. The main advantage of this trade is that it does not involve any foreign exchange so there is no burden on balance of payment. Countertrade is the modem forms of barter, except contracts are not legal and it is not covered by GATT.

8.3.11 Third country route

This strategy of taking entry into foreign markets is used to take advantage of friendly relations between two nations. In this method one country does not make direct investment in other nation, rather investment is made in third nation. Through the third nation the investment is routed to the destination country. For example India has tax-concessions with Mauritius. So, to take advantages of these concessions many investors from advanced countries who want to invest in India, instead investing in India directly they invest from the route of Mauritius to avail these concessions.

Third country Route



Essential condition for entry into new market

These are the essential conditions entry into new market:

- Country should be liberalized i.e. less trade& business restrictions.
- There should be multilateral trade and investment agreement between countries.
- Availability of required resources i.e. raw material, labor, capital etc.

- Economies of scale should be available in the particular country.
- Availability of required infrastructure for example transportation, banking and insurance, power, ports etc.
- Globally accepted currency must be for foreign trade.
- Political ideology and policies should be in consonance with business organization.
- Chances of growth opportunities must be available there.
- Product and services should be according to taste and preferences of foreign customer.

8.4 Check Your Progress

1. Which one of the following is type of mode of entry into foreign market?

   a) Joint Venture
   b) Contract Manufacturing
   c) Turnkey project
   d) All of the above

2. Evaluation matrix helps in ………

   a) Production process
   b) Ranking different market
   c) Both A & B
   d) None of the above

3. Main conditions for entry into foreign market are…….

   a) Availability of resources
   b) Liberalization
   c) Comparative advantages
   d) All of the above

4. Steps in country evaluation and selection process includes……….

   a) Defining International Business objectives
   b) Preliminary screening
   c) Final selection

d) All of the above

5. Factors related to selection of foreign market is…..

a) Cultural factors
b) Economic policies
c) Infrastructure
d) All of the above

6. Assembly contract is………..

a) Producing parts of a product in our country and assemble in another country
b) Producing parts of a product in Foreign country and assemble in our country
c) Producing parts of a product and assemble them in our country
d) Both A & B

8.5 Summary

In the era of globalization every country wants to disseminate their products & services worldwide in many countries. But due to limited resources, various trade hurdles, tariff and non- tariff barriers, political risks, socio-cultural environment etc. it is not possible for a business unit to operate their business in all countries of the world. If all the above factors are in favor i.e. country not imposing trade restriction, no restriction on inflow and outflow of foreign direct investment or political stability is there, then it will be easy and profitable for businessmen to enter into new foreign markets and vice-versa. So, every country who so ever wants to enter in the new foreign market are advised to make a rank list of the countries according the computability with the above factors. A country with highest rank should be selected for entry. As well as other options must be in the basket so that we can exercise them accordingly.

Country evaluation and selection is continues activity. Its main purpose is to gauge which international market or markets offer the best opportunities for our products or services to succeed. Country evaluation and selection **process include** five steps i.e. country identification, preliminary screening, in depth screening, final selection and direct experience. Country evaluation and selection depends upon number of factor such as availability of raw material, level of competition, demand of the product, political environment etc.

Evaluation matrix is a tool through which a country measure or evaluate the different opportunities in the light of risks available in other country in he wants to enter. In this matrix opportunities are compared with the risk or threat then ranking of all of the countries are done with the weighted score.

Mainly three modes of entry into foreign market can be exercised. These are trade mode, investment mode and contractual entry mode. Organization will make in the light of 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. Direct means selling goods and services directly in foreign market such as an agent or countertrade as indirect method.

Globalization made whole world a small village where anyone can easily contact with another. It brings domestic economy close with world economies. It promotes foreign trade in various nations. In this era MNC's are playing very important role because free movement of capital, labor, technology goods and services are now possible. With the improvement of infrastructure like transportation, communication technology, power, ports, tourism etc. it is possible to work with the link of world economies. With the liberalized approach, tariff free trade and ease of doing business in India, MNC's are entering with a fast rate.

In an international licensing agreement one business unit of a country (licensor) allows the business unit of other country (licensee) or foreign firms, either exclusively or non-exclusively to use manufacturer know-how for a fixed term in a specific market. In the franchising system one nation business unit grants the right to do business in a particular manner to the business unit of the other nation. It can be defined as: "A system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system."

A turnkey project refers to a project in which business unit of one nation agrees to construct the entire plant for the business unit of the other nation. In other words, when clients pay contractors to design and construct new facilities and train personnels. A turnkey project is a way for a foreign company to export its process, expertise, experience and technology to other countries by building a plant in that country.

MNCs now a day's prefer to set up their subsidiaries in the other nations instead of entering into any agreement of licensing or franchising or joint ventures etc. In this strategy a parent company set subsidiary which is known as wholly owned subsidiary company to control overall manufacturing activities of said subsidiary.

In joint venture agreement foreign partners makes an arrangement with local unit of the other country in which ownership and management are shared by local unit and foreign partner. Local unit have full knowledge of local conditions and foreign partner provide advanced technology, capital etc. Strategic alliance is an agreement in which two countries make an arrangement or alliance to complete the specific task. For example a common customer cares number for grievances handling or common go down for storage.

Exporting is the most traditional and well established form of operating in foreign markets. Initially a business unit starts its international business by exporting to one nation. Exporting can be defined as the marketing of goods produced in one country and sell them into another.

In contract manufacturing agreement, business unit of one nation allow to the manufacturer of other nation to manufacture the goods at their own, but right to market these goods retained by the parent foreign enterprises. Contract manufacturing also has the risk of developing potential competitors. In Management contracting agreement, parent enterprises of one nation sets-up management agencies into other nation. These agencies are managed or controlled without any ownership or capital in them. A parent enterprise provides expertise to another country and gets back the fees or a fixed percentage.

By far the largest indirect method of exporting is countertrade. Counter trade is a trade agreement that has a requirement to import as a condition to export. The UN defines countertrade as "commercial transactions in which provisions are made, in one of a series of related contracts, for payment by deliveries of goods and/or services in addition to, or in place of, financial settlement". The main advantage of this trade is that it does not involve any foreign exchange so there is no burden on balance of payment.

Third country entry route of taking entry into foreign markets is used to take advantage of friendly relations between two nations. In this method one country does not make direct investment in other nation, rather investment is made in third nation. Through the third nation the investment is routed to the destination country. For example India has tax-concessions with Mauritius. A country evaluates the pros & cons of all the options that are available and select the best among.

8.6 Keywords

- **Evaluation matrix-**Tool that help to analyze the opportunities and risk available in foreign market.
- **Turnkey project -** It refers to a project in which business unit of one nation agrees to construct the entire plant for the business unit of the other nation.
- **Strategic alliance -** It is an agreement in which two countries make an arrangement or alliance to complete the specific task.
- **Foreign trade-** Trade between various countries.
- **Economic development-** Growth of a country in the way of GDP, per capita income etc.
- **Cultural factors-**Values, customs, taste, preferences, beliefs of a particular group of people that affect trade.
- **Political factors-**Political stability and ideology that affects trade.
- **Contract manufacturing-** In this form a foreign business unit can expand its business without setting up the plant into another country.
- **Evaluation and selection-**To select a country after analysis of numbers of factors.
- **Assembly contract-**Contract of manufacturing parts of a product in one country and assemble all of them in other country.
- **Counter trade-** Counter trade is a trade agreement that has a requirement to import as a condition to export.
- **Sustainable development-** It is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- **Foreign trade policy-** Rules that govern the foreign trade of India
- **Goods & services-** Items that are tangible, such as pens, salt etc. Services are activities provided by other people, who include doctors, dentists etc.
- **International business objectives-**Reasons for which business unit do trade in foreign country.

8.7 Self-Assessment Test

1. What do you mean by evaluation and selection of a foreign market? What are the various steps included in evaluation and selection of a foreign market?
2. Explain various entry modes in foreign market.
3. What do you mean by evaluation and selection of a foreign market? Which factors must be considered before entry in foreign markets?
4. Explain “Evaluation Matrix”. How it help in selection and evaluation of foreign market?
5. Explain various essential conditions for entry into foreign market.

8.8 Answers to check your progress

1(d), 2 (b), 3(d), 4 (d), 5(d), 6 (d)

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Subject: INDIA’S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 9	
MEIS; SEIS; EPCG scheme; Schemes for exporters for gems and Jewellery	

Structure

9.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Explain the working of the MEIS scheme.
- Explain t working of the SEIS scheme.
- Explain the working of the EPCG scheme.
- Describe schemes for exporters for gems and jewellery.

9.1 INTRODUCTION

We all know that exports are critical to a country's economic prosperity. The bigger the exports, the greater the inward foreign remittances, the more jobs and employment, the smaller the current account deficit, and hence the better the total economic growth. As a result, in order to expand swiftly, India must improve its export performance.

Export incentives are provided by the government to encourage exporters to bring in foreign cash while also compensating them for expenditures incurred during the export process. These incentives are in line with the government's 'Aatmanirbhar' and 'Make in India' policies, which aim to achieve self-sufficiency and increase the accessibility of domestic goods. India's Foreign Trade Policy (FTP) 2015-20 promotes a variety of government-sponsored export incentives administered by the Directorate General of Foreign Trade (DGFT).

9.2 REASONS FOR THE NEED FOR EXPORT PROMOTION SCHEMES

The high cost of export items is one of the primary factors behind India's low export performance. Indian exporters are unable to sell their goods at a lower and more competitive price, rendering them uncompetitive in the global market and resulting in order cancellation. Some important reasons are:

i. Underdeveloped Infrastructure
ii. Inadequate and costly transportation facilities,
iii. Weak logistics network
iv. Poor storage and handling facilities
v. High associated costs like electricity tariffs etc. are quite expensive.
vi. Rising costs are the high cost of land for establishing enterprises.

In comparison to other nations, all of the aforementioned variables result in an increase in the cost of export goods. As a result, the Indian government attempts to compensate for the disadvantages faced by Indian exporters by creating several Export Promotion Schemes/Incentives in India. As a result, having a thorough understanding of all of India's export promotion schemes/benefits and making full use of them is critical for improved export pricing and being competitive in the worldwide market.

9.2.1 Merchandise Exports from India Scheme (MEIS)

Merchandise Exports from India Scheme (MEIS) under Foreign Trade Policy of India (FTP 2015-20) is one of the two schemes introduced in the Foreign Trade Policy of India 2015-20, as a part of the Exports from India Scheme. (The other scheme is SEIS, Service Exports from India Scheme).

The purpose of the Merchandise Exports from India Scheme (MEIS) is to offset infrastructural inefficiencies and associated costs associated with the export of goods/products produced/manufactured in India, particularly those with high export intensity, employment potential, and thus improve India's export competitiveness. The following table shows the details of issuance of scrips for MEIS during 2018-19, 2019-20, and April-October 2020:

(Value in Rs. Crore)

Export Promotion Schemes		2018-19	2019-20	April-October 2020
Merchandise Exports from India Scheme (MEIS)	Number of Scrips	2,98,350	2,88,023	99,295
	Value of Scrips	39,298	39,046	13,340
	FOB value of Exports	12,46,772	12,02,958	4,47,104

9.2.1.1 NATURE OF REWARDS OF MEIS

MEIS allows for the awarding of Duty Credit Scrips as an incentive. The products imported / domestically acquired against the Duty Credit Scrips will be freely transferrable. The Duty Credit Scrips can be used for the following requirements:

i. Payment of Customs Duties for the importation of inputs or commodities, except those indicated in Appendix 3A of the policy statement.

ii. As per the Department of Revenue (DoR) announcement, payment of excise duty on the domestic acquisition of inputs or commodities, including capital items.

iii. Payment of service tax on services purchased in accordance with DoR notice.

iv. Payment of Customs Duty and Fees in accordance with paragraph 3.18 of the policy document

9.2.1.2 ENTITLEMENT UNDER MEIS

MEIS rewards exporters with Duty Credit Scrips of 2, 3, or 5% of the realized FOB value of their shipments. MEIS encompassed 4914 tariff lines at the 8-digit level when it was first introduced on April 1, 2015. Following that, on October 29, 2015, 110 more Tariff Lines were introduced to the Scheme. When exports were made to particular nations with various rates for distinct country groups, incentives to 2787 tariff lines were initially offered under MEIS. After 04.05.2016, the country/destination specific rate differential was eliminated, and any product exported to any country was eligible for MEIS at the same single rate. The scope of MEIS was further extended to 2901 more lines on 22.09.2016 to diversify the export basket.

Rates under the MEIS were increased by 2% for around 2250 labour-intensive/MSME products during the mid-term review of Foreign Trade Policy in December 2017. These increased rates were applicable for shipments made between November 1, 2017, and December 31, 2019. Coverage fell in 2019-20 when products covered under the Scheme for Rebate of Central and State Taxes and Levies (RoSCTL) [i.e. the garments and made-ups sector of Textiles] were removed from MEIS. There were more than 7400 eligible HS lines under MEIS as of December 31, 2020.

Under MEIS exports of registered goods and products with Indian Trade Clarification based on Harmonized System (ITC-HS Codes), exporting to notified markets as indicated in Appendix 3B of the policy paper are rewarded. The rate(s) of incentives on certain notified items are also included in Appendix 3B. Unless otherwise indicated, the reward would be calculated based on the realized Free on Board (FOB) value of exports in free foreign exchange, or the FOB value of exports as stated in the Shipping Bills in free foreign exchange, whichever is smaller. When utilizing e-Commerce to export products via courier or foreign post offices, the following criteria apply:

i. Exports of FOB value up to Rs. 25000 per consignment via courier or foreign post office utilizing e-commerce, as indicated in Appendix 3C, are eligible for MEIS awards.

ii. If the value of exports made through an e-commerce platform exceeds Rs 25000 per consignment, the MEIS award will be limited to the FOB value of Rs.25000 only.

iii. Manual export of such commodities is possible through Foreign Post Offices in New Delhi, Mumbai, and Chennai.

iv. Export of such items under the Courier Regulations would be permitted manually on a trial basis through the airports of Delhi, Mumbai, and Chennai, subject to suitable regulatory adjustments by the Department of Revenue. The Department of Revenue will expedite the use of EDI at courier terminals.

9.2.1.3 PRODUCTS AND MARKETS SUPPORTED UNDER MEIS

MEIS for specified goods was introduced under Foreign Trade Policy 2015-20. Most Agricultural products supported across the Globe and Industrial and other products supported in Traditional and/or Emerging markets are supported to MEIS. According to the new foreign trade policy 2015-20, high potential products were not supported under Foreign Trade Policy 2009-14. Support to 852 Tariff lines that fit in the product criteria but not provided support in the earlier Foreign Trade Policy 20014-19. MEIS supports product lines that include Fruits, Flowers, Vegetables, Tea Coffee, Spices, Cereals preparation, shellac, Essential oils, processed foods, Eco-Friendly products that add value to waste, Marine Products, Handloom, Coir, Jute, products, and Technical Textiles, Carpets Handmade, Handicraft, Sports Goods, Furniture, wood articles, etc. Other Textiles and Readymade garments have been supported by European Union, the USA, Canada, and Japan, under this scheme.

As per MEIS, supports to major markets have been given to the categories of Pharmaceuticals, Herbals, Surgical, Industrial Machinery, IC Engine, Machine tools, Parts, Auto Components/Parts, Hand Tools, Pumps of All Types, Automobiles, Two-wheelers, Bicycles, Ships, Planes, Chemicals, Plastics, Rubber, Ceramic and Glass, Leather garments, saddler items, footwear, Steel furniture, Prefabs, Lighters, Wood, Paper, Stationary, iron, steel and base metals products. Other sectors supported under MEIS, Merchandise Exports from India Scheme of Foreign Trade Policy 2015-20 are 352 Defence-related Product with the export of US$ 17.7B consisting of Core Products (20), Dual Use products (60), and General Purpose products (272).

MEIS schemes also support 283 Pharmaceutical products of Bulk Drugs & Drug Intermediates, Drug Formulations Biologicals, Herbal, Surgical, and Vaccines, 96 lines of Environment related Goods, Machinery, Equipment, 49 lines where mandatory BIS standards are prescribed, and 7 lines of Technical Textiles. As per MEIS, participation in the global value chain of the items also falls. So, 1725 lines of Intermediate Goods become inputs in the manufacturing of other countries and will strengthen backward manufacturing linkages which are vital for India's participation in Global Value Chains. The government also hopes 1109 lines of the Capital Goods sector will also strengthen the Manufacturing Base in India with 1730 lines of the Consumer Goods sector, in turn, a quantum jump in export from this sector with the strengthening of Make in India Brand in near future. Under the MEIS scheme, the government expects growth in technology-based analysis by boosting 572 Lines-Low Skill Technology-intensive manufacturing, 1010 Lines-Medium Skill Technology-intensive manufacturing, and 1309 Lines-High Skill Technology-intensive manufacturing.

The following country groups fall under the MEIS scheme under foreign trade policy 2015-2020.

Category A	Traditional Markets (30) - European Union (28), USA, Canada.
Category B	Emerging & Focus Markets (139), Africa (55), Latin America and Mexico (45), CIS countries (12), Turkey and West Asian countries (13), ASEAN countries (10), Japan, South Korea, China, Taiwan.
Category C	Other Markets (70).

9.2.1.4 INELIGIBLE CATEGORIES UNDER MEIS

The following exports categories /sectors shall be ineligible for Duty Credit Scrip entitlement under MEIS, EXIM Policy 2015-20 (FTP 2015-20).

i. EOUs / EHTPs / BTPs/ STPs who are availing direct tax benefits / exemption.

ii. Supplies made from DTA units to SEZ units

iii. Export of imported goods covered under paragraph 2.46 of FTP;

iv. Exports through trans-shipment, meaning thereby exports that are originating in the third country but trans-shipped through India;

v. Deemed Exports;

vi. SEZ/EOU/EHTP/BPT/FTWZ products exported through DTA units;

vii. Items, which are restricted or prohibited for export under Schedule-2 of Export Policy in ITC (HS), unless specifically notified in Appendix 3B.

viii. Service Export.

ix. Red sanders and beach sand.

x. Export products that are subject to Minimum export price or export duty.

xi. Diamond Gold, Silver, Platinum, other precious metal in any form including plain and studded jewellery and other precious and semi-precious stones.

xii. Ores and concentrates of all types and in all formations.

xiii. Cereals of all types.

xiv. Sugar of all types and all forms.

xv. Crude/petroleum oil and crude/primary and base products of all types and all formulations.

xvi. Export of milk and milk products.

xvii. Export of Meat and Meat Products.

xviii. Products wherein precious metal/diamond are used or Articles that are studded with precious stones.

xix. Exports made by units in FTWZ.

Special Provisions under IMPEX Policy 2015-20 (FTP 2015-20)

i. Government reserves the right in the public interest, to specify export products or services or markets, which shall not be eligible for computation of entitlement of duty credit scrip.

ii. Government reserves the right to impose restrictions / change the rate/ceiling on Duty Credit Scrip under this chapter.

iii. Government may also notify goods in Appendix 3A which shall not be allowed for debiting through Duty Credit Scrips in case of import.

iv. Government may prescribe a value cap of any kind for a product(s) or limit total reward per IEC holder under this chapter at any time.

9.2.2 Services Exports from India Scheme (SEIS)

SEIS not only replaces the Foreign Trade Policy 20109-2014's Served from India Scheme (SFIS), but it also rationalizes the incentives under the previous schemes, removes several restrictions on the usage of scrip issued under the Scheme, and greatly expands the scope of the former scheme. Unlike previous schemes, this one covers exports by SEZ units. The objective of the Service Exports from India Scheme (SEIS) is to encourage the export of notified Services from India. Service providers of notified services as per Appendix 3E of the policy document, are eligible for freely transferable duty credit scrip @ 5% of foreign exchange earned. The notified services and rates of rewards are listed in Appendix 3D of the policy document.

SEIS offers rewards in the form of transferable duty credit scrips, at 3% or 5% of net foreign exchange earned by a service exporter. During the mid-term review of the FTP, the rates for all service categories were increased by 2%. The Revised rates of reward are 5% & 7% of net foreign exchange earnings.

The following table shows the details of issuance of scrips for SEIS during 2018-19, 2019-20, and April-October 2020:

(Value in Rs. Crore)

Export Promotion Schemes		2018-19	2019-20	April-October 2020
Service Exports from India Scheme (SEIS)	Number of Scrips	6,376	8,280	4,122
	Value of Scrips	4,263	7,114	3,288
	Gross Earnings	13,72,212	27,64,377	7,63,415

9.2.2.1 ENTITLEMENT UNDER SEIS

To tackle the complexity involved in trade in services, General Agreement on Trade in Services (GATS) defines services in four different types of modes:

Mode 1	Cross-border supply	- services supplied from the territory of one country into the territory of another.
Mode 2	Consumption abroad	- services supplied in the territory of a nation to

		the consumers of another.
Mode 3	Commercial Presence	- services supplied through any type of business or professional establishment of one country in the territory of another (i.e., FDI).
Mode 4	Presence of a natural person	– services supplied by nationals of a country in the territory of another.

SEIS shifted the scope of service providers to 'Service Providers located in India' instead of 'Indian Service Providers'. Hence only services rendered under Mode 1 and Mode 2 were covered and eligible for a reward under this scheme and services rendered under Mode 3 and Mode are not eligible. Thus SEIS provides rewards to all service providers of notified services, who are providing services from the India Scheme, regardless of the constitution or profile of the service provider.

Service providers of notified Services, as per appendix 3D, are only eligible for Service Export from India Scheme. Following are the eligibility conditions for exports of services to avail claims under SEIS:

i. Service Exporter should have an Active IEC Code.

ii. Service Exporter (can be a Company, LLP, or Partnership) should have minimum net free foreign exchange earnings of 15,000 USD in the year of rendering services to apply for SEIS Scheme.

iii. Individuals and Sole Proprietors should have minimum net free foreign exchange earnings of 10,000 USD to be eligible to apply under the Service Export from India Scheme.

iv. SEZ Units are also eligible for SEIS Scheme. But, EOU, STP, BHTP, EHTP Units are not eligible to claim SEIS incentives.

v. Some eligible services are allowed to accept Indian rupees towards their service charges instead of foreign currency, which shall be deemed foreign exchange. A list of such services is given in Appendix 3E of the policy document.

vi. Total Entitlement is capped per IEC at Rs. 5 Crore under FY 2019-2020.

9.2.2.2 INELIGIBLE CATEGORIES UNDER SEIS

As discussed above Supply of service through Mode-3- Commercial Presence and Mode-4 presence of natural persons are not eligible under SEIS. Further following categories are also ineligible under SEIS:

i. Foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement.

ii. Other sources of foreign exchange earnings such as equity or debt participation, donations, receipts of repayment of loans, etc., and any other inflow of foreign exchange, unrelated to rendering of service, – not eligible for benefit under the Scheme.

iii. Following is not to be considered for calculation of entitlement under the scheme:

(a) Foreign Exchange remittances- Related to Financial Services Sector

- Raising of all types of foreign currency loans;
- Export proceeds realization of clients;
- Issuance of Foreign Equity through ADRs / GDRs or other similar instruments;
- Issuance of foreign currency Bonds;
- Sale of securities and other financial instruments;
- Other receivables not connected with services rendered by financial institutions; and

(b) Earned through contract/regular employment abroad (e.g. labour remittances);

- Payments for services received from EEFC Account;
- Foreign exchange turnover by Healthcare Institutions like equity participation, donations, etc.
- Foreign exchange turnover by Educational Institutions like equity participation, donations, etc.
- Export turnover relating to services of units operating under SEZ / EOU / EHTP / STPI / BTP Schemes or supplies of services made to such units;

- Clubbing of turnover of services rendered by SEZ / EOU /EHTP / STPI / BTP units with turnover of DTA Service Providers;
- Exports of Goods.
- Foreign Exchange earnings for services provided by Airlines, Shipping lines service providers plying from any foreign country X to any foreign country Y routes not touching India at all.
- Service providers in Telecom Sector.

9.2.3 COMMON PROVISIONS FOR MEIS AND SEIS

Following are the Common Provisions for MEIS and SEIS as per Import Export Policy 2015-20 (FTP 2015-20)

9.2.3.1 TRANSITIONAL ARRANGEMENT

For goods exported or services rendered before the date of notification of this Policy that was otherwise eligible for issuance of scrips under the erstwhile Chapter 3 of the earlier Foreign Trade Policy(ies) and scrip is applied/issued on or after notification of this Policy against such export of goods or services rendered, the then prevailing policy and procedure regarding eligibility, entitlement, transferability, usage of scrip, and any other condition in force at the time of notification of this Policy shall apply.

9.2.3.2 CENVAT/ DRAWBACK

Additional Customs duty, excise duty, and service tax paid in cash or by debit under the Duty Credit scrip will be adjusted as CENVAT Credit or Duty Drawback according to DoR rules and announcements. Basic Customs duty paid in cash or by debit under the Duty Credit scrip will be adjusted for Duty Drawback by DoR rules and notices.

9.2.3.3 IMPORT UNDER LEASE FINANCING

Utilization of Duty Credit Scrip shall be permitted for payment of duty in case of import of capital goods under lease financing in terms of provision in paragraph 2.34 of FTP.

9.2.3.4 TRANSFER OF EXPORT PERFORMANCE

(a) It is not permissible to transfer export performance from one IEC holder to another. Thus, a shipping bill bearing the applicant's name will be considered in the applicant's export performance/turnover only if export revenues from overseas are realized in the applicant's bank account, as demonstrated by e - BRC / FIRC.

(b) MEIS rewards, on the other hand, can be claimed by either the supporting manufacturer or the company/firm that realized the foreign exchange directly from overseas.

9.2.3.5 FACILITY OF PAYMENT OF CUSTOM DUTIES IN CASE OF EXPORT OBLIGATION DEFAULTS

The facility of payment of custom duties in case of Export Obligation (EO) defaults and fee through duty credit scrips will be governed as:

(a) Duty Credit Scrip can be utilized/debited for payment of Custom Duties in case of EO defaults for Authorizations issued under Chapters 4 and 5 of this Policy. Such utilization /usage shall be in respect of those goods which are permitted to be imported under the respective reward schemes. However, penalty/interest shall be required to be paid in cash.

(b) Duty credit scrips can also be used for payment of composition fee under FTP, for payment of application fee under FTP, if any, and for payment of value shortfall in EO under para 4.49 of HBP 2015-20.

9.2.3.6 RISK MANAGEMENT SYSTEM

(a) A Risk Management System shall be in operation whereby every month Computer system in DGFT Headquarters, on a random basis, will select 10% of cases for each RA where scrips have already been issued, under each scheme. RA in turn may call for original documents in all such selected cases for further examination in detail. In case any discrepancy and/ or over the claim is found on such examination, the applicant shall be under obligation to rectify such discrepancy and/or refund over the claim in cash with interest at the rate prescribed under section 28 AA of the Customs Act 1962, from the date of issue of scrip in the relevant Head of Account of Customs within one month. The original holder of scrip, however, may refund such over a claim by surrendering the same scrip whether partially utilized or fully unutilized, without interest.

(b) Regional Authority may ask for original proof of landing certificate, annexures attached to ANFs, or any other document, which has been uploaded digitally at any time within three years from the date of issue of scrip. Failure to submit such documents in original would make the applicant liable to refund the reward granted along with interest at the rate prescribed under section 28 AA of the Customs Act 1962, from the date of issuance of scrip. It would be the responsibility of the applicant to maintain such documents, certificates, etc. for at least three years from the date of issuance of scrips.

9.2.3.7 STATUS HOLDER

(a) Status Holders are business leaders who have excelled in international trade and have successfully contributed to the country's foreign trade. Status Holders are expected to not only contribute towards India's exports but also provide guidance and handholding to new entrepreneurs.

(b) All exporters of goods, services, and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition depends upon export performance. An applicant shall be categorized as a status holder upon achieving export performance during the current and previous two financial years, as indicated in paragraph 3.21 of Foreign Trade Policy. The export performance will be counted based on the FOB value of export earnings in free foreign exchange.

(c) For deemed export, FOR value of exports in Indian Rupees shall be converted in US$ at the exchange rate notified by CBEC, as applicable on 1st April of each Financial Year.

(d) For granting status, export performance is necessary for at least two out of three years.

Status Category	Export Performance
One Star Export House	3 FOB / FOR (as converted) Value (in US $ million)
Two Star Export House	25 FOB / FOR (as converted) Value (in US $ million)
Three Star Export House	100 FOB / FOR (as converted) Value (in US $ million)
Four Star Export House	500 FOB / FOR (as converted) Value (in

	US $ million)
Five Star Export House	2000 FOB / FOR (as converted) Value (in US $ million)

9.2.3.8 GRANT OF DOUBLE WEIGHTAGE

(a) The exports by IEC holders under the following categories shall be granted double weightage for calculation of export performance for grant of status.

(i) Micro, Small & Medium Enterprises (MSME) as defined in Micro, Small & Medium Enterprises Development (MSMED) Act 2006.

(ii) Manufacturing units having ISO/BIS.

(iii) Units located in the North Eastern States including Sikkim and Jammu & Kashmir.

(iv) Units located in Agri Export Zones.

(b) Double Weightage shall be available for grant of One Star Export House Status category only. Such benefit of double weightage shall not be admissible for grant of status recognition of other categories namely Two Star Export House, Three Star Export House, Four Star export House, and Five Star Export House.

(c) A shipment can get double weightage only once in any one of the above categories.

9.2.3.9 OTHER CONDITIONS FOR GRANT OF STATUS

(a) Export performance of one IEC holder shall not be permitted to be transferred to another IEC holder. Hence, calculation of exports performance based on disclaimer shall not be allowed.

(b) Exports made on a re-export basis shall not be counted for recognition.

(c) Export of items under authorization, including SCOMET items, would be included for calculation of export performance.

Privileges of Status Holders

A Status Holder shall be eligible for privileges as under:

(a) Authorization and Customs Clearances for both imports and exports may be granted on a self-declaration basis;

(b) Input-Output norms may be fixed on priority within 60 days by the Norms Committee;

(c) Exemption from the furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP;

(d) Exemption from compulsory negotiation of documents through banks. Remittance/receipts, however, would be received through banking channels;

(e) Two-star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.

(f) Three Star and above Export House shall be entitled to get the benefit of the Accredited Clients Programme (ACP) as per the guidelines of CBEC (website: http://cbec.gov.in).

(g) The status holders would be entitled to preferential treatment and priority in the handling of their consignments by the concerned agencies.

(h) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their IEM/IL/LOI) as originating from India to qualify for preferential treatment under different preferential trading agreements (PTA), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic

Partnership Agreements (CEPA). Subsequently, the scheme may be extended to remaining Status Holders.

(i) Manufacturer exporters who are also Status Holders shall be eligible to self-certify their goods as originating from India as per para 2.108 (d) of Hand Book of Procedures.

(j) Status holders shall be entitled to export freely exportable items on a free of cost basis for export promotion subject to an annual limit of Rs 10 lakh or 2% of average annual export realization during the preceding three licensing years whichever is higher.

APPENDIX- 3A

List of items not allowed for import under Export from India Schemes under Chapter 3, unless otherwise specified

(Please read para 3.02 of FTP)

Sl.No. Name of the Product

01 Garlic, Peas, and all other Vegetables with a Duty of more than 30% under Chapter 7 of ITC (HS) Classification of Export and Import items.

02 Coconut, Areca Nut, Oranges, Lemon, Fresh Grapes, Apple and Pears and all other fruits with a Duty of more than 30% under Chapter 8 of ITC (HS) Classification of Export and Import items.

03 All Spices with a Duty of more than 30% under Chapter 9 of ITC (HS) Classification of Export and Import items (except Cloves)

04 Tea, Coffee, and Pepper as per Chapter 9 of ITC (HS) Classification of Export and Import items.

05 All Oil Seeds under Chapter 12 of ITC (HS) Classification of Export and Import items.

06 Natural Rubber as per Chapter 40 of ITC (HS) Classification of Export and Import items.

07 Capital Goods

(i) General-purpose agricultural tractors above 25 HP and up to 75 HP.

(ii) Stationary Diesel Engines.

(iii) Irrigation pumps.

(iv) Threshers for cereals.

(v) Combine harvesters suitable only for wheat and paddy crops.

(vi) Animal-driven implements.

APPENDIX- 3D

List of Services eligible under Service Exports from India Scheme (SEIS) (Kindly see para 3.07 to 3.12 of FTP and Para 3.04 of HBP and other common procedural features applicable to SEIS)

Vide DGFT Public Notice No. 03/2015-2020, dated 01.04.2015, the Government notified Appendix-3D to the Appendices and ANFs.

Note 1. The services and rates of rewards notified against them shall be applicable for services export made between 1-4-2015 to 30-09-2015 only. The list of services/rates is subject to review with effect from 1-10-2015.

Note 2: The rate of reward for eligible services is subject to conditions as specified in FTP and HBP.

Note 3: For Educational Services, SEIS reward shall not be available on Capitation Fee.

Note 4: Under Maritime Transport Services marked with *[9A (a), (b), and (c)], the reward shall be limited to Operations from India by Indian Flag Carriers only.

List of Services and Rate of Reward (Appendix- 3D)

S.No.	SECTORS	Central Product Classification (CPC) Code	The admissible rate in % (on Net Foreign Exchange earnings)	
			01.04.2017 to 31.10.2017	01.11.2017 to 31.03.2018
1	BUSINESS SERVICES			
A.	Professional services			
a.	Legal services	861	5	7
b.	Accounting, auditing, and bookkeeping services	862	5	7
c.	Taxation services	863	5	7
d.	Architectural services	8671	5	7
e.	Engineering services	8672	5	7
f.	Integrated engineering	8673	5	7

	service			
g.	Urban planning and landscape architectural services	8674	5	7
h.	Medical and dental services	9312	5	7
i.	Veterinary services	932	5	7
j.	Services provided by midwives, nurses, physiotherapists, and paramedical personnel	93191	5	7
B.	Research and development services			
a.	R&D services on natural sciences	851	5	7
b.	R&D services on social sciences and humanities	852	5	7
c.	Interdisciplinary R&D services	853	5	7
C.	Rental/leasing services without operators			
a.	Relating to ships	83103	5	7
b.	Relating to aircraft	83104	5	7
c.	Relating to other transport equipment	83101- 83102	5	7
		83105		

d.	Relating to other machinery and equipment	83106-83109	5	7
D.	Other business services			
a.	Advertising services	871	3	5
b.	Market research and public opinion polling services	864	3	5
c.	Management consulting service	865	3	5
d.	Services related to management consulting	866	3	5
e.	Technical testing and analysis services	8676	3	5
f.	Services incidental to agricultural, hunting, and forestry	881	3	5
g.	Services incidental to fishing	882	3	5
h.	Services incidental to mining	883 5115	3	5
i.	Services incidental to manufacturing	884- 885	3	5
j.	Services incidental to energy distribution	887	3	5
k.	Placement and supply	872	3	5

	services of personnel			
l.	Investigation and security	873	3	5
m.	Related scientific and technical consulting services	8675	3	5
n.	Maintenance and repair of equipment (not including maritime vessels, aircraft other transport equipment)	633 8861- 8866	3	5
o.	Building-cleaning services	874	3	5
p.	Photographic services	875	3	5
q.	Packaging services	876	3	5
r.	Printing, publishing	88442	3	5
s.	Convention services	87909	3	5
2	COMMUNICATION SERVICES			
	Audiovisual services			
a.	Motion picture and videotape production and distribution service	9611	5	7
b.	Motion picture projection service	9612	5	7
c.	Radio and television services	9613	5	7
e.	Sound recording	n.a.	5	7

3	CONSTRUCTION AND RELATED ENGINEERING			
	SERVICES			
A.	General Construction work for building	512	5	7
B.	General Construction work for Civil Engineering	513	5	7
C.	Installation and assembly work	514- 516	5	7
D.	Building completion and finishing work	517	5	7
4	EDUCATIONAL SERVICES			
A.	Primary education services	921	5	7
B.	Secondary education services	922	5	7
C.	Higher education services	923	5	7
D.	Adult education	924	5	7
5	ENVIRONMENTAL SERVICES			
A.	Sewage services	9401	5	7
B.	Refuse disposal services	9402	5	7
C.	Sanitation and similar	9403	5	7

	services			
6	HEALTH-RELATED AND SOCIAL SERVICES			
A.	Hospital Services	9311	5	7
7	TOURISM AND TRAVEL-RELATED SERVICES			
A.	Hotels and Restaurants (including catering)			
a.	Hotel	641 -643	3	5
b.	Restaurants (including catering)	641-643	3	5
B.	Travel agencies and tour operators' services	7471	5	5
C.	Tourist guides services	7472	5	5
8	RECREATIONAL, CULTURAL, AND SPORTING			
	SERVICES (other than audiovisual services)			
A.	Entertainment services (including theatre, live bands, and circus services)	9619	5	7
B.	News agency services	962	5	7

C.	Libraries, archives, museums, and other cultural services	963	5	7
D.	Sporting and other recreational services	964	5	7
9	TRANSPORT SERVICES			
A.	Maritime Transport Services			
a.	Passenger transportation*	7211	5	7
b.	Freight transportation*	7212	5	7
c.	Rental of vessels with crew *	7213	5	7
d.	Maintenance and repair of vessels	8868	5	7
e.	Pushing and towing services	7214	5	7
f.	Supporting services for maritime transport	745	5	7
B.	Air transport services			
a.	Rental of aircraft with crew	734	5	7
b.	Maintenance and repair of aircraft	8868	5	7
c.	Airport Operations and ground handling		5	7

APPENDIX- 3E

List of services where payment received in Indian rupees to be treated as Deemed Foreign Exchange.

Payments which have been received in foreign exchange or which would have been otherwise received in foreign exchange, but paid in Indian Rupees(INR), including through its agents in India out of the amount remittable to the overseas principal, or out of remittances to be sent by the overseas buyer, for services rendered in Customs Notified Areas to a foreign liner (or procured by a foreign entity in case of services included in the rental of vessels with crew)as listed below would be considered as deemed to be received in foreign exchange and deemed to be earned in foreign exchange and shall be eligible for issuing rewards under the Services Exports From India Scheme.

However, services provided in respect of 'vessel-related charges for coastal and inland vessels' and 'cargo-related charges' in respect of coastal cargo, coastal containers, and coastal empty containers are to be excluded.

	Transport Services
(A)	Maritime Transport Services.
C	Rental of vessels with crew
	(I) Time Charter/Voyage Charter/Bare Boat Charter Services.
	(II) Offshore Support Vessel Services
d.	Maintenance & repair of vessels.
	Services provided for ship repair, dry dock, and maintenance by ship repair service provider.
e.	Pushing & towing services.
	(I) Pilotage Services.
	(II) Shifting of vessels.

	(III) Warping Services.
	(IV) Charges for the detention of the pilot.
	(V) Towing Services.
	(VI) Cold movement Services.
	(VII) Pullback tug Services for Single Point Mooring (SPM) operations.
	(VIII) Tug Services.
	(IX) Pilot cancellation Charges.
f.	Supporting services for maritime transport.
	(I) Port dues for entry of vessels.
	(II)Service Charges for Supply of water/freshwater to vessels.
	(III) Berth hire Services.
	(IV) Anchorage Services for the stay of vessels at Anchorage.
	(V)Tug hire for miscellaneous services to carry pilots and other crew from and to the shore, supply ship stores, etc.
	(VI) Hire of launch for special jobs.
	(VII) Hire of Fire Float / Fire tender
	(VIII) Hire of Diving services.
	(IX) Services for providing pneumatic fender (including to and fro transportation of fenders at Dock/ Oil Jetties/ Barge Jetties/ IWAI Jetty/ Any other Jetty or Anchorage point)
	(X) Supply of skilled manpower for marine services.
	(XI) Pilot attendance Services at SPM.
	(XII) Reefer Container Charges.

	(XIII) Storage Services, shutout charges.
	(XIV) Terminal Handling Services.
	(XV) Stevedoring Services.
	(XVI) Cargo Dispatch Services.
	(XVII) Cargo Storage Services.
	(XVIII) Bunker Supply Services.
	(XIX) Garbage Collection Services.
	(XX) Slop Collection/ Disposal Services.
	(XXI) Tank Washing Services.
	(XXII) Internal Transportation Services.
	(XXIII) Warehousing Services.
	(XXIV) Inter-carting Services.
	(XXV) Packing Services.
	(XXVI) Survey & Inspection Services
	(XXVII) Barge Charges
	(XXVIII) Ship handling Services
	(XXIX) Shore Crane Hire Services
	(XXX) Equipment Hire Services viz Forklift, Excavator, Payloader, Reach Stacker, Empty Handler, Hydra, Screening Net, Gangway, Grab, Hydra Cranes, Generator, Power supply, etc.
	(XXXI) Gangway hire Services
	(XXXII) Security Services for providing security guards

	(XXXIII) Cargo consolidation charges for export cargo
	(XXXIV) Dispatch Services
	(XXXV) Handling Services not specified elsewhere.
	(XXXVI) Phytosanitary Services
	(XXXVII) Lighterage Charges
	(XXXVIII) Gas freeing certificate charges
	(XXXIX) Shifting and Weighing Services
	(XL) Wagon Handling Services
	(XLI) Grab transportation Services
	(XLII) Hot work Permit Services
	(XLIII) Refloating Services.
	(XLIV) Cargo Brokering charges for export cargo
(B)	Air Transport Services
(C)	Ground Handling

9.3 EXPORT PROMOTION OF CAPITAL GOODS (EPCG) SCHEME

The objective of the Export Promotion Capital Goods (EPCG) Scheme is to facilitate the import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness. EPCG Scheme helps in facilitating the import of capital goods for manufacturing quality goods and to augment the competitiveness of India's export. EPCG scheme enables the import of capital goods that are used in the pre-production, production, and post-production without the payment of customs duty.

i. Zero duty EPCG scheme

Under this scheme import of capital goods at zero Customs duty is allowed for producing quality goods and services to enhance India’s export competitiveness. Import under EPCG shall be subject to an export obligation equivalent to six times of duty saved in six years. In simple words, there is a compulsion on the business to bring in foreign currency which is equal to 600 percent of duty saved on such importation measured in domestic currency. This is to be done within six years from availing of the Export Promotion Capital Goods Scheme.

Alternatively, the Authorisation holder may also procure Capital Goods from indigenous sources by provisions of paragraph 5.07 of FTP. The scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

Import of capital goods for Project Imports notified by Central Board of Indirect Taxes and Customs is also permitted under EPCG Scheme. The authorization shall be valid for import for 18 months from the date of issue of Authorisation. Revalidation of EPCG Authorisation shall not be permitted. In case Integrated Tax and Compensation Cess are paid in cash on imports under EPCG, the incidence of the said Integrated Tax and Compensation Cess would not be taken for computation of net duty saved provided Input Tax Credit is not availed. Import of items that are restricted for import shall be permitted under EPCG Scheme only after approval from Exim Facilitation Committee (EFC) at DGFT Headquarters.

If the goods proposed to be exported under EPCG authorization are restricted for export, the EPCG authorization shall be issued only after approval for issuance of export authorization from the Exim Facilitation Committee at DGFT Headquarters.

ii. Post Export EPCG Duty Credit Scrip Scheme

A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duties, taxes, and Cess in cash and choose to opt for this scheme. Basic Customs duty paid on Capital Goods shall be remitted in the form of freely transferable duty credit scrip(s), similar to those issued under Chapter 3 of FTP. Specific EO shall be 85% of the applicable specific EO under the EPCG Scheme. However, the average EO shall remain unchanged. Duty remission shall be in proportion to the EO fulfilled.

All provisions for utilization of scrips issued under Chapter 3 of FTP shall also apply to Post Export EPCG Duty Credit Scrip (s). All provisions of the existing EPCG Scheme shall apply insofar as they are not inconsistent with this scheme.

9.3.1 EXPORT PROMOTION CAPITAL GOODS

Export Promotion Capital Goods are capital goods used in the production of goods that are exported to other countries. It includes machinery as well as spares. Hence, to qualify as Export Promotion Capital Goods, the commodity manufactured in India must be exported outside India.

The capital goods allowed under Export Promotion Capital Goods Scheme shall include spares (including reconditioned/ refurbished), fixtures, jigs, tools, molds, and dies. Further, second-hand capital goods may also be imported without any restriction on age under the EPCG Scheme.

Under this scheme of Foreign Trade Policy (FTP), importation of capital goods required for the manufacturing of export-oriented products specified in the Export Promotion Capital Goods Authorization is permitted at concessional/nil rate of duty. This scheme under Foreign Trade Policy allows technological up-gradation of the indigenous industry.

Export Promotion Capital Goods (EPCG) Authorizations are issued by licensing authority – Director General of Foreign Trade (DGFT) based on the certificate issued by an Independent chartered engineer.

9.3.2 BENEFIT FROM EPCG SCHEME

EPCG is intended for promoting exports and the Indian Government with the help of this scheme offers incentives and financial support to the exporters. Heavy exporters could benefit from this provision. However, it is not advisable to go ahead with this scheme for those who don't expect to manufacture in quantity or expect to sell the produce entirely within the country, as it could become almost impossible to fulfil the obligations set under this scheme.

9.3.3 EPCG LICENSE

To obtain a License under the EPCG scheme, it is a primary requirement to apply with the licensing authority of the Director-General of Foreign Trade. The application shall be attached with the required documents along with the company and personal details. The issuing authority is the licensing authority

– Director General of Foreign Trade (DGFT). ANF 5B is to be filled along with Self-certified copies of the followings:

Import Export Code (IEC)

Registration cum Membership Certificate (RCMC)

Digital signature

Registration certificate from Tourism Department

Pan Card

Excise Registration (if registered)

GST Registration Certificate

Proforma Invoice

Brochure

Self-Certified Copy + Original of Certificate of Chartered Accountant

Self-Certified Copy + Original of Certificate of Chartered Engineer

9.3.4 EXPORT OBLIGATION UNDER THE EPCG SCHEME

The Importation of capital goods under the scheme of EPCG is subject to an export obligation which is equal to six times of duty saved, to be satisfied within 6 years from the date of issue of EPCG authorization. If a holder of the EPCG authorization is unable to meet the stipulated export obligation, the importer of the capital goods is required to pay customs duties along with interest on it as prescribed.

Some important Points to Remember

- Extension of the time limit: The Extension of the time limit is available but only in exceptional cases where the exporter has sufficient evidence/proof to prove that the factors were beyond his control to meet the deadline.

- Penalty in case of Non-Compliance: In cases where the license holder under the EPCG scheme fails to fulfill the stipulated export obligation then the licensee shall be liable to pay the customs dues along with 15% interest per annum to the customs authority.
- Selling goods in the Domestic Tariff Area (DTA): Where the exporter as per his export obligation meets the deadline then only this business can sell the goods in the Domestic Tariff Area.
- Exemption from IGST & Compensation Cess under EPCG scheme: In the Goods and Services Tax regime, merchant exporters need to pay IGST and claim a refund for the same. The DGFT vide Notification No. 54/2015-20 has amended the FTP (Foreign Trade Policy) and has extended IGST and Compensation Tax exemption under EPCG Scheme till October 01, 2018. This move would offer much-needed relief to exporters who are under the stress concerning refunds under the GST regime.

9.4 SCHEMES FOR GEM & JEWELLERY SECTOR

The trade-in gems and jewellery has been in India since the beginning of the Indus Valley Civilisation, one of the world's oldest civilizations. The most prevalent type of relic discovered here was jewellery. Even now, people's interest in gems and jewellery is at an all-time high.

Gem & Jewellery exports constitute a major portion of India's total merchandise exports. It is an employment-oriented sector. As a result, in 1966, India's Ministry of Commerce and Industry established the Gems and Jewellery Export Promotion Council (GJEPC). The organization's goal is to promote the work of various craftsmen and designers in order to develop India as a global participant in the jewellery industry by assisting them in selling their goods overseas and offering other services.

Duty-free import/procurement of precious metal (Gold/Silver/Platinum) from the nominated agencies is allowed either in advance or as replenishment. The Schemes for Gems and Jewellery sector are as follows:

- Advance Procurement/Replenishment of Precious Metals from Nominated Agencies
- Replenishment Authorisation for Gems
- Replenishment Authorisation for Consumables

Exporters of gems and Jewellery can import/procure duty-free (excluding Integrated Tax and Compensation Cess leviable under Section 3(7) and 3(9) of Customs Tariff Act) input for the manufacture of the export product.

Gems and Jewellery exporters shall be allowed to export cut and polished precious and semi-precious stones for the treatment and re-import as per customs rules and regulations. In case of re-export, the exporter shall be entitled to duty drawback as per rules.

Re-import of rejected Jewellery Gems & Jewellery exporters shall be allowed to re-import rejected precious metal jewellery as per paragraph 4.91 of Handbook of Procedures.

Export and import on consignment basis Gems & Jewellery exporters shall be allowed to export and import diamonds, gemstones & jewellery on a consignment basis as per Handbook of Procedures and Customs Rules and Regulations.

Export benefit (financial) schemes that GJEPC extends to all the gems and jewellery exporters are as follows:

9.4.1 MARKET DEVELOPMENT ASSISTANCE EXPORT SCHEME

Market Development Assistance Export Scheme is a government endowment available to all the exporters and provides funding for export promotion activities. It supports the following:

i. Assistance for exporters in export promotion activities abroad.

ii. Assistance for Export Promotion Councils (EPCs) to shoulder promotional activities for their products and services.

iii. Assistance for approved organizations and trade associations in shouldering exclusive non-recurring innovative activities in connection with export promotion efforts for their members.

iv. Assistance for Focus export promotion programs in specific regions abroad like Focus (LAC), Focus (Africa), Focus (CIS), and Focus (ASEAN + 2) programs.

v. Assistance for remaining essential activities connected with marketing promotion efforts abroad.

vi. Assistance for participation in export promotion activities abroad

Exporting companies who have f.o.b. (free price onboard) of exports of up to Rs. 30 crores are eligible for availing MDA export scheme for participation in events abroad and exporting their products from India. It is subject to the condition that the exporters have at least 12 months of membership with the involved EPC and have regularly filed their returns. However, the scheme is not applicable unless an EPC has completed five years from the date of its creation.

vii. Assistance with regards to travel expenses and creation of stalls is permitted, subject to the following upper ceilings per tour:

Area/Sector	No. of eligible visits	Maximum financial upper ceiling per tour
Focus LAC	1	Rs.2,50,000
Focus Africa (inclusive of WANA countries)	1	Rs.2,00,000
Focus CIS	1	Rs.2,00,000
Focus ASEAN + 2	1	Rs.2,00,000
General Areas	1	Rs.1,50,000
Total	5 eligible visits	General Areas

Participation by individual exporters in the events mentioned above are subject to certain conditions which are as follows:

i. Only flying expenditures (economy excursion) of up to Rs.70,000 are allowed for participation in EPCs-led activities. The cost of Focus LAC is Rs. 1,00,000. Reimbursements will be based on ceilings that are higher than those mentioned.

ii. A maximum of five individuals are allowed to participate in one financial year.

iii. Only one regular employee, director, or owner of the exporting firm will be eligible for financial help. Non-Indian citizens, however, are not eligible for the plan.

iv. With a minimum of 14 days' notice, the exporting enterprise must ask for help in the affected EPC. The date of receipt of the application and the date of departure from the country should not be included in the notification.

v. Companies that have been charged under India's Foreign Trade Policy or any export law are not eligible for help.

vi. Companies that export and are members of any EPC are also eligible for help under the initiative. Their application must pass via the EPC in question.

vii. MDA aid would be available to a maximum of three participants in a single event. They will be required to participate in that event via their money after getting it three times for previous activities.

viii. MDA aid from all government entities, Export Development Authorities, ITPO, and other sources are included in the maximum help.

9.4.2. MARKETING ACCESS INITIATIVE SCHEME FOR THE EXPORT BENEFIT

One of the export promotion programs available to all exporters in India is the Marketing Access Initiative plan for export advantage. It seeks to revolutionize specific markets by doing market research, based on the focus-product focus-country method. MAI scheme covers several activities for financial assistance which are as follows:

Market projects abroad

i. Launch of showrooms.

ii. Launch of warehouses.

iii. Trade Festival of India.

iv. Exhibitions in international stores.

v. Product establishment.

vi. Marketing and campaigning.

vii. Assistance to organizations in clusters for marketing abroad.

viii. Publications of catalogues.

ix. Participation in international trade fairs at a national status.

x. Attracting customers from focused countries.

Capacity building

i. Training exporters.

ii. Up-gradation in facilities and products.

iii. Setting up common design areas and centers for facilities.

iv. Appointing experts in consumer countries.

Assistance for statutory compliance

i. Payments arising out of legal obligations.

ii. Legal dispute occurring abroad concerning the commodities, other services, etc.

Research purposes and project management

i. Market analysis (country-specific).

ii. Study of WTO rules and other conventions such as Free Trade Agreement (FTAs) etc.

iii. Creating projects that bring significant growth and enhancements to the market.

9.4.3. SUPPORT FROM GJEPC TO THE EXPORTERS OF GEMS AND JEWELLERY

Apart from the initiatives listed above, GJEPC assists gem and jewellery exporters by hosting a number of events, including the following: -

Buyer seller meets	Buyer-seller meetings are organized by commodity boards and EPCs, and these events allow exporting enterprises to engage directly with buyers. Clarity and promotion of the brand are provided through communicating about items, their price, and sales.
Trade delegations	Conducting trade delegations aids in the development of bilateral commercial contacts and increases the number of clients in the

	international market.
Seminars	Every year, commodity boards and promotion councils host a number of seminars where the newest information about the industry, as well as other trends and developments, are discussed.
Workshops	These courses prepare exporters to compete on a global scale with their competitors.
International fairs	Through the EPCs and commodities boards engaged, eligible exporters can participate in international fairs. Exporters communicate with other exporters and buyers here, swapping samples and discussing prices, among other things.
Visa recommendations	To market their products, exporters must continue to travel to foreign nations. EPCs assist in the process of obtaining a visa. Under the council, the procedure becomes more efficient.
Update on the latest developments	EPCs and related boards keep exporters up to date on the latest industry developments. Exporters can enhance their performance by learning more about dangers and international trends.
Education and training initiatives	Export Promotion Councils (EPCs) provide free education and training to exporters. These sessions aid in the development of policies that boost sales and profitability.
Awards for export excellence	Award ceremonies are held by relevant authorities to recognize talented exporters and encourage others to improve their performance.
Research and development	Market research and surveys are undertaken regularly to keep exporters up to date on the latest developments and to assist them in exploring alternative options.

9.5 CHECK YOUR PROGRESS

1. MEIS meaning is

a. Ministry of Exports, Indian State.

b. Merchandise Export from India Scheme

c. Management of Export-Import Supplies

d. Mechanism of Export-Import Statements

2. MEIS was introduced in the year……

a. 2013

b. 2014

c. 2015

d. 2016

3. What is the importance of MDA?

a. Exporters can expand the export market

b. Exporters can get goodwill and reputation through advertising, publicity, trade fairs, etc.

c. Exporter can earn valuable foreign exchange.

d. All of the above.

4. Market Access Initiative (MAI) Scheme is provided by

a. Federation of Indian Exports Organization

b. Indian Marketing Organization

c. Government of India

d. Federation of Indian Chambers of Commerce and Industry.

5. Export obligation under EPCG Scheme for first 2 years is -

a. Nil

b. 15%

c. 25%

d. 35%

6. Meaning of Capital Goods is

a. Plant, machinery and accessories

b. Raw materials

c. Packaging materials

d. Partly processed products

7. Documents required to claim Duty Drawback are

a. Banks certified copy of commercial invoice

b. Non-negotiable copy of Bill of Lading.

c. Duty drawbacks copy of shipping bill.

d. All of the above.

8. GJEPC is a concern with

a. Gold

b. Silver

c. Gems and Jewellery

d. Dollar

9.6 SUMMARY

Under the Foreign Trade Policy of India (FTP 2015-20), the two schemes were implemented as part of the Exports from India Scheme. The Merchandise Exports from India Scheme (MEIS) and the Service Exports from India Scheme (SEIS).

The Merchandise Exports from India Scheme (MEIS) aims to reduce inefficiencies and related costs connected with the export of goods/products produced/manufactured in India, particularly those with high export intensity and job potential, and so increase India's export competitiveness. The Service Exports from India Scheme (SEIS) aims to promote the export of registered Indian services. Service providers that supply notified services as defined in Appendix 3E of the policy document are eligible for freely transferable duty credit scrip worth 5% of the foreign exchange earned. Appendix 3D of the policy paper lists the notified services and reward rates.

The Export Promotion Capital Goods (EPCG) Scheme aims to make it easier to import capital goods for the production of high-quality goods and services while also improving India's industrial competitiveness. The EPCG Scheme aids in the import of capital goods for the purpose of manufacturing high-quality items and increasing India's export competitiveness. The EPCG plan allows capital items needed in pre-production, production, and post-production to be imported without paying customs tax.

Similarly, with all the opportunities and schemes generated by GJEPC, the gems and jewellery industry in India is expanding beyond the borders at a fast pace. Their spectacular products are in high demand, contributing 29% to the global economy. Expectations are the industry will produce an employment rate of at least 8.23 million employees by 2022. Its future indeed looks sweet and favourable.

9.7 KEYWORDS

Custom duty: It is a kind of indirect tax that is imposed on both exported and imported goods and services. The tax imposed on the import of goods is known as the import duty. Whereas, the tax imposed on the export of goods is known as the export duty.

Duty Credit Scrip: It is a scrip that can be used for the payment of Customs Duty (were earlier allowed to be used for the payment of Service Tax & Excise as well.) These scrips are issued to both the exporters of goods as well as exporters of services under the various schemes mentioned in the Foreign Trade Policy.

FOB: Free on Board stands for “free on board” or “freight on board” and is a designation that is used to indicate when liability and ownership of goods are transferred from a seller to a buyer. Free onboard indicates whether the seller or the buyer is liable for goods that are damaged or destroyed during shipping.

HS: It stands for "Harmonised System" and it is the international standardized system of names and numbers used to classify different freights. HS or "Harmonised System" is used by customs authorities in all countries and is needed for customs clearance of your shipment. Each product has an HS code with which it can be identified globally.

IEC: The Importer -Exporter Code (IEC) is a key business identification number that is mandatory for Exports or Imports. No person shall make any import or export except under an IEC Number granted by the DGFT.

ITC (HS) codes: Also known as Indian Trade Clarification (ITC) and are based on Harmonized System (HS) of Coding. It was adopted in India for import-export operations. Indian custom uses an eight-digit ITC (HS) code to suit the national trade requirements.

9.8 SELF-ASSESSMENT TEST

Q1. Discuss the salient features of MEIS and SEIS.

Q2. Differentiate with SFIS and SEIS.

Q3. What are capital goods? Explain their importance in a developing nation.

Q4. Highlight the significance of the EPGC scheme.

Q5. Explain in detail the role of the gems and jewellery industry in Indian foreign trade.

Q6. What are the various measures undertaken by GJEPC to promote the international trade of gems and jewellery?

9.9 ANSWERS TO CHECK YOUR PROGRESS

1. (b)

2. (c)

3. (d)

4. (c)

5. (a)

6. (a)

7. (d)

8. (c)

9.10 REFERENCES/SUGGESTED READINGS

https://www.gjepc.org/gjepc-initiatives.php

https://www.cbec.gov.in

https://www.dgft.gov.in

Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Dr Vijender Pal Saini
Lesson No.: 10	Vetter: Prof. Pardeep Gupta
Tariff and Non-Tariff Measures and their Impact	

STRUCTURE

10.0 LEARNING OBJECTIVES

Trade barriers are imposed to keep and regulate firms from selling to one another in foreign markets. The objective of this chapter is to get the students acquainted with the types of trade barriers imposed to keep and regulate firms from selling to one another in foreign markets. The students will learn why are the trade barriers obstacles in the way of smooth international trade?

After reading this chapter, students will be able to:

- Describe the concept of trade barriers in international business
- Understand outward trade policy and inward trade policy
- Explain different types of tariff and non-tariff barriers
- Elaborate the rationale behind the barriers imposed by nations

10.1 OPENING CASE: CHEAPER CEMENT FROM PAKISTAN SHAKES DOMESTIC INDUSTRY

"Hit by cheaper cement imports from Pakistan, domestic manufacturers, particularly cement units based in Himachal Pradesh and Punjab, have demanded immediate tariff and non-tariff protection against the dumping from across the border.

Domestic cement manufacturers are facing a glut because of imports from Pakistan, rendering their capacity idle, industry executives said. According to an industry estimate, the country's current unutilised cement capacity is around 100 million tonnes.

A cement major, which has units in Punjab and Himachal Pradesh, could utilise only 75 per cent of its capacity, said a company executive requesting anonymity. Against a demand of about 8 million tonnes per annum in Punjab alone, imports are as high as 1.5 million tonnes, the executive added. An official data showed an unprecedented 24 per cent growth in imports in just one quarter ending March 2018.

"The (Indian) industry had built capacity in anticipation of increased demand due to the impetus given to housing and infrastructure sectors. The demand scenario, however, remains subdued," said an executive of a Himachal Pradesh-based cement unit. The state has a presence of major cement manufacturers such as Ambuja Cements, Ultra Tech and ACC. Pakistan exporters are resorting to predatory pricing, executives said. While cement is sold in Pakistan at $100 per metric tonne, it is dumped in India at $63-65 per metric tonne, they added.

Table 5.1 Islamabad Enjoys Lion's Share (in Metric Tonne)

Year	Total Imports	Imports from Pakistan	Imports Percentage

2013-14	662,795	476,672	72
2014-15	1,022,016	791,520	77
2015-16	1,098,224	858,272	78
2016-17	16,89,310	14,52,506	86

India is Pakistan's second largest export market for cement after Afghanistan, which allows imports without basic customs duty since 2007. Pakistan, however, imposes 11 per cent duty on imports from India, the industry experts said.

Pakistan's cement export to India has become more aggressive after it is losing its grip in the Afghanistan market due to intense Iranian competition, experts said.

The unbridled import from Pakistan to India would hamper the domestic industry, which is also against the spirit of 'Make in India', Indian cement manufacturers said adding that the impact of the dumping is spreading in other parts of the country.

Manufacturers are demanding a level-playing field by imposing an 11 per cent customs duty, besides other levies. They have also suggested capping of entry points and ports for cement imports into India as additional safeguards against the dumping". (Source: The Tribune, Ambika Sharma, Cheaper Cement from Pakistan Shakes Domestic Industry, Tribune News Service, Solan, September 11, 2018)

10.2 INTRODUCTION: INTERNATIONAL BUSINESS TRADE BARRIERS

Since the inception of civilization the countries are indulged in trade with each other. Every country in the world has their trade policies for international trade. Foreign trade policies are made to regulate the trade across the boundaries. In general, trade barriers are imposed to keep and regulate firms from selling to one another in foreign markets. Trade barriers are obstacles in the way of smooth international trade.

Foreign Trade policies of different countries can be classified as (i) Free trade/Outward-oriented and (ii) Fair trade/ Inward trade.

i) **Free Trade Policy/Outward Trade Policy**

It implies that the government of the land exerts minimal influence on decisions relating exports or imports made by private individuals and businesses. This concept was first given by Adam Smith, which implies that the government interventions in market activities, import and export, etc., should be nil. However, the government is also necessary, as suggested by Keynes, in his modern theory of consumption. Therefore, outward-oriented policy implies that the government of the country observes minimum influence on decisions related to exports or imports in the country.

The following reasons supports the free trade policy:

- Free trade promotes world trade.
- Free trade means free trade/exports-import and it means more jobs.
- Consumer is the king and therefore be provided with best and variety of products and services;
- World trade should be promoted for better and efficient utilization the global resources;
- Global competition forces companies to become more efficient and innovative; and
- World trade motivates most efficient companies to exist and less efficient companies exit.

ii) **Fair Trade / Inward-Oriented Policy**

This policy suggests that the government of the land should actively intervene in export and import. It ensures that exports from the own country receive a fair share in the global trade and that imports are controlled. Fair trade / Inward-Oriented policy emphasis on government intervention in market activities. It suggests that the government of the country should actively intervene in market forces and make ensure that exports made by it are receiving a better consideration in global trade and its imports are controlled and managed. The ultimate purpose is to minimise losses of domestic jobs and market share in specific industries or weak industries. Therefore fair trade / inward-oriented policy is also known as Managed Trade Policy.

10.3 BARRIERS TO INTERNATIONAL TRADE

The countries which adopt the inward trade policy usually impose many restrictions over their trade with other countries. The barriers are generally imposed to protect domestic industries from global competition. The trade barriers are classified into tariff and non-tariff strategies:

10.3.1 Tariff Barriers

A tariff is a tax imposed on goods traded among countries, particularly on imported goods. It may be a imposed on per unit of goods, i.e., per barrel of oil or per new car. It may be in the form of percentage of the value of the goods, such as 5 percent of a Rs 50,000 shipment of shoes; or it may be a combination of both. Tariff makes imported goods more costly so that they become less able to compete with domestic companies

Types of tariff barriers:

i) Import duty

Tariffs which are imposed by destination country on goods which are being imported are called import duties. It is also known as custom duty, import tax or import tariff.

ii) Export Duty

Taxes imposed by origin country on goods which are being exported are called export tariff.

iii) Transit Duty

When taxes are imposed on goods which are passing through another country another than, origin country or destination country are called transit tariff.

iv) Specific Duty

Specific tariff is the tax which is imposed on some specific attributes of goods – weight, quantity, value and the like per unit, measurement of the product being imported or exported.

v) **Ad Valorem Duty**

An ad valorem duty is a tax based on the total value of an item. It is imposed on the price value of commodity.

vi) **Compound Duty**

It is a combination of specific duty and an ad valorem duty. It is levied and is calculated partly as a percentage on value and partly as a rate per unit or weight.

10.3.2 Non-tariffs Barriers

A non-tariff barrier is qualitative method of imposing restrictions. It includes generally restrictions which are in the form of quotas, subsidies, voluntary export restraint (VER), local content requirement, foreign exchange control and embargo etc.

(i) Quotas

Quotas refer to numerical limits on the quantity of goods that may be imported into a country during a specific period. Under quota system, the number of items to be imported for a specific period by a country is decided and import of more than that limit is not permissible. Quantity is stated in license. Penalty is imposed if violated. Quotas seem to be quantitative restrictions because it is imposed on imports and exports of a specific product for a specified period. Generally Countries use quotas as directive forms of administrative regulations of international trade.

(ii) Subsidies

Subsidies are the payments provided by government to domestic producer of the country. It may be in the form of cash payment/grants, concessional loans, deductions in taxes and government equity participation in local firms. It provides assistance to domestic producers to compete against low cost foreign goods and helps in gaining access to export markets.

(iii) Voluntary Export Restraint (VER)

A voluntary export restraint (VER) is a trade restriction that is generally imposed on goods being exported by the country. It is kind of limit self-imposed by the exporting country.

(iv) Local content requirement

Local content requirements are the concept of de globalization, which are the policies imposed by governments that require firms to compulsorily make use of domestically-manufactured goods in the products.

(v) Foreign Exchange Control

Foreign Exchange Control is a method of intervention by government to correct the adverse balance of payments. Here the government intervenes with free flow of capital and the foreign exchange.

(vi) Embargo

Embargoes are defined as complete prohibition or bans of trade of specific commodities and may be imposed on imports or exports of specific goods that are supplied to or from specific countries. Generally it is imposed in the time of wars.

It can be said that trade barriers make trade restrictive among countries. Each country has its own objective to impose trade barrier(s). Different institutions are developed over the time to regulate and liberalize trade barriers and to make free global trade like World Trade Organisation (WTO).

10.4 CHECK YOUR PROGRESS

1. The most common trade barrier faced by a multinational company is the:

(A) Embargo (B) Quota

(C) Sales Tax (D) Tariff

2. In international trade which of the following is a non-tariff trade barrier?

(A) Quotas (B) Import bans

(C) Export controls (D) Anti-dumping laws

3. Additional tariff levied on imported product on the notion that it is sold internationally at a price below cost.

(A) Ad valorem duty (B) Specific duty

(C) Anti-dumping duty (D) Countervailing duty

4. It is tariff imposed on the basis of both the value and quantity.

(A) Ad valorem duty (B) Specific duty

(C) Compound duty (D) Countervailing duty

5. The Import duty, specific duty, ad valorem duty, compound duty and countervailing duty are examples of:

(A) Currency controls (B) Tariffs barriers

(C) Administrative delays (D) Non-tariff barriers

6. The customs valuation, subsidies, special fee, quota, embargo and technical barriers are examples of:

(A) Tariffs barriers (B) Currency controls

(C) Administrative delays (D) Non-tariff barriers

7. A tax of 20 percent per unit value of imported good is an example of:

(A) Specific tariff (B) Nominal tariff

(C) Ad valorem tariff (D) Compound tariff

Fill in the Blanks

8. Full ban of export and import of one or more products with a particular country is called _________________.

9. _________________is a limit on the amount of a specific product that can enter a country.

10. Tariff duty levied on the basis of the value of the item is called _______________ .

11.Tariff collected by a country through which the goods have passed, they are_______ .

12.Tariff duty imposed on the basis of both the value and quantity_____________.

State whether the following statements are True or False

13. The use of anti dumping measure as an instrument of fair competition is permitted by the WTO.

14. Non-tariff Barriers are directly affect prices of imported product.

15. When the goods are exported at a price above the cost of production or those prevailing in the domestic market is called dumping.

16. Tariffs collected by the exporting countries are called export tariffs.

10.5 SUMMARY

In general, trade barriers are imposed to keep and regulate firms from selling to one another in foreign markets. Trade barriers are obstacles in the way of smooth international trade. Foreign Trade policies of different countries can be classified as (i) Free trade/Outward-oriented and (ii) Fair trade/ Inward trade.

The trade barriers are classified into tariff and non-tariff strategies:

A tariff is a tax imposed on goods traded among countries, particularly on imported goods. Tariffs which are imposed by destination country on goods which are being imported are called import duties. It is also known as custom duty, import tax or import tariff. Taxes imposed by origin country on goods which are being exported are called export tariff. When taxes are imposed on goods which are passing through another country, another than origin country or destination country are called transit tariff. Specific tariff is the tax which is imposed on some specific attributes of goods – weight, quantity, value and the like per unit, measurement of the product being imported or exported. An ad valorem duty is a tax based on the total value of an item. It is imposed on the price value of commodity. It is a combination of specific duty and an ad valorem duty. It is levied and is calculated partly as a percentage on value and partly as a rate per unit or weight.

A non-tariff barrier is qualitative method of imposing restrictions. It includes generally restrictions which are in the form of quotas, subsidies, voluntary export restraint (VER), local content requirement, foreign exchange control and embargo etc. Quotas refer to numerical limits on the quantity of goods that may be imported into a country during a specific period. Under quota system, the number of items to be imported for a specific period by a country is decided and import of more than that limit is not permissible. Subsidies are the payments provided by government to domestic producer of the country. It may be in the form of cash payment/grants, concessional loans, deductions in taxes and government equity participation in local firms. A voluntary export restraint (VER) is a trade restriction that is generally imposed on goods being exported by the country. It is kind of limit self-imposed by the exporting country. Local content requirements are the concept of de globalization, which are the policies imposed by governments that require firms to compulsorily make use of domestically-manufactured goods in the products. **Foreign Exchange Control** is a method of intervention by government to correct the adverse balance of payments. Here the government intervenes with free flow of capital and the foreign exchange. Embargoes are defined as complete prohibition or bans of trade of specific commodities and may be imposed on imports or exports of specific goods that are supplied to or from specific countries. Generally it is imposed in the time of wars.

10.6 KEYWORDS

Tariff Barriers

A tariff is a tax imposed on goods traded among countries, particularly on imported goods may be per unit of goods or may be in the form of percentage of the value of the goods.

Non-tariffs Barriers

A non-tariff barrier is qualitative method of imposing restrictions in the form of quotas, embargoes, sanctions, and levies etc.

10.7 SELF- ASSESSMENT TEST

Q.1 Write a note on the instruments used by the government to control trade.

Q.2 What are the reasons for government's involvement in business?

Q.3 Elaborate the barriers in smooth way of international trade.

Q.4 What do you mean by tariff barriers in international trade? Write a detail note on it.

Q.5 Enumerate and describe the non-tariffs barriers in detail.

Q.6 Write short note on the following topics:

(i) Free Trade Policy/Outward Trade Policy

(ii) Fair Trade / Inward-Oriented Policy

10.8 ANSWERS TO CHECK YOUR PROGRESS

(1) D (2) B

(3) C	(4) C
(5) B	(6) D
(7) C	(8) Embargo
(9) Quota	(10) Ad valorem Duty
(11) Transit tariffs	(12) Compound Duty
(13) True	(14) False
(15) False	(16) True

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Subject: INDIA'S FOREIGN TRADE AND POLICY	
Course Code: BCOM 406	Author: Prof (Dr) Hemant Sharma
Lesson No.: 11	

Role of EXIM bank of India, Export Promotion Councils, Role of Central Board of Excise and Custom, Role of WTO in India's Foreign Trade Policy

Structure

11.0 LEARNING OBJECTIVE

After reading this lesson the students will be able to:

- Explain the role of EXIM Bank of India
- Explain the role of Export Promotion Councils

- Explain the role of the Central Board of excise and custom
- Explain the role of WTO in India's Foreign Trade Policy

11.1 INTRODUCTION

Many organizations of national and international significance, work in a coordinated and synchronized manner with each other to provide valuable suggestions, recommendations, and guidelines for national-level policy formulation. In the case of the Indian Foreign Trade Policy, many organizations like EXIM Bank, WTO, export promotion councils, and other organizations of similar stature play a crucial role. In this chapter, we will discuss and learn about some of these organizations.

11.2 EXIM BANK OF INDIA

The Export and Import Bank of India, also known as the EXIM Bank was set up in 1982. It is the principal financial institution in India for foreign and international trade. The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country and also it oversees and coordinates the working of the other institutions that work in the import-export sector. The ultimate objective of the bank is to promote foreign trade activities in the country.

The EXIM bank always looks for different ways and methods to promote the foreign trade sector in India. To promote exports EXIM bank also has schemes such as production equipment's finance programs, export marketing finance, vendor development finance, etc.

11.2.1 Functions of export and import bank of India

The main functions of the export and import bank of India are as follows:

1. Provides re-financing services to banks and other financial institutes for their financing of foreign trade.
2. EXIM Bank can also provide business advisory services and expert knowledge to Indian exporters in respect of multi-funded projects in foreign countries.
3. Finances import and export of goods and services from India.

4. It also finances the imports and export of goods from countries other than India.
5. It finances the import or export of machines and machinery on a lease or hires purchase basis as well.
6. EXIM bank will also provide financial assistance to businesses joining a joint venture in foreign trade.
7. The bank also provides technical and other assistance to importers and exporters. Depending on the country of origin there are a lot of processes and procedures involved in the import-export of goods. The EXIM bank will provide guidance and assistance in administrative matters as well
8. Undertakes functions of a merchant bank for the importer or exporter in transactions of foreign trade.
9. Will also underwrite shares/debentures/stocks/bonds of companies engaged in foreign trade.
10. Will offer short-term loans or lines of credit to foreign countries.

11.2.2 POLICIES AND PROGRAM OFFERED BY EXIM BANK

Exim Bank supports project exports from India with a variety of financed and non-funded facilities, guarantees, information, and consulting services. Exim Bank has assisted several Indian project exporters in the CIS area in securing contracts in a variety of industries, including mining, energy, and transportation. Exim Bank also provides Indian enterprises with a variety of information, advisory, and support services to help them participate successfully in projects supported by multilateral funding institutions such as the World Bank, Asian Development Bank, and European Bank for Reconstruction and Development (EBRD). Policies and programs initiated by EXIM Bank are as follows:

1. The EXIM 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 Development Bank, Asian Development Bank, and European Bank for Reconstruction and Development.

2. The Bank extends lines of credit to overseas financial institutions, foreign governments, and their agencies, enabling them to finance imports of goods and from India on deferred credit terms.
3. EXIM Bank's lines of Credit preclude credit risks for Indian exporters and are of particular relevance to SME export.
4. The Bank's Overseas Investment Finance program offers a variety of facilities for Indian investments acquisitions overseas. The facilities include loans 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.
5. The Bank provides financial assistance by way of term loans in Indian rupees/foreign currencies for setting up new production facilities, expansion/modernization/up-gradation of existing facilities, and for the acquisition of production equipment/technology. Such facilities particularly help export-oriented Small and Medium Enterprises for the creation of export capabilities and enhancement of international competitiveness.
6. The Bank has launched the Rural Initiatives Programme to link Indian rural industry to the global market. The program is intended to benefit the rural market through the creation of export capability in rural enterprises.
7. 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 prospective business partners to facilitating placement of final orders. The service is provided on a success fee basis.
8. Under its Export Marketing Finance program, EXIM Bank supports Small and Medium Enterprises in export marketing efforts including financing the expenditure relating to the implementation of strategic and systematic export market development plans.
9. EXIM Bank supplements its financing programs 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.

11.2.3 EXPORT PROMOTION BY EXIM BANK

EXIM bank extends Lines of Credit (LOCs) to overseas governments, financial institutions, regional banks, and other overseas entities, to finance India's exports to those countries. EXIM banks' LOC is a risk-free, non-recourse export financing option available to Indian exporters for promoting their exports. Under this arrangement, overseas importers are required to pay advance payments to Indian exporters, which is usually 10% of the contract value. EXIM bank pays the balance amount, which is normally 90% of the contract value, to Indian exporters through negotiating banks in India, upon shipment of goods. EXIM Bank also operates LOCs announced by the government of India, to the country's trading partners.

Forms of financial assistance provided by EXIM bank to Indian exporters

1. Delayed payment exports
2. Pre-shipment credit
3. Term loans for export production
4. Foreign investment finance
5. Financing export marketing.

11.3 EXPORT PROMOTION COUNCILS/COMMODITY BOARDS/ EXPORT DEVELOPMENT AUTHORITIES

The primary goal of Export Promotion Councils is to develop and promote the country's exports. Each Council is responsible for promoting a certain set of initiatives, goods, or services. The council assists in the growth of export-related industries by providing financial support. They aid in the diversification of the country's production sector and the promotion of a market-oriented, private-sector economy through the creation of market-oriented export commodities.

These Councils are registered as non-profit organizations under the Companies Act/ Societies Registration Act. The Councils perform both advisory and executive functions. The role and functions of these Councils are guided by the Foreign Trade Policy, 2015-20. These Councils are also the registering authorities for exporters under the Foreign Trade Policy 15-20. Presently, there are primarily fourteen Export Promotion Councils under the administrative control of the Department of Commerce. Other councils'/commodity boards/export development authorities are as follows: -

S. No.	Name of Export Promotion Councils/ Commodity Boards	Details of products falling with their jurisdiction
1.	Apparel Export Promotion Council	Readymade garments.
2.	Basic Chemicals, Pharmaceuticals & Cosmetics EPC (CHEMEXCIL)	Dyes, Dye-Intermediates, Coal Tar Chemicals, and Alcohol. Basic Inorganic and Organic Chemicals including Agro Chemicals, Oil Field Chemicals. Cosmetics and Toiletries, Essential Oils & Perfumery Compounds. Castor Oil & its derivatives
3.	Carpet Export Promotion Council	Handmade/ Hand-knotted Woollen Carpets, Rugs, Druggets, Durries, Handmade tufted Carpets, Handmade Silk Carpets, Handmade Staple/Synthetic Carpets, Kelem, Schumacks, Namdhas, and other Floor Coverings.
4.	CAPEXIL	1. Animal By-products 2. Automobile Tyres & Tube 3. Books, Publishing & Printing 4. Bulk Minerals & Ores 5. Cement, Clinker & Asbestos Cement products 6. Ceramics & Refractories 7. Glass & Glasswares

		8. Granites, Natural Stones & Explosives. 9. Graphite Electrodes & Explosives 10. Misc. Products such as : - Gambier Extracts/Myrobalam Extracts/ Cutch Extracts/ Other dyeing & tanning extracts - Fireworks - Safety Matches - Activated Carbon - Cocoanut shell Charcoal - Superphosphates Urea - Other Chemical Fertilizers - Hard Aggregates for Floor 11. Ossein, Glue & Gelatine 12. Paints & Allied Products 13. Paper, Board & Paper Products 14. Plywood & Allied Products 15. Processed Minerals 16. Rubber Manufactured Products
5.	Cotton Textiles Export Promotion Council	- Cotton Yarn & Sewing Thread - Cotton Fabrics (Grey/Bleached & Processed Fabrics) including Yarn Dyed Fabrics: Duck/Canvas, Sheetings, Poplin, Shirting/Suitings, Denims/Drills, Twills/Sateens, Sarees/Dhotis/Terry Fabrics, Furnishings, Voils/Mulls/Muslin, Knit Fabrics - Cotton Made-ups – Bed Linens/Home Furnishings, Terry Towels/Toweling, Bags/Sacks, Curtains/Drapes, Blankets, Table/Toilet/Kitchen, Linens/Napkins,

		Handkerchiefs/ Dusters, Carpets/Mats/ Tarpaulins/Tents, Tapes/Narrow Fabrics, Labels, Shawls/Scarves, Rope &* Twine, Drop Cloth, Mosquito Nets/Netting, Embroidered Fabrics/Sarees, Dress Materials, Chaddar/Odhanis, Khangas, Threads/Packing Threads, Others - Raw Cotton
6.	Council for Leather Exports	Leather & Leather products
7.	EEPC INDIA (Formerly Engineering Export Promotion Council)	1. Machinery and equipment 2. Motor Vehicles 3. Automobile Components 4. Bicycles, Bicycle Components, and Accessories 5. Two Wheelers and Three Wheelers 6. Internal Combustion Engines, Compressors, and parts thereof 7. Pumps – all types 8. Electric and Home Appliances 9. Hand and Machine Tools 10. Medical, Surgical, and Other Instruments 11. Prime Iron & Steel and Products Thereof 12. Non-ferrous Metals and Products Thereof 13. Railway Rolling Stock and Components

		14. Builders Hardware 15. Project Exports. 16. Mica & other Mineral-based products. 17. Miscellaneous Manufacturers Engineering Products not specified elsewhere.
8.	Electronics & Computer Software EPC	Electronic Hardware 1. Consumer electronics 2. Electronics instruments (which includes – industrial instruments, office equipment, medical equipment, laboratory equipment, strategic electronic equipment) 3. Electronic components 4. Computer hardware 5. Computer software, It/ITes software services, BPO/KPO, etc.
9.	Export Promotion Council for Handicrafts	
10.	Export Promotion Council for EOUs & SEZs	All products by EOU except in the case of spices. In the case of spices, it would be mandatory for units to get themselves registered with Spices Board also.
11.	Federation of Indian Export Organisations (FIEO)	
12.	Gem & Jewellery Export Promotion Council (GJEPC)	- Polished & Processed Pearls (real or cultural) - Cut & Polished Diamonds - Cut & Polished Coloured Gemstones

		- Jewellery containing gold, silver, platinum, or palladium and studded with diamonds, colored gemstones, real or cultured pearls, or synthetic/ imitation stones - Cut and Polished Synthetic Stones - Costume/Fashion Jewellery - Silver Filigree Jewellery & Silver Filigree - Rough Diamonds
13.	Handloom Export Promotion Council	All Handloom Products like Fabrics, Home Furnishings, Carpets, Floor coverings, etc.
14.	Indian Oilseeds & Produce Export Promotion Council	Oilseeds and oils, other than de-oiled cake, rice bran oil, soya oil, soya de-oiled cake, and the products other than those dealt with by Shellac & Forest Product Export Promotion Council.
15.	Indian Silk Export Promotion Council	Natural silks and silk Blends and their products include readymade Garments and Carpets.
16.	Jute Products Development and Export Promotion Council - (JPDEPC)	All types of jute, jute blended, and jute union products made from jute fibre, yarn, twine, and fabric for conventional, technical, and new & diversified uses and products
17.	Pharmaceutical s Export Promotion Council	- Bulk Drugs and their intermediates, - Formulations - Herbal - Ayurvedic, - Unani - Homeopathic medicines - Biotech & biological products

		- Diagnostics - Surgical - Nutraceuticals & pharma industry-related services - Collaborative research - Contract manufacturing - Clinical trials and consultants etc - Pharma-related services.
18.	Plastics Export Promotion Council	All plastics products covering plastic raw materials: intermediate products like plastic Films, sheets, etc .plastic packaging materials including Plastic woven sacks/fabrics/bags & Flexible Intermediate Bulk containers (FIBC's) Plastic Tarpaulins, plastic consumer items, PVC Leather Cloth/Foam leather, floor coverings (incl. Linoleums), Moulded/soft luggage, FRP/GRP products PVC Rigid/Flexible, Pipe fittings, Toys Dolls, and Game, Plastic Electrical Accessories, Laminates, Fishnets. Fishing Lines, Cordage/Ropes/Twines/Yarn/Bristles, PVC fabricated goods, PVC Sheeting/Film, Intraocular Lenses, Spectacle Frames, Hard Resilience Lenses, goggles, Poly-Lines Jute goods, Disposable Syringes, blood/urine bags I.V. sets, Dental products and other medical disposables, Cine X-Ray Films, Plastic bangles/Imitation Jewellery, and all products made predominantly of plastic

		materials by processing raw materials through injection/blow molding. Extrusion, calendaring, fabrications, and other processes: writing instruments and human hair and products thereof.
19.	Powerloom Development & Export Promotion Council	Powerloom products
20.	Project Exports Promotion Council of India	
21.	Services Export Promotion Council (SEPC)	1. Accounting/Auditing and Book-Keeping Services 2. Advertising Services 3. Architectural Services 4. Consultancy Services 5. Distribution Services 6. Educational Services 7. Entertainment Services including Audio-Visual Services 8. Environmental Services 9 Health Services 10. Hotel and Tourism Services 11. Legal Services 12. Maritime Transport 13. Marketing Research and Public Opinion Polling Services/ Management Services

		14. Printing and Publishing 15. Others
22.	Shellac & Forest Products Export Promotion Council	
23.	Sports Goods Export Promotion Council (SQEPC)	
24.	Synthetic & Rayon Textiles Export Promotion Council	
25.	Telecom Equipment and Services Export Promotion Council (TEPC)	
26.	Wool Industry Export Promotion Council	
27.	Wool & Woollens Export Promotion Council	
28.	Coffee Board	
29.	Coir Board	
30.	Rubber Board	
31.	Spices Board	
32.	Tea Board	
33.	Tobacco Board	Unmanufactured Tobacco - Flue-cured Virginia

		- Light Soil Burley - Sun cured country - Chewing Tobacco - Bidi Tobacco - Cigar Tobacco - HDBRG Manufactured Tobacco products - Cigarettes - Cigars - Cigarillos - Beedis - Cut tobacco - Chewing tobacco - Hookah tobacco paste - Snuff
34.	Agricultural and Processed Food Products Export Development Authority (APEDA)	1. Fruits, Vegetable and their products 2. Meat and meat products 3. Poultry and poultry products 4. Dairy products 5. Confectionary, biscuits, and bakery products 6. Honey, jaggery, and sugar products 7. Cocoa and its products, chocolates of all kinds 8. Alcoholic and non-alcoholic beverages 9. Cereals and cereals products 10. Groundnuts, peanuts, and walnut 11. Pickles, chutneys, and papads 12. Guar Gum 13. Floriculture and floriculture products

		14. Herbal and medicinal plants 15. Cashew Kernels 16. Cashew nut Shell Liquid 17. Cardanol
35.	Coconut Development Board	All coconut products other than those made from coconut husk & fiber
36.	Marine Products Export Development Authority (MPEDA)	Marine Products include all varieties of fishery products known commercially as shrimp, prawn, lobster, crab, fish, shellfish, other aquatic animals or plants, or part thereof.

6.4 ROLE OF CENTRAL BOARD OF EXCISE AND CUSTOM

Central Board of Excise and Customs (CBEC or the Board), Department of Revenue, Ministry of Finance, Government of India deals with the formulation of policy concerning levy and collection of Customs and Central Excise duties and Service Tax, prevention of smuggling, and administration of matters relating to Customs, Central Excise, Service Tax, and Narcotics to the extent under CBEC's purview. The Board is the administrative authority for its subordinate organizations, including Custom Houses, Service Tax, Central Excise & Customs Commission rates, and the Central Revenues Control Laboratory.

1. The important Customs related functions include the following:

(a) Collection of Customs duties on imports and exports as per the Customs Act, 1962 and the Customs Tariff Act, 1975;

(b) Enforcement of various provisions of the Customs Act, 1962 governing imports and exports of cargo, baggage, postal articles and arrival and departure of vessels, aircraft, etc.;

(c) Discharge of agency functions and enforcing prohibitions and restrictions on imports and exports under various legal enactments;

(d) Prevention of smuggling including interdiction of narcotics drug trafficking; and (e) International passenger clearance.

2. Customs functions cover substantial areas of activities involving international passengers, the general public, importers, exporters, traders, custodians, manufacturers, carriers, port and airport authorities, postal authorities, and various other Government and semi-Government agencies, banks, etc.

3. Customs is continuously rationalizing and modernizing its Customs procedures through the adoption of EDI and global best practices. Also, as a member of the World Customs

Organization, the Customs has adopted various international Customs Conventions and procedures including the Revised Kyoto Convention, Harmonized Classification System, GATT-based valuation, etc.

11.3.1 CENTRAL EXCISE

Central Excise: Central Excise is an administrative unit of CBEC and working with levy and collection of excise duties in domestic goods selling in India. Excise duty is a form of tax imposed on goods for their production, licensing, and sale. An indirect tax paid to the Government of India by producers of goods, excise duty is the opposite of Customs duty in that it applies to goods manufactured domestically in the country, while Customs is levied on those coming from outside of the country. At the central level, excise duty earlier used to be levied as Central Excise Duty, Additional Excise Duty, etc. However, the Goods and Services Tax (GST), introduced in July 2017, subsumed many types of excise duty.

Today, excise duty applies only to petroleum and liquor. After GST was introduced, excise duty was replaced by central GST because excise was levied by the central government. The revenue generated from CGST goes to the central government.

The Budget estimate of the government's excise duty revenue for the year 2020-21 was Rs 2,67,000 crore. The revised estimates of excise duty for the 2019-20 Budget came at Rs 2,48,000 crore, while the actuals for the 2018-19 Budget stood at Rs 2,30,992 crore.

11.3.2 INDIAN CUSTOMS

Customs is an administrative unit of CBEC and working with levy and collection of Customs duties in Imported goods in India from overseas countries. Customs had a responsibility towards Tariff Customs Act, Rules, Regulations, Documentation, Custom Duties, Exemptions, Notifications, Circulars, Allied Acts & Rules, Duty Drawback rates, baggage rules, forms, SEZ, EOU.

The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods. Besides, all imports are sought to be subject to a duty to afford protection to indigenous industries as well as to keep the imports to the minimum in the interests of securing the exchange rate of Indian currency. Duties of customs are levied on goods imported or exported from India at the rate specified under the Customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force.

Customs Tariff Act 1975 contains two Schedules. Schedule 1 gives classification and rates of duties for imports of goods into India. Schedule 2 gives classification and rates of duties for the export of goods from India.

Section 156 of the Customs Act empowers the Central Government to make rules in this regard consistent with provisions of the Act.

Under the custom laws, the various types of duties were leviable:

(1) Basic Duty

(2) Additional Duty (Countervailing Duty) (CVD

(3) Additional Duty to compensate duty on inputs used by Indian manufacturers.

(4) Anti-dumping Duty

(5) Protective Duty

(6) Duty on Bounty Fed Articles

(7) Export Duty

(8) Cess on Export

(9) National Calamity Contingent Duty

(10) Education Cess

(11) Secondary and Higher Education Cess

(12) Road Cess

(13) Surcharge on Motor Spirit

With effect from July 1, 2017, Any article which is imported into India shall be liable to IGST. IGST will be calculated as:

During July 1.2017 and February 1,2018	Assessable Value Basic Custom duty Education Cess
On or after February 2, 2018	Assessable Value Basic Custom duty Social Welfare Charge

GST Compensation Cess is levied to provide cushion and compensation to the states for loss of revenues due to transition by states from the previous regime to tax in GST.

11.3.3 SOCIAL WELFARE CHARGE

With effect from 2 February 2018 all goods imported into India have been exempted from Education Cess and Secondary & higher education Cess, rather Social Welfare Surcharge (SWS) @10 % is levied. SWS is for providing and financing education, health, and social security. It is leviable on the aggregate of duties, taxes, and Cesses leviable on such goods. SWS is not charged on

i. Safeguard Duty

ii. Countervailing duty

iii. Anti-Dumping Duty

iv. SWS itself on imported goods

v. IGST

vi. GST compensation Cess

11.4 ROLE OF WTO IN INDIAN TRADE POLICY

The World Trade Organization (WTO) is a global international organization dealing with the rules of trade between nations. The work of WTO moves around WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliament. The goal is to help producers of goods and services, exporters and importers conduct their business. The WTO is the only international organization that deals with the global rules of trade between nations. It is built under the umbrella of WTO agreements which are often called WTO's trade rules. However, it has become a driving force behind the institution of globalization and has had both positive and potentially adverse effects on the world. The WTO's efforts have positively increased trade expansion globally, but as a side effect, it has negatively impacted local communities and human rights also undermining the principles of organic democracy and further increasing the international wealth gap.

International trade has been dramatically transformed with the creation of the World Trade Organization (WTO). Though international trade continues to be conducted essentially by private parties, no attempt at harmonization has neared the success of the WTO. The role of the WTO in regulating international trade, focusing the relevance of the covered agreements of the WTO in the effort at harmonization and the dispute settlement mechanism of the WTO.

11.4.1 HISTORY OF WTO

After World War II the World Bank and the International Monetary Fund (IMF) were created as international financial institutions. It was intended that a third institution be created to regulate the trade aspect of international economic cooperation among nations. More than fifty countries were part of the negotiations to create the International Trade Organisation (ITO) as a specialized organ of the United Nations. The scope of the draft ITO Charter included rules on employment, commodity agreements, restrictive trade practices, international investment, and services. The target had been the creation of

ITO at a UN Conference on Trade and Employment in Havana, Cuba in 1947.4 However, it never came to be.

Meanwhile, 23 countries had entered into trade negotiations in Geneva in 1947. The agreement was known as the General Agreements on Trade and Tariffs (GATT) and was to come into force on 1st January 1948. The agreement aims to remove the use of import quotas and to reduce tariffs on goods. GATT was not to be a permanent agreement. However, it continued to hold sway as the major multilateral agreement governing international trade for over 45 years until the establishment of WTO. It was also not an international trade organization. Yet it gathered approximately 130 signatory parties into the system. GATT continued to extend through various negotiation rounds, supplementary codes, arrangements, interpretations, waivers, reports by dispute-settlement panels, and decisions of its council.

Signatory states of GATT took a long walk to form the WTO. This happened in the Uruguay Round of negotiations that lasted from 1986 to1994. The Round was finally completed on 15 April 1994 wherein 111 out of the 125 participating states signed the final document. 104 states accepted it and it came into force on 1st January 1995 for eighty-one members which reflected more than 90 percent of international trade. Apart from its success in creating WTO, the round also enlarged the scope of multilateral agreements regulating trade and ensured institutional restructuring. It is also credited to have concluded the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) thereby bringing services and intellectual property under the regime of multilateral agreements. It also replaced the 1948 GATT with the 1994 version

In replacing GATT, WTO aims to create equitable trade conditions and a fairer environment for goods and services to allow the free flow of trade. It recognizes the importance of aligning the structural imbalanced economic conditions. WTO was established to ensure substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade relations.

11.4.2 OBJECTIVES, NEEDS, AND ACTIVITIES OF WTO

The important objectives of WTO are: -

i. To improve the standard of living of people in the member countries.

ii. To ensure full employment and a broad increase in effective demand.

iii. To enlarge production and trade of goods.

iv. To increase the trade of services.

v. To ensure optimum utilization of world resources.

vi. To protect the environment.

vii. To accept the concept of sustainable development.

There is a need for WTO because: -

i. It helps to contribute towards international peace, by helping the trade to flow smoothly and dealing with disputes over trade issues.

ii. It allows disputes to be handled consecutively. With global boundaries evading more and more trade is taking place and hence, leading to more chances for disputes. To put forth the claim around 300 cases have been filed since the inception of WTO and without a peaceful and harmonious way to resolve them, they could have led to a political crisis.

iii. It is based on rules and has nothing to do with the power of the nation.

iv. It gives the consumers more choice and a broader range of qualities to choose from.

v. The fact that there exists a forum to handle a crisis, gives confidence to nations to do more and more trade, thereby increasing the income and stimulating economic growth.

The main activities performed by the WTO are given below: -

i. Negotiating the reduction or elimination of obstacles to trade (import tariffs, other trade barriers) and agreeing on rules governing the conduct of international trade (example- antidumping, subsidies, product standards, etc.)

ii. Administering and monitoring the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights.

iii. Monitoring and reviewing the trade policies of our members as well as ensuring transparency of regional and bilateral trade agreements

iv. Settling disputes among our members regarding the interpretation and application of the agreements

v. Building capacity of developing country government officials in international trade matters

vi. Assisting the process of accession of some 30 countries who are not yet members of the organization

vii. Conducting economic research and collecting and disseminating trade data in support of the WTO’s other main activities

11.4.3 WTO AND INDIA

India joined WTO from the very beginning in 1995. The timing coincided with domestic economic changes undertaken in the country post the liberalization reforms of 1991. This synchronization between the opening of domestic and global economies led to the following benefits for India:

i. Rise in exports: According to some studies, India's exports almost doubled in less than a decade, going up from $26.33 billion in 1994-1995 to $51.7 billion in 2002-03.

ii. Increase in Export Earnings: estimates made by World Bank, International Monetary Fund (IMF), and the WTO secretariat, shows that the income effects of the implementation of the Bali Round package will be an increase in traded merchandise goods. It’s expected that India’s share in world exports would improve.

iii. Growth in exports of Software Services: As a consequence of the liberalization of trade in services, India has become a world leader in software services which are contributing a lot towards foreign exchange earnings and employment generation.

iv. Foreign investment: India has withdrawn several measures against foreign investment, as per the commitments made to WTO. As a result of this, foreign investment and FDI have increased over the years.

v. Employment generation: Global trade works on the principle of comparative advantage (economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners) among countries. To leverage on its availability of cheap and abundant labor, India's financial resources were channelled to more labour-intensive sectors like textiles, apparel, leather and leather products, food, beverages Et tobacco.

vi. Poverty alleviation: A liberal international policy is widely accepted as essential for overall economic growth which in turn, is positively correlated with alleviation of poverty. For instance, there has been a sharp decline in poverty rates post 1990s, which coincides with global trade liberalization and improving domestic growth.

11.4.4 INDIA'S ISSUES WITH WTO

i. Agricultural subsidies: The WTO views India's Minimum Support Price (MSP) mechanism as a trade-distorting measure and places it under the amber box provision of WTO, meaning it has to be capped at 10 percent of the total value of the concerned product. India has questioned this approach on various counts- The primary agenda for MSP and other price support mechanisms is not an export promotion but food security. India has been disputing the calculation methodology under the Agreement on Agriculture at WTO as the subsidy cap is based on food grain price levels of 1986-88 whereas the current prices are substantially higher. India has pointed out that in the absolute sense, developed countries like the US provide almost 90 percent of world price distorting subsidies under the amber box. Apart from the price support subsidies, India also provides farm input subsidies for inputs like seeds and fertilizers. It has clearly stated that- it will not accept limits on farm input subsidies at WTO.

ii. Fisheries subsidies: The WTO has been negotiating a pact that aims to eliminate "harmful" fisheries subsidies estimated at $14 to $20.5 billion annually. This is in line with the efforts to achieve the Sustainable Development Goals 2030. But the subsidies that are being targeted include subsidies for fishing vessels, nets, fuel, and other inputs offered to poor fishers in developing countries. India demands that those who have provided huge subsidies leading to overfishing and overcapacity should take higher cuts in subsidy and capacity and certain developing countries should be exempted from commitments to eliminate fisheries subsidies.

iii. Movement of Labour: The movement of professionals (i.e., labor) from developing countries is constrained by several factors such as lack of specific sectoral commitments, lack of mutual recognition of qualifications, lack of transparency in the administration of visa regimes, etc. India has, therefore, sought liberalization of the movement of professionals through the removal of such constraints.

iv. Access to affordable medicines: Access to medicines at prices patients can afford has been a recurrent concern for the global community ever since the adoption of the TRIPS agreement (which extends protection to Pharmaceutical patents.) Although safeguards like compulsory licensing, price controls, and parallel imports are present to address this concern, over time it is seen that It has been difficult to avail these exemptions. India being a large generic drugs industry has had several issues in balancing public health concerns and patent protection under TRIPS. India has urged the WTO members to "adopt a waiver and permanent revision" to the TRIPS agreement in order "to find a solution that enables a swift and expedient export of pharmaceutical products produced under compulsory license". This revision will not only affect India but will have a global impact as India accounts for about 20a of the world's generic medicine production.

v. Non-tariff barriers to trade: These include Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). Issues highlighted in this regard include the irrelevance of foreign standards to local conditions, the lack of timely and adequate information and consequent transaction costs, the difficulties in understanding the requirements, and the uncertainty that arises from rapidly changing requirements in overseas markets. India has been urging towards rationalization and standardization of these non-tariff barriers.

vi. Negotiations on Non-trade issues: Developed countries are pushing for the incorporation of non-trade issues like environment and labor standards in the negotiations. The argument put forth by them is that the production of products in developing countries is not being done under proper environmental and labor standards. India has stated that for the time being, 'non-trade' must be completely kept out of the negotiating table.

vii. Recognition of Geographic Indications (GI): The current trading arrangement does not recognize the GI Tags (and does not provide the associated benefits) domestically provided to goods. It decreases the marketability of the product in the global markets. India suggests an extension of higher levels of protection to the geographical indications for products like Basmati rice, Darjeeling tea, and Alphonso mangoes at par with that provided to wines and spirits under the TRIPS agreement.

viii. Investment Facilitation: India has its model investment code which does not allow multinational companies to take the government to international courts before it has sought recourse through the domestic dispute settlement bodies for at least five years. This clause has contended at various forums. India argues that developing countries should be given flexibility for the application of TRIMS (Agreement on Trade-Related Investment Measures) in domestic policy while permitting foreign investment.

ix. E-Commerce: Almost 75 countries have agreed to commence informal talks on Global E-commerce rules. But these talks are currently happening outside the ambit of WTO thus generating two problems- all the members are not participating in the discussion and also, this would bypass the discussion procedures established at the WTO. India has stated that such talks can obliterate progress on many pending issues on the Doha Development Agenda (DDA) and any e-commerce talks should be embedded in the WTO's original digital trade agenda of 1998.

x. Plurilateral negotiations instead of multilateral negotiations: Several reports have suggested that the current deadlocks on the issue of subsidies, the inclusion of new items, etc. should be approached in a plurilateral manner (within a sub-group of countries) if multilateral negotiations are becoming difficult. This approach may end up violating the non-discrimination principle of WTO. India has consistently taken the stand that the launch of any new round of talks should depend on a full convergence of views amongst the entire WTO membership.

6.5.5 FUTURE STANCE OF INDIA WITH WTO

India needs to negotiate on various issues with WTO for securing interests of its exports, imports, and economy at large, some of these issues and possible India's stance are listed below: -

i. Institutionally linking national goals with global goals: Th1s will provide India with an opportunity to structurally resolve the perennial dichotomy of national goals vs. international commitments.

ii. Balance between self-sufficiency and comparative advantage: The idea of self-reliance i.e. Aatmanirbhar Bharat will provide India with bargaining power vis-à-vis global trade. But this self-sufficiency needs to be accompanied by capacity development and resource allocation in areas where India has a comparative advantage e.g. labor-intensive sectors like textile. For example, India is not a party to either the ii. plurilateral Trade in Services Agreement (TiSA) or the Information Technology Agreement (ITA-2) being negotiated at the WTO. India should revisit both these agreements and see how it can leverage its huge strength in the Services sector.

iii. Building geo-political capital: Changing global trading regimes will simultaneously be accompanied by rearrangement of geo-political and geo-economic linkages. India can capitalize on this opportunity by reaching out to countries and creating geopolitical capital for potential negotiations in the future. This may also be useful in enhancing market access and strengthening India's global position in case parallel arrangements have to be made alongside WTO.

iv. Proactive role in emerging areas: Clear domestic policy accompanied with an unambiguous international stand on emerging areas will help create a basic global framework that is acceptable to India. For example, playing a pro-active role in negotiations related to e-commerce, etc.

v. Preferring WTO reform over other methods like trading blocs: The rules-oriented nature of WTO with principles like non-discrimination built into it is suited for a developing country like India. Thus, India should push towards reforms within the WTO framework to strengthen its role globally since India may not have the similar negotiating leverage in multilateral trading blocs outside WTO as was observed during RCEP negotiations.

vi. Domestic Reform: Addressing the structural issues in the economy such as logistical inefficiencies, poor ease of doing business, etc. would prepare the economy better for global competition and pave the way for its further opening. For instance, reforms in the Telecommunication Policy in 1999 led to a large-scale reduction in the cost of communication in India.

11.5 CHECK YOUR PROGRESS

Q1. When was EXIM Bank established?

i. 1980

j. 1982

k. 1990

l. 1992

Q2. Can a normal citizen of India open an account in EXIM Bank?

a. No

b. Yes

Q3. Which of the function is not performed by EXIM Bank?

a. Re-financing to banks and other financial institutes

b. Advisory services

c. Merchant bank for importers and exporters

d. Credit cards

Q4. Presently how many export promotions councils are under the administrative control of the Department of Commerce?

a. 14

b. 13

c. 12

d. 11

Q5. Which among the following charges was added in IGST after February 2, 2018?

a. Assessable charge

b. Social Welfare duty

c. Basic Custom charge

d. Education charge

Q6. Presently excise duty is applied on which of the product?

a. Cars

b. Tyres

c. Petroleum

d. Spare parts

Q7. When was WTO founded?

a. 1990

b. 1995

c. 2000

d. 2005

Q8. WTO replaced which organization?

a. IMF

b. Asian Development Bank

c. GATT

d. WHO

11.6 SUMMARY

The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country and also it oversees and coordinates the working of the other institutions that work in the import-export sector. To promote exports EXIM bank also has schemes such as production equipment's finance programs, export marketing finance, vendor development finance, etc. The EXIM bank always looks for different ways and methods to promote the foreign trade sector in India.

Presently, there are fourteen Export Promotion Councils under the administrative control of the Department of Commerce. The primary goal of Export Promotion Councils is to develop and promote the country's exports. They aid in the diversification of the country's production sector and the promotion of a market-oriented, private-sector economy through the creation of market-oriented export commodities.

India is a founding member of GATT as well as WTO and has been an active contributor and representative of developing nations in the world arena. WTO in return has also benefited India in many ways like Rising in exports, Increase in Export Earnings including software services, enhanced foreign investments, catalyst in employment generation, and poverty alleviation.

11.7 KEYWORDS

Duty Drawback: Duty drawback is a kind of duty that is given back to the exporter of finished products if they are not able to avail any kind of refund of duty paid on inputs.

Exporter: About any goods, at any time between their entry for export and the time when they are exporter, includes any owner or any person holding himself out to be the exporter.

Importer: About any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner or any person holding himself out to be the importer.

Plurilateral agreement: Plurilateral agreement is a multi-national legal or trade agreement between countries. In economic jargon, it is an agreement between more than two countries, but not a great many, which would be a multilateral agreement.

Remission of Duty: Remission means waiver or cancellation of excise duty legally payable. Section 5 of the Act provides that Central Government can provide for remission of duty of excise payable on excisable goods, which due to any natural clause, are found to be deficient in quantity, by making rules on that behalf.

Tariff Value: under Customs Act-Tariff value can be fixed by CBE&C (board) for any class of import goods or export goods. Govt. should consider the trend of value of such or like goods which fixing tariff value

Transaction Value: Transaction Value of imported goods shall be the price actually paid or payable for goods when sold for exports to India, adjusted by provisions of rule 9.

11.8 SELF-ASSESSMENT TEST

Q1. How does EXIM Bank facilitate Export and Import activities in India?

Q2. Briefly discuss various schemes initiated by EXIM Bank to promote international trade.

Q3. Write a short note on the importance and work of Export Promotion Councils in India.

Q4. Discuss the legal right of CBEC.

Q5. Explain various types of duties that were previously levied under Custom Laws.

Q6. Discuss in detail the importance of WTO in India's international trade.

Q7. Describe various challenges faced by India in WTO negotiations.

11.9 ANSWERS TO CHECK YOUR PROGRESS

1. b
2. a
3. d
4. a
5. b
6. c
7. b
8. c

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Foreign Exchange Rates and Management of Exchange Rate

STRUCTURE

12.0 LEARNING OBJECTIVES

Foreign exchange management is associated with currency transactions designed to meet and receive overseas payments. The objective of this chapter is to get the students acquainted with the basic concepts of Foreign Exchange, Foreign Exchange Market, Foreign Exchange Rates and Management of Exchange Rate.

After reading this chapter, students will be able to:

- Describe the concept foreign exchange, forex rate, forex risk management
- Explain different types of terminologies used in forex market
- Importance of determinants of forex rate
- Understand how companies manage foreign exchange risk

12.1 INTRODUCTION

Foreign exchange or Forex is the conversion of one country's currency into that of another. The price at which one currency is traded with another is called exchange rate. When international transactions occur, foreign exchange is the monetary mechanism which allows the transfer of funds from one country to another. The existing international financial environment always affects companies as well as individuals whenever they buy or sell products or services in global markets. Foreign exchange management is associated with currency transactions designed to meet and receive overseas payments. Beyond these transactions, foreign exchange management requires to understand the relevant factors that influence currency fluctuations or volatility. The currency fluctuations or volatility in global markets affects the decision-making ability as a buyer or seller of goods. The knowledge of these factors is important for the executives as they have to execute the proper strategy to manage risks and improve potential earnings.

12.2 FOREIGN EXCHANGE MARKET

The foreign exchange market refers to the network of banks, individuals and organised financial exchanges where the trade in global currencies takes place. The participants in the foreign exchange market are central banks, commercial banks, brokers, authorized dealers, corporate and individual customers. The key role of the central banks is to monitor market movements of the currency and sentiments of the market. RBI intervenes through policy as and when required. The function of buying and selling of foreign currencies in India is performed by authorized dealers/moneychangers appointed by the RBI. The foreign exchange departments of the major banks are linked across the world on a 24 hour basis. World forex markets are mostly centered on organised markets like New York, London, Tokyo, Amsterdam, Frankfurt, Milan, Paris, Toronto, Bahrain, Tokyo, Hong Kong and Singapore. Every day, hundreds of billions of dollars worth of currencies are traded globally.

12.2.1 Hard Currency vs. Soft Currency

The major difference between domestic market and international markets is because of the different currencies. Currency refers to the physical aspects of a nation's money supply. There are round about 182 official currencies in the world.

Hard currency refers to a globally traded currency. It is reliable, stable, and less volatile. This currency can be converted easily and its value cannot be depreciated. These are also called liquid currencies. There are ten currencies which are world's most liquid currencies. Traders used to buy and sell them in an open market. G10 currencies are considered as mostly traded in terms of volume which are as following: United States Dollar (USD), Euro (EUR), Pound Sterling (GBP), Japanese Yen (JPY)

New Zealand Dollar (NZD), Australian Dollar (AUD), Norwegian Krone (NOK), Canadian Dollar (CAD), Swiss Franc (CHF), and Swedish Krona (SEK).

Soft currency is a currency which is hyper sensitive and fluctuates frequently. Soft currency is unstable, unconvertible with other currencies because of which it is also called weak currency. These currencies are least preferred for global trade. Generally, foreign exchange dealers avoid these currencies due to high fluctuations in exchange rates. Developing economies and underdeveloped economies with less stable governments, inconsistency in business policies, disturbance in political or the economic situation are having weak currency. Zimbabwean dollar is a classic example of soft currency.

12.2.2 Major Forex Currencies with Symbols

- USD : US Dollar ($)
- EUR : EURO (€)

- JPY : Japanese Yen (¥)
- AUD : Australian Dollar ($ or A$ or AU$)
- GBP : British Pound (£)
- CHF : Swiss Franc (Fr)
- CAD : Canadian Dollar (CA$ or Can$ or C$)
- NZD: New Zealand Dollar ($ or NZ$)
- CHF: Swiss Franc (CHF)
- SEK: Swedish Krona (kr)

The most commonly traded currencies on the Forex market by volume are the U.S. Dollar (USD), the Japanese Yen (JPY), the Euro (EUR), the British Pound (GPB), the Canadian Dollar (CAD), the Australian Dollar (AUD), and the Swiss Franc (CHF). There are four major pairs of currencies pairs by volume in the forex market. The heavily traded pairs are the EUR/USD, USD/JPY, GBP/USD, USD/CHF and these pairs are part of the G10 currency group. The EUR/USD currency pair is the world's most heavily traded currency pair covering 20 per cent of all the forex transaction, followed by USD/JPY.

12.2.3 Important Functions of Foreign Exchange Market

Foreign exchange market is the market where the buyers and sellers are involved freely in buying and selling of currencies for payment settlements and delivery. The main functions of foreign exchange market are as following:

(i) Transfer Function

The basic function of forex market is the transfer of funds in terms of foreign currency from one country to another country. It is the conversion of one currency into another (also called transfer of purchasing power between countries) through the credit instruments like, foreign bills of exchange, bank draft and telephonic transfers. The transfer function facilitates payments internationally. As for example, if an Indian importer imports goods from USA, he requires US Dollar ($) for payments abroad. Then conversion from Rupees (₹) to US Dollar ($) is to be done in foreign exchange market and the payments are settled abroad through bills of exchange.

(ii) Credit Function

Another function of foreign exchange market is to provide credit to importers to facilitate international business. The importer requires credit for foreign trade requirements like purchase of raw material, machinery, to take possession of goods, sell them etc. The credit is required for that period to enable the importer to pay by issuing bills of exchange, used in the international payments normally, have a maturity period of three months.

(iii) Hedging Function

Third and main function of the forex market is hedging function, to protection from exchange risks fluctuations. In a free foreign exchange market, the exchange rate changes, i.e., price of one currency with other currency fluctuates and it can cause gain or loss to the parties concern. To manage this situation, hedging facilities are provided through Forward Contracts in the forex market. Hedging helps to avoid the risk resulting from the fluctuations in values of currencies in future. Forward contract is a contract of buying or selling foreign currency at some fixed date in future at a price agreed upon now. Thus, without transferring any currency, the forward contract makes it possible to ignore the likely fluctuations in the exchange rate of currencies and avoid the possible losses from such change.

12.2.4 Fixed Rate vs Floating Exchange Rate

Exchange rate is the rate at which one currency can be exchanged for another. There are two types of exchange rate systems in the foreign exchange market (i) Fixed Exchange Rate and (ii) Flexible Exchange Rate as explained following:

(i) Fixed Exchange Rate

A fixed, or pegged, rate is a rate officially fixed and maintained by the central bank/monetary authority (Reserve Bank of India) or government as the official exchange rate. The central bank can adjust the official exchange rate as and when required. The central bank sets and maintains the fixed rate by ensuring the proper demand and supply of the currency in the forex market. The central bank has to intervene time to time by buying and selling currency in the foreign exchange market to determine and set the rate. In order to maintain the rate, the central bank must keep a high level of foreign reserves so that it can maintain the fluctuations in the exchange rates of the currency by releasing or absorbing the liquidity of the currency in the forex market. The forex reserves are the amount of foreign currency held by the central bank that can be used as and when required. The forex reserves increases or decreases depends upon the release or absorb extra funds into or out of the forex market.

(ii) Flexible Exchange Rate

In an open forex market, exchange rate depends upon the demand and supply of the currencies. A flexible exchange rate or floating rate is often termed "self-correcting," as any differences in supply and demand will automatically be reflected in terms of change in the rate of currency. If demand for a currency is low, its value will decrease, and if the demand for a currency is high, its value will increase. A floating exchange rate is constantly changing.

12.2.5 Terminologies used in Forex Market

Direct Quotes

Direct quotation is where the cost of one unit of foreign currency is given in units of local currency. Or simply when number of units of the domestic currency per unit of foreign currency is called direct quotes. As for example, 1$ = Rs. 74.60 is an American dollar direct quote of an Indian rupee in India.

Indirect Quotes

Indirect quotation is where the cost of one unit of local currency is given in units of foreign currency. In simple words, number of units of a foreign currency per fixed number of domestic currency; as for example, Rs. 1 = $ 0.0134 is an India Rupee indirect quote of a dollar.

Two Way Quotes

If any trader/customer wants to buy or sell the currency in foreign exchange market, he/she finds two types of quotes (a) Bid Price and (b) Offer Price

(a) Bid Price

Bid is the price at which a trader or dealer or customer is willing to buy another currency. As for example, a quote of Rs/$ is Rs 74.60, it means that the he wants to buy 1 $ at Rs 74.60.

(b) Offer Price

An offer price is the prices at which the trader or customer is willing to sell the currency. As for example, a quote of Rs/$ is Rs 74.65, it means that he wants to sell one dollar at 74.65. The difference between the bid rate and the offer rate is known as spread. Spread is the profit margins that a dealer expects to make.

Cash Rate

A rate quoted for transactions that will be settled on the same day (T+0) in the forex market is called Cash Rate.

Spot Rate

The rate quoted for transactions that will be settled two business days from the transaction date (T+2) in forex market is called Spot Rate.

Forward Rate

The rate quoted for transactions that will be settled beyond two business days at a mutually agreed rate and date is called Forward Rate. The contract for forward rate is called forward contract.

12.2.6 Important Determinants/Factors of Foreign Exchange Rate

Forex is the system of converting one national currency into another at a rate. Forex rate is an important indicator of a country’s economic health. Exchange rates are the indicators most watched and analysed throughout the world and the governments used to take economic measures as well as decision on the basis of it. The changes in exchange rate impact the return of multinational companies and portfolio returns. So, it is very important to understand the factors or determinants of forex rate which are explained as follows:

Inflation Rates

The most important factor for variations in exchange rates is the difference in inflation rates between two countries. Lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies. Higher inflation means depreciation of currency. This is also usually accompanied by higher interest rates. A higher rate of inflation will make a country’s currency less attractive.

Changes in market inflation cause changes in currency exchange rates. High inflation rate means domestic goods are costlier than foreign goods and it will result in higher imports. This situation will create more demand for foreign currency, making it costlier. Automatically, the value of domestic currency will decline. Or we can say Indian currency will become weak in comparison of US $.

As for example, if a mobile phone costs $ 20 in US then it is quite natural that the exchange rate should be Rs 74/$1 in India and the mobile phone will costs Rs. 1480. But, if the value of Rs is declined due to changes in inflation rate, then the exchange rate might be, as for example, Rs 76/$1 (mobile phone will costs Rs. 1520).

Interest Rates

Changes in interest rate affect currency value and dollar exchange rate. The capital is attracted towards currencies yielding higher interest rates.

Interest rates, inflation, and exchange rates are correlated. Change in interest rates impact inflation and currency values. As the central bank (RBI) manipulates interest rates, both inflation and exchange rates are influenced. As for example, if Central Bank offers higher interest rates then the lender will get a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise. But, suppose, if the inflation rate is high in the country then the impact of higher interest rates will be lessen. The opposite relationship exists for decreasing interest rates – that is, lower interest rates tend to decrease exchange rates.

Country's Balance of Payments Position

If country’s balance of payments position is favourable, it attracts more foreign investments. Foreign investment in the country leads to appreciation of the value of domestic currency.

National Income

An increase in national income will increase consumption and this phenomenon will attract foreign investment. This situation is favourable for forex rates.

Political Stability & Performance

If there is stable government, means having stable policies will generate healthier and competitive business environment. It will generate more demand of the goods and services and attract more foreign investments. This will lead appreciation or increase in the value of the currency.

Recession

At the time of recession, the value of domestic currency weakens in comparison of other countries, hence, resulting in lowering the exchange rates.

12.3 TYPES OF FOREIGN EXCHANGE RISK

There are three types of foreign exchange risk: (i) Transaction Risk (ii) Translation Risk (iii) Economic Risk

Transaction Risk

Transaction risk arises due to appreciation or depreciation of the currency when a company is buying a product from overseas market. Suppose, a company is buying raw material from US market and the price of the raw material is denominated in $ (Selling company/country currency), and if the US currency appreciates, then the company doing the buying abroad will have to make more payments in its base currency to meet the contracted price.

Translation Risk

Multinational companies are having subsidiaries in overseas markets. Translation risk arises when there are financial transactions between parent company and subsidiary company abroad. The companies could face losses when the subsidiary's financial statements (which are in foreign currency) are to be translated in the parent company’s currency.

Economic Risk

A multinational national company’s market value is impacted by an unavoidable exposure to currency fluctuations. It is also called forecast risk.

The companies or investors which are subject to forex risk can implement hedging techniques, forward contracts and options to mitigate the risk. The techniques of foreign exchange risk management are as follows:

12.4 FOREIGN EXCHANGE RISK MANAGEMENT

The exchange rates of the currencies fluctuate frequently due to changes in interest rates, inflations, FDI & FII inflows as well as outflows, country’s debt position, BOP positions, stable government policies, economic conditions etc. The frequent fluctuation in the forex rate could create financial loss if not managed properly. It is also called forex risk. Foreign exchange risk is a form of financial risk that arises from the change in the price of one currency against another.

Foreign Exchange rate volatility is unpredictable since there are many factors affect the movement of the currency exchange rates. So, foreign exchange risk management is important for oragnisations as well as investors dealing with foreign currencies or operating in overseas markets. Forex risk arises when there is a risk of an unfavourable change in exchange rate between two currencies before the date when the transaction is completed. Forex risk management is required in order to ensure better cash flows, manage unsystematic risks, avoid external financing, avoid financial distress, enhance shareholders wealth, and increases investor confidence. There are many tools of foreign exchange risk management: (i) Forward Contracts (ii) Currency Futures (iii) Currency Options (iv) Currency Swaps (v) Leads and Lags (Leading and Lagging)

Forward Contracts

A forward contract is an agreement between the client and the bank to buy or sell currency at a specified price and date in future. Since, the rate of exchange is already fixed today for the future transactions, so, there is no effect of variability of exchange rate in the future.

Forward forex rate is the rate at which the transaction will be carried out in future at specific rate and date. Forward forex rates are developed to minimize the risk from fluctuations. The future date is agreed and fixed by the parties at today’s rate of exchange.

Currency Futures

Currency futures are the standardised future contracts between two parties through the clearing houses to exchange one currency for another at a specified future date and at a predetermined price. Currency futures are organised trades facilitated by the exchanges. Appreciation or depreciation of the currency can be hedged by buying or selling currency future. The positions are reversed to close the deal at a specific date. If the investor had bought the futures, it will be sold at fixed future date at the current prevailing rate and vice-versa.

Currency Options

Currency options are contracts which provides the holder the right to buy or sell a specified amount of currency for a specified price over a given time period. Currency options are powerful tools for the companies and investors for carrying out cross border transactions. Holder has the right to buy or sell fixed amount of the currency at a fixed rate on a fixed date. The currency options are managed by organised exchanges. There are two types of currency options (i) Call Option: The right to buy a particular currency at a specified rate on a particular date (ii) Put Option: The right to sell a particular currency at a specified rate on a particular date.

Currency Swaps

A currency swap involves a legal agreement between two parties to exchange a series of cash flows in one currency for a series of cash flows in another currency, at agreed intervals over an agreed period. A currency swap is an agreement to exchange fixed or floating rate payments in one currency for fixed or floating payments in a second currency plus an exchange of the principal currency amount.

Leads and Lags (Leading and Lagging)

Leading and lagging refers to the technique of adjusting the timing of receipts and payments. This method works by adjusting the payments required reflecting future currency movements.

Leading

Leading technique works if the home currency is expected to strengthen in future. In the expectation of home currency depreciation, the company/investor efforts hard to collect the receivables from foreign debtors before they are due and the company pays the foreign currency to creditors before their due date.

Lagging

Lagging is a technique that works if it is expected that the home currency is going to weaken, the company delay the collection of receivables from foreign debtors and also to delay payment to creditors after their due date in the expectation of currency appreciation.

12.5 CHECK YOUR PROGRESS

True or False

1. Hedging helps to avoid the risk resulting from the fluctuations in values of currencies in future.

2. The rate quoted for transactions that will be settled 10 business days from the transaction date (T+10) in forex market is called Spot Rate.

3. A transactions that require delivery of currency at an agreed upon future date called forward market.

4. The spot rate of a currency is determined by government and market, in a free float system.

5. Bid is the price at which a trader or dealer or customer is willing to buy another currency

Fill in the blanks:

6. Hedging facilities are provided through _______________ contracts in the forex market.

7. Direct quotation is where the cost of one unit of foreign currency is given in units of _______________ .

8. You buy a currency in one market and sell it off in another, due to higher returns. This is known as _______________ .

9. The rate at which one currency is traded for another is called _______________ .

10. In a ______________, the buyer of the option agrees to buy the underlying currency where in a_______________, the buyer of the option agrees to sell the underlying currency.

Multiple Choice Questions

11. Which contracts of the following can be of any size?

(A) Futures Contracts

(B) Forward Contracts

(C) Both A and B

(D) None of these

12. Seek to earn risk-free profits by taking advantage of differences in interest rates among countries.

(A) Traders

(B) Arbitrageurs

(C) Hedgers

(D) None of above

13. Who buy and sell currencies when they expect movement in the exchange rate in a particular direction?

(A) Traders

(B) Arbitrageurs

(C) Speculators

(D) Hedgers

12.6 SUMMARY

Foreign exchange or Forex is the conversion of one country's currency into that of another. Foreign exchange management is associated with currency transactions designed to meet and receive overseas payments.

The foreign exchange market refers to the network of banks, individuals and organised financial exchanges where the trade in global currencies takes place. The participants in the foreign exchange market are central banks, commercial banks, brokers, authorized dealers, corporate and individual customers. World forex markets are mostly centered on organised markets like New York, London, Tokyo, Amsterdam, Frankfurt, Milan, Paris, Toronto, Bahrain, Tokyo, Hong Kong and Singapore. Every day, hundreds of billions of dollars worth of currencies are traded globally.

Hard currency refers to a globally traded currency. It is reliable, stable, and less volatile. This currency can be converted easily. Soft currency is unstable, unconvertible with other currencies because of which it is also called weak currency. These currencies are least preferred for global trade.

The most commonly traded currencies on the Forex market by volume are the U.S. Dollar (USD), the Japanese Yen (JPY), the Euro (EUR), the British Pound (GPB), the Canadian Dollar (CAD), the Australian Dollar (AUD), and the Swiss Franc (CHF). There are four major pairs of currencies pairs by volume in the forex market. The heavily traded pairs are the EUR/USD, USD/JPY, GBP/USD, USD/CHF.

The main functions of foreign exchange market are as following: Transfer Function, Credit Function, Hedging Function.

There are two types of exchange rate systems in the foreign exchange market (i) Fixed Exchange Rate and (ii) Flexible Exchange Rate. A fixed, or pegged, rate is a rate officially fixed and maintained by the central bank/monetary authority (Reserve Bank of India) or government as the official exchange rate. A flexible exchange rate or floating rate is often termed "self-correcting," as any differences in supply and demand will automatically be reflected in terms of change in the rate of currency. If demand for a currency is low, its value will decrease, and if the demand for a currency is high, its value will increase. A floating exchange rate is constantly changing.

Direct quotation is where the cost of one unit of foreign currency is given in units of local currency. Indirect quotation is where the cost of one unit of local currency is given in units of foreign currency. If any trader/customer wants to buy or sell the currency in foreign exchange market, he/she finds two types of quotes (a) Bid Price and (b) Offer Price. Bid is the price at which a trader or dealer or customer is willing to buy another currency. An offer price is the prices at which the trader or customer is willing to sell the currency. A rate quoted for transactions that will be settled on the same day (T+0) in the forex market is called Cash Rate. The rate quoted for transactions that will be settled two business days from the transaction date (T+2) in forex market is called Spot Rate. The rate quoted for transactions that will be settled beyond two business days at a mutually agreed rate and date is called Forward Rate. The contract for forward rate is called forward contract.

The factors or determinants of forex rate which are explained as follows: Inflation Rates, Interest Rates, Country's Balance of Payments Position, National Income, Political Stability & Performance, Recession

There are three types of foreign exchange risk: (i) Transaction Risk (ii) Translation Risk (iii) Economic Risk

Foreign exchange risk management is important for oragnisations as well as investors dealing with foreign currencies or operating in overseas markets. There are many tools of foreign exchange risk management: (i) Currency Futures (ii) Currency Options (iii) Currency Swaps (iv) Leads and Lags (Leading and Lagging) (v) Forward Contracts

A forward contract is an agreement between the client and the bank to buy or sell currency at a specified price and date in future. Forward forex rate is the rate at which the transaction will be carried out in future at specific rate and date. Currency futures are the standardised future contracts between two parties through the clearing houses to exchange one currency for another at a specified future date and at a predetermined price. Currency futures are organised trades facilitated by the exchanges. Currency options are contracts which provides the holder the right to buy or sell a specified amount of currency for a specified price over a given time period. There are two types of currency options (i) Call Option: The right to buy a particular currency at a specified rate on a particular date (ii) Put Option: The right to sell a particular currency at a specified rate on a particular date. A currency swap is an agreement to exchange fixed or floating rate payments in one currency for fixed or floating payments in a second currency plus an exchange of the principal currency amount. Leading and lagging refers to the technique of adjusting the timing of receipts and payments. This method works by adjusting the payments required reflecting future currency movements.

12.7 KEYWORDS

Direct Quotes

Direct quotation is where the cost of one unit of foreign currency is given in units of local currency.

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12.8 SELF- ASSESSMENT TEST

Q.1 Describe the basics of foreign exchange market and its operations.

Q.2 Explain the functions of foreign exchange market with example.

Q.3 Elaborate the types of exchange rate system in foreign exchange market.

Q.4 Distinguish between hard currency and soft currency.

Q.5 Explain the following terminologies:

(i) Cash rate

(ii) Spot rate

(iii) Forward rate

(iv) Bid price

12.9 ANSWERS TO CHECK YOUR PROGRESS

(1) True	(2) False
(3) True	(4) False
(5) True	(6) Forward
(7) local currency	(8) Triangular Arbitrage
(9) exchange rate	(10) call option, Put option
(11) B	(12) B
(13) C	

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