Bachelor of Commerce

BCOM 406

India's Foreign Trade and Policy

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Contents

Subject: Foreign Trade in India	
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Foreign Trade of India: Composition, Direction, Trends and Problems related with Balance of Payment

Structure

1.0 Learning Objectives

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

- Understand the meaning, features and role of foreign trade of India.

- Advantage and disadvantage of foreign trade
- Recent trends of foreign trade
- Meaning of Balance of Payment
- Trend and problem related with Balance of Payment in India

1.1 Introduction to Foreign Trade

Foreign trade or International trade is exchange of capital, goods, and services across international borders or territories. In many countries, it represents a significant share of gross domestic product (GDP). All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements, and sells to other countries the goods which it has in surplus quantities.

In other words, no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. It can export goods, which are in excess quantity with it and are in high demand outside. India too, buys and sells to other countries various types of goods and services.

1.1.1 Definitions

- According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".
- According to Anatol Marad, "International trade is a trade between nations".
- According to Eugeworth, "International trade means trade between nations".
- According to Wikipedia, "International trade is the exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services. In most countries, such trade represents a significant share of gross domestic product".

Therefore, International trade means trade between the two or more countries. International trade is more complex because it involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Without international trade, nations would be limited to the goods and services produced within their own borders.

The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of 'export trade' and 'import trade', also called EXIM trade. Export involves sale of goods and services to other countries. Import consists of purchases from other countries.

1.1.2 Features of foreign trade

There is always a relative difference in certain products of a country. So, this gap is filled by importing the product from other countries. Mostly this gap is seen in fields like technology, tastes, etc. Thus, some of the features of foreign trade in India are as follows –

Negative Trade: There are various items like agricultural implements, heavy machinery, metals, mineral oil, etc. India has to import these items from other countries on a huge scale. Meanwhile, the exports by India could not keep up the pace. Thus, it left us with unfavourable and negative trade.

Changing Imports: A few years ago India used to import manufactured goods and food grains only. But currently, the single largest commodity imported by India is oil. Furthermore, the imports and exports of precious stones and pearls have increased. Also, the other commodities imported are fertilizers, paper, iron and steel, and edible oils.

Diversity in Exports: In earlier times, India used to transport commodities like jute, tea, cotton textile, etc. But now you can notice diversity among the Indian exports. Also, India exports more than 7000 commodities currently. Furthermore, after 1991, India has been seen as a major exporter of computer software. Also, this exported to some of the advanced countries like Japan and the USA.

Trading through Selected Ports: There are only 12 major posts on the coast of India and these coasts handle more than 90% of the overseas trading in India. While the remaining small and medium ports handle the very little amount of foreign trade in India.

Trade through Marine: More than 95 percent of foreign trade in India is done through various sea routes. Because trade through land routes is only possible if it is done with neighbouring countries. But this is not possible as all the neighbouring countries of India like Myanmar, China, and Nepal are cut off due to various loft mountain ranges. This, in turn, makes the trade through land routes very difficult. The trade through land routes is only possible with Pakistan but that is heavily suffered due to the political differences between the two nations.

Worldwide Trade: Before Independence, India had trade links only with Britan and a few other selected countries. But currently, India has expanded its trade links with many other countries. It has trade relations with almost all the regions in the world. Also, India exports to more than 190 countries in the world while imports from more than 140 countries.

Place of India in the Overseas Trade: The population of India accounts for more than 16 percent of the global population. But the share of India in overseas trade is less than one percent. Thus, it reflects on the fact that the position of India in overseas trade is insignificant. But this can be accounted due to large internal trade and vast dimensions of the country that in turn provides a solid base for trade within the country.

1.1.3 Advantages of Foreign Trade:

Optimal use of resources: Foreign trade helps each country to make optimum use of its resources. Each country can focus on production of those goods for which its resources are best suited. Wastage of resources is avoided with the help of exports in international market.

Availability of all types of goods: International trade enables a country to obtain goods which it cannot produce or not produce due to higher costs, by importing from other countries at lower costs.

Specialisation: Foreign trade leads to specialisation and encourages large production of different goods in different countries. Therefore, goods can be produced at a comparatively low cost due to optimum utilisation of resources.

Benefits of large-scale production: Due to international trade, goods are produced not only for home consumption but for export to other countries also. Many Nations of the world dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the benefits of large scale production can be obtained by these countries.

Stability in prices: International trade helps in stabilising fluctuations in prices. It helps in fill the gap between demand and supply, and equalises the prices of goods throughout the world.

Exchange of technical know-how: Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and economy at large.

Increase in efficiency: Due to foreign trade competition increases at international level. Therefore, producers in a country try to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

Development of means of transport and communication: International trade requires the best means of transport and communication. A country having better transport and communication system attracts more business at international level. So, international trade made possible development in the means of transport and communication.

International co-operation and understanding: The people of different countries come in contact with each other. Commercial interaction between nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, and cordial relations amongst various nations.

Ability to face natural calamities: Natural calamities such as drought, floods, shortage, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met with the help of imports from other countries.

Other benefits: International trade helps in many other ways such as better quality products at reasonable price benefits to consumers, international peace between countries due to trade between them, and improvement in standard of living with help of new product and technology.

1.1.4 Disadvantages of foreign trade:

Although foreign trade has many advantages, but its disadvantages should not be ignored. Following are some disadvantages of international trade:

Problem for the development of home industries: International trade has an adverse effect on the development of home industries. It poses a threat to the survival of new industries at home. Due to foreign competition and unrestricted imports, the industries in the country may impacted adversely.

Economic Dependence: The underdeveloped countries have to depend upon the developed ones for their economic development. Such dependence often leads to economic exploitation. For example, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

Mis-utilisation of Natural Resources: Excessive exports may exhaust the natural resources of a country in a shorter span of time. This will cause adverse effect on economy of the country in the future.

Import of Harmful Goods: Import of spurious drugs, luxury articles, etc. adversely affects the country’s economy and well-being of the people.

Storage of Goods: Sometimes the essential commodities faces the problem of short supply due to exports to earn foreign exchange. This results in shortage of these goods at home and causes inflation that is not good for both country and peope.

Trade Wars: International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to trade wars between countries and disturb world economy.

1.2 Recent trends and Direction of foreign trade in India

1.2.1 Direction of foreign trade in India

Indian Foreign Trade has a very long history. Prior to Independence, Indian economy was typical of a colonial and agricultural economy. Trade relations were mainly limited to Britain and other Commonwealth countries. Exports consisted largely of raw materials and plantation crops whereas imports composed of light consumer goods and other manufactures. Over the last many years, India's foreign trade has undergone a complete change both in regard to the composition as well as the direction of trade.

India's exports before independence, involved mainly of three commodities tea, jute and cotton textiles. At the time India became independent these constituted about half of the total exports from the country. Some of the other items exported were mainly products like manganese ore, mica, shellac, rawhides and skins. Only about 0.4% of the exports consisted of engineering goods. So far as direction of trade was concerned U.K. and U.S.A. accounted for about 40% of the exports. The share of other countries was rather small and East European countries was insignificant.

After independence Indian foreign trade had changed drastically in all its dimensions, value, and composition, and direction .Till 1990-91, during pre-reform period, Indian share in world trade had remained quite unsatisfactory. However during reform period particularly after 1990's, much progress was witnessed by Indian Foreign trade. The trends in Indian foreign trade can be observed from the given data of the trends in value of foreign trade, composition and direction.

Table 1- India's foreign Trade (in US $million)

Years	Exports	Imports	Trade Balance	Rate of Change	
				Exports	Imports
1950-51	1269	1273	-4	24.9	-1.5
1970-71	2031	2162	-1301	8.8	3.5
1980-81	8486	15869	-7383	6.8	40.2
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.5	-19.4
1995-96	31797	36678	-4881	20.8	28.0
1996-97	33470	39133	-5663	5.3	6.7
1997-98	35006	41484	-6478	4.6	6.0

1998-99	33218	42389	-9171	-5.1	2.2
1999-00	36822	49671	-12849	10.8	17.2
2000-01	44560	50536	-5976	21.0	1.7
2001-02	43827	51413	-7586	-1.6	1.7
2002-03	52719	61412	-8693	20.3	19.4
2003-04	63843	78150	-14307	21.1	27.3
2004-05	83535	111516	-27982	30.8	42.7
2005-06	103092	149167	-46076	23.4	33.8
2006-07	126361	185749	-59388	22.6	24.5
2007-08	162904	251439	-88535	28.9	35.4
2008-09	168704	287759	-119055	3.6	14.4
2015-16	262,290	381,006	–118,716	55.5	32.4
2016-17	276,547	382,740	-106,193	5.4	.45
2017-18	303,526	465,581	–162,054	9.7	21.64

(Source: RBI Bulletin, 2018)

Changes in direction of foreign trade:

The direction of trade means the countries with which we have trade relationship .It show our trade relationship with the countries to whom we export and from whom we import our requirement.

Growing value of exports: It can be observed from table 1 total value of India's international trade has gone up from US $ 1269 million in 1950-51 to nearly US $8486 million in 1980-81 and to US $ 303,526 million in 2017-18. But much of this increase was concentrated in last 20 years. One reason why India's export were almost stagnant during the first 15 years of planning was the predominance of traditional goods such as tea, jute and cotton manufactures, the foreign demand for which was generally inelastic. Besides, the rise in prices in India and the high cost of our export goods did not allow these goods to be competitive in the international markets. After devaluation of rupee in 1966, Indian export goods got a price advantage. Moreover, the government entered into a series of bilateral agreements with fiscal and cash incentives to boost exports. Finally, it set up a number of export promotion councils and agencies to promote export. These factors explained the very rapid growth of export in 1970's.

Table 2 -Direction of Indian Trade- Exports

S.NO.	Group/Country	2013-14	2014-15	2015-16	2016-17	2017-18
I	**OECD Countries**	**108773.8**	**109337.0**	**100837.8**	**104487.9**	**119622.4**
A	EU	51742.1	49511.7	44590.7	47308.8	53603.7
B	North America	41180.4	44644.7	42354.4	44216.4	50384.8
C.	Asia & Oceania	9391.3	8489.8	8233.9	7113.2	9099.4
D	Other OECD Countries	6460	6690.9	5658.8	5849.5	6534.5
II	**OPEC**	55708.8	56392.3	46272.8	45200	44302.5
III	**Eastern Europe**	3510.8	3415.4	2415.7	2820.4	3058.7
IV	**Developing Countries**	134723.2	136884.9	110039.4	120658.3	133732
A	Asia	95332.3	93856.8	76940.1	88573.7	99848.5
A1	SAARC	17504.5	20493.5	18594.2	19222.1	22926.3
A2	Other Asian Developing Countries	77827.8	73363.2	58346	69351.6	76922.2
B	Africa	26666.6	28380.4	21683.5	20251.9	21472.5
C	Latin America	12724.3	14647.7	11415.7	11832.7	12411
V	**Others**	154.4	162.5	242.4	215.6	229.3
VI	**Unspecified**	11544.6	4159.9	2482.9	2470.1	2431.3
	Total Exports	314415.7	310352	262291.1	275852.4	303376.2

(Source: RBI Bulletin, 2018)

As per Table 2, Destination wise, during 2017-18, among the region developing countries and OECD countries were the major markets for India' exports with each group accounting for 39.3% share. Total exports to OECD countries was US$ 108773.8.million in 2012-13 which was increased to US$ 109622.4 million. Another major contributor OPEC with 19.4% share in India's exports. Total exports to OPEC countries were US$ 44302.5 million. Country wise, the US continued to be the single largest destination of India. However it share decline to 12% from 13% during previous year. Direction of India's export during 2017-18 indicated that the export growth to EU, OPEC, Eastern Europe and North American Countries increased, while export to Latin America, Asia &Oceanic and Asian & African developing countries showed a decline.

Larger growth of India's imports: As per the Table1 showed import is continually increasing trend. In 1950-51, Imports were US $ million 1273, in 1980-81 it was increased to US$ 15869 million , and in recent year 2017-18 it increased to US$ 465,581 million. However, Imports which were 10.2 % of GDP in 1980-81, declined to 8.8%in 1990-91 but rose further to 16.9%in 2004-05 and to 27.1% in 2008-09 but again it declined to 20.6% in 2016-17 which is a good sign for an economy.

Table 3-Direction of Indian Trade- Imports

S.NO.	Group/Country	2013-14	2014-15	2015-16	2016-17	2017-18
I	**OECD Countries**	**116358.4**	**120373.2**	**109912.2**	**109264.6**	**126729.2**
A	EU	49968.8	49241.1	43938.4	42389.3	47881.3
B	North America	25654.1	25564	26015.4	26439	31339.6
C.	Asia & Oceania	19918.3	20970	19296.6	21413.6	25610.9
D	Other OECD Countries	20817.1	24598.1	20661.8	19022.8	21897.3
II	**OPEC**	**162716.2**	**137155**	**90165.1**	**92541.8**	**109359.2**
III	**Eastern Europe**	**7922.3**	**7716**	**7095.6**	**9329.3**	**12914.5**
IV	**Developing Countries**	**159042.9**	**174903.9**	**164860.1**	**165750**	**207173.5**
A	Asia	126170.1	137505.6	132457.2	133351.8	165831.6
A1	SAARC	2473.1	2930.9	2975	2813.4	3198
A2	Other Asian Developing Countries	123697	134574.8	129482.2	130538.4	162633.6
B	Africa	15224.7	19778.5	18643	17976.4	22673
C	Latin America	17648.1	17619.7	13759.9	14421.8	18668.9
V	**Others**	**76.6**	**322.5**	**265.3**	**127.8**	**98.3**

VI	Unspecified	4097.3	7562.8	8709.6	7343.6	9303.7
	Total Imports	450213.6	448033.4	381007.8	384357	465578.3

(Source: RBI Bulletin, 2018)

As per Table 3, Destination wise, during 2017-18, among the region developing countries and OECD countries were the major markets for India' imports. Total imports from OECD countries was US$ 116358.4.million in 2013-14 which was increased to US$ 126729.2 million. Another major contributor OPEC with US$ 109359.20 million imports to India. Country wise, the US continued to be the single largest destination of India. Direction of India's export during 2017-18 indicated that the imports from EU, OPEC decreased, while from North America, Latin America, OECD, Eastern Europe, Asia &Oceanic and Asian & African developing countries showed an increased.

1.2.2 Recent trends in India's foreign trade

Here we detail about the four important trends in the value of India's foreign trade.

Widening Trade Deficit: Table 4 shows that in 1950-51 Trade deficit was US$ 4 million in 1980-81 it was increased to US$ million 7383. In 1990-91 it was decreased to US $ 5932 million, it was further decreased to US$ 1546 million. In 2017-18 it is US$ 162,054 million.

Table 4- India's recent trend in foreign Trade (in US $million)

Year to	Exports	Imports	Total Foreign Trade	Rate of Change in Foreign Trade	Rate of Change	
					Exports	Imports
1950-51	1269	1273	2542			
1970-71	2031	2162	4193	64.95%	60.05%	69.84%
1980-81	8486	15869	24355	480.85%	317.82%	634.00%
1990-91	18143	24075	42218	73.34%	113.80%	51.71%
1991-92	17865	19411	37276	-11.71%	-1.53%	-19.37%
1995-96	31797	36678	68475	83.70%	77.98%	88.95%
1996-97	33470	39133	72603	6.03%	5.26%	6.69%
1997-98	35006	41484	76490	5.35%	4.59%	6.01%
1998-99	33218	42389	75607	-1.15%	-5.11%	2.18%
1999-00	36822	49671	86493	14.40%	10.85%	17.18%
2000-01	44560	50536	95096	9.95%	21.01%	1.74%

2001-02	43827	51413	95240	0.15%	-1.64%	1.74%
2002-03	52719	61412	114131	19.84%	20.29%	19.45%
2003-04	63843	78150	141993	24.41%	21.10%	27.26%
2004-05	83535	111516	195051	37.37%	30.84%	42.69%
2005-06	103092	149167	252259	29.33%	23.41%	33.76%
2006-07	126361	185749	312110	23.73%	22.57%	24.52%
2007-08	162904	251439	414343	32.76%	28.92%	35.36%
2008-09	168704	287759	456463	10.17%	3.56%	14.44%
2015-16	2,62,290	3,81,006	643296	40.93%	55.47%	32.40%
2016-17	2,76,547	3,82,740	659287	2.49%	5.44%	0.46%
2017-18	3,03,526	4,65,581	769107	16.66%	9.76%	21.64%

(Source: RBI Bulletin, 2018)

Huge Growth in the Value of Trade: Table reveals that the total value of foreign trade which was US$ 2,542 million in 1950-51, gradually increased to US$ 24,355 million in 1980-81 and then to US$ 95,096 million in 2000-01. After that the value of trade increased at a quicker pace from US$ 95,096 million in 2000-01 to US$ 252,259 million in 2004-05 and then rose significantly to US$ 414,343 million in 2007-08. Thereafter, the total value of trade rose significantly to US$ 643,296 million in 2015-16 and to US$ 6,59,287 million in 2016-17 and finally to US$ 7,69,107 million in 2017-18.

Value of India's Foreign Trade: Thus during the period from 1950-51 to 1970-71 total value of trade rose by only 64.95 percent. Again during the period 1970-71 to 1980-81, total value of foreign trade rose significantly by 481 per cent, i.e., by nearly 7.5 times. But during the period 1980-81 to 1990-91, total value of trade rose by 73 per cent. In 2008-09 the value of trade recorded an increase of 14.4 per cent, in 2015-16 increase 41 percent, in 2016-17 increase 2.49 percent and in 2017-18 increase in 16.66 percent over the previous year.

Higher Growth of Imports: Another peculiarity that can be seen from this trend is that there has been consequential higher growth in respect of imports of the country since 1951. Thus the total value of imports which was US$ 1,269 million in 1950-51 gradually rose to US$ 2,031 million in 1970- 71, i.e., by only 60 per cent. Since then the value of imports started to rise at a very faster pace and thus reached the level of US$ 15,869 million 1980-81 and then to US$ 24,075 million in 1990-91 showing an increase of 52 per cent.

The factors which were largely responsible for this phenomenal increase in imports include: huge import of industrial inputs, regular import of food grains under P.L. 480 rising anti-inflationary imports, liberal imports of non-essential items, periodic hike on oil prices and the initiation of liberal import policy by the government during 1985-86 to 1991-92. In 2017-18, the value of imports rose significantly to 465,581 million $US, showing a growth rate of 21.64 per cent over the previous year.

1.3 Balance of Payment

Balance of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. BOP statement of a country indicates whether the country has a surplus or a deficit of funds for example, when a country's export is more than its import, its BOP is said to be in surplus. On the other hand, BOP deficit indicates that a country's imports are more than its exports. Transactions under BOP is something similar to the double entry system of accounting. This means, all the transaction will have a debit entry and a corresponding credit entry.

According to Kindle Berger, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".

It is a double entry system of record of all economic transactions between the residents of the country and the rest of the world carried out in a specific period of time when we say "a country's balance of payments" we are referring to the transactions of its citizens and government.

1.3.1 Features

- It is a systematic record of all economic transactions between one country and the rest of the world.
- It includes all transactions, visible as well as invisible.
- It relates to a period of time. Generally, it is an annual statement.
- It adopts a double-entry book-keeping system. It has two sides: credit side and debit side. Receipts are recorded on the credit side and payments on the debit side.

1.3.2 Importance of BOP

- BOP of a country discloses its financial and economic status.
- BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.

- BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyse and understand the economic dealings of a country with other countries.
- With the help of BOP statement and its components, one would be able to identify trends that may be beneficial or harmful to the economy.

1.3.3 Components of balance of payment

There are three components of balance of payment these are current account, capital account, and financial account. The total of the current account must balance with the total of capital and financial accounts in ideal situations.

Current Account: The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance of Trade (BOT).

There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods between countries are referred to as visible items and import/export of services like banking, information technology are referred to as invisible items. Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like money sent by relatives to their family located in another country.

Capital Account: All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.

There are 3 major elements of capital account:

- Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.
- Investments – These are funds invested in the corporate stocks by non-residents.

- Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.

Financial Account: The flow of funds from and to foreign countries through various investments in real estates, business ventures, foreign direct investments etc. is monitored through the financial account. This account measures the changes in the foreign ownership of domestic assets and domestic ownership of foreign assets. On analysing these changes, it can be understood if the country is selling or acquiring more assets like gold, stocks, equity etc.

1.4 Trends, Causes, and problems of Indian Balance of Payments

Balance of Payments (BOP) of a country shows its economic strengths and weaknesses. Most of the developing countries are deficit in their Balance of Accounts, India being no exception. Since independence, India has been facing this deficit or disequilibrium in terms of BOP, largely observed as a disaster in 1990-91, the year of the severe BOP crisis. At that time, India had foreign exchange reserve of meagre 1 billion dollar, hardly sufficient to finance a month's import bill. The nation was on the edge of defaulting. This crisis resulted in large scale amendments in the country's economic policy, particularly known as the Structural Adjustment Program or New Economic Policy (NEP) regime, center of attention being liberalization and globalization of the economy.

We opted for a very vigilant approach and at present after having surmounted the initial glitches of a newly liberalized economy, we have a somewhat comfortable BOP condition. Even though we have arrived at a comfortable BOP position showing signs of a strong rising economy, BOP management still remains a tough walk for policy makers for taking any discussion, as now we are uncovered to each and every change in the global economic set-up.

1.4.1 Trends in India's BOP

The benefits of foreign trade were overlooked year after year. Indian entrepreneurs were withdrawing with low-priced, outdated technology and demolishing subsidies, generating a heavy national burden of large ailing public sector undertakings. Despite acting through an incentive based approach, government protection in fact damaged our industrial growth.

The New Economic Policy of the nineties targeted for opening up of the economy, to permit free trade and competition and condense the role of government considerably in foreign trade issues. Restrictions on international trade were detached, foreign investments were allowed and a completely new Liberalized Exchange Management System was brought in to garner the benefits of competition and offset the drawbacks of a closed, inward looking trade policy. The alterations towards liberalization and globalization of the Indian economy were conceded out very vigilantly in phases.

Foreign Investment: India effectively attracted foreign investors to the country with its earnest positive economic transforms like reduced cumbersome formalities and other paperwork. From a scanty US$ 42,127 million net foreign investment in the year 2010-11, it has grown to US$ 30,094 million in 2018-19.

Foreign investments kept the country buoyant during the recent global meltdown period. Because the consequences of recession were worst in the developed countries, the investors turned to the less affected rising economies like China and India. While initially foreign investment in the country did slow down significantly due to risk repugnance in the phase of the recession, but it picked up over again because rising economies like India and China were quick to execute corrective procedures to fight recession, showing creditable elasticity to the recession which badly affected the much developed economies.

Table 5- India's foreign investment (in US $million)

Foreign Investment (US$ million)								
2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
42,127	39,231	46,711	26,386	73,561	31,891	43,224	52,401	30,094

(Source: RBI Bulletin, 2018)

As per table it can be seen from data 2010-11 to 2018-19 that there is no more rise in foreign investment even it decreases over the last years. It can be observed that from these years only in 2014-15 it was maximum 73,561 US$ million after that huge down fall in next year to 31,891 US$ million. If we compare the data of last two years foreign investment decrases from 52,401 US$ million to 30,094 US$ million in year 2018-19.

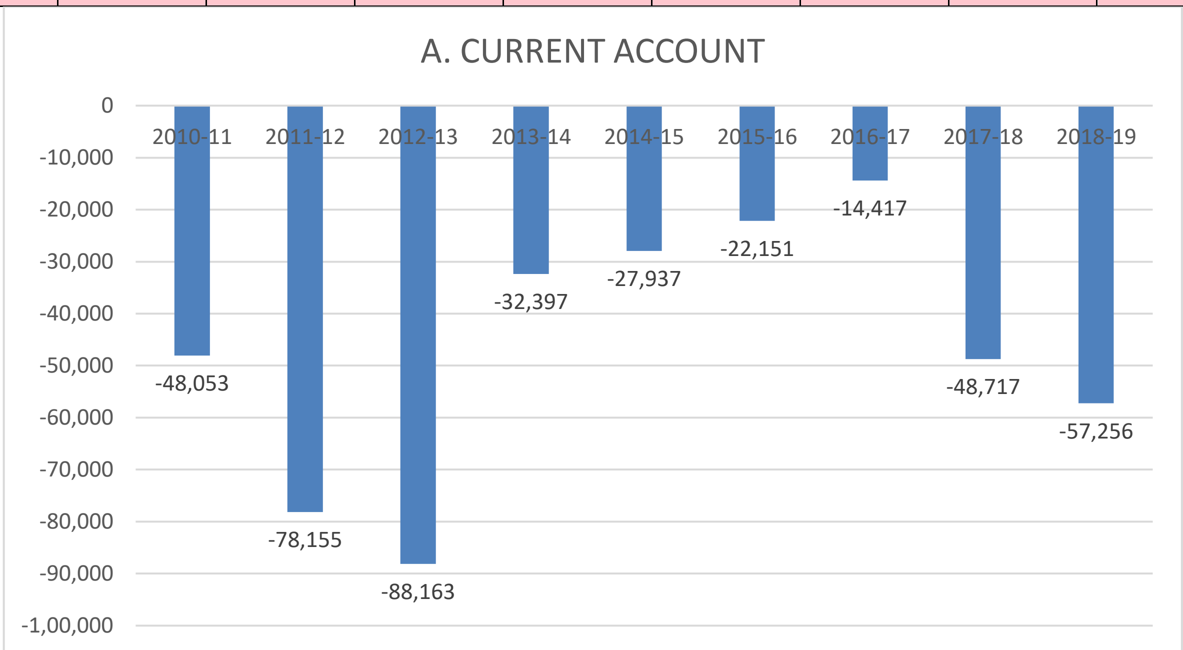
Current Account of BOP: The current account of BOP consists of the merchandise trade (export and import) and the invisibles (services, transfers etc.). The liberalized policy and reasonably hassle free formalities for export and imports have provided a push to our export industries as well as industries catering to domestic demands. Exports and imports both witnessed double digit growth rate. As per table current account balance broadened in 2018-19 (-57,256 US$ million) compared to that of 2010-11 (-48,053 US$ million) attributed to recession, but it was sustainable. Reason for increasing current account deficit is increase in imports continuously as compared to exports.

Table 6- India's Current Account (in US $million)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
A. CURRENT ACCOUNT									
1. Exports, f.o.b.	2,56,159	3,09,774	3,06,581	3,18,607	3,16,741	2,66,365	2,80,138	3,08,970	3,37,237
2. Imports, c.i.f.	3,83,481	4,99,533	5,02,237	4,66,216	4,60,920	3,96,444	3,92,580	4,69,006	5,17,519
3. Trade Balance	-1,27,322	-1,89,759	-1,95,656	-1,47,609	-1,44,179	-1,30,079	-1,12,442	-1,60,036	1,80,283
4. Invisibles, Net	79,269	1,11,604	1,07,493	1,15,212	1,16,242	1,07,928	98,026	1,11,319	,23,026
a) 'Non-Factor' Services of which :	44,081	64,098	64,915	72,965	75,683	69,676	68,345	77,562	81,941
Software Services	50,905	60,957	63,504	66,958	70,400	71,454	70,763	72,186	77,654
b) Income	-17,952	-15,988	-21,455	-23,028	-24,983	-24,375	-26,302	-28,681	-28,861
c) Private Transfers	53,125	63,469	64,342	65,481	66,275	63,139	56,573	62,949	70,601
5. Current Account Balance	**-48,053**	**-78,155**	**-88,163**	**-32,397**	**-27,937**	**-22,151**	**-14,417**	**-48,717**	**-57,256**

Overall Current Account (US$ million)

2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-48,053	**-78,155**	**-88,163**	**-32,397**	**-27,937**	**-22,151**	**-14,417**	**-48,717**	**-57,256**

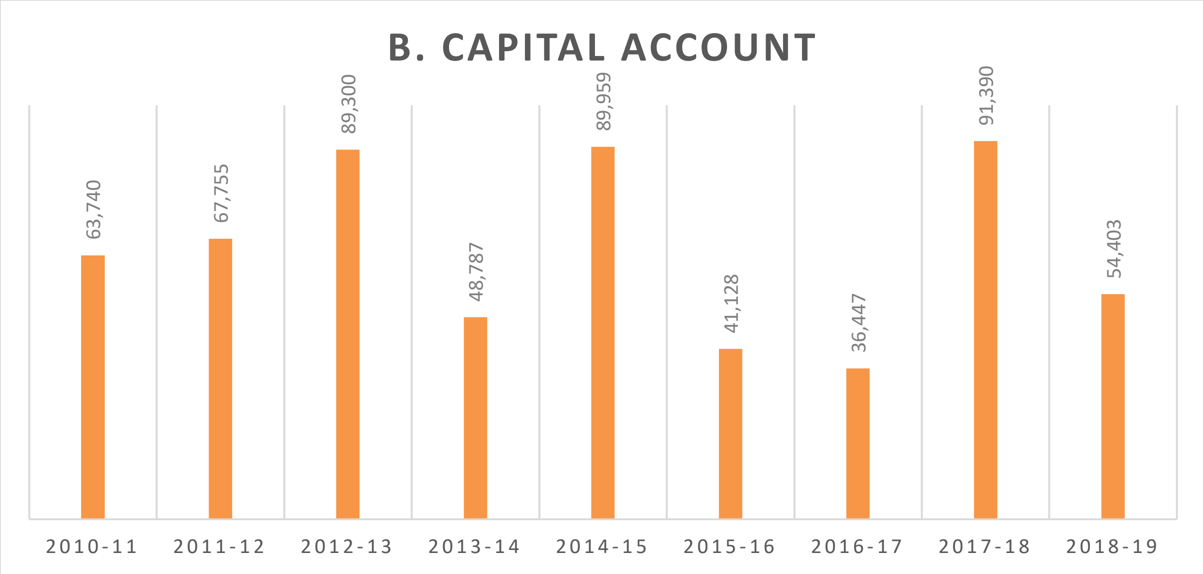


Capital Account of BOP: The current account of BOP consists of the foreign investment, (FDI + FPI), external assistance, commercial borrowings, short term capital, NRIs deposits, banking capital, debt etc. As per table it can be observed that foreign investment decreased due to portfolio investment turn in to negative from US$ 30293 million in 2010-11 to US$ -618 million in year 2018-19. FDI is rise from year 2010-11 to 2014-15, but in later years its speed also become slow. As per table capital account balance also reduced in 2018-19 (US$ 54403 million) from (US$ 63740 million) in year 2010-11. Major contributors in capital account are foreign direct investment, commercial borrowings, and NRIs deposits.

Table 7- India's Capital Account (in US $million)

CAPITAL ACCOUNT									
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
1. Foreign Investment, Net (a+b)	42,127	39,231	46,711	26,386	73,561	31,891	43,224	52,401	30,094
a) Direct Investment	11,834	22,061	19,819	21,564	32,627	36,021	35,612	30,286	30,712
b) Portfolio Investment	30,293	17,170	26,891	4,822	40,934	-4,130	7,612	22,115	-618
2. External Assistance, Net	4,941	2,296	982	1,032	1,630	1,505	2,013	2,944	3,413
3. Commercial Borrowings, Net	12,160	10,344	8,485	11,777	2,729	-4,529	-6,102	-183	10,416
4. Short Term Credit, Net	12,034	6,668	21,657	-5,044	-924	-1,610	6,467	13,900	2,021
5. Banking Capital of which :	4,962	16,226	16,570	25,449	11,618	10,630	-16,616	16,190	7,433
NRI Deposits, Net	3,238	11,918	14,842	38,892	14,057	16,052	-12,367	9,676	10,387
6. Rupee Debt Service	-68	-79	-58	-52	-81	-73	-99	-75	-31
7. Other Capital, Net[$]	-12,416	-6,929	-5,047	-10,761	1,426	3,315	7,559	6,213	1,057
8. Total Capital Account	**63,740**	**67,755**	**89,300**	**48,787**	**89,959**	**41,128**	**36,447**	**91,390**	**54,403**

Overall Capital Account (US$ million)								
2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
63,740	**67,755**	**89,300**	**48,787**	**89,959**	**41,128**	**36,447**	**91,390**	**54,403**



India's overall BOP: With the economy (domestic as well as global) getting its pace of momentum once again, there is hope of shine once again in the trade and financial world. India having cruised reasonably successful through the uneven scrap of recession can look further to garnering greater profit from world market, at least till the time the developed economies which were poorly affected by recession, revitalize fully. In short, the situation of BOP is quite well administered and contented. However, lessons from the occurrences of the financial crises taking place in various parts of the world from time to time, we are required to continue our vigilant approach towards BOP management. The country cannot meet the expense of a setback to its economic growth attained through large scale changes in national economic policies. India indeed has arrived a long way from the time of the days of the protectionist policies, but there is a lot to be accomplished yet, particularly in the sector of infrastructure, in order to become a strong economy.

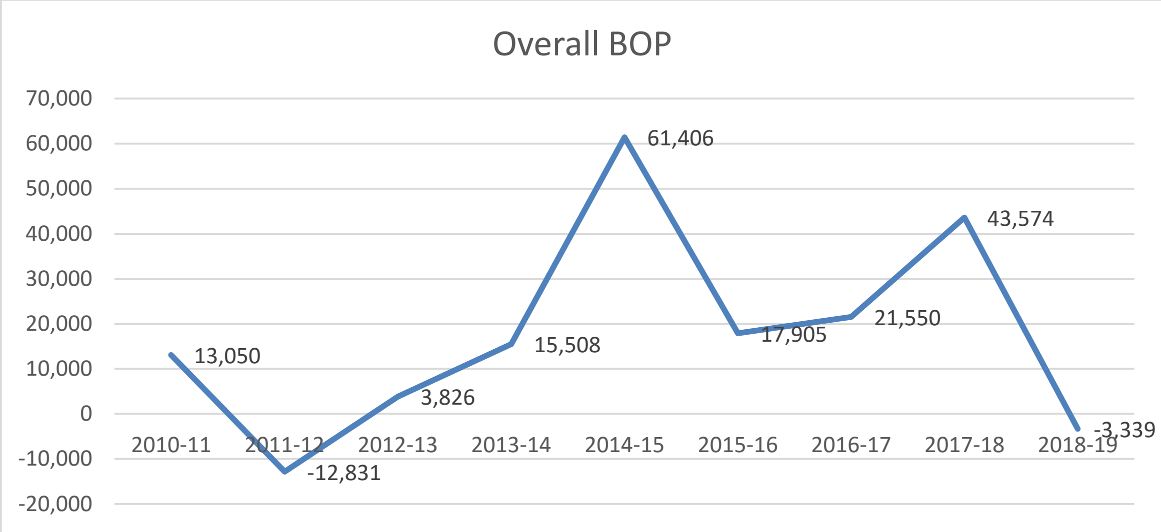
Table 8- India's Balance of Payments (in US $million)

INDIA'S OVERALL BALANCE OF PAYMENTS (US$ million)									
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
A. Current Account	**-48,053**	**-78,155**	**-88,163**	**-32,397**	**-27,937**	**-22,151**	**-14,417**	**-48,717**	**-57,256**
B. Capital Account	**63,740**	**67,755**	**89,300**	**48,787**	**89,959**	**41,128**	**36,447**	**91,390**	**54,403**
C. Errors & Omissions	-2,636	-2,432	2,689	-882	-616	-1,073	-480	902	-486

D. Overall Balance [A(5)+B(8)+C]	13,050	-12,831	3,826	15,508	61,406	17,905	21,550	43,574	-3,339
E. Monetary Movements (F+G)	-13,050	12,831	-3,826	-15,508	-61,406	-17,905	-21,550	-43,574	3,339
F. IMF, Net						0	0	0	0
G. Reserves and Monetary Gold (Increase -, Decrease +)	-13,050	12,831	-3,826	-15,508	-61,406	-17,905	-21,550	-43,574	3,339
of which : SDR allocation						0	0	0	0
Memo: As a ratio to GDP									
1. Trade Balance	-7.5	-10.3	-10.7	-7.9	-7.0	-6.2	-4.9	-6.0	-6.6
2. Net Services	2.6	3.5	3.5	3.9	3.7	3.3	3.0	2.9	3.0
3. Net Income	-1.1	-0.9	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1
4. Current Account Balance	-2.8	-4.2	-4.8	-1.7	-1.3	-1.1	-0.6	-1.8	-2.1
5. Capital Net	4.5	3.0	5.1	3.4	7.4	2.0	1.6	3.4	2.0
6. Foreign Investment, Net	2.5	2.1	2.5	1.4	3.6	1.5	1.9	2.0	1.1
P : Provisional.									
$: Includes delayed export receipts, advance payments against imports, net funds held abroad and advances received pending issue of shares under FDI.									
Note: 1. Gold and silver brought by returning Indians have been included under imports, with a contra entry in private transfer receipts.									
2. Data on exports and imports differ from those given by DGCI&S on account of differences in coverage, valuation and timing.									
Source: RBI									

Table 9- India's overall Balance of Payments (in US $million)

Overall BOP (US$ million)								
2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
13,050	-12,831	3,826	15,508	61,406	17,905	21,550	43,574	-3,339



It can be observed from table 9 that India's BOP was positive US$ 13,050 million in year 2010-11, but in next year 2011-12 in turns in to negative US$ 12,831 million. From 2012-13 to 2014-15 it increased from 3,826 million US$ to 61,406 million US$, but later it decreased and remained positive. Again BOP increased from 17,905 million US$ in 2015-16 to 43,574 million US$ in year 2017-18. But in year 2018-19 again it turns in to negative 3,339 million US$ due to increase high negative current account balance.

1.4.2 Causes of Deficit in Balance of Payments

Deficit in the balance of payments may be caused due to number of factors. These factors can be divided into three groups:

Developmental activities: Developing countries depend on developed nations for supply of machines, technology and other equipment. This leads to increased levels of imports, thereby, resulting in a deficit in the BOP account.

High rate of inflation: When there is inflation in the domestic economy, foreign goods become relatively cheaper as compared to domestic goods. It increases imports which causes a deficit in the BOP.

Cyclical fluctuations: When the domestic economy is going through a phase of boom, then domestic production may be unable to satisfy the domestic demand. It leads to a deficit in BOP, due to increase in imports.

Change in Demand: Fall in demand for country's goods in the foreign markets leads to fall in exports and it adversely affects the balance of payments.

Import of Services: Underdeveloped countries import services from developed countries for which, they have to pay huge amounts of money. It leads to a deficit in the BOP.

Political Factors: Political instability may lead to large capital outflows and reduce the inflows of foreign funds, thus, creating disequilibrium in the BOP. Also, frequent changes in the government, inadequate support to the government in parliament also discourage inflows of capital. This leads to a deficit due to higher outflows than inflows.

Demonstration Effect: When the people of underdeveloped countries come in contact with those of advanced countries, they start adopting the foreign pattern of consumption. Due to this reason, their imports increase and it leads to an adverse balance of payments for underdeveloped country.

Change in tastes, preferences, fashion and trends: An unfavourable change for the domestic goods leads to a deficit in the balance of payments.

1.4.3 Problems of India’s BOP

The disequilibrium in India’s BOP has been accounted to both internal as well as external factors. The requirement for development of such a big nation with a large population is one of the main factors resulting in recurring BOP problem. The BOP is always under some pressure and had large deficits due to high level of imports of food grains and capital goods, the profound external borrowings, their payment and poor exports.

After independence, the primary challenge in front of the country was to attain economic growth with social justice. India’s aim after accomplishing independence was to achieve economic self- reliance. For this the country had to strike both the internal as well as the external resources. Not only our technology but our food availability was also on the backward stage. Hefty amounts of food grains had to be imported to supply the demand of such a large population.

Protectionist Policies: The main intention of the Second Five Year Plan (1956-57 to 1960-61) was to achieve self-reliance through industrialization. Self-reliance was to be realized through import substitution. For this, essential industries had to be established which required import of capital goods. Exports were anticipated to take-off by own with advent of industrialization. It was felt that with advent of industrialization, there will be an increase in production at home that will be reflected in greater export earnings. The approach for import substitution was based on physical- interventionist, non-price policies like quotas, licensing and other physical ceilings on imports. Heavy capital goods were imported however other imports were relentlessly restricted to shut off competition for promoting domestic industries. Mainly focus was on import substitution, with gross disregard of exports. These inward looking protectionist policies did resulted in some self-reliance in the consumer goods industries, but most of the capital goods industries remained majorly import intensive.

The elevated degree of protection to Indian industries resulted in to inefficiency and poor quality products basically due to lack of competition. The high cost of production further wrinkled our competitive strength. Rise in petroleum products demand, harvest failure, two oil shocks, and all put acute strain on the economy. The BOP condition remained weak for the period of 1980s, till it arrived at the crisis situation in 1990-91; when India was on the brink of defaulting mainly due to intense debt burden and continually widening trade deficit.

External Debt: India had been an exercising choice to large scale foreign borrowings for its developmental activities in the field of fundamental social and industrial infrastructure. The country's reserves were very much restricted due to low level of per capita income and savings. The situation aggravated because Government of India resorted to large amounts of foreign borrowings to rectify the BOP situation in the short run out of frightening condition. With Seventh Five Year Plan, the debt service obligations increased sharply due to stiffer average provisions of external debt, including repayments to the IMF, commercial borrowing, and a drop in concessional aid flow.

Export Promotion: Even though by the Sixth Five Year Plan India had overcome the need of food grain imports and some crude oil was also produced domestically, BOP position was still not at ease attributed to low exports. The essential need for promoting export was realized during the 1960s. The Third Five Year Plan commenced certain promotion policies pertaining to export like tax exemptions, duty drawbacks, cash compensatory schemes, Rupee devaluation etc. However it didn't showed significant improvements in exports. Indian exports depended largely on situation of world trade. India was chiefly primary product exporters, for which fluctuations in prices are very high in entire world market demand.

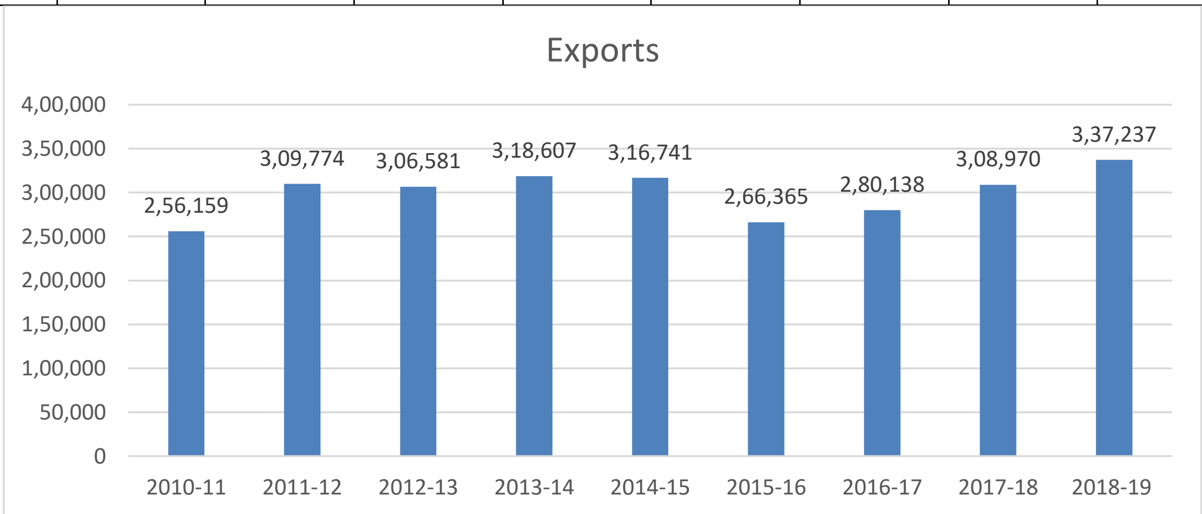
- Primary products exporting countries generally have unfavourable term of trade. The incomes from primary product exports were unstable and low.
- Secondly, the Indian products were not up to the mark in terms of quality and standard to sustain in world market.
- Third, mainly residue products were exported. The fact that export earnings contribute significantly to economic development was disregarded. Cumbersome procedures, rules and regulations for license etc served as disincentives for exporters. Domestic inflation further diminished the competitiveness of India's export.

Exchange Rate: The fluctuation in the exchange value of the rupee was another posing problem. The steady devaluations (to promote exports) enhanced the amount of external debt. The value of rupee was administered by the central bank (fixed exchange rate). The considerable gap between official and market exchange rate generated difficulties for the exporters and importers. The stringent foreign exchange controls also persuaded Hawala trade.

Inadequate Growth of Exports: Another very peculiar situation that the country has been facing is a very slow growth in respect of its exports. In the initial period, total value of exports in India rose marginally from US$ 1,269 million in 1950-51 to US$ 2,031 million in 1970-71, showing an increase of only 60 per cent. But since then the growth of exports in the country could not keep pace with the growth in imports. If we from year 2010-11 total value of exports rose gradually to US$ 256,159 million showing an increase of only 33 per cent to US$ 337,237 million in 2018-19.

Table 10- India's Exports (in US $million)

Exports (US$ million)								
2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
2,56,159	3,09,774	3,06,581	3,18,607	3,16,741	2,66,365	2,80,138	3,08,970	3,37,237



Indian exports recorded some increase but this increase in exports was totally inadequate considering the sizeable growth in the value of imports. This has resulted in a persistent and widening trade deficit in the country. The factors which were mostly responsible for this low growth of exports include un-favourable terms of trade for Indian primary (agro-based) goods, inadequate export surplus, and adoption of the policy of protectionism by developed countries and long period of business recession in developed country in recent years.

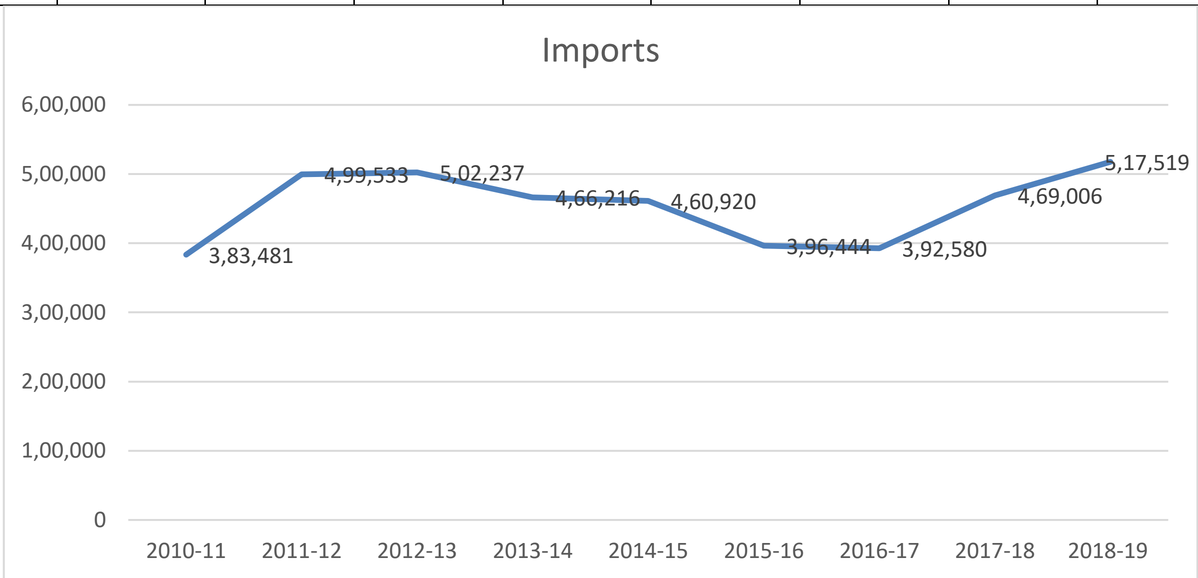
Increase in Imports: As per table 11 it can be observed that Indian import is continuously rising. If we see the data it was 1,273 million US$ in 1950-51 increased to 15,869 million US$ in 1980-81. Further

Indian imports rises considerably in recent years from 50,536 million US$ in 2000-01 to 5,17,519 in year 2018-19.

Table 11- India's Imports (in US $million)

Year	Import (in US $million)
1950-51	1,273
1970-71	2,162
1980-81	15,869
1990-91	24,075
2000-01	50,536

2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
3,83,481	4,99,533	5,02,237	4,66,216	4,60,920	3,96,444	3,92,580	4,69,006	5,17,519



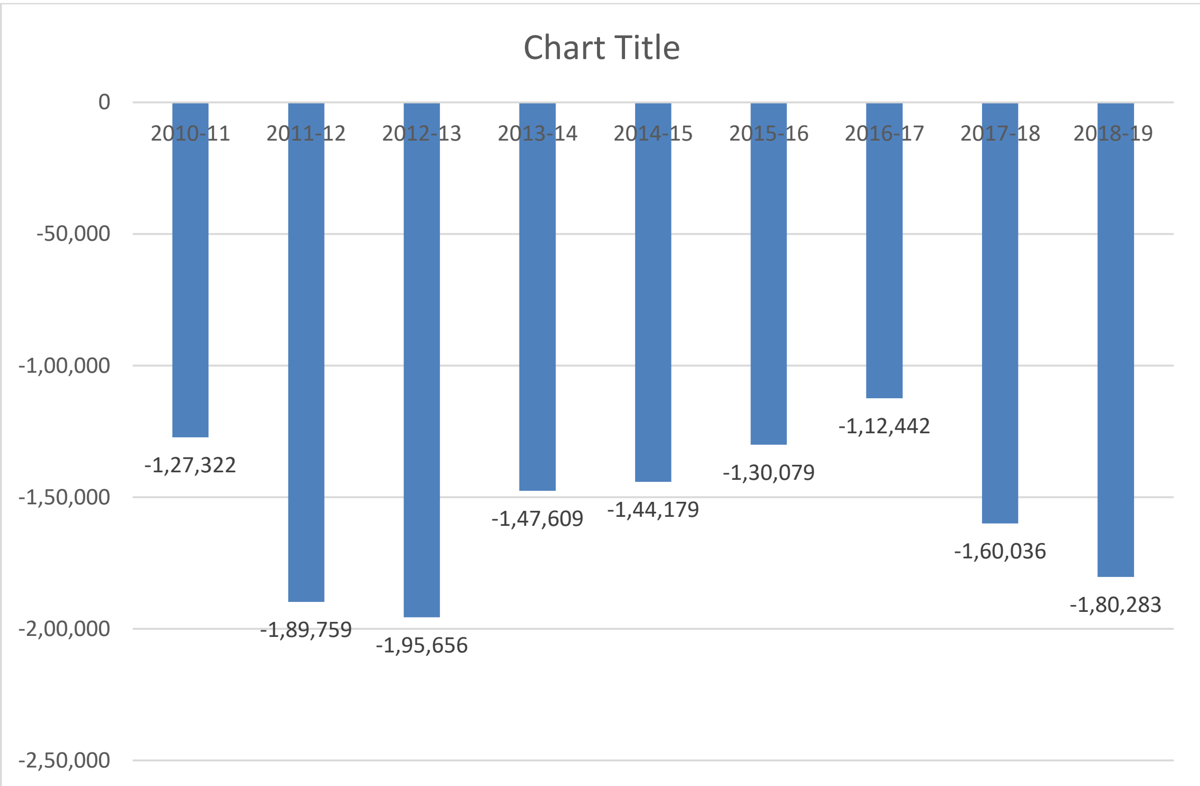
Increasing Trade Deficit: As a result of higher growth of imports and slow growth of exports the country has been experiencing a mounting trade deficit since 1980-81. During the last 45 years period, the country has recorded a small surplus in its trade only in two years (viz., in 1972-73 and in 1976-77).

Due to adverse balance of trade situation, the extent of trade deficit in India gradually rose from Rs. 78 crore in 1950-51 to Rs. 949 crores in 1965-66. Recording a decline to Rs. 99 crore in 1970-71, the extent of trade deficit rose from Rs. 1,229 crore in 1975-76 to Rs. 5,838 crore in 1980-81 and then considerably to Rs. 10,640 crores in 1990-91. But after the introduction of some changes in the trade policy and due to considerable import compression the extent of trade deficit declined remarkably to Rs. 3,809 crore in 1991-92.

Table 12- India's Trade deficit (in US $million)

Year to	Exports	Imports	Trade Balance
1950-51	1269	1273	-4
1970-71	2031	2162	-1301
1980-81	8486	15869	-7383
1990-91	18143	24075	-5932
1991-92	17865	19411	-1546
2000-01	44560	50536	-5976

2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
-1,27,322	-1,89,759	-1,95,656	-1,47,609	-1,44,179	-1,30,079	-1,12,442	-1,60,036	-1,80,283



Accordingly, the annual average deficit in balance of trade which was US$ 4 million during the 1950-51 gradually rose to US$ 1301 million during the 1970-71. In 1981- 82 the extent of trade deficit again rose to US$ 7383 million due to huge increase in import. But during 1990-91 & 1991-92, the extent of trade deficit declined to US$ 5932 million & US$ 1546 million respectively due to considerable increase in exports. But during 2000-2001, the extent of trade deficit again rose to US$ 5976 million. Again during 2010- 2011 to 2018-19 there is massive rise in trade deficit from US$ 127,322 million to US$ 180,283 million.

1.5 Check Your Progress

1. Balance of payments of a country includes:
   (a) Current account
   (b) Monetary account
   (c) Capital account
   (d) All of above
2. Balance of payments of a country includes:
   (a) Balance of trade
   (b) Capital receipts and payments
   (c) Saving and investment account
   (d) Both (a) and (b)
3. Which of the following is a determinant of trade?
   (a) Tastes
   (b) Per capita income
   (c) Technological change
   (d) All of the above
4. Who benefits from tariff protection?
   (a) Domestic consumers of the good produced
   (b) Domestic producers of the good produced
   (c) Foreign producers of the good produced
   (d) Foreign consumers of the good produced.
5. Which of the following is international trade:
   (a) Trade between provinces

(b) Trade between regions

(c) Trade between countries

(d) (b) and (c) of above

6. A tariff:

(a) Increases the volume of trade

(b) Reduces the volume of trade

(c) Has no effect on volume of trade

(d) (a) and (c) of above

1.6 Summary

International trade is the backbone of our modem, commercial world. International trading provides countries and consumers the chance to be exposed to those services and goods that are not available in their own country. The pattern of exports for last 20 years shows that over the years, share of India's exports of agriculture and allied products is declining while that of ores and minerals has remained more or less steady. It is also observed that share of manufactured goods is fluctuating. It is also observed that within category of manufactured goods exports share of engineering products is increasing while that of leather and textile products is decreasing. As far as imports are concerned, petroleum products dominate right from beginning. However, since opening up of economy stress on import substitution has reduced and imports of capital goods and other intermediary products for export purposes have increased. Main plank of the trade policy of free India was protection of indigenous industry through a variety of controls, like import duties and preference for indigenous goods in respect of government purchases. However, things started changing since India opened its economy in 1991. Drastic changes have been introduced in every EXIM Policy declared thereafter. The reform measures introduced in the subsequent policies have focused on liberalization, openness and transparency.

Balance of Payments is said to be a systematic record of all international economic transactions during a given period of time, usually a year. The study of balance of payments represents macroeconomic aspect of international economics. As it is based on double entry book – keeping, balance of payments always balances in the accounting sense of the term. The current account and capital account are the two main components of the balance of payments statement. From an economist point of view, within the balance of payments statement – trade balance, current account balance, capital account balance and overall balance are important. The distinction between autonomous and accommodating transactions is useful in defining equilibrium / disequilibrium (surplus / deficit) in balance of payments. Equilibrium in BOP would mean that its autonomous receipts are equal to autonomous payments. While disequilibrium in BOP means that its autonomous receipts are not equal to autonomous payments. When autonomous receipts are greater than autonomous payments there is surplus in BOP, and when autonomous receipts are less than autonomous payments there is a deficit in BOP. Disequilibrium in the BOP can be in the form of temporary, fundamental, cyclical and structural. Disequilibrium in BOP is caused by economic, social and political factors. Disequilibrium in the form of deficit is a matter of grave concern for the country. Hence, if the country has a deficit in its BOP, then efforts are made by policy makers to either remove or at least reduce the deficit. According to Mundell, monetary policy should be used to achieve internal balance, while fiscal policy should be used to achieve external balance.

1.7 Keywords

- **Foreign Trade:** The activity of trading goods and services with other countries.
- **Export:** An export in international trade is a good or service produced in one country that is sold into another country.
- **Import:** An import is a good or service bought in one country that was produced in another.
- **BOP:** A statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.
- **Trade Deficit:** Amount by which the cost of a country's imports exceeds the value of its exports.
- **Current Account:** The current account records a nation's transactions with the rest of the world specifically its net trade in goods and services.
- **Capital Account:** Capital account reflects net change in ownership of national assets.
- **FDI:** Foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country.
- **FPI:** Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country.
- **Tariff:** A tax or duty to be paid on a particular class of imports or exports.

1.8 Self-Assessment Test

1. What do you mean by foreign trade? What are the characteristics, advantage, and disadvantages of foreign trade?
2. Describe foreign trade, Explain the trend and direction of Indian foreign trade?

3. What do you mean by Balance of payments? What are the features, importance, and components of balance of payments?
4. What is Balance of payment? Explain the problems related with Indian balance of payment.
5. Define balance of payment. Describe the recent trend of Indian balance of payment.
6. Write short note on:
    - Capital Account
    - Current Account

1.9 Answers to check your progress

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

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Subject: Foreign Trade in India	
Couse Code:BC-306	**Author:** Dr. Sanjeev Kumar Garg
Lesson No.: 2	**Vetter:** Prof. Pardeep Kumar Gupta
INDIA'S MAJOR EXPORT AND IMPORT PRODUCTS	

Structure

2.0 Learning Objectives

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

- Understand the meaning, features, advantages and disadvantages of foreign trade of India
- India's major import and export products

- Trends of foreign trade and balance of payment
- India’s top trading partners
- Features of new trade policy

2.1 Introduction

Current era is of era of globalization. No country can isolates itself from the other countries. Likewise, India is also taking benefits of globalization and developing since LPG era, with a fast pace. Foreign trade i.e. international trade is the one of the most important outcome of globalization. Foreign trade plays an important role in the not only in economic development of a country but also in technological development and socio-cultural development, including India. Foreign trade is not simply a device for achieving productive efficiency but it is an engine of economic growth. Without it, progress of different sectors or segments of the economy is quite difficult. It refers to the exchange of goods and services between two or more than two countries for the mutual satisfaction of demands & wants and utilities of the resources. Simply it includes export and import of goods and services between various countries. It is beneficial for the countries in the form of economies of scale, help to meet competition, introduction with latest technologies etc. It has disadvantages for the countries in the form of over dependence on the other countries, threat to domestic companies, un-necessary pressure on natural resources etc.

2.1.1 Foreign Trade (International Trade)

Trade is exchange of goods and services by one person to another in exchange of money and goods. When goods are exchanged with goods between two or more countries then it is form of earlier barter system. Domestic trade refers to the transactions taking place within the boundaries of a nation. It is also known as intra-regional or home trade. For example trade of goods and services happen between two businessmen in India then it is called as domestic trade.

Foreign trade i.e. international trade on the other hand, refers to the exchange of goods and services between various countries for the mutual satisfaction of demands & wants and utilities of the resources. Simply it includes export and import of goods and services between various countries. For example India export rice to Iran. Export means selling goods and services out of the boundaries of a country, while import means selling goods and services within the country.

The features of foreign trade are:

(a) It include import and export of a country.

(b) It has a direct impact on GDP of a country.

(c) It involve different monetary units.
(d) There may be some restrictions on import and export in various countries.
(e) It has a specific direction.
(f) For the controlling it there may be existence of multiple regulations, legal practices and rules in different countries.

2.1.2 Types of Foreign Trade

Import Trade: Import refers to the purchase of goods and services by one country from another country or countries. For example India import Petroleum products from Arabian countries and Gold from Switzerland.

Export Trade: Export refers to the sale of goods and services by one country to another country or countries. For example Precious stones to United Kingdom & Spices to USA.

Re-export Trade: It refers to import of goods from one country and after some value additions in that product selling them to another country. For example India export Mineral fuels and Gold after processing.

2.1.3 Advantages and Disadvantages of Foreign Trade

Advantages of foreign trade

Optimum allocation and utilization of World's resources- Specialization and division of labor leads to the allocation and optimum utilization of world's resources in efficient and effective way.

Advantageous competition- foreign goods induce the domestic market and home producers to become more effective and efficient in their production process and add some values to their existing products.

To improve standard of living- After consuming new choices of quality products, the standard of living of the people around the world will be increase. They will enjoy the new products which further improve the thinking of other people also.

Employment opportunities-Foreign trade helps in generating employment opportunities in all the sector of the economy. Such as Industry, insurance, banking, transport, communication etc.

Economic development- Through foreign trade any country can receive latest capital goods in the form of technology, which can improve all the sectors of the economy.

The size of market become large-When new foreign goods enter into the market then the size of country's market expands. With this domestic producers operates on a larger scale of production which results in further economies of scale and thus overall economic development of the country will be possible.

Help to boost Gross Domestic Product (GDP)-Foreign trade is helpful in boosting the GDP of a country because it gives fuel to the various sectors by providing the raw as well as semi and finished goods.

Division of Labor and specialization- Every country can take benefits of division of labour and specialization. For this, those have abundant natural resources must export raw materials and import finished goods from other countries which have expertise in those goods.

Variety of products-Foreign trade provides variety of products to the customers all over the world. It provide new choices to the consumer for the satisfaction of their wants. For example- A customer can buy a mobile phone of their choice among the available various options.

Quality of goods- A country import only those product which they can't produce or producing a cheaper quality. But with the help of foreign trade in highly competitive scenario only quality products are imported.

Maintain Balance of payment positive- With the help of Export one country receive foreign exchange and pay for its import in the form of foreign exchange. So every country has to maintain balance between these two.

Disadvantage of foreign trade

Depletion of natural resources- To earn foreign exchange (for payments of necessary imports) every country wants to export goods in larger quantity and on continuous basis. This may leads exhausted the raw materials and minerals they have unless new resources are tapped or developed by that country.

Language barriers- Language can be a barrier in foreign trade. Each country has its own language which is difficult to learn. So it can create hurdles in foreign trade as it involves so many countries.

Dumping- Dumping means selling a product to another country at a price below the normal price to destroy the domestic industries or competition in the importer country. The objective of dumping is to increase market share in a foreign market by selling product on low price. When the exporters capture the entire market share then he will increase the price of product sharply.

Over-dependence- As we import product and services from another country so, foreign trade discourages domestic self-dependence and self-reliance on an economy. It leads to over dependent on another country and makes us disable to meet the local demands at domestically.

Harmful for domestic industries- if a country imports those product which are producing in the home country also, then there is a possibility of shut down of domestic companies if they will be unable to provide the product as imported product. So, it is harmful for domestic industries.

Increase un-employment rate- when only few specialized products are exported by a country then job opportunities will be decline in that country. In the same way for the importer it may be cause of shut down of domestic companies which further leads to un-employment.

In short, we can say that foreign trade has more advantages in comparison of disadvantages.

2.2 Balance of Trade

The difference between a country's imports of merchandise and its exports is referred to as its 'balance of trade'. When the export of merchandise of a country exceeds its imports, it is said to have a favorable balance of trade, and when its imports of merchandise exceed its exports, it has an unfavorable or adverse balance of trade.

Balance of trade= Total Export-Total Import

2.2.1 Balance of Payment

Meaning: The balance of payment (BoP) of a country is a systematic record of all the trade transactions including total imports and total exports during a given period of time i.e. a year. A country pays for its import of goods and services and receives payment for its export of goods and services from other countries. The balance of payment is a difference between total receipt from export and total payment for import during a period.

Balance of payment includes the imports and exports of merchandise and services inflow and outflow of capital, interest and dividends on account of foreign investments, tourist income and expenses, gifts, donations, etc. Thus, balance of payments is more comprehensive than balance of trade. Balance of payments includes balance of trade and other invisible items of foreign trade. It should be clear that a country with a deficit in balance of trade need not necessarily have deficit in balance of payments or vice-versa. The deficit in balance of trade may be more than offset by surplus in the invisible trade, resulting in surplus of balance of payments. Trends in balance of payment showing in table 1 below:

Table 1. Trends in Balance of payment

Year	Balance of Payment (` Rs. In Crore)	Year	Balance of Payment (`Rs. In Crore)
1950-51	-2	2009-10	-5,18,202

1960-61	-480	2010-11	-5,40,818
1970-71	-99	2011-12	-8,79,504
1980-81	-5,838	2012-13	-10,34,844
1990-91	-10,645	2013-14	-8,10,423
2000-01	-27,302	2014-15	-8,40,739
2005-06	-2,03,991	2015-16	-7,73,921
2006-07	-2,68,727	2016-17	-7,28,242
2007-08	-3,56,448	2017-18	-10,44,519
2008-09	-5,33,681	2018-19	-12,86,948

(Source: Department of commerce, GoI)

The above table depicts the trends in balance of payment since independence. In 1950-51 balance of payment was negligible i.e. import and export was almost equal. But after that it shows increasing trend except in 1970. After the introduction of LPG in 1990-91 it is increasing with a fast rate as shown in above table. In 2018-19 it was Rs. 1,286,948 crore.

2.3 India's Foreign Trade (Foreign Trade and India)

Indian Foreign Trade has a very long history. Prior to Independence, Indian economy was typical of a colonial and agricultural economy. Trade relations were mainly limited to Britain and other Commonwealth countries. Exports consisted largely of raw materials and plantation crops whereas imports composed of light consumer goods and other manufactures. Over the last many years, India's foreign trade has undergone a complete change both in regard to the composition as well as the direction of trade.

India's exports before independence, involved mainly of three commodities tea, jute and cotton textiles. At the time India became independent these constituted about half of the total exports from the country. Some of the other items exported were mainly products like manganese ore, mica, shellac, rawhides and skins. Only about 0.4% of the exports consisted of engineering goods. Sofar as direction of trade was concerned U.K. and U.S.A. accounted for about 40% of the exports. The share of other countries was rather small and East European countries was insignificant.

After independence Indian economy had shut down its door as closed economy for foreign companies except few. As we were aware, how East India Company had established and how British rulers open their feathers and exploited Indian people for their greediness. Our newly formed govt. had decided totally self-dependent approach. Till 1990-91, during pre-reform period, Indian share in world trade had remained quite unsatisfactory. However during reform period particularly after 1990's, much progress was witnessed by Indian Foreign trade. The trends in Indian foreign trade can be observed from the given data of the trends in value of foreign trade, composition and direction.

Growing value of exports: The total value of India's international trade has gone up from US $ 1269 million in 1950-51 to nearly US $8486 million in 1980-81 and to US $ 303,526 million in 2017-18. But much of this increase was concentrated in last 20 years. One reason why India's export were almost stagnant during the first 15 years of planning was the predominance of traditional goods such as tea, jute and cotton manufactures, the foreign demand for which was generally inelastic. Besides, the rise in prices in India and the high cost of our export goods did not allow these goods to be competitive in the international markets. After devaluation of rupee in 1966, Indian export goods got a price advantage. Moreover, the government entered into a series of bilateral agreements with fiscal and cash incentives to boost exports. Finally, it set up a number of export promotion councils and agencies to promote export. These factors explained the very rapid growth of export in 1970's.

In 1980-81, exports as percentage of GDP were only 5.5%, in 1990-91 this ratio increased to 5.8% and in 2016-17 it is 19.2% and total trade (export and import) is39.8%. This is as per the data given in economic survey 2016-17.

Larger growth of India's imports: As per the Table 2 showed import is continually increasing trend. In 1950-51, Imports were US $ million 1273, in 1980-81 it was increased to US$ 15869 million , and in recent year 2017-18 it increased to US$ 465,581 million. However, Imports which were 10.2 % of GDP in 1980-81, declined to8.8%in 1990-91 but rose further to 16.9%in 2004-05 and to 27.1% in 2008-09 but again it declined to 20.6% in 2016-17 which is a good sign for an economy.

Widening Trade Deficit: Table 2 shows that in 1950-51 Trade deficit was US$ 4 million in 1980-81 it was increased to US$ million 7383. In 1990-91 it was decreased to US $ 5932 million, it was further decreased to US$ 1546 million. In 2017-18 it was US $ 162,054 million.

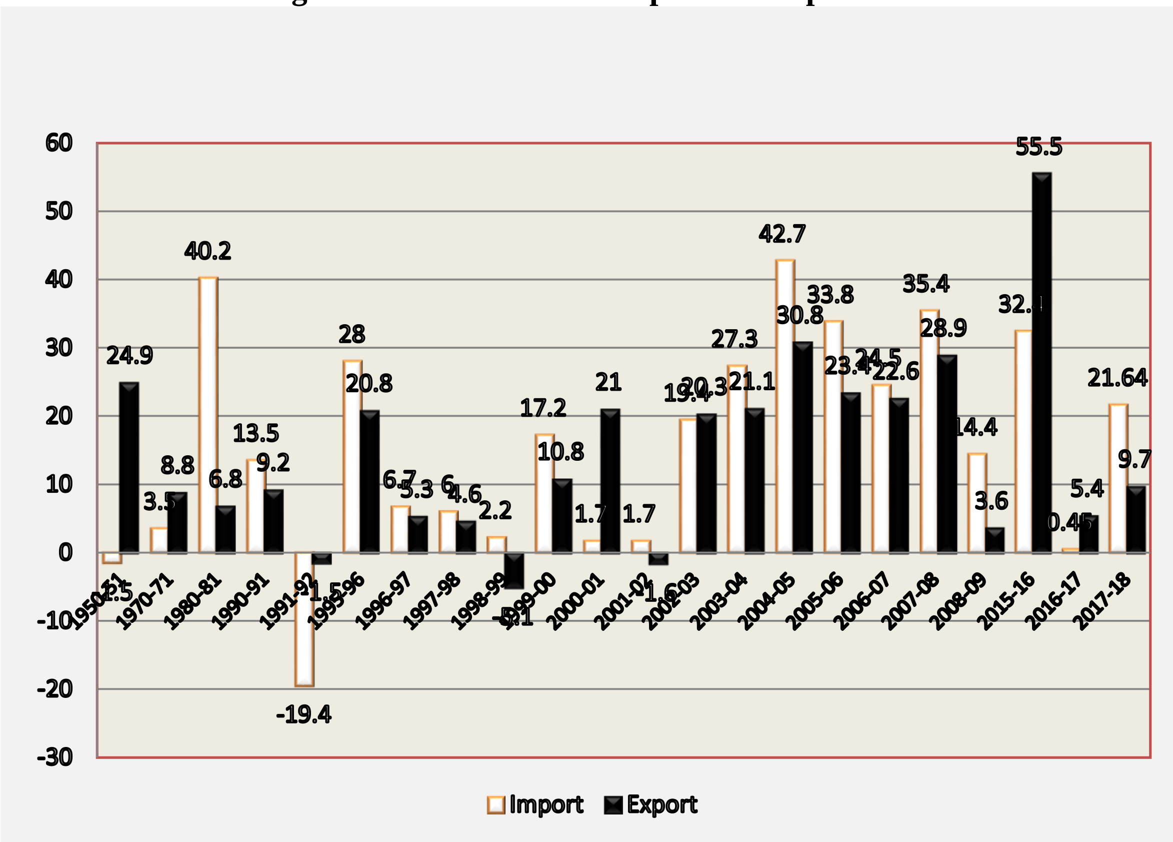
Table 2- Recent trends in India's foreign Trade (in US $million)

Year	Exports	Imports	Trade Balance	Rate of Change	
				Exports	Imports
1950-51	1269	1273	-4	24.9	-1.5
1970-71	2031	2162	-1301	8.8	3.5
1980-81	8486	15869	-7383	6.8	40.2
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.5	-19.4

1995-96	31797	36678	-4881	20.8	28.0
1996-97	33470	39133	-5663	5.3	6.7
1997-98	35006	41484	-6478	4.6	6.0
1998-99	33218	42389	-9171	-5.1	2.2
1999-00	36822	49671	-12849	10.8	17.2
2000-01	44560	50536	-5976	21.0	1.7
2001-02	43827	51413	-7586	-1.6	1.7
2002-03	52719	61412	-8693	20.3	19.4
2003-04	63843	78150	-14307	21.1	27.3
2004-05	83535	111516	-27982	30.8	42.7
2005-06	103092	149167	-46076	23.4	33.8
2006-07	126361	185749	-59388	22.6	24.5
2007-08	162904	251439	-88535	28.9	35.4
2008-09	168704	287759	-119055	3.6	14.4
2015-16	262,290	381,006	–118,716	55.5	32.4
2016-17	276,547	382,740	-106,193	5.4	.45
2017-18	303,526	465,581	–162,054	9.7	21.64

(Source: Various economic survey of India)

Figure 1.Growth rates in Import and export in India



(Source: various economic survey of India)

Changes in composition of foreign trade: Composition of Trade means the commodities and products which are included in the exports from India to other countries and Imports from other countries in India. Indian foreign trade registered a number of structural changes during the planning period. The percentage of non-traditional goods in total exports has continuously increased the exports of chemical and engineering goods have shown a high growth rate. During past few years hand made goods including gems and jewellery have become one of the important export commodities. India is making exports of few traditional items including tea, coffee, rice, pulses, spices, tobacco, jute, iron ore etc.

Besides the imports of petroleum products, capital goods, carbon chemical and compounds, medical and pharmaceuticals products are also imported in Indian Economy.Pulse, gems and stones are also important on large scale but after their processing these are exported from the country. Other imports include edible oils, fertilizers non-ferrous metals, paper and paper boards, pulp and waste paper etc. Before 2014-15 there were different categories of export and import like primary products, manufactured goods, Bulk Import, Non bulk import. But now it has been changed. Now a days, 31 major categories are included in export and import (as per RBI bulletin) but for convenience purpose we made 19 categories for exports and 23 categories for imports. A comparison of growth rates in import and export are shown in above figure.

Table 3-Composition of major Exports (US $ million)

Sr. No	Commodity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Tea & coffee	1732.1	1597.6	1495.8	1503.9	1574.1	1805.9
2	Other Agricultural Products	13971	15738.7	15473	13006.5	13310.4	15877.3
3	Tobacco	924.1	1011.4	958.6	982	958.7	934.2
4	Oil Meals, seeds	4406.9	4088.1	3059.6	1799.9	2160.6	2264.2
5	Marine Products	3464.1	5016.6	5510.5	4767.5	5903.1	7387.7
6	Meat, dairy& Poultry products	3804.3	5292.9	5385	4575.5	4368.8	4610.1
7	Iron Ore, Mica, Coal &Other Ores, Minerals	5466.5	5574.9	4418.8	3847.5	5111.7	5246.1
8	Leather & leather Product	4771.9	5572.8	6030.5	5407.8	5165.6	5288.9
9	Ceramic products	1156.1	1292.2	1644.4	1712.1	1856.6	2131.4

	&glassware						
10	Gems & Jewellery	42988.2	41388.3	41266.1	39284.3	43412.8	41544.4
11	Drugs& Pharmaceuticals	14421	14949.5	15431.5	16909.5	16785	17282.4
12	Organic& Inorganic Chemicas	11478.8	12286	12473.6	11731.3	12336.1	15938.2
13	Engineering& Electronic Goods	67434.5	71745.7	79335.6	67909	73179	85100.2
14	Cotton Yarn, Handloom Product	14135.7	16199.6	16049.6	14741.1	14419.3	15084.1
15	RMG of all Textiles	12948.7	14990.5	16833.3	16964.4	17368.2	16706.7
16	Jute Mfg. including Floor Covering, carpets, handicrafts	2449.6	3029.2	3035.8	3383.5	3726.8	3587.4
17	Petroleum Products	60865.1	63179.4	56794.1	30582.6	31545.3	37456.6
18	Plastic & Linoleum	14421	6147.0	5746.0	5764.2	5796.5	6850.9
19	Other Commodities	11478.8	25315.3	19410.2	17418.8	16873.7	18279.4
	Total Exports	**300400.6**	**314415.7**	**310352.0**	**262291.1**	**275852.4**	**303376.2**

(Source: RBI Bulletin, 2018)

On the basis of Table 3 following observations can be made.

1. Agriculture and Allied Products- which includes coffee, tea, rice, wheat, raw cotton, tobacco, cashew, spices, oil meal, marine products, sugar and molasses. In 2003-04 Agriculture and allied products export was US $ 28302.5 million which increased to US $ 32879.4 million in 2017-18.
2. Ores and Minerals- includes iron ore, and all processed minerals which also increased from US$ 5466.5 million in 2012-13 to US$ 5246.1 million in 2017-18.
3. Leather & Manufactures– One of the traditional items of Indian Export is raw hides and skins. India earned about US$ 4771.9 million in 2012-13. It touched US $ 6030.5 million in 2014-15 and decrease to US $ 5288.9 million in 2017-18.

4. Ceramic Products & Glassware- This category also showed increasing trend year to year. In 2012-13 this was US$ 1156.1 million which increased to US $2131.4 million in 2017-18.
5. Gems & Jewellery- The export of Gems &Jewellary during 2012-13 was US$ 42988.2 million and in 2017-18 it was declined to US$ 41544.4 million.
6. Chemicals & Related Products- This category includes basic chemicals, pharmaceuticals, cosmetics, plastic, linoleum, rubber, glass, paints, enamels, residual chemicals and allied products. This category also showed increasing trend year to year. In 2012-13 drugs and pharmaceuticals, organic & inorganic chemicals and plastic & linoleum were US$ 14421 million, US$ 11478.8 million and US$ 5598.8 million which increased to US $17282.4, US$ 15938.2 million and US$ 6850.9 million in 2017-18 respectively.
7. Engineering and Electronic Goods- Engineering goods includes manufacture of metals machinery, instruments, transport equipments, iron & steel and all electronic goods. In 2012-13 this was US$ 67434.5 million which increased to US $ 85100.2 million in 2017-18.
8. Textiles & Textile Products- It includes cotton yarn, natural silk yarn, manmade yarn, woollen yarn fabrics made up. In 2012-13 this was US$ 27084.4 million which increased to US $ 31790.8 million in 2017-18.
9. Jute Mfg. including Floor Covering, carpets, handicrafts- The export of this category during 2012-13 was US$ 2449.6 million and in 2017-18 it was US$ 3587.4 million.
10. Petroleum Products - This section shows continuously decreasing trend after 2013-14. In 2012-13 this was US$ 60865.1 million which decreased to US $37456.6 million in 2017-18.

Table 4: Sector wise share and growth rate of exports

S. No.	Rank	Share(Percent)			Growth(Percent)		
		2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
1.	Engineering Goods	23.1	24.4	25.9	-17.0	11.1	22.4
2	Gems & Jewellery	15.0	15.7	14.4	-4.8	10.5	-3.8
3	Chemicals, Drugs& Pharmaceuticals	14.7	14.2	14.5	.6	1.6	11.9
4	Textiles &Allied	13.7	13.0	11.8	-3.2	-0.5	3.8

	Products						
5	Petroleum crude &Products	11.7	11.4	11.8	-46.2	3.1	17.6
6	Agricultural & Allied Products	9.9	9.5	9.7	-17.6	0.3	15.0
7	Electronic Goods	2.2	2.1	2.0	-5.3	0.0	4.5
8	Marine Products	1.8	2.1	2.7	-13.5	23.8	29.5
9	Ores and Minerals	0.8	1.2	1.0	-16.4	61.6	12.9
10.	Leather &leather product	2.1	1.9	1.9	-10.3	-4.4	0.9
	Total Exports including Others	100	100	100	-15.5	5.2	11.2

(Source: Economic Survey 2017-18)

As is shown in table 4, Export growth in 2016-17 was broad based with positive growth in major items except for the fall in leather & leather products by 4.4 per cent, textiles by .5 percent and marginal fall in electronic goods and drugs & pharmaceuticals. Among the six major export sectors, there was good growth in engineering goods and gems & jewellery sectors; low growth in petroleum crude & products and chemicals and related products; marginal positive growth in agricultural and allied products; and marginal negative growth in textiles & allied products. Other export sectors with high growth were Marine products and minerals. Export growth in 2016-17 was fairly broad based with positive growth in major categories except textiles & allied products, and leather & leather manufactures. In 2017-18 (April - November) among the major sectors, there was good export growth in engineering goods and Petroleum crude and products; moderate growth in chemicals & related products, and textiles & allied products; but negative growth in gems and jewellery.

Composition of imports: Table 5 reveals that there has been a persistently rising trend of Imports which is the result of both internal and external factors.

Table 5. Composition of Major Imports (in US $million)

S.No.	Commodity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Cotton Raw, Vegetable						

	oil, Pulses,& Fruits & Vegetables	15418.4	13280.7	15582.1	16641.7	17867.1	17617.7
2	Pulp and Wastepaper	745.9	767.5	944	955.7	975.1	1154.6
3	Textile yarn Fabric ,made-up articles	1437.3	1503.6	1691.5	1715.1	1502.5	1837.4
4	Fertilisers, Crude & manufactured	8755.5	6263.9	7398.7	8071.5	5024	5376.3
5	Sulphur &Unroasted Iron Pyrites	319.5	183.1	286.4	217.1	131.2	165.9
6	Metal, ferrous ores & other minerals	9152.2	8455.2	9299.4	7298.6	6194.2	9092.7
7	Coal, Coke & Briquettes, etc.	16995.9	16403.5	17802.6	13667.6	15759.9	22901.2
8	Petroleum, Crude & products	164040.6	164770.3	138325.5	82944.5	86963.8	108658.6
9	Wood & Wood products	5081.5	5127.3	5471	5048.1	4891.8	6027.7
10	Leather & leather products	739.3	823.3	1005.1	968.1	935.3	1009.2
11	Organic & Inorganic Chemicals	16784.1	17446.8	18593	16586.4	16598.4	20631.5
12	Dyeing/tanning/colouring mtrls	2170	2419.1	2447.8	2247.5	2282.7	2887.5
13	Artificial resins, plastic Materials, etc.	9988.5	10464.5	12070.3	11794.6	11964	14488.1
14	Chemical material & products, Newsprint	5663.4	5765.8	6145.3	5957.2	6225	7440.1
15	Pearls, precious & Semi-Precious stones	22689.6	23988.4	22598.2	20069.9	23808.6	34278.9
16	Iron & Steel, Non-ferrous metals	26731.8	21563.8	27047.4	24703.6	21551.8	27429.2
17	Machine tools, Machinery, Electrical & non-electric,						
18	Transport equipment	21286.9	19297.5	18345.4	18227.8	22687.7	22732.9

19	Project goods, Professional instrument, Optical goods, etc.	10309.8	8152.5	7345.9	6382.8	5931.6	6832.2
20	Electronic goods	32892.7	32384.7	36857.1	40021.9	41930.4	51541
21	Medical. & Pharmaceutical products	5461	5245.8	5432.8	5440	4995	5480.7
22	Gold, Silver	55795.4	33244.7	38930.7	35513.4	29357.2	36871
23	Other Commodities	23790.4	22473.7	23297	24340.8	25299.2	23345.5
	Total Imports	**490736.6**	**450213.6**	**448033.4**	**381007.8**	**384357**	**465578.3**

(Source: RBI Bulletin, 2018)

As per Table 5- after 2013-14 Cotton Raw, Vegetable oil, Pulses, & Fruits & Vegetables shows increasing trend. In 2013-14 it was US$ 13280.7 million and in 2017-18 it was US$17617.7 million. Except Fertilizers, Crude & manufactured, Sulphur & Unroasted Iron Pyrites, Petroleum, Crude & products, Project goods, Professional instrument, Optical goods, etc. and gold & silver all categories shows increasing trend in import. Marginal negative growth in Metal ferrous ores & other minerals. A significant positive increase in Coal, Coke & Briquettes, etc. Leather & leather products, Organic & Inorganic Chemicals is shown by table3.

Table 6: Sector wise share and growth rate of imports

S.No.	Rank	Share(Percent)			Growth(Percent)		
		2015-16	**2016-17**	**2017-18**	**2015-16**	**2016-17**	**2017-18**
1.	Petroleum Oil & Lubricants	21.8	22.6	22.0	-40.0	4.8	21.9
2	Capital Goods incl. Machinery, Base Metals, Transport Equipment	21.1	20.9	19.2	-2.5	0.1	11.3
3	Gems & Jewellery incl. gold ,silver & precious stones	14.8	14.0	16.8	-9.4	-4.9	53.6
4	Chemicals, Fertilizers	13.3	12.4	12.7	-4.2	-5.8	16.3

5	Electronic Goods	10.5	10.9	11.4	8.6	4.8	29.7
6	Agricultural & Allied Products	5.7	6.3	5.6	7.7	11.4	11.4
7	Ores and Minerals incl. coal, Coke & Biquettes etc.	5.4	5.6	6.6	-23.2	4.6	55.6
	Total Imports including Others	**100**	**100**	**100**	**-15.5**	**5.2**	**11.2**

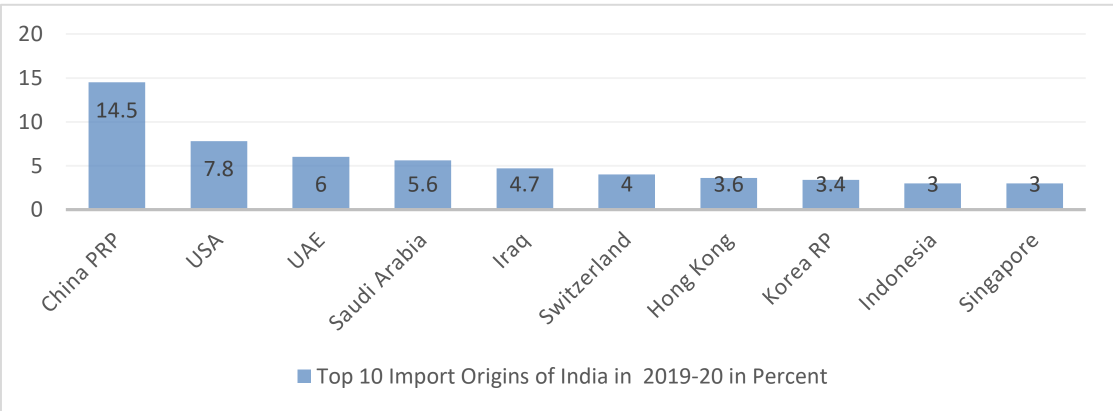
(Source: Economic Survey 2017-18)

As per Table 6- Sector-wise, import of Petroleum, Oil and Lubricants (POL) increased by 4.8 per cent in 2016-17 and 24.2 per cent in 2017-18 (Apr- December),mainly due to an increase in international crude oil price (Indian Basket) from US$ 46.2 /bbl in 2015-16 to US$ 47.6 /bbl in 2016-17 and to US$ 53.6 /bbl in 2017-18 (April-December). Among the other important import items, low or negative growth was registered in most of them in 2016-17, except electronic goods; ores & minerals and agriculture and allied products. Capital goods imports grew marginally, though the transport equipments sub- category registered high growth. In 2017-18 (April-November) all major sectors registered positive growth with the capital goods imports, which are needed for industrial activity, registering an 11.3 per cent growth.

2.3.1 Major Import Origins of India

China continues to be the largest exporter to India with a share of 14.5 percent followed by USA 7.8 percent, UAE 6 percent, Saudi Arabia 5.6 percent, Iraq 4.7 percent, Switzerland 4 percent, Hong Kong 3.6 percent, Korea 3.4 percent, Indonesia and Singapore 3 percent each. (Figure 2)

Figure 2. Top 10 Import Origins of India in 2019-20 in Percent

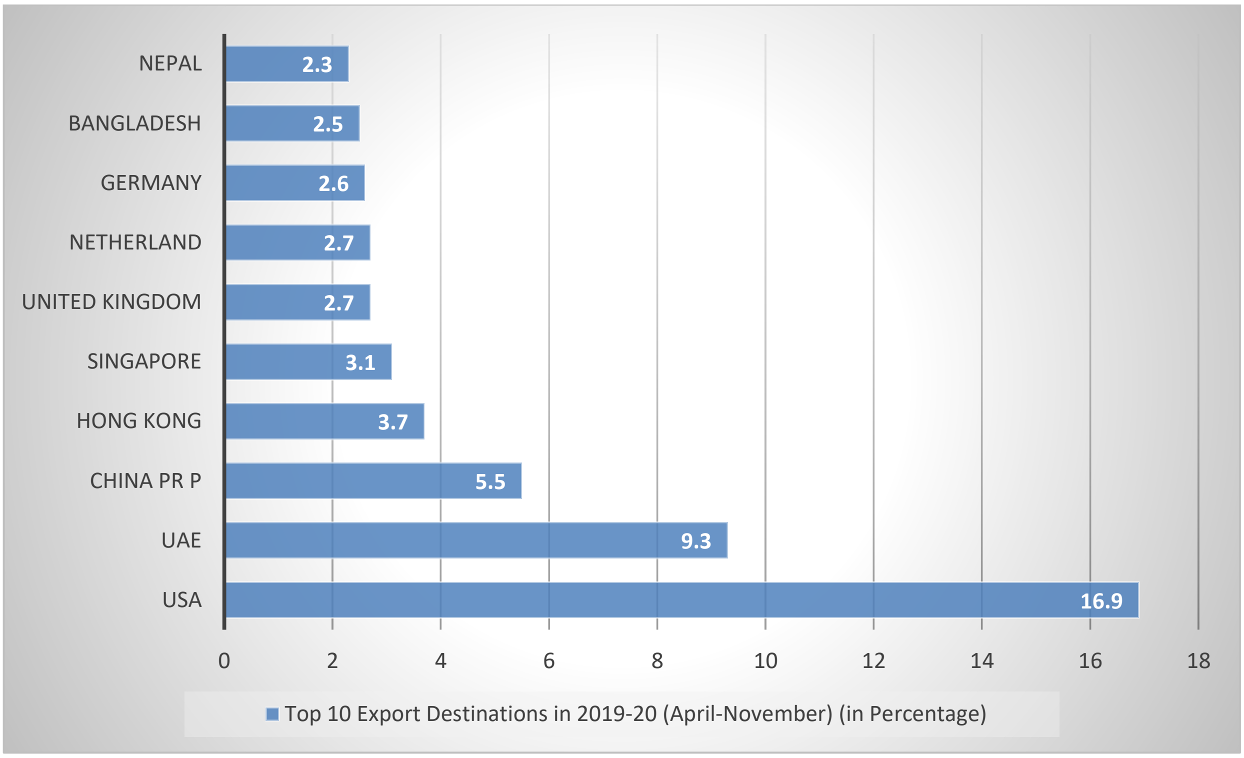


Source: Economic survey 2019- 2020.

2.3.2 Top 10 Export Destination of India

India's largest export destination country continues to be the United States of America (USA) with 16.9 percent followed by UAE 9.3 percent, China 5.5 percent, Hong Kong 3.7 percent, Singapore 3.1 percent, UK 2.7 percent, Netherland 2.7 percent, Germany 2.6 percent, Bangladesh 2.5 percent and Nepal 2.3 percent in 2019-20 (April- November). (Figure 3)

Figure 3. Top 10 Export Destinations of India 2019-20 (In Percentage)

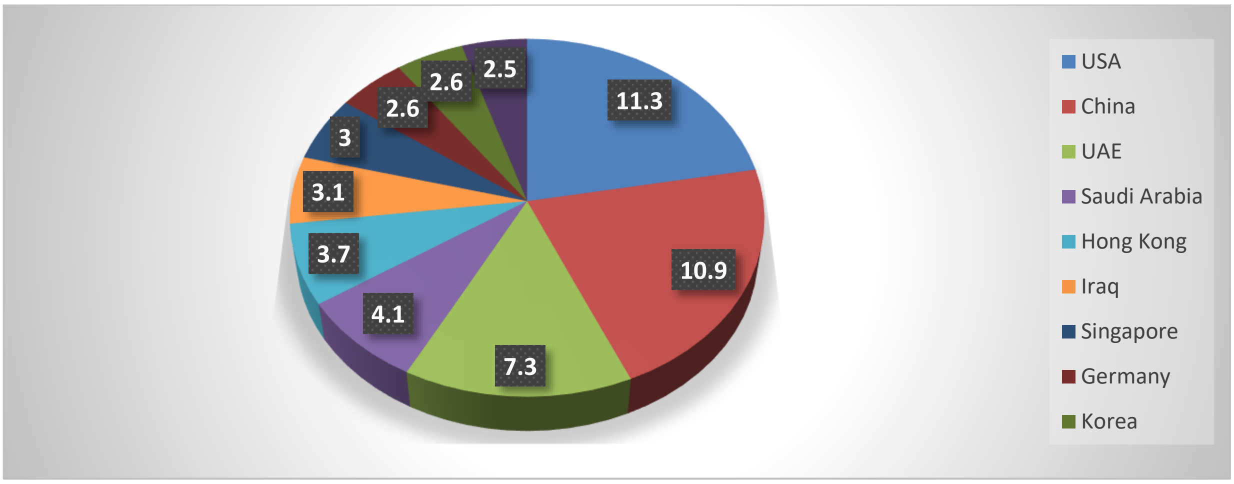


Source: Economic Survey, 2019-20.

2.3.3 Top trading partner of India

India's top 10 trading partners jointly account for more than 50 per cent3 of India's total merchandise trade. These are USA, china, UAE, Saudi Arabia, Hong Kong, Iraq, Singapore, Germany, Korea and Switzerland during 2019-20 (April-November). (Figure 4)

Figure 4 Top 10 Trading Partners of India (in Per cent)



Source: Economic Survey, 2019-20.

2.4 New Foreign Trade Policy 2015-2020

FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country. Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2 percent to 3.5 percent.

The FTP for 2015-2020 seeks to provide a stable and sustainable policy environment for foreign trade in merchandise and services; link rules, procedures and incentives for exports and imports with other initiatives such as Make in India, Digital India and Skills India to create an Export Promotion Mission to promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness; create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the "Make in India" initiative; and to provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

Features of foreign trade policy 2015-2020

- **Whole-of-Government Approach & Role of State/UT Governments** - A major path breaking initiative is to mainstream State and Union Territory (UT) Governments and various Departments and Ministries of the Government of India in the process of international trade. State/UT Governments can play a crucial role in promoting exports and rationalizing nonessential imports. Many of the State Governments have nominated Export Commissioners. The Department of Commerce is also helping State Governments to prepare export strategies. An Export Promotion Mission will be constituted to provide an institutional framework to work with State Governments to boost India's exports.
- **Addressing In-House Challenges** - The biggest challenge, however, is to address constraints within the country such as infrastructure bottlenecks, high transaction costs, and complex procedures, constraints in manufacturing and inadequate diversification in our services exports.
- **The Services Sector** - The Services sector is an area of great potential. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets. A Global Exhibition on Services will be held annually, which will provide a forum for showcasing India's strengths in the Services sector. Apart from it The Served from India Scheme has been replaced with the Service Exports from India Scheme ("**SEIS**"). SEIS is stated to apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Therefore, SEIS rewards to all service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider.
- **Building the India Brand** - A long term branding strategy has been conceptualized to enable India to hold its own in a highly competitive global environment and to ensure that Brand India becomes synonymous with high quality. Further, a programme to promote the branding and commercialization of products registered as Geographical Indications and to promote their exports will be initiated.
- **Institutional Mechanisms for Trade Promotion** - Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme will continue. The present allocation for the MAI scheme is inadequate; efforts will be made to augment resources for the scheme.
- **Export Promotion Councils are being strengthened**, both in terms of technical capabilities and management structures. Project exports will be encouraged in a big way, especially in the emerging markets with high infrastructure needs, through special lines of credit offered by the Ministry of External Affairs and the Buyers Credit Scheme of the Department of Commerce through EXIM Bank of India. This will, inter alia, enable Indian businesses to develop long term business relationships, facilitate easier acceptance of India's exports and build visibility for Indian products.

- Two institutional mechanisms are being put in place for regular communication with stakeholders, namely, a Board of Trade which will have an advisory role and a Council for Trade Development and Promotion which will have representation from State and UT Governments.
- **Trade Ecosystem**: Several initiatives are underway or in the pipeline for the simplification of procedures and digitization of various processes involved in trade transactions. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces constituted by the Directorate General of Foreign Trade.
- Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes. The NiryatBandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes.
- The Multilateral Trading System and India - The current WTO rules as well as those under negotiation envisage the eventual phasing out of export subsidies. This is a pointer to the direction that export promotion efforts will have to take in future, i.e. towards more fundamental systemic measures rather than incentives and subsidies alone.
- The three mega agreements that are currently being negotiated namely the Trans Pacific Partnership, Trans-Atlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP) add a completely new dimension to the global trading system. India is a party to the RCEP negotiations. The mega agreements are bound to challenge India's industry in many ways, for instance, by eroding existing preferences for Indian products in established traditional markets such as the US and EU and establishing a more stringent and demanding framework of rules. Indian industry needs to gear up to meet these challenges for which the Government will have to create an enabling environment.
- **Product Strategy:** The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals. The challenges posed to the pharmaceuticals sector by NTBs in Japan and regulatory hurdles in China have to be addressed. A composite programme for promotion of healthcare products and services will be conducted in various regions to showcase and market India's unique strengths.
- **Other sectors:** which require special attention, in light of India's strengths and their contribution to employment generation, are leather, textiles, gems and jewellery and the sectors based on natural resources, which include agriculture, plantation crops, marine products and iron ore exports.

Revitalizing plantations, enabling a less controlled regime for agriculture and aiming at greater value addition and processing would help to increase the value of exports from these sectors. The North-Eastern States are a special focus area for organic product exports.

- **Goods:** Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions attached to their use.

Some other features:

- Duty-free scrips are paper authorizations that allow the holder to import inputs which are used to manufacture products that are exported, or to manufacture machinery used for producing such goods, without paying duty equivalent to the printed value of the scrip. For instance, a duty-free scrip valued at Rupees 1 lakh allows the holder to import goods without paying duty of up to Rupees 1 lakh on the goods.
- Under the new Foreign Trade Policy, all these schemes have been merged into a single scheme, namely the Merchandise Export from India Scheme ("**MEIS**") and there is no conditionality attached to scrips issued under the MEIS.
- **Special Economic Zone**s – The policy outlines extended incentives for Special Economic Zones in India
- **Export Houses** – The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been simplified and changed to One, Two, Three, Four and Five Star Export House.
- **Status Holders** – Business leaders who have excelled in international trade and have successfully contributed to India's foreign trade are proposed to be recognized as Status Holders and given special privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.
- **Resolving Complaints –** In an effort to resolve quality complaints and trade disputes between exporters and importers, a new chapter on Quality Complaints and Trade Disputes has been incorporated into the Foreign Trade Policy.
- There would be no conditionality attached to any scrips issued under these schemes.
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2% to 5%.
- Under SEIS the selected Services would be rewarded at the rates of 3% and 5%.

2.5 Check Your Progress

1. Which one of the following is type of foreign trade?
   (a) Import
   (b) Export
   (c) Re-export
   (d) All of the above
2. Who is the main exporter to India?
   (a) USA
   (b) China
   (c) UAE
   (d) Iraq
3. Main import product of India is…..
   (a) Gold
   (b) Petroleum Crude
   (c) Electronic items
   (d) None of the above
4. In 1950-51 trade balance was…..
   (a) -5 crore
   (b) -4 crore
   (c) -2 crore
   (d) -3 crore
5. Role of foreign trade is in…..
   (a) Economic development
   (b) Employment generation
   (c) Choices of products
   (d) All of the above
6. Top trading partner of India is:
   (a) USA
   (b) Nepal
   (c) Iran

(d) China

2.6 Summary

Foreign trade i.e. international trade is the one of the most important outcome of globalization. Foreign trade plays an important role in the economic development of a country, including India. Foreign trade is not simply a device for achieving productive efficiency but is an engine of economic growth. Without it progress of different sectors of the economy is difficult. It refers to the exchange of goods and services between various countries for the mutual satisfaction of wants and utilities of the resources. It can be in the form of import, export and re-export.

The difference between a country's imports of merchandise and its exports is referred to as its balance of trade. It can be favorable and unfavorable. The balance of payment (BoP) of a country is a systematic record of all the trade transactions including total imports and total exports during a given period of time i.e. a year. A country pays for its import of goods and services and receives payment for its export of goods and services from other countries. The balance of payment is a difference between total receipt from export and total payment for import during a period.

In the import basket crude petroleum had the largest share followed by gold; petroleum products; coal, coke & briquettes; pearls, precious and semiprecious stones etc. India's major import destination includes China, USA, UAE, Saudi Arabia, Iraq, Switzerland etc. Petroleum products continued to be the largest exported commodity followed by pearls, precious and semiprecious stones, drug formulations and biological, Gold and other precious metal jewellery, iron and steel, electric machinery and equipment etc. India's largest export destination country continues to be the United States of America (USA) followed by UAE, China, Hong-Kong, Singapore etc. India's top 10 trading partners jointly account for more than 50 percent of India's total merchandise trade. These are USA, China, UAE, Saudi Arabia, Hong Kong, Iraq, Singapore, Germany, Korea and Switzerland.

FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country. Government aims to increase India's share in world exports from 2 percent to 3.5 percent through a stable and sustainable policy environment for foreign trade in merchandise and services; link rules, procedures and incentives for exports and imports with other initiatives such as Make in India, Digital India and Skills India.

2.7 Key Words

- **Dumping**- Dumping means when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market.
- **Foreign trade**-Trade between various countries.
- **Import**-Bringing a product in domestic market from international market.
- **Economic development-**Growth of a country in the way of GDP, per capita income etc.
- **Export-** An *export* in international trade is a good or service produced in one country that is sold into another country.
- **Re-export-** Export a commodity after processing of imported product.
- **Sustainable development-** Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- **Direction of trade-** Direction of trade means a study of the countries to whom the exports are made and from whom the imports are made.
- **Composition of trade-** It means a study of the goods and services of imports and exports of a country.
- **Trade policy-** Rules that govern the 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.
- **Trading partner-** A country that another country does business with, usually on a regular basis.
- **Legal framework-** *It* comprise a set of documents that include the constitution, legislation, regulations, and contracts.

2.8 Self-Assessment Test:

1. What do you mean by foreign trade? What is the role of foreign trade in economic development of a country?
2. Explain foreign trade. Explain its advantages and disadvantages.
3. Explain balance of trade and balance of payment. Is India's balance of payment is positive? If no, then give reasons.
4. Explain the composition and direction of India's foreign trade.
5. Discuss the main features of foreign trade policy 2015-2020.

2.9 Answers to check your progress

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

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Selection of Foreign Market and Modes of Entry in Foreign Market

Structure

3.0 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

3.1 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.

3.2 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

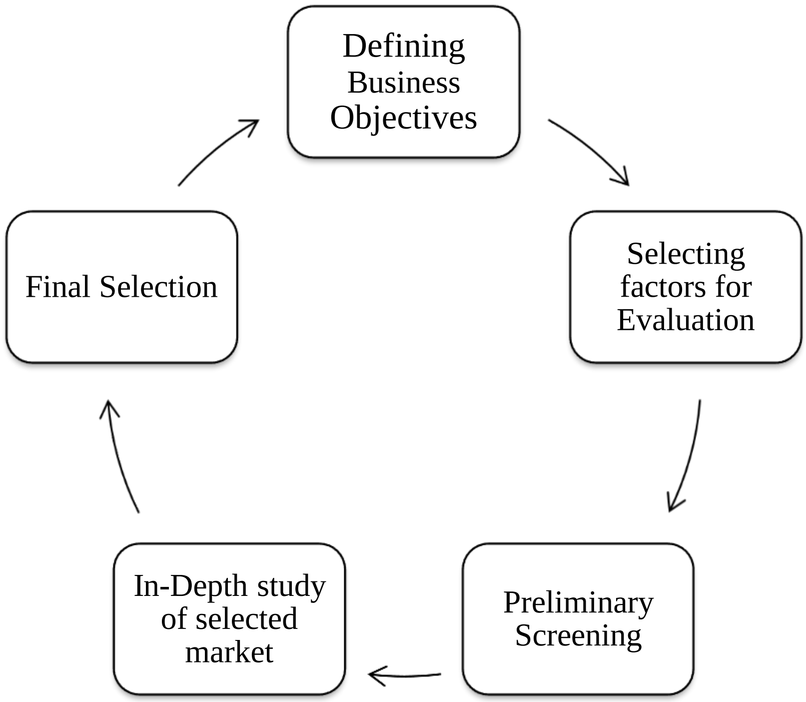


Figure 1

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.

3.2.1 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.

3.2.2 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	Weighte d 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							

3.3 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:

3.3.1 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.

3.3.2 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.

3.3.3 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.

3.3.4 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.

3.3.5 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.

3.3.6 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.

3.3.7 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.

3.3.8 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.

3.3.9 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.

3.3.10 Countertrade

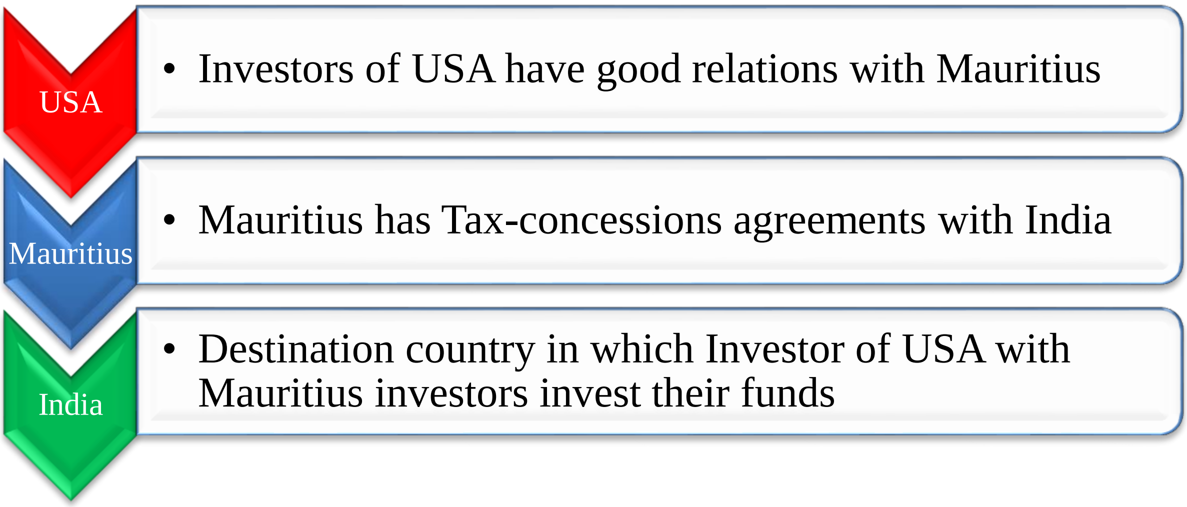
By far the largest indirect method of exporting is countertrade. Counter trade is a trade agreement that has a requirement to import as a condition to export. The UN defines countertrade as "commercial transactions in which provisions are made, in one of a series of related contracts, for payment by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

3.3.11 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.

3.4 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

3.5 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.

3.6 Key Words

- **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.

3.7 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.

3.8 Answers to check your progress

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

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Subject: Foreign Trade in India	
Couse Code: BC-306	**Author**: Dr. Sanjeev Kumar Garg
Lesson No.: 4	**Vetter**: Prof. Pardeep Kumar Gupta
PRODUCT PLANNING IN INTERNATIONAL MARKETS	

Structure

4.0 Learning Objectives

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

- Understand the meaning, levels, classification of a product
- Product planning and development
- New product development in International markets

- International product strategies

4.1 Introduction

In any manufacturing business, decision regarding 4 P's has been taken by businessmen. These 4 P's are product, price, promotion and place. Product decision is most important decision because all the other decision depends upon the product whether it is price, promotion or place decision. Without product, thinking of other aspects of business will be a dream without reality. So, product is key of all marketing activities of a business unit. Wrong product planning and development decision can lead to the failure of business. Product planning and development is a complex task in this changing and heterogeneous environment. Hence it is quite difficult for a businessmen to meet the demands of international customers.

4.2 Meaning, definition and features of a product

Product is the starting point in trade. No trading activity can be performed in the absence of product. Everything which can be sold in market is product. It may be product, service, experience, events, persons or idea. Product is the bundle of utilities which can satisfy the needs of customers. It includes both goods (tangible attributes) and services (intangible attributes). It not only satisfies a customer who buys it and consumes it but to business unit also as it give earning in form of sales. It satisfies all the buying motives of a customer whether physiological, psychological or social. Product may be tangible, intangible, durable, non-durable, customer, industrial, comfort, necessity etc. In international market customers taste, preferences, beliefs, values, customs, culture are different from others. So satisfaction of customers with a single design, brand name, packaging, sales promotion is not possible. To avail the opportunities in foreign markets business units have to change design, brand name, packaging, sales promotion, after sales services etc. then satisfaction of heterogeneous needs are possible.

4.2.1 Definition of Product

- "A product is a bundle of physical services and symbolic particulars expected to yield satisfaction to the buyer". **Philip Kotler**
- "Product is a set of tangible and intangible attributes including packaging, color, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs". **William J. Stanton**
- "A product may be regarded from marketing view point as a bundle of benefits which are being offered to customer". **R.S. Davar**

- "A product may be an idea, a physical entity or a service or any combination of the three". **Peter D. Benett**

From the above definition it is clear that a product is a bundle of utilities offered to customers for the satisfaction of their needs.

4.2.2 Features of Product

Starting point of business activities: It is the starting point of all business activities. All the other activities like price, promotion or distribution are done after this.

Tangible or Intangible: product can be tangible or intangible may be capable of being touched, seen and presence felt. For example, products like a refrigerator and, motor cycle are tangible. Product need not necessarily be tangible it can be intangible. For instance, repairing, hair-dressing, insurance, etc., are intangible but provide satisfaction to the customers.

Associated Attributes: A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including color, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products from each other.

Exchange Value: A product must be capable of being exchanged between a buyer and a seller at a mutually acceptable price.

Satisfaction: It has the capacity to satisfy the physiological, psychological and social needs of customers as well as the profit needs of the business unit.

4.2.3 Levels of Product

According to Philip Kotler there are five levels of a product. These levels are also known as consumer value hierarchy as each level is adding more consumer value.

Core benefits: the fundamental level of a product is core benefits. It is the service of benefits the customer buying. A hotel guest is buying rest and sleep. The purchaser of air conditioner is buying cooling and comfortable.

Basic product: at the second level the marketer must turn the core benefits into a basic product. For example a hotel room includes a bed, bathrooms, towels, desk, dresser etc.

Expected product: It is the third level of a product. It is a set of attributes and conditions buyers normally expect when they buy any product. For example a hotel guest expect a clean bed, fresh towels, peaceful environment etc.

Augmented product: whenever competition arises in market, marketer offer augmented product which exceeds the customer expectations. It is represented by totality of benefits and services offered by marketer to customers. It includes not only basic product but the additional services also. For examples marketer offer free installation, credit facility, free after sales services to the consumers of television.

Potential product: this is the last level of a product. It includes all the possibilities of augmentation and transformation in the product in near future. In this level companies are finding the new ways to satisfy the customer needs.

4.2.4 Product Classification

A product can be classified on the following basis.

Classification of product on the basis of use:

Consumer Goods- Consumer goods are those products which are directly consumed by customers. The number of these products is very large. Consumer use the product in the form in which the product is being offered i.e., no further processing is done. For example, sugar, salt, tooth brush, refrigerators etc are all meant for personal use of households and are, thus, classified as consumer goods. Consumer goods may be classified into three types as:

- **Convenience goods**-means such consumer goods that people buy frequently with the least possible time and effort. For example milk, tooth paste, bread, butter, tea, soft drinks, etc. Consumer has complete knowledge of the products which he wants to buy.
- **Shopping goods**- means such goods which require advice and assistance from sales personnel. These are a class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, color, etc., of alternative products. For example clothes, shoes, wallet etc.
- **Specialty goods-** mean the goods with perceived unique characteristics, such that consumers are willing to spend special effort to buy them. These products are purchased less frequently. For example TV, AC, car, scooter, furniture, mobile phones etc.

Industrial Goods-Industrial goods are those goods which are not directly consumed by consumers but used as input in production process. The product may, thus, undergo further commercial processing. Industrial products are meant for non-personal and commercial use. For example machinery, raw materials, components, etc. It may be worthwhile clarifying a point that the same product may sometimes be classified as a consumer product and as an industrial product depending upon the end-use. Take the case of coconut oil. When it is used by a person as hair oil or cooking oil, it would be treated as a consumer product. However, when coconut oil used in the manufacture of toilet soap, it is treated as an industrial product.

- **Raw Materials-** Raw materials are those industrial goods which are used for further processing. It include natural goods such as minerals, marine .products, land, products of forests, etc. and agricultural goods like corn, cotton, fruits, milk, eggs, etc.
- **Fabricating Materials and Parts**-This category of .industrial goods also becomes actual part of the finished product. Unlike raw materials, fabricating materials and parts have already been processed, to some extent, but may need further processing before actual use. For example, yarn being woven to cloth and pig iron being converted into steel.
- **Operating Supplies**-They are low priced, short-lived items purchased with minimum effort and could well be termed as convenience goods of industrial field. They aid in the production process of products e.g., lubricating oil, stationery, other small components etc.

Classification of product on the basis of tangibility

On the basis of tangibility of product, a product is divided into two categories:

- **Tangible products –**means such products have physical existence, can be touch, seen, felt etc. For example TV, car, pen, soap etc.
- **Non- tangible products-** these are those products which do not have physical existence but also satisfy the needs of consumers. It includes services. For example banking, insurance, transportation, management, law etc.

Classification of product on the basis of durability

- **Durable products-** Tangible products with a long life and lasting many years of active service to owner are termed as durable goods. Television, fan, refrigerator, pressure cooker, etc., may be cited as examples of durable goods.
- **Non-durable product-** Those tangible product which are perishable in nature or could be used for single or few time. For example soft drinks, bread, soap etc.

Classification of product on the basis of area coverage

On the basis of durability of product, a product is divided into four categories:

- **Local product**-a product that is suitable for a local area. For example, local soap & detergent etc.

- **National product** - a product that is suitable for an entire nation. For example, tooth paste, pens, clothes etc.
- **International product**-a product which have features or potential to satisfy the demands of customers of various nations. For example, Apple's iphone.
- **Global product**-a product which have unique feature and can be sale in whole world. For example, Pepsi & Coca-cola.

Classification of product on the basis of benefits

On the basis of benefits derived from a product, products can be **Core/ Basic Product**: It is the fundamental level of a product. This is the answer of question why customer is buying a product. A hotel guest is buying rest and sleep. **Expected product**: It is a set of attributes and conditions buyers normally expect when they buy any product. **Augmented product**: whenever competition arises in market, marketer offer augmented product which exceeds the customer expectations. It is represented by totality of benefits and services offered by marketer to customers. It includes not only basic product but the additional services also. **Potential product**: It includes all the possibilities of augmentation and transformation in the product in near future. In this level companies are finding the new ways to satisfy the customer needs.

4.3 Product Planning and product development

In order to maximize his sales revenue and profits, a business firm must continuously adjust and adapt its products and services to the changing requirements of customers. From time-to- time, it may have to design and develop new products. Product planning is the process of searching ideas for new products, screening them systematically, converting them into tangible products and introducing the new product in the market. It also involves the formation of product policies and strategies.

Product planning includes improvements in existing products as well as deletion of unprofitable or marginal products. It also encompasses product design and engineering which is also called product development. Product planning comprises all activities starting with the conception of product idea and ending up with full scale introduction of the product in the market. It is a complex process requiring effective coordination between different departments of the firm. It is intimately related with technical operations of the organisation, particularly with engineering, research and development departments.

Any product has two broad objectives—immediate objectives and ultimate objectives. Immediate objectives include satisfaction of immediate needs of consumers, increasing sales, utilizing idle plant capacity, etc. Permanent or ultimate objectives consist of reduction in production costs, creation of brand loyalty, monopolizing the market, etc.

4.3.1 Importance of product planning

Product planning and development is a vital function due to several reasons.

- Every product has a limited life span and needs improvement or replacement after some time.
- Needs, fashions and preferences of consumers undergo changes requiring adjustments in products.
- New technology creates opportunities for the design and development of better products.

Product planning and development facilitate the profitability and growth of business. Development of new products enables a business to face competitive pressures and to diversity risks. Product is the most important constituent of marketing mix. Finding and meeting the needs of customers is the key element in a successful marketing strategy. New product development has become all the more important in the modern world characterized by technological change and market dynamics.

New product development brings opportunities but also involves heavy commitment of finance, technology and even emotional attachment. New product decisions are necessary as well as costly. Many new products fail causing ruin to business firms. Product development is a continuous and dynamic function. Continuous adjustments and improvements in the product arc necessary to minimize costs of production and to maximize sales. High rate of product obsolescence requires product innovation frequently. At the same time, cost and time scales have increased. In some products, the gestation period is very long, sometimes longer than the life of the product.

As a result the role of R&D expert has become very important. He needs to be in touch with sales persons and actual end users. Successful technological innovation involves great resources as well as great risks. Product innovators face spectacular successes as well as disastrous failures. Most of the new product ideas do not become actual products. Many new products achieve limited acceptance in the market. This is so because firms very often are reluctant to move away from tried and tested products.

Thus, product planning is required for the following reasons:

- To replace obsolete products;
- To maintain and increase the growth rate/sales revenue of the firm;
- To utilize spare capacity;
- To employ surplus funds or borrowing capacity; and
- To diversify risks and face competition.

4.4 Meaning of a new product

International market is highly complex and dynamic market and marketers have to face competition continuously. So it is very difficult to survive in changing environment. In this environment one product can be successful or profitable and same product in changed environment can be fail. So a business unit have to modify or upgrade their product according to taste of consumer. Products which have some distinct feature which are not found in other product are known as new product. The new product replaces the existing product from the market and access the entire market. The consumer perceives value addition in the new product as compare to existing product. Hence a new product includes:

- **Unique/innovative product-** Product which is manufactured by business unit first time are known as innovative products. Such products are the outcome of research and development effort made by business unit itself of by some research instrument. Such producers are based on new technology and have unique features. These produces provide extra utility and help to satisfaction unfulfilled needs. For example, smart phones, LED bulb, electronic device fully automatic, washing machines etc.
- **Replacement of existing product-**Replacement products is significantly different from existing products. The new version of product has some additional features which are not available in the existing version. The new version provides extra utility with latest technology. For example, LED bulb replaces old bulbs, television are replaces by LCD/LED.
- **Product new for business but not for market-**these are those products which are manufactured by other business unit in foreign market but not by our firm. We are making that product first time, so this will be new product for us. This will be addition in product line of a business unit. For example, smart phones, laptops etc.

4.4.1 New Product Development in International Markets

The new product replaces the existing product from the market and access the entire market. The consumer perceives value addition in the new product as compare to existing product. Hence a new product development going through the following process:

Idea Generation: Idea generation is the first step of new product development process. This process of new product development requires gathering ideas to be evaluated as potential product options. Up to a large extent the idea generation is an ongoing process with contributions from inside and outside the organization for certain companies.

Many market research techniques are used to encourage ideas including: running focus groups with consumers, channel members, and the company’s sales force; encouraging customer comments and suggestions via. Toll-free telephone numbers and website forms; and gaining insight on competitive product developments through secondary data sources.

One important research technique used to generate ideas is brainstorming where open-minded, creative thinkers from inside and outside the company gather and share ideas. The dynamic nature of group member’s loose ideas, where one idea often sparks another idea, can yield a wide range of possible products that can be further pursued.

Screening of Ideas: After gathering many ideas from various sources, the marketer goes through all the ideas, analyze them and select the most feasible and workable idea. If a company adopts a non-feasible idea, it may get into a wasteful expenditure. In Step 2 the ideas generated in Step 1 are critically evaluated by company personnel to isolate the most attractive options.

Depending on the number of ideas, screening may be done in rounds with the first round involving company executives judging the feasibility of ideas while successive rounds may utilize more advanced research techniques.

As the ideas are jotted down to a few attractive options, rough estimates are made of an idea’s potential in terms of sales, production costs, profit potential, and competitor’s response if the product is introduced. Acceptable ideas move on to the next step.

Concept Development and Testing: After gathering and screening ideas, the concept of development and testing starts with a few ideas in hand the marketer now attempts to obtain initial feedback from customers, distributors and its own employees. Usually, focus groups are convened where the ideas are presented to a group, often in the form of concept board presentations (i.e., storyboards) and not in actual working form.

For instance, customers may be shown a concept board displaying drawings of a product idea or even an advertisement featuring the product. In some cases focus groups are exposed to a mock-up of the ideas, which is a physical but generally non-functional version of product idea.

The organization may have come across what they believe to be a feasible idea; although, the idea needs to be taken to the target audience. What do they think about the idea? Will it be practical and feasible? Will it offer the benefit that the organization hopes it will? Or have they overlooked certain issues? Note the idea and concept is taken to the target audience not a working prototype at this stage.

Marketing Strategy and Development: After testing, the new-product manager must develop a preliminary marketing-strategy plan for introducing the new product into the market. How will the product/service idea be launched within the market? A proposed marketing strategy will be written laying out the marketing mix strategy of the product, the segmentation, targeting and positioning strategy sales and profits that are expected.

The plan is inclusive of three parts:

- First Part – It shows the target market's size, structure, and behavior; the planned product positioning; and the sales, market share, and profit goals sought in the first few years.
- Second Part – It reveals the planned price, distribution strategy, and marketing budget for the first year.
- Third Part – It describes the long run sales and profit goals and marketing-mix strategy overtime.

Business Analysis: On this stage, in the new product development process the marketer has reduced a potentially large number of ideas down to one or two options. The key objective at this stage is to obtain useful forecasts of market size (e.g., overall demand), operational costs (e.g., production costs) and financial projections (e.g., sales and profits). Additionally, the organization must determine if the product will fit within the company's overall mission and strategy.

Now, in this step the process becomes very dependent on market research as efforts are made to analyze the viability of the product ideas. (Note, in many cases the product has not been produced and still remains only an idea.) Much effort is directed at both internal research, such as discussions with production and purchasing personnel, and external marketing research, such as customer and distributor surveys, secondary research, and competitor analysis.

The company has a great idea, the marketing strategy seems feasible, but the question is will the product be financially worthwhile in the long run? The business analysis stage looks more deeply into the cash flow the product could generate, what the cost will be, how much market shares the product may achieve and the expected life of the product.

Product and Marketing Mix Development: At this stage a prototype is finally produced. The prototype will clearly run through all the desired tests, and be presented to the target audience to see if changes need to be made. Ideas passing through business analysis are given serious consideration for development.

Companies direct their research and development teams to construct an initial design or prototype of the idea. Marketers also begin to construct a marketing plan for the product. Once the prototype is ready the marketer seeks customer input.

Although, unlike the concept testing stage where customers were only exposed to the idea, in this step the customer gets to experience the real product as well as other aspects of the marketing mix, such as advertising, pricing, and distribution options for instance, retail store, direct from company, etc.

Favorable customer reaction helps solidify the marketer’s decision to introduce the product and also provides other valuable information such as estimated purchase rates and understanding how the product will be used by the customer.

Test Marketing: After designing, the next step is testing the product in the market. The term ‘test marketing’ is also sometimes called ‘field-testing’. The word ‘test’ means examination or trial. Test marketing means testing the product within a specific area. The product will be launched within a particular region so the marketing mix strategy can be monitored and if needed, be modified before national launch.

Test marketing, thus, implies testing the product in the market before the product is commercialized on a large scale. This is done with a view to understand the market and the marketing considerations like nature of competition, nature of demand, and the consumer’s needs, etc.

Philip Kotler says, “Test marketing is the stage at which the product and marketing programs are introduced into more realistic market settings.” Products surviving to Step 6 are ready to be tested as real products. Under some cases the marketer accepts what was learned from concept testing and skips over market testing to launch the idea as a fully marketed product. But other companies may look for more input from a larger group before moving to commercialization.

The most common type of test marketing makes the product easily available to a selective small segment of the target market (e.g., one city), which is exposed to the full marketing effort as they would be to any product they could purchase.

Commercialization-Launching the Product: Decision regarding launch of the product on a nationwide scale is taken only when the results of test marketing stage are successful and promising, along with a number of factors considered before-hand. Important aspects of commercial launch of the product are the timing of launch, how the product will be launched, where will it be launched i.e., on a nationwide basis or region by region basis etc.

Certain firms introduce or roll-out the product in waves with parts of the market receiving the product on different schedules. This allows the company to ramp up production in a more controlled way and to fine tune the marketing mix as the product is distributed to new areas.

Examples:

Beauty and Cosmetics: The beauty and cosmetics industry includes a wide range of products that is constantly expanding due to wellness and self-care trends. From makeup to bath products and skincare, many beauty brands are focusing on all natural ingredients and sustainability, which makes it easier to prototype a product on your own using everyday ingredients.

White labeling is also popular in the beauty and cosmetics industry, which is the process of finding an existing product or manufacturer, then packaging and branding the products they already produce. Whichever route you decide to take, mass manufacturing for cosmetics is usually done by working with a lab and a chemist to make sure quality stays consistent at scale.

Other factors to consider:

- **Labels and warnings:** identifying all materials used in the product and any potential reactions
- **Laws and regulations:** researching FDA regulations and how they pertain to your product and packaging, both where they are produced and where you intend to sell them
- **Shelf life:** conducting tests and adding necessary expiration dates to products.

4.4.2 Test Marketing

The term 'test marketing' is also some- times called 'field-testing'. The word 'test' means examination or trial. Test marketing, thus, means testing the product in the market before the product is commercialized on a large scale. This is done with a view to understand the market and the marketing considerations like nature of competition, nature of demand, and the consumers' needs, etc. In test-marketing, the following considerations are essential:

- Identification of the different uses of the product.
- Classification of the market from geographical angle with reference to the major uses or applications of the product.
- Selection of one or two such cross-sectional markets as samples that represent the features and conditions of the whole market where the product is contemplated to be sold.
- Classification of customers such as rural vs. urban, white collar population vs. working class, age-wise analysis, etc. for the cross-sectional market areas.
- Identification and grouping of the customers into consumer market, industrial market, reseller market, government market, etc. in order to distinguish the marketing characteristics.

- Collection of pertinent information regarding the product and its features including the price from the different cross sections of the customers on whom the tests are made so that an in-depth analysis can be undertaken to understand their buying behavior and interest.

4.4.3 Purpose of Test Marketing

- To ascertain various uses of the product, the class or category of users, and the motives that prompt the users or buyers.
- To gauge the nature of general competitive situations, latest trend in demand, etc.
- To elicit the following fundamental information necessary for arriving at the proper marketing decision: specific product advantages and disadvantages, new uses or applications of the product, necessity or otherwise for the modification or improvement of the product, etc.
- To sharpen the knowledge of the territory for marketing and
- To decide marketing strategy with respect to pricing, promotions and distribution systems.

4.4.4 Procedures in Test Marketing Plan

In test marketing, the following procedures are usually adopted:

- The number of cities or towns or markets as test markets is determined at the outset. In doing so, the marketing management should consider the factors like representativeness of the area, cost of testing, regional differences, competitors' efforts, etc.
- While deciding the above for test purposes, it is examined whether such markets are having the characteristics like – existence of trade centers, industrial infra-structure, population-mix, etc.
- After having decided the test markets, the marketing manager carries out the test for a certain period. The duration of the test period depends on a variety of considerations. Of than the important factors are, existing position of competition, probable expenditure, and average repurchase period.

  The competitive position influences the test duration in the sense that longer duration will give the competitors enough time to improve their products and introduce the same in the said markets. Again, too short a duration will not yield the desired results.

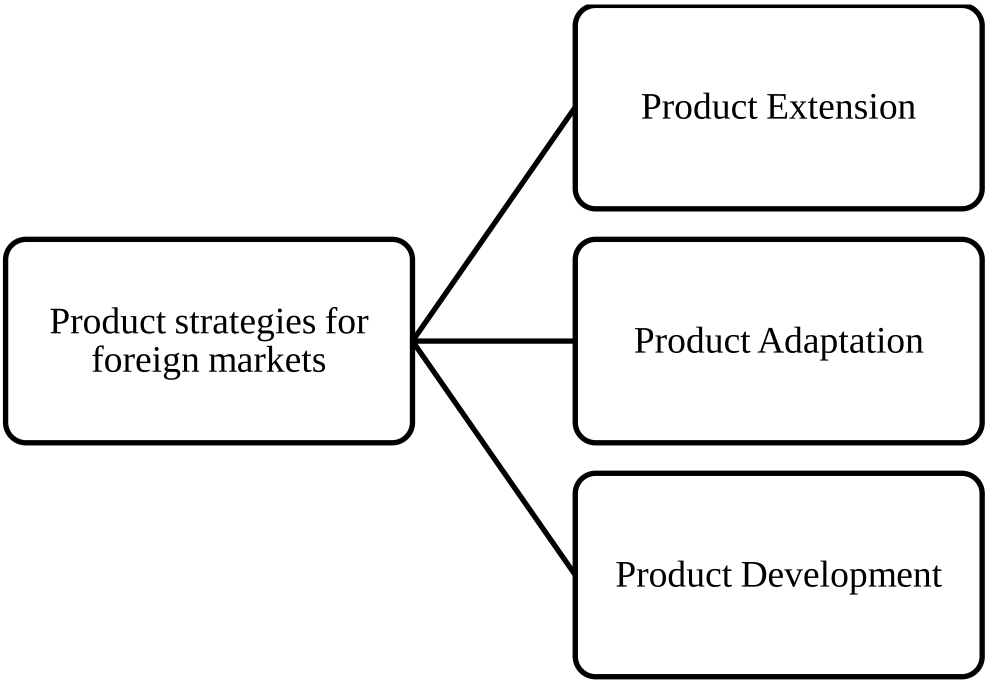
  Again, higher the test duration higher will be the cost of such tests. Further, the repurchase period is directly proportional to the test duration. If the repurchases by the customers are very frequent, then a shorter duration of the test may give the required data.
- The next step is collection of pertinent information, during test marketing, by the marketing management for the purpose of detailed analysis. The marketer usually decides beforehand about the

types of needed information which in general includes and extends to the product, customers, distribution channels, buyers' behavior, habits and customs, etc.

- After having tested the market, the marketing management decides about the marketing mix and marketing strategy. If the sales are excellent and highly promising, a decision to commercialize a product is taken.

  If the sales are not so bright, the underlying reasons are investigated for further improvement or modification and a retest is undertaken. If the sales indicated by test are poor, the management may drop the idea altogether.

4.4.5 International Product Strategies



Product Extension: Companies here extend the same product marketed successfully in the home country to other parts of the world without many modifications. Such a move is often adopted when enough loyalty has been earned by the product in the home markets and companies can depend on the similarities of tastes and product use conditions by a large segment of customers abroad. Generally, the food and beverages industry has been adopting this line of extension wherever the laws of the land do not insist on significant modifications to the products.

MTR spices and their other products, Mother's Recipes pickles, particularly Pachranga Pickles, are marketed in many countries abroad to cater to the Indian ethnic population settled there. Similarly, some of the rice polishing and packing companies like Satnam Overseas, owners of Kohinoor brand of rice and

LT Overseas, owners of Dawat Rice sell various varieties of Indian rice to take care of the palate of the non-resident Indians settled across different countries.

These firms are basically ethnocentric in their approach and adopt their own niches in foreign countries to sustain a large chunk of business. However, the globalization of economies has opened wonderful opportunities for geocentric companies, which, as a deliberate strategy, adopt standardized products for global promotions to grow into large international conglomerates just like the Pepsis and Cokes of the world have grown.

Product Adaptation: Product Adaptations come in several forms. Marketing strategies in a country-by-country basis are tailored with the peculiarities of the local market. By this, product adaptations are considered as necessary strategy in order to cater to the different needs of customers in various countries. Following the concept of "logical incrementalism", it can be argued that continual changes can foster flexibility and experimentally. However, strategic drift is likely to result if the management effectiveness fails to keep pace with the environmental change. Product adaptation tends to become a reactive response to the market.

With this, a high level of adaptation is likely to become difficult to coordinate the network of activities by the multinational in a global scale. Mandatory adaptations involve changes that have to be made before the product can be used, For example, appliances made for the U.S. and Europe must run on different voltages, and a major problem was experienced in the European Union when hoses for restaurant frying machines could not simultaneously meet the legal requirements of different countries.

Another distinction involves physical product vs. communication adaptations. In order for gasoline to be effective in high altitude regions, its octane must be higher, but it can be promoted much the same way. On the other hand, while the same bicycle might be sold in China and the U.S., it might be positioned as a serious means of transportation in the former and as a recreational tool in the latter.

In some cases, products may not need to be adapted in either way (e.g., industrial equipment), while in other cases, it might have to be adapted in both (e.g., greeting cards, where the occasions, language, and motivations for sending differ). Finally, a market may exist abroad for a product which has no analogue at home. For example, hand-powered washing machines

Product Development: Many firms now develop new products with global markets in mind. These global products are based on cores and derivatives. The product core might be the same for all products in all regions. An extended core might apply for each region but differ across regions. Each region might launch product derivatives specific to the regional conditions. This core strategy allows for maximizing the appeal of different configurations, while maintaining a stable product base and thus reducing basic development costs.

The shift from local to global development requires that the company consider the unique or special concerns for major markets from the outset, rather than later attempting to make various adaptations to the initial model or prototype. A global product 'hen, is not identical in all countries. Instead, a global product is designed from the outset with the goal of maximizing the percentile of identical parts to the point where local needs can be met quality with a minimum of additional costs.

4.5 Check Your Progress

1. Which one of the following is involved in new product?
   a) Unique product
   b) Replacement product
   c) Product new for business
   d) All of the above
2. Which one not included in the levels of product?
   a) Core product
   b) Actual product
   c) Augmented product
   d) None of the above
3. On the basis of use product can be:
   a) Durable and non-durable
   b) Consumer and industrial
   c) Both A & B
   d) None of the above
4. Consumers goods can be:
   a) Convenience goods
   b) Shopping goods
   c) None of the above

d) Both A & B

5. New product development process includes:
   a) New idea generation
   b) Screening of ideas
   c) All of the above
   d) Test marketing
6. Test marketing is:
   a) Controlled experiment to test product
   b) A small process for identification of product sale
   c) Both A & B
   d) None of the above

4.6 Summary

Product decision is most important decision because all the other decision depends upon the product whether it is price, promotion or place decision. Without product, thinking of other aspects of business will be a dream without reality. So, product is key of all marketing activities of a business unit. Wrong product planning and development decision can lead to the failure of business. Product is the bundle of utilities which can satisfy the needs of customers. It includes both goods (tangible attributes) and services (intangible attributes). It not only satisfies a customer who buys it and consumes it but to business unit also as it give earning in form of sales. It satisfies all the buying motives of a customer whether physiological, psychological or social.

On the basis of benefits derived from a product, products levels can be Core/ Basic Product: it is the fundamental level of a product. This is the answer of question why customer is buying a product. A hotel guest is buying rest and sleep. Expected product: It is a set of attributes and conditions buyers normally expect when they buy any product. Augmented product: whenever competition arises in market, marketer offer augmented product which exceeds the customer expectations. It is represented by totality of benefits and services offered by marketer to customers. It includes not only basic product but the additional services also. Potential product: It includes all the possibilities of augmentation and transformation in the product in near future. In this level companies are finding the new ways to satisfy the customer needs.

Product planning is the process of searching ideas for new products, screening them systematically, converting them into tangible products and introducing the new product in the market. It also involves the formation of product policies and strategies. Product planning and development facilitate the profitability and growth of business. Development of new products enables a business to face competitive pressures and to diversity risks. Product is the most important constituent of marketing mix. Finding and meeting the needs of customers is the key element in a successful marketing strategy. Products which have some distinct feature which are not found in other product are known as new product. The new product replaces the existing product from the market and access the entire market. The consumer perceives value addition in the new product as compare to existing product.

Idea generation is the first step of new product development process. This process of new product development requires gathering ideas to be evaluated as potential product options. Up to a large extent the idea generation is an ongoing process with contributions from inside and outside the organization for certain companies. Depending on the number of ideas, screening may be done in rounds with the first round involving company executives judging the feasibility of ideas while successive rounds may utilize more advanced research techniques. Concept of development and testing starts with a few ideas in hand the marketer now attempts to obtain initial feedback from customers, distributors and its own employees. The new-product manager must develop a preliminary marketing-strategy plan for introducing the new product into the market. Efforts are made to analyze the viability of the product ideas. Much effort is directed at both internal research, such as discussions with production and purchasing personnel, and external marketing research, such as customer and distributor surveys, secondary research, and competitor analysis. Companies direct their research and development teams to construct an initial design or prototype of the idea. Marketers also begin to construct a marketing plan for the product. Once the prototype is ready the marketer seeks customer input.

Test marketing, thus, implies testing the product in the market before the product is commercialized on a large scale. This is done with a view to understand the market and the marketing considerations like nature of competition, nature of demand, and the consumer’s needs, etc. Decision regarding launch of the product on a nationwide scale is taken only when the results of test marketing stage are successful and promising, along with a number of factors considered before-hand.

Companies here extend the same product marketed successfully in the home country to other parts of the world without many modifications. Such a move is often adopted when enough loyalty has been earned by the product in the home markets and companies can depend on the similarities of tastes and product use conditions by a large segment of customers abroad. Generally, the food and beverages industry has been adopting this line of extension wherever the laws of the land do not insist on significant modifications to the products.

Product Adaptations come in several forms. Marketing strategies in a country-by-country basis are tailored with the peculiarities of the local market. By this, product adaptations are considered as necessary strategy in order to cater to the different needs of customers in various countries. Following the concept of “logical incrementalism”, it can be argued that continual changes can foster flexibility and experimentally. However, strategic drift is likely to result if the management effectiveness fails to keep pace with the environmental change. Product adaptation tends to become a reactive response to the market. Many firms now develop new products with global markets in mind. These global products are based on cores and derivatives. The product core might be the same for all products in all regions. An extended core might apply for each region but differ across regions. Each region might launch product derivatives specific to the regional conditions. This core strategy allows for maximizing the appeal of different configurations, while maintaining a stable product base and thus reducing basic development costs.

4.7 Key Words

- **Product:** A bundle of utilities that has the capacity to meet the needs of customers.
- **New Product:** An innovative product, replacement of existing product or product new for business unit.
- **Product planning:** Determine in advance the features that should be added in a product.
- **Business analysis:** SWOT analysis of opportunities available in market.
- **International markets:** Markets other that domestic market.
- **Ideas screening:** Reducing the number of ideas on the basis of relevance.
- **Actual product:** Product that a customer actually purchase from market.
- **Durability of a product:** life of a product in which it can be used for satisfaction of needs.
- **Economic development:** Growth of a country in the way of GDP, per capita income etc.
- **Test marketing:** Controlled experiment to check the product features are at a small level before final sale.
- **Adaptation:** It is process of modifying an existing product so it is suitable for different customers or markets.

- **Product strategies:** A product strategy is a high-level plan describing what a business hopes to accomplish with its product, and how it plans to do so.
- **Innovation:** Uniqueness in production process that produce completely different product from others.
- **Branding:** *It* is the process of giving a meaning to specific organization, company, products or services by creating and shaping a brand in consumers' minds.
- **Packaging:** *It* means the wrapping or bottling of products to make them safe from damages during transportation and storage.
- **Modification:** Changes in the features of a product as per requirement.
- **Product development:** Shaping the product according to customer's needs.
- **Socio-cultural environment:** Structure of society, male & female, Income and education level; values, customs, taste, preferences, beliefs of a particular group of people that affect trade.

4.8 Self-Assessment Test:

- What do you mean by a product? Explain its levels and classification.
- "Is test marketing necessary in new product development process in International markets?" If yes then explain its advantages and disadvantages.
- What do you mean by a new product? Explain the process of new product development in international market.
- Explain the main product strategies from the view point of international markets.
- What is product planning? Is it different from product development? Which factors should be considered for designing the product for international market?

4.9 Answers to check your progress

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

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Couse Code:BC-306	**Author:** Dr. Sanjeev Kumar Garg
Lesson No.:5	**Vetter:** Prof. Pardeep Kumar
INTERNATIONAL PRODUCT LIFE CYCLE	

Structure

5.0 Learning Objectives

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

- Understand the meaning, definition and features of international product life cycle
- Importance and different stages of international product life cycle
- Marketing strategies during PLC

- Factors affecting PLC
- Extension and limitation of PLC

5.1 Introduction

Marketing mix includes product, price, promotion and place. Product is the key element of marketing mix. It is the starting point of all trade and marketing activities, on the basis of which all the planning of a corporate unit is done. It is generally viewed as physical product which has the capacity to satisfy the needs of human being as well as of the corporate unit. Without product, thinking of other decisions of business will be to hit in the dark. Wrong product decision can lead to the failure of business and disturb all the other activities of a business unit. So, product planning and development must be done in this changing and heterogeneous environment to meet the demands of international customers.

5.2 Meaning, Definition and Features of International Product Life Cycle

In International market it is necessary to plan and develop a product according to taste and preferences of foreign customers. In this process a product and its stages play crucial role. Product life cycle (PLC) is one of the most important concept in the field of trade and commerce. Initially, it was developed by Prof. Theodore Levitt but later on many marketing expert like C.R. Wassen, B. Carthy, D. J. Luck, D. T. Kollat, R. D. Blackwell and J. F. Robenson have contributed in it. As like of a human life cycle a product also have the aging process. This aging process in which all products have to pass is known as Product Life Cycle. As the life of a human being can be divided into various stages like birth, childhood, youth, adult, old age. Similarly, the life of a product can be divided into introductory, growth, maturity and decline stages. These stages collectively known as Product Life Cycle (PLC). A product is introduced in the International market for sale, slowly demand and familiarity of product increased, reaches its saturation, from where it starts decline. This concept is also known as effective lifespan of a product.

Definition of Product Life Cycle

- According to **Philip Kotler**, “The product life cycle is an attempt to recognize the different stages in the sales history of a product-sales history pass through four stages. These are known as introduction, growth, maturity and decline. By identifying the stage that a product is in or may be headed towards, companies can formulate better marketing plans.”
- According to **William J. Stanton**, “The product life cycle concept is the explanation of the product from its birth to death as a product exist in different stages and in different environment.”

- According to **Arch Patton**, "Life cycle of a product is as like the life cycle of human being. Like a man the product also take birth, grow rapidly, attains maturity and lastly enters into decline stage."
- According to other expert like **D. T. Kollat, R. D. Blackwell** and **J. F. Robenson**, "Product life cycle is a generalized model of sales and profit trends for a product class or category over a period of time".

In nutshell, it is clear that Product Life Cycle is aging process includes introduction, growth, maturity and decline which is helpful in making various trade related and marketing strategies to achieve corporate goals.

Features of International Product Life Cycle:

- It is the aging process of a product.
- It is as like the life cycle of human being i.e. birth, childhood, youth, adult, old age.
- It include four stages i.e. introductory, growth, maturity and decline.
- No two product have same product life cycle i.e. it is different for different products.
- Profit increases as the sale of product increases and decrease when the sale of product starts decline.
- Duration of each stages can be different for different product. It may be from one day to few months or years.
- It helps in developing efficient and effective marketing strategies for the different stages of a product.
- It is not necessary that all product have to pass through all stages. Some product can fail in initial stage and others may reach at maturity stage.
- Speed can be vary in different stages. Some product can direct move from introduction to maturity or decline stage or from introduction to growth or decline stage.

5.2.1 Importance of International Product Life Cycle

Different marketing expert have different opinion about the utility of product life cycle. The concept can be used as a forecasting tool as it alerts management that its product will inevitably face saturation and decline, and the host of problems these stages pose. Some of other have opinion that it can be used in useful in framing and taking sound decisions regarding marketing strategy over the different stages of product life cycle. It is also helpful in various promotional devices such as advertising, sales promotion, publicity and personal selling. Some other expert have the opinion that to achieve the projected sales target, it formulates promotional, pricing and distribution policies.

- **Helpful in sales forecasting-** With the help of PLC accurate information about sales of a particular product can be estimated. In this process various methods of sales forecasting can be used for the establishment of cause and effect relationship.
- **Helpful as a predictive tool-** The firm can prepare an effective product plan by knowing the product life-cycle of a product. If the product life-cycle is predictable, the management can be cautious in taking proactive steps before the decline stage, by adopting various decisions like product modification, pricing strategies, distinctive style, quality change etc.
- **Helpful in development of product-**The life of a product is always limited. A product will die after a period of time irrespective of the fact that the product had made tremendous progress during the past. Knowing this fact, management always tries to improve its existing product or to develop a new product.
- **Helpful in price determination-**PLC help in determine the price of a product. Marketer can fix high as well as low price policy. If in introduction stage marketer fixes high price for their product then he can earn huge profits. But after it some new competitors can enter into the International market and due to high competition profit can decrease in future. On the other hand marketer also can fix low price.
- **Helpful in framing of International marketing program-** Different policies, procedures and strategies are followed in the different stages of the life cycle of a product. So, management can prepare the International marketing programs accordingly and succeed. In introduction stage advertising and personal selling can be effective, sales promotion activities in growth and maturity stages, cut in sales promotion activities in decline stage.
- **Helpful as a planning and controlling tool-** The study of product life cycle is an important tool in the hands of planners. This study reveals the marketing strategies and policies of competitors. It also reveals the effect of their policies and strategies upon sales and profit of the enterprise. On the basis of this information, marketing manager of the enterprise can prepare his marketing plan. The study of product lifecycle also helps in controlling the marketing activities of an enterprise. With the help of this study the marketing manager can make necessary arrangements to make the product available according to the demand.
- **Estimation of Profits-**The quantum and rate of profits increases or decreases with the quantum of turnover. At introductory stage, profits are negligible, then they go up and after some time they begin

to fall and gradually become nil. Thus, the management can well predict the firm's profits in different stages of the lifecycle of the product.

5.2.2 Stages of International Product Life Cycle (PLC)

With the production process starts the life cycle of a product begins. The product life cycle has four stages namely introduction, growth, maturity and decline stage. As the move of a product from one stage to another, the profit and sales changes. Product life cycle is the graphic presentation of the sales history of a product as shown in figure 1 below.

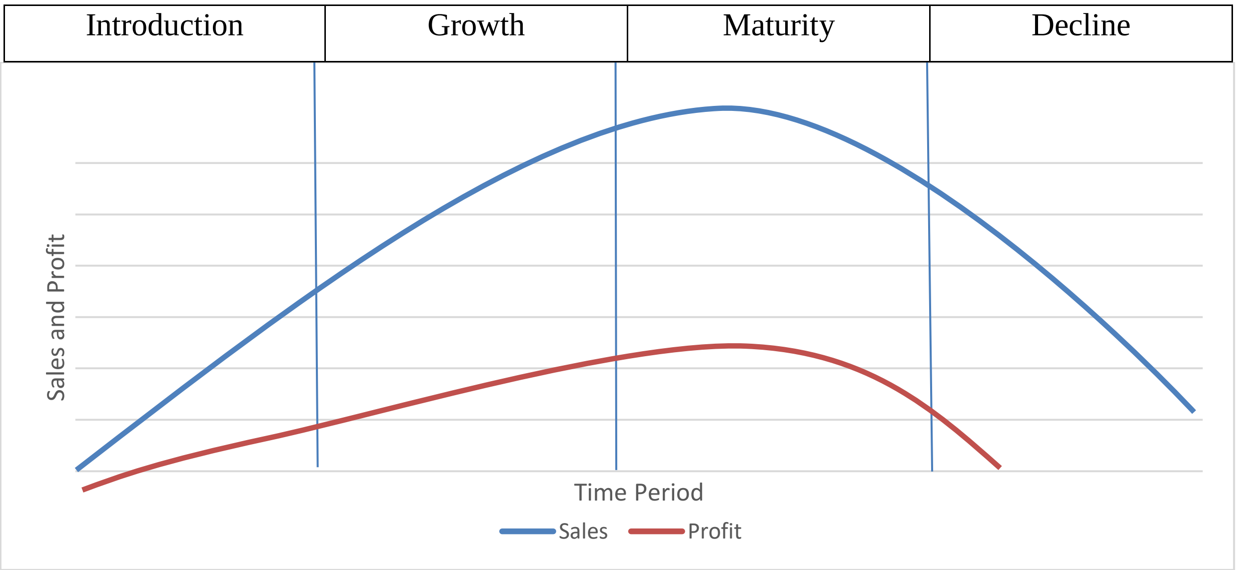

Figure 1

1. **Introduction stage** – It is the first stage of PLC. After production planning and development the product is launched in the International market with full scale production and marketing programs. This period requires greater investment in the product related activities. This investment should be gradually recouped as the sales pick up. This stage is characterized by low and slow sales, high/low product price depending upon pricing strategies, high promotional and distributional expenditure, low profit and narrow product line.
2. **Growth Stage**– It is skimming the milk stage. In this stage as soon as the customers starts to buy the product both sales and profits will begin to rise. In growth stage, product gets considerable approval from the International market. In this stage marketer must consider the values of promotion, adverting and distribution as these are the key factor. Competition begin to rise as similar other new products appear in the International market as substitutes. This stage is characterized by rapid increase in sales,

increase in competition, increased in sales and profits, reduction in price, strengthening the distributional channels and improvement in product.

3. **Maturity stage –** When the household demands are satisfied and distributional channels are full then the marketer feel saturated. In this stage, the manufacturer introduces new models or adapts methods such as trading-in etc. to promote the sale of their brands with a view to retaining their market position. Some of the promotional efforts (as the supply exceeds demand) may lengthen the span of this stage, but it will not be a permanent solution. This stage is characterized by increasing sales at a decreasing rate, less profit, price stability, modifications in product, high dealer's support, less promotional expenses.
4. **Decline stage –** This is the final stage of PLC, in this stage profit margins touch a low level, competition becomes severe and customers start using new or better products or substitutes. Product life cycle concept may be used as a managerial tool. This stage is characterized by decrease in sales, no promotional expenses, decrease in price, and no further production. Marketing strategies must change as the product goes through its life cycle. Repositioning a product can lead to a new growth cycle. Repositioning is basically changing the image or perceived uses of the product.

5.2.3 Factors affecting International Product Life Cycle

There are many factors that affect the product life cycle. According to Joel Dean, "The length of the product life-cycle is governed by the rate of technical change, the rate of market acceptance and the cease of competitive entry." Important factors affecting the product life-cycle are followings:

1. **Rate of technical change-**Rate of technical change affects the product life-cycle. In developed countries like USA and UK the life span of a product is shorter in comparison to less develop or underdeveloped countries due to the vast technological changes new product takes place at a very fast rate. On the other hand, if the rate of technical changes in a country is not so high, the life-cycle of the products in the country may be longer. For example, rate of technical changes in India is lower when compared with that of other developed countries. As a result of it, the lifecycle of products in our country is higher than that of the developed countries.
2. **Rate of International market acceptance-**It means the tendency of customers of a country to accept the new product in place of old product. If the rate of International market acceptance of a product is high then the lifecycle in that country will be shorter. It is because the customers who have accepted the new products today can accept another product tomorrow and the existing products will soon stand out of the International market. Similarly, if the customers accept the product at a slow rate, the life

cycle of the products may be longer. For example, in India, the economic conditions, level of education, tradition allows the very slow International market acceptance therefore, the PLC of the products is very long.

3. **Ease of competitive entry-** If the competitor's entry into a International market is very easy, the lifecycle of the product will be very short because the competitors can enter easily with new product and drive the old products out. On the contrary, if the competitor's entry into a International market is slow, the lifecycle of products in such International market can be fairly long.
4. **Risk bearing capacity-**If the enterprises have high risk bearing capacity, then they can keep their product alive in the International market for a long period as they can face the challenges of the International market very effectively. On the other hand if the enterprises have low risk bearing capacity then the product life cycle will be shorter.
5. **Economic and managerial forces-**Economic conditions and managerial skills of a company determine the success of that company. Strong economic and managerial forces, can keep their products alive in the International market and the lifecycle of their product will be longer than the lifecycle of the products of those business enterprises having weak economic and managerial base.
6. **Protection by patent-**Patent is the monopoly rights to manufacturers and distributors. If the product is patented, the lifecycle of the product can be longer and if the patent of a product is not got registered, the lifecycle of the products gets cut-short.
7. **Personnel strategy-**Product lifecycle is also affected by the personnel strategy used in marketing. The different stages of PLC requires personnel with various abilities and capacities. A firm generally appoint Research and Development expert in case of introduction stage, marketing expert in case of growth & maturity stage and financial advisor in the declining stage.
8. **Goodwill-**If the reputation a business enterprises is good in the International market its product will last long in the International market as compared to the products of those business enterprises whose reputation is not good in the International market.
9. **Govt. policy**-Govt. policies, rules and regulation affect business decisions at a very fast rate. If these are in favor of a particular product or business unit then its life will be longer as compare to others. For example if a business unit introduce a product in the International market and after sometime Govt. impose restrictions on the sale of that product then it directly move in declining stage from introduction stage.

5.3 Approaches of International Product Life Cycle

There are five stage of product life cycle as per the book Marketing Management by Philip Kotler. These are product development stage, product introduction stage, growth stage, maturity stage and decline stage. As shown in below figure:

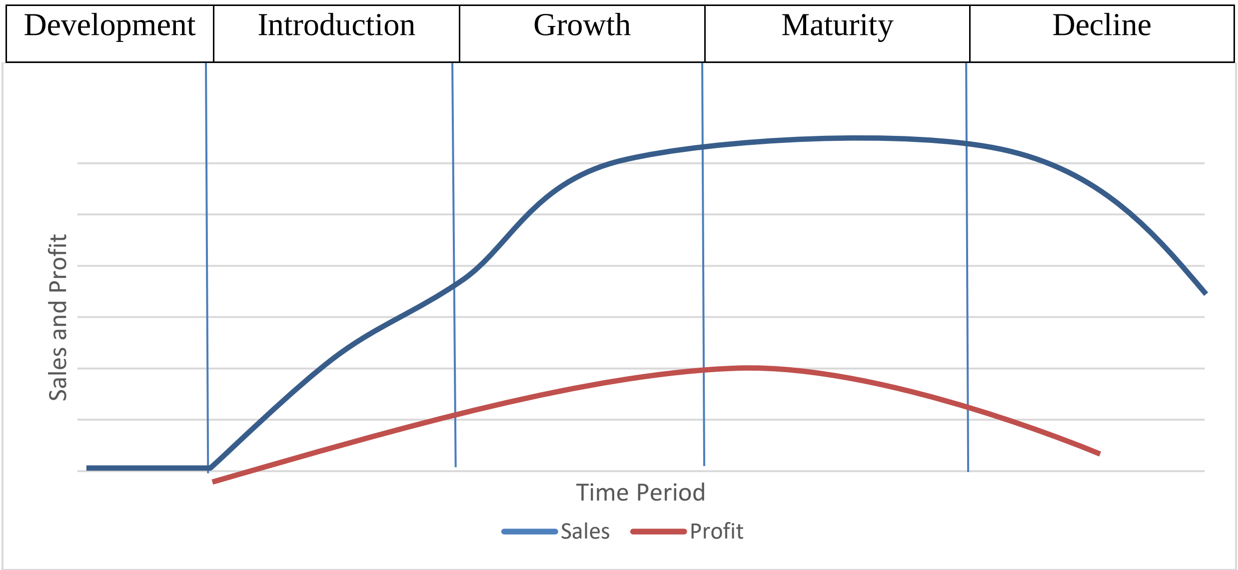

Figure 2

1. **Product development stage** – It begins when the company finds and develops a new product idea. In this stage sales are zero and profits are negative.
2. **Introduction stage** – In this stage product is launched in the markets. Sales grow at a slow rate. Due to heavy promotional expensive a business unit suffer from losses.
3. **Growth stage**- It is a period of rapid International market acceptance and increase profits'
4. **Maturity stage**- It is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profit starts declining.
5. **Decline stage**- It is the period when sales falls off and profit drop.

Five stage product life cycle

Prof. William J. Stanton has explained five stages of product life cycle from its birth to death. These are product introduction stage, growth stage, maturity stage, saturation and decline stage. As shown in below figure:

Introduction	Growth	Maturity	Saturation	Decline

Figure 3

1. **Introduction stage** – In this stage product is launched in the International markets. Sales grow at a slow rate. Due to heavy promotional expensive a business unit suffer from losses.
2. **Growth stage-** It is a period of rapid International market acceptance and increase profits'
3. **Maturity stage-** It is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profit starts declining.
4. **Saturation stage-**In this stage sales are at peak. Product is fully matured. But due to high competition price and profit margins are low. Some marketer can leave the International market and some can modify the existing products.
5. **Decline stage-** It is the period when sales falls off and profit drop.

Six Stages of Product Life Cycle

Theodore Levitt has explained six stages of product life cycle. These stages are introduction stage, growth stage, maturity stage, saturation stage, decline stage and obsolescence stage. As shown in below figure:

Introduction	Growth	Maturity	Saturation	Decline	obsolescence

Figure 4

1. **Introduction stage** – In this stage product is launched in the International markets. Sales grow at a slow rate. Due to heavy promotional expensive a business unit suffer from losses.
2. **Growth stage-** It is a period of rapid International market acceptance and increase profits'
3. **Maturity stage-** It is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profit starts declining.
4. **Saturation stage-**In this stage sales are at peak. Product is fully matured. But due to high competition price and profit margins are low. Some International marketer can leave the International market and some can modify the existing products.
5. **Decline stage-** It is the period when sales falls off and profit drop.
6. **Obsolescence stage-**It is the last stage of PLC. In this stage product is considered out dated. Product dies in form of profits and sales. This is permanent in nature and product will be disappear from the International market soon.

5.3.1 Product Life Cycle for Stylish, Fashion and Fad products

Our standard product life cycle goes through the stages of introduction, growth, maturity and decline. However not all products follow the standard product life cycle and will have a very short life or stay in the maturity stage and not progress to the decline stage. One group of product was divided into three categories by Philip Kotler et al (Principles of Marketing 2008): styles, fashions and fads.

Style: A style is the manner in which a product is presented and certain styles come and go. The current style for mobile phone is touch screen and this style will last until a new technology style appears. So the shape of a style product life cycle is like a wave, as one style fades out, another appears.

Fashion: A fashion is a current trend or popular style in a particular field. A fashion can have a long or short product life cycle. Certain clothing fashions last for a short period and the product life cycle will decline very rapidly, whilst others will decline slowly or even turn into what is known as a timeless classic product life cycle.

Fad: A fad is a product that is around for a short period and is generated by hype. As you can see (in the graph below) for a fad product sales peak very quickly, as this product has a very short product life cycle. Sometimes a product may follow the standard product life cycle but have one stage of the product life cycle which has a fad type of unusually high peak in sales.

The diagram below neatly illustrates each of the three product life cycles Fashion, Fad and Style:

Stylish Products

Fashion Product

Fad Products

5.3.2 Product Life Cycle for Convenience products

Convenience products are those products which are purchased by customers on a regular basis. Price of these products is very low and purchase with minimum efforts from nearby shops. For example Sugar, bread, soap, detergent etc. The product life cycle for these products is as follows:

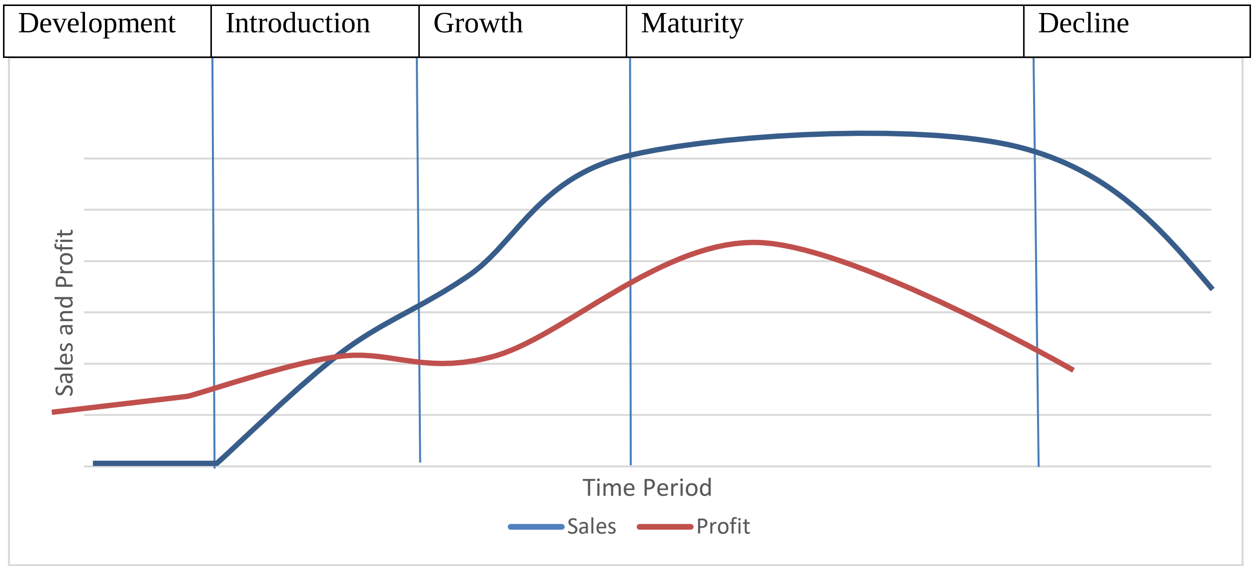

Figure 5

Consumer accept these product easily due to its low price and with minimum effort. These type of product have shorter development and introduction stage. Its sales increase in growth stage as well as the awareness through promotion expenses increased. The maturity period of these type of product are longest, because the product is of daily requirement. During declining stage manufacture try to sale their product at small level to local customers.

Length of Product life Cycle

The length of product life cycle varies greatly from product to product. No two products have an identical life cycle. Some of the products require a high level of technological know-how to produce and have a very long life as compare to the products which do not require much development time. It is worth noting that the duration of each stage is different among products. It may last from a few months to several years. The duration of different stages depends on factors like nature of product, speed of technological changes, competition, etc.

5.3.3 Marketing and trade strategies during International PLC

Product life cycle is an important tool through which marketer know the exact position of his product. It can also be helpful in formulating the marketing and trade related strategies according to the stage of product life cycle. Every product have certain length and pattern of life in which it pass through some identifiable stages. The time span of these stages are different for different product depending upon the nature of product. So, marketer tries to enjoy the growth and maturity stages and does not want to enter in decline stage. Here are some strategies which can help the marketer to stay at their choice. These are the followings:

Strategies adopted to manage the introduction stage

This stage starts with launching of new product in International market. In this stage, the product has just come out in the market; it has very few competitors and very few customers also. Thus, sales are low and profit are negative due to high cost per customer. The basic objective of a company is to create product awareness and encourage trials by the prospective customers.

Thus, a marketer should adopt the following strategies before introducing a product in the International market:

- In case of basic product or service penetration pricing policy will be effective and in case of technical product then skimming the milk price policy should be followed.
- Price should be high, since cost per unit to the company is high and profits are negligible.
- Selective and effective distribution network should be chosen. Discount should be given to dealers. Dealer must be full of stock.
- Shorten the period of introduction if possible.
- Advertising should be done at a large scale in order to build the product's awareness among early adopters and dealers.
- Heavy sales promotions like gifts, discount etc. should be done to encourage sale of products.

Strategies adopted to manage the Growth Stage

It is the second stage of PLC, wherein a product's sale increases rapidly, cost per customer to the company (in terms of advertising and sales promotion) reduces and profit earnings increase. Since the product holds a big share of market thus competition rises. At this stage, the major objective of the company is to maximize its market share. In order to achieve its objective, following strategies should be adopted by any product manager at growth stage of a product:

- Apart from the basic product its extensions should be introduced with the better product quality, product style, features.
- Mass marketing should be done in order to penetrate deeper into the market.
- Reduce the price to attract new customers.
- Create a brand image through proper adverting and promotional activities.
- Enter in new markets or areas.

- Strengthening the distributional channels with some incentives as they are key to meet our objectives.
- Distribute the product intensively.
- Reduce sales promotion/since the demand is already high.
- Build awareness and interest of customers in the market by advertising and proper customer services.
- Changing the market, product and marketing mix.

Strategies adopted to manage the Maturity Stage

This is the third stage of PLC. It stays longer than other stages and poses big challenges to the marketers. The maturity stage is further divided into three phases – growth, stable and decaying maturity. In the first phase, the sales growth rate starts to decline. There are no more distribution channels to tab as all the existing channels have been used. New competitive forces emerge. In the second phase, sales flatten on per capita basis because of market saturation. Most of the population has tried the product and future sales are governed by replacement demand. In the third phase of decaying maturity, the absolute level of sales starts to decline and customers begin switching to other products. The third phase of maturity poses the greatest challenge. Strategies generally adopted at this stage by marketers are:

- Modify product and changes in product mix.
- Increase in advertising, both trade and consumer promotions.
- Increase middlemen’s commission to encourage them.
- Increase in R&D budget to bring in product improvements and line extensions.
- Try to convert non users to users of product.
- A company might try to expand the market for its mature brand by working with two factors that make up sales volume viz., Number of brand users and Usage rate per user.
- Improvement in product quality, style, size, features i.e. introduce some new models.
- Changes in marketing program features like price, distribution, advertising, sales promotion, personal selling and services for better acceptability of the product.
- Changes in product packaging and wrapper policy.

For example, we can take the example of Maggi. Maggi has enjoyed the status of innovator by introducing a ready to eat two-minute noodles, but gradually this product is moving towards maturity stage, where competitors like Topramen, Foodies, Sunfeast noodles etc. have come up and started crunching the market share. Thus sales were declining and profits started reducing.

Strategies adopted by its managers were:

- Introducing the concept of "Meri Maggi" by focusing on emotional attachment people have with Maggi.
- Modifying the product by introducing new tastes like "Maggi Capsicum", "Maggi Dumdar" and "Tomato Maggi".
- Launching contests like "Me and My Maggi" where people tell their stories, and their photographs and stories are published on the Maggi pack.
- By introducing "Maggi Chotu", an Rs.6 pack for single use for children etc.

Strategies adopted to manage the Decline Stage

A product can enter into its decline stage because of various reasons like technological advancement, shift in consumer tastes, increase in domestic and foreign competition etc. These can lead to over capacity increased price-cutting and profit erosion. The major objective of the company should be to reduce expenditure and milk the brand. In the decline stage of PLC, a manager should adopt the following strategies:

- Improve the product in the functional sense.
- Unprofitable products and models should be withdraw.
- Sales incentives to given to dealers for effective functioning.
- Rethink about marketing programs and production process.
- R & D efforts should be promoted to innovate new product.
- If the product line is weak, then a manager should phase it out.
- Selective promotion should be followed.
- Cut prices of the product.
- Cut out all the cost to the minimum level.
- Reduce the sales promotion to minimal level.
- Reduce the advertising expenditure to the minimum level.

As human enter in old age, a product enter into decline stage. In this stage marketers pay attention towards their aging products. In this stage a marketer identify those products which are unprofitable for the corporate unit, retain in market or drop out. Thus study of product life cycle is helpful for the formulating and framing the successful marketing activities.

5.4 Extension and Limitations of Product Life Cycle

After declining stage a product is almost dead as like human being. But the product life cycle of a product can be extended for some times with some efforts. To extend the PLC of a product the marketer takes the followings steps:

1. **Product modification**-Product design, quality, style, package, size, color etc. are the main the fields in which a marketer try to modify their products. These are helpful in extension and proper maintaining of growth and maturity stages.
2. **Entry in the new market**-Entry into new market can be a good source of extension of PLC of a product. It is helpful in re-cycling the product life cycle into new market. For example, if we are selling our product into India, now we can enter into USA.
3. **Promoting frequent use**-More frequent uses of a product can extend the PLC. It helps in popularizing the product into masses.
4. **Developing different usage**-Uses of a product in various usage can extend PLC of a product. For example, milk can be used for multiple usage i.e. for drinking, for sweet, for making ghee. Similarly, an electric fan can be used for cool air, lighting the house, music also can be listen from fan if Bluetooth connectivity is given to customers.
5. **Use of modern adverting and sales promotion techniques**-If we use more adverting and sales promotion tools to promote the life cycle of a product then it can be helpful to extend the PLC stage.

Limitations of Product Life Cycle

The concept of PLC does not apply to all products rather it depends upon nature of product. For example perishable product like bread, vegetables, butter, biscuit etc. has lower PLC, these products do not show the marketing behavior according to stages of product life cycle, on the other hand, cycle, cars, shoes, shirts etc. has longer PLC as per stages of product life cycle. The followings are the main limitations of product life cycle:

1. **Not apply to all products**- As we have general conception that PLC can be applied to all products, but it is wrong. All products have different nature so the chances of application of PLC is also different. Some product complete all the stages of PLC, some others pass through introduction to directly decline, some other from growth to decline. For example Coca Cola and Pepsi are examples of two products that have existed for many decades, but are still popular products all over the world. Both modes of cola have been in maturity for some years, not in decline till now.
2. **Not a tool to measure the capacity of a product**- Some product may be unsuccessful in introduction stage of PLC. At that time if marketer thinks that the product is failed to meet the required demand of

customers and should withdraw from market. Marketer have to face further losses. It may be possible that product have full capacity to meet the demand but due to management failure or other factors, it became unsuccessful.

3. **Stage span fluctuation-**All product has different length and pattern of PLC. It is not necessary that all product have to pass through all the four stages of PLC. Some can move from introduction to decline, some may decline through growth stage. This stage span fluctuation is the main problem in the study of PLC.
4. **Difficulty in determining the stage of product life cycle-** The duration of PLC stages is unpredictable because it is depends upon numbers of factors which are uncontrollable or outside the purview and control of any single company. It is difficult for a corporate unit to measure accurately the stage of a product is on its PLC graph. It is not easy to predict when the growth stage ends and when the decline would start.
5. **Changes in the product sale-** Sale of product can fluctuate from so many factors like increase in demand, reduce the competition, good govt. policy, reduce in price, R & D etc. So it will quite difficult to measure the sale of product on a particular time. PLC is the result of marketing activities and it should never be accepted as a cause of variability in sales.
6. **Long and prosperous maturity stage-** Some products enjoy maturity stage from decades, their sale seldom meet the decline stage of PLC some others may be not. Maturity stage of former products is long and prosperous, and marketer need not to change the marketing strategies for such products. For example, a fad product would hold a steep sloped growth stage, a short maturity stage, and a steep sloped decline stage. On the other hand product like Coca Cola and Pepsi would experience growth, but also a constant level of sales over a number of decades.

5.5 Check Your Progress

1. Which one of the following is first stage of product life cycle?
   a) Introduction
   b) Growth
   c) Decline
   d) Maturity
2. Main factors that can affect PLC are……
   a) Govt. policy

b) Technological change

c) Competition

d) All of the above

3. Main utility of product life cycle is…..

a) Helpful in sales forecasting

b) Helpful in development of a new product

c) Helpful in price determination

d) All of the above

4. Main limitation of product life cycle is ……

a) Stage span fluctuation

b) Changes in product sale

c) Both a & b

d) None of the above

5. Right series of PLC stages is ……

a) Introduction, Growth, Decline and Maturity

b) Introduction, Growth, Maturity and Decline

c) Maturity, Introduction, Growth and Decline

d) Introduction, Decline, Growth and Maturity

6. Which is main feature of decline stage in a product life cycle?

a) Rapid increase in sales

b) Heavy production

c) Decrease in price

d) Heavy promotional expenses

5.6 Summary

As like of a human life cycle a product also have the aging process. This aging process in which all products have to pass is known as Product Life Cycle. The life of a product can be divided into introductory, growth, maturity and decline stages. These stages collectively known as Product Life Cycle (PLC). Different marketing expert have different opinion about the utility of product life cycle. The concept can be used as a forecasting tool as it alerts management that its product will inevitably face saturation and decline, and the host of problems these stages pose. Some of other have opinion that it can be used in useful in framing and taking sound decisions regarding marketing strategy over the different stages of product life cycle.

With the production process, start the life cycle of a product begins. The product life cycle has four stages namely introduction, growth, maturity and decline stage. With the move of a product from one stage to another, the profit and sales changes. There are many factors that affect the product life cycle. Important factors affecting the product life-cycle are followings: rate of technical change, rate of International market acceptance, ease of competitive entry, risk bearing capacity, economic and managerial forces, patent, personnel strategy and goodwill.

Product life cycle is an important tool as it is helpful in formulating the marketing and trade related strategies according to the stage of product life cycle. Every product have certain length and pattern of life in which it pass through some identifiable stages. The time span of these stages are different for different products depending upon the nature of product. There are five stage i.e. introduction stage, growth stage, maturity stage and decline stage of product life cycle as per the book Marketing Management by Philip Kotler. Prof. William J. Stanton has explained five stages i.e. introduction stage, growth stage, maturity stage, saturation and decline stage of product life cycle from its birth to death. Theodore Levitt has explained six stages i.e. introduction stage, growth stage, maturity stage, saturation stage, decline stage and obsolescence stage of product life cycle.

After declining stage a product is almost dead as like human being. But the product life cycle of a product can be extended for some times with some efforts. Product modification, entry in the new market, promoting frequent use, developing different usage, use of modern adverting and sales promotion techniques can be some of tools that can help to extend the PLC.

The concept of PLC does not apply to all products rather it depends upon nature of product. For example perishable product like bread, vegetables, butter, biscuit etc. has lower PLC. These products do not show the marketing behavior according to stages of product life cycle, on the other hand cycle, cars, shoes, shirts etc. has longer PLC as per stages of product life cycle.

5.7 Key Words

- **Product**- A bundle of utilities having capacity to satisfy the needs of customers.
- **Product life cycle**-A total life span of a product divided into various stages.
- **Sales**-Revenue generates from promotional efforts.

- **Convenience Product**- Those products which are purchased by customers on a regular basis. Price of these products is very low and purchase with minimum efforts from nearby shops.
- **Development stage**-Pioneer stage in which an idea generated and developed as per International market requirement.
- **Introduction stage**-A full fledge launching of a product into International market.
- **Growth stage**-When sales and profits both have an increasing trend for a product.
- **Maturity stage**-Saturation point of a product, beyond this there is no chance of product to be sold in International market.
- **Decline stage**-A last stage of product life cycle in which sales and profit decreases with a fast rate.
- **Technological change**-Changes in production of a product.
- **Promotion**-Creating awareness about product in International market through various means.
- **Sales forecasting**-Estimation of sales for a particular period.
- **R & D**-Research and development department of organization for innovation.
- **Length of PLC**-It is time taken by a product to move in all the stages of a product life cycle.

5.8 Self-Assessment Test:

1. What do you mean by international product life cycle? Discuss various stages of product life cycle.
2. Explain different marketing strategies during the product life cycle.
3. What is the concept of international product life cycle? Explain importance and factors affecting PLC.
4. "Every product has a life cycle as every human being has". Explain the statement with the different stages of a product life cycle.
5. Discuss the main features and utility of international product life cycle?
6. Write short note on the followings:
   a) Length of Product life cycle
   b) PLC of Convenience, fashion, style and fad products

5.9 Answers to check your progress

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

5.10 References/ Suggested Readings

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Subject: Foreign Trade of India	
Course Code: BC 306	**Author:** Mr. Kapil Singh
Lesson No.: 06	**Vetter: Prof. Pardeep Kumar Gupta**
Export Procedure and Documentation	

Structure

6.0 Learning Objective

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

- Understand meaning, types and benefits of Exporting.
- Know the export procedure and documentations required for it.
- Understand main provisions of new foreign trade policy or EXIM policy of India.

- Understand institutional infrastructure available for Indian exporter.

6.1 Introduction

Nowadays the business activities have been extending from domestic market to foreign markets. Companies are providing goods & services from the every corner of the worlds to the customers of different countries. The world is becoming global village as there in no boundaries to stop free trade. In this direction Indian Government had done major economic reform i.e. globalised Indian economy in 1991. Foreign/international trade is the one of the most important outcome of globalization. India is taking benefits of globalization and there's an abundant opportunity for establishing a profitable export business in all sectors. India is amongst the world's top twenty nations with respect to the export of merchandise. Foreign trade is the engine of economic growth because it plays an important role in economic development of a country. Without it, progress of different sectors or segments of the economy is quite difficult. Simply, it includes export of surplus production and import of goods and services which have undersupply, between various countries. For undertaking an export business, an entrepreneur should have a clear understanding of the rules and regulations along with the documentation procedure related to these export transactions.

6.2 Meaning of Exporting

Exporting is the oldest and easiest way of sale of surplus production. It is defined as process of selling goods and services into foreign market. In it goods and services manufactured in one country and acquired by citizens of another country. In simple word, any goods and services which are to be taken a place outside India. The export of good or service can be anything. This trade can be done through sea, air or land. Basically, if the product is manufactured domestically and traded in a foreign country, it is known as an export. For export, goods must cross the boundaries of India, and then it will be reckoned as export.

In International trade, export is one of the components. The other component is import which means the goods and services purchased by a country that are manufactured in a foreign country. Both the export and import combined contribute to the country's trade balance. Whenever the country's export is more than the import, it is called trade surplus. However, when the import is more than the export, it is known as a trade deficit.

6.2.1 Objectives of Exporting

Followings are the main objectives of exporting:

- Sale of surplus production into foreign markets.
- Optimum utilization of domestic resources to increase the production and sell to those countries where these are in shortage.
- To generate maximum employment opportunities in international business.
- A country can earn foreign exchange by selling goods and services in foreign markets.
- Export generates earning of foreign exchange which ultimately increases the national income of a country.
- To improve standard of living of people with cheap, variety and quality product.

6.2.2 Mode of Exporting

- **Direct Exporting-** In direct exporting the manufacturing firm sells the goods and services directly in the foreign market without the involvement of middlemen. Manufacturing firm have only controlling authority over the export business. This usually occurs when the producing firm takes care of exporting activities i.e. handling documentation, physical delivery, pricing policies and sales their products directly in the foreign target market. The degree of risk involved in direct exporting is also high as compared to indirect exporting. This mode is advantageous where there are minimum trade barriers. This mode of exporting is time consuming and required much efforts.
- **Indirect Exporting-** In indirect exporting the manufacturing firm sells the goods and services through middlemen, local companies and contract with distributors in the foreign market. In indirect exporting involvement of manufacturing firm have less control over the export business. In this, manufacturing company does not take direct control over the exporting activities. Instead, another domestic company, such as an export firm, export agent or trading company, perform these activities. As manufacturing firm does not involve directly in it, so the degree of risk is also less as compare to direct exporting. This mode of exporting is less time consuming and required fewer efforts.
- **Cooperative exporting-**This is new form of exporting. In this export of products is done by collaborative agreements with other firms (export marketing groups) concerning the performance of exporting functions.

6.2.3 Benefits/Advantages and Problems/Disadvantages in Exporting

Advantages/Benefits

- **Economies of scale-**Due to bulk order on international level, a manufacturer produce on large scale. When manufacturer produce on large scale then it bring economies of scale in the business.
- **New competitiveness-**As **e**xporting unit does their business in international market, it allows to them gain new exposure, new ideas, management practices, marketing techniques etc.
- **Increased sales:** Exporting can be helpful in increasing market share of a business unit. When exporter open their products baskets in foreign market then there is much possibility that sales will increase. With an expanded market, exporting can pave the way for increased sales and expansion.
- **Development of domestic trade-**More export allows the domestic companies to produce more and more. In this way all the exporter and potential export will focus on domestic firm. So, it will also develop domestic trade.
- **Higher Profits:** The main objective of export is to earn maximum profit. No company would export unless it intends to make a profit. In international market customers are always willing to pay more than the local market. If the product is of special category then it generates more and more profit. All these factors can positively affect the profit margins of an exporting firm.
- **Increase Employment-**Exports help in increasing the employment opportunities when it has been done by labour intensive units and in rural areas where the availability of demographic dividend in abundance. When the level of employment increase the level of standard of living people also increases.
- **Reduction in Risk-**In foreign market risks of business cycle is less. If recession prevails in one market then the exporter can move into other prosperous market and reduce the risk of product failure.

Disadvantages/Problems

- **Lengthy procedure-** Export business requires heavy documentation as compared to local business. This includes the permission very from domestic country's Government to export the product and to entry in foreign market and sell of product from foreign Government. It can create problems in export business.
- **Political environment-**Ideology of ruling government, political stability, members of opposition parties etc. are some factors which need to be considered before entering in the export business. Without this information it will be quite difficult to survive in foreign market.

- **Product modification-**Product modification can be a key of success in foreign market. Exporter need to modify their product as and when market demands for it. Experts are available in market for those exporting firms who haven't the technical know-how where these modifications are concerned. It is very difficult to modify the products in foreign market.
- **Market information-**Availability of potential foreign market information is necessary for the survival in foreign market**.** Finding of this type of information can be extremely difficult. Insufficient information or lack of information can negatively affect your ability to do well in the target market.
- **Competition-**A businessman have to face competition from local market at domestic level. But in foreign market number and level of competitors depends upon goods and markets. Globalisation also has created high competition in export markets.
- **Require much efforts-**Developing and setting up an export business in foreign market takes time. It requires much cost and efforts to develop new promotional & marketing materials, develop new packaging and assign new personnel to travel and undertake other administrative and operational tasks.
- **Payment-**In export businesses there are many pitfalls. Those exporter who have limited cash flow must be careful about non-payment. It can be complicated for exporter to collect payments using the various methods such as consignment, letter of credit etc. Apart from it exchange rate problems can be a risk in it.
- **Transportation cost and risks-**As exporters have to take their product in foreign country for sale, it is costly process. Costs of various transportation means are high and there is the risk of damage, loss or theft.
- **Cultural variations-**Culture includes language, food habits, religion, beliefs, values, rituals and other customs. It may be different to your own domestic market. Understanding of culture of foreign country is difficult. For a successful exporter familiarity with the culture of the export market is necessary.

6.2.4 Controlling authority of Exports

Exports are governed by Foreign Trade (Development & Regulation) Act, 1992 and Export-Import (EXIM) Policy.

Foreign Trade (Development & Regulation) Act, 1992

Main provisions of Act are as follows:

- The Central Government may, by Order published in the Official Gazette, make provision for the development and regulation of foreign trade by facilitating imports and increasing exports and formulate and announce the export and import policy.
- The Central Government may appoint any person to be the Director General of Foreign Trade for the purposes of this Act for advice the Central Government in the formulation of the export and import policy.
- The Director General have power to issue, suspend and cancel the Exporter-importer number after giving him a reasonable opportunity of making a representation in writing within such reasonable time.
- The Central Government may levy fees, subject to such exceptions, in respect of such person or class of persons making an application for a licence or in respect of any licence granted or renewed in such manner as may be prescribed.
- The Central Government may, by notification in the Official Gazette, authorise any person for the purposes of exercising such powers with respect to entering such premises and searching, inspecting and seizing of such goods, documents, things and conveyances, subject to such requirements and conditions, as may be prescribed.
- The provisions of the Code of Criminal Procedure, 1973 (2 of 1974) relating to searches and seizures shall, so far as may be, apply to every search and seizure made under this section.
- Where any person makes or abets or attempts to make any export or import in contravention of any provision of this Act or any rules or orders made thereunder or the export and import policy, he shall be liable to a penalty not exceeding one thousand rupees or five times the value of the goods in respect of which any contravention is made or attempted to be made, whichever is more.
- A penalty imposed under this Act may, if it is not paid, be recovered as an arrear of land revenue and the Importer-exporter Code Number of the person concerned, may, on failure to pay the penalty by him, be suspended by the Adjudicating Authority till the penalty is paid.
- Any penalty may be imposed or any confiscation may be adjudged under this Act by the Director General or, subject to such limits as may be specified, by such other officer as the Central Government may, by notification in the Official Gazette, authorise in this behalf.

- Any person aggrieved by any decision or order made by the Adjudicating Authority under this Act may prefer an appeal,-(a) where the decision or order has been made by the Director General, to the Central Government;(b) where the decision or order has been made by an officer subordinate to the Director General, to the Director General or to any officer superior to the Adjudicating Authority authorised by the Director General to hear the appeal, within a period of 45 days from the date on which the decision or order is served on such person : Provided that the Appellate Authority may, if it is satisfied that the appellant was prevented by sufficient cause from preferring the appeal within the aforesaid period, allow such appeal to be preferred within a further period of 30 days : Provided further that in the case of an appeal against a decision or order imposing a penalty or redemption charges, no such appeal shall be entertained unless the amount of the penalty or redemption charges has been deposited by the appellant.
- The Central Government, in the case of any decision or order, not being a decision or order made in an appeal, made by the Director General, or the Director General in the case of any decision or order made by any officer subordinate to him, may on its or his own motion or otherwise, call for and examine the records of any proceeding in which a decision or an order imposing a penalty or redemption charges or adjudicating confiscation has been made and against which no appeal has been preferred, for the purpose of satisfying itself or himself, as the case may be, as to the correctness, legality or propriety of such decision or order and make such orders thereon as may be deemed fit.
- Every authority making any adjudication or hearing any appeal or exercising any powers of revision under this Act shall have all the powers of a civil court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely : - (a) summoning and enforcing the attendance of witnesses; (b) requiring the discovery and production of any document; (c) requisitioning any public record or copy thereof from any court or office; (d) receiving evidence on affidavits; and (e) issuing commissions for the examination of witnesses or documents.
- No order made or deemed to have been made under this Act shall be called in question in any court, and no suit, prosecution or other legal proceeding shall lie against any person for anything in good faith done or intended to be done under this Act or any order made or deemed to have been made thereunder.

Directorate General of Foreign Trade (DGFT)-DGFT is the primary governing body responsible for the export and import policies in the country. DGFT organisation is an attached office of the Ministry of Commerce and Industry and is headed by Director General of Foreign Trade. Since an export trade has to follow a specific set of procedures from receiving inquiries to completion of the transaction, exporters need to get themselves registered with these authorities for ensuring all the legal formalities as required by them are met and also for receiving incentives which are allowed under the export promotion schemes. The Reserve Bank of India (RBI) guidelines have to be met by the exporter. An exporter also requires an Import-Export Code Number from the concerned regional licensing authority.

Organizational Set-up

This Directorate, with headquarters at New Delhi, is responsible for formulating and implementing the Foreign Trade Policy with the main objective of promoting India's exports. The DGFT also issues scrips/authorization to exporters and monitors their corresponding obligations through a network of 25 regional offices and an extension counter at Indore. The regional offices are located at Ahmedabad, Bengaluru, Bhopal, Chennai, Coimbatore, Delhi, Ernakulam (Kochi), Guwahati, Hyderabad, Indore, Jaipur, Jammu, Kanpur, Kolkata, Ludhiana, Mumbai, Nagpur, Panipat, Pune, Rajkot, Srinagar, Surat, Vadodara, Varanasi and Visakhapatnam.

6.3 Procedure of Export Trade

In order to enter into export business the following steps are to be taken by every businessmen:

- **Set up of Infrastructure-**To start an export business, entrepreneur need to set up infrastructure for the smooth running. It may in the form of new organization or addition in existing organizational set up.
- **Selection of Name of Firm-**Name of firm is mandatory as it gives clear indication about the business of an entrepreneur. Anyone can freely choose any name for their firm. Name should be simple, attractive, meaningful and short. Various words like foreign, global, multinational, international and overseas in the name of the firm convey the meaning that the firm is engaged in export / import business, but it is not a condition, one can start with other name also.
- **Approval to Name of Firm and Logo-**There is no need to obtain prior approval of Regional Licensing Authority of DGFT for the proposed name of business firm. However, if the firm is planning to export readymade garments to any country, approval from Apparel Export Promotion Council (AEPC) is required. A proper style, image and logo create an image in the

mind of foreign potential buyers and can be a powerful marketing tool. So, the entrepreneur should develop an informative and beautiful logo.

- **Selection of an appropriate form of business organisation-**Entrepreneur have to select an appropriate form of business organization. There are three form of business organization. These are sole proprietorship, partnership firm and Joint Stock Companies. In case of sole trader only permission from local authorities is required. No separate registration is needed for a sole proprietorship. If case of partnership firm all provisions of Indian Partnership Act, 1932 and in case of Joint Stock Company all provisions of Companies Act, 2013 are to be met.
- **Opening of Bank Account-**The next step is to open a current account with a branch of a commercial bank in the name of firm. Only authorised branches of commercial bank can open such account. In deciding the bank and branch, the firm has to keep its credit requirements and cooperative attitude of the bank to assist as it would be a new entrant in the field of international business.
- **Obtaining Permanent Account Number (PAN)-**Exporting firm has to obtain a permanent Account Number in the name of firm to meet all the requirement of Income Tax Department. All the facilities i.e. exemptions and deductions under the Income Tax Act and Central Government can be claimed with a valid PAN number. This PAN is also required to be quoted while applying for Import Export Code number (IEC Number).
- **Registration with Sales Tax/Value Added Tax/ Goods & Services Tax Authorities-**Goods which are to be shipped out of country for export as well as those purchased from local market for export purpose are totally exempted from this type of tax. For availing the benefit, entrepreneur has to register with the concerned tax authorities. For this purpose, exporter has to make an application along with copy of letter of credit or export order.
- **Importer-Exporter Code number (IEC Number)-**No export or import transaction can be made without obtaining an importer-exporter code number. As per foreign trade policy it is mandatory for every importer and exporter to obtain IEC number for import /export out of India.

An application for obtaining IEC is filled online at www.dgft.gov.in as per ANF @A, online payment of application fee of Rs. 500 /- through Net banking/ Debit/Credit Cards. The applicant has to upload the following documents (scanned copies) along with application for grant of IEC number:

(A) Cancelled cheque bearing entity’s pre-printed name or Bank certificate in prescribed format ANF-2A (I);

(B) Address proof of the applicant entity.

(C) Any other document which is necessary as per rules.

- **Registration cum Membership Certificate-**For availing authorization to import/export or any other benefit or concessions under foreign trade policy 2015-2020, as also to avail the services exporter are required to obtain RCMC granted by concerned Export Promotion Council/ FIEO/Community Boards/Authorities. It is obligatory for every exporter to register with appropriate Export Promotion Council (EPC) and obtain Registration cum Membership Certificate. The benefits provided in the current EXIM Policy are available only to those having valid RCMC. There are different Export Promotion Councils such as Engineering Export Promotion Council, Chemical Export Promotion Council, Apparel Export Promotion Council and Textile Export Promotion Council etc. However, if the export product is not covered by any EPC, the concerned Regional Licensing Authority of DGFT can issue RCMC to the exporter. With the receipt of certificate, the exporter will be known as "Registered Exporter".
- **Registration with ECGC-**Foreign trade involves payment risks due to buyer/country insolvency. This can be covered by an appropriate policy from Export Credit and Guarantee Corporation of India (ECGC) in order to secure export payments against political and commercial risks.
- **Registration under Central Excise Law-**Central excise levy is applicable if the following conditions are satisfied:
- The duty is on the goods.
- The goods must be excisable.
- The goods must be manufactured or produced.
- The goods must be manufactured produced in India.

When registration is to be made: Every manufacturer/producer of goods has to submit the prescribed application form to the jurisdictional Range officer of the Central Excise for registration if the total value of the goods cleared for home consumption, known as Domestic turnover, exceeds the exemption limit. The exemption limit is Rs. 100 lakhs in case of SSI unit and Rs. 50 lakhs in case of non-SSI units. However, the unit is exempt from registration, if the products manufactured by it are not excisable. Manufacture of salt does not attract excise duty. The incidence of duty is attracted when the goods are cleared from the factory/warehouse of the manufacturer. Allotment of Registration Number: Once the unit is registered with Central Excise Authority, they allot Excise Control Code (ECC) Number. The ECC number is 15 digit code number with the first 10 digits being the same as Permanent Account Number. Applicability of Excise Duty to Exporter: In respect of applicability of excise duty on exports concerned, goods enjoy exemption from duty on the final product, meant for export. Where exemption is not availed, refund of excise duty paid is made, after actual export. Secondly, refund of excise duty is made on inputs used in the manufacture of goods, meant for export. The exporter has to submit the prescribed form ARE-1, in six tuplicate, to the competent central excise authority for the central excise clearance of the goods. The procedure for clearance of central excise would be discussed, in detail, in the chapter dealing with "Excise clearance of cargo".

- **Registration with other Authorities-**It is desirable for the exporters to become members of local Chamber of Commerce, Productivity Council or any other trade promotion organisation recognised by the Ministry of Commerce or Industry. Local membership helps the exporters in different ways, including in obtaining Certificate of Origin, which is vital for exports to certain countries.
- **Registration for Business Identification Number-**The exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade prior to filing for customs clearance of export goods. Purpose of BIN is to bring a common identification number to all persons dealing with various regulatory agencies, such as the Central Excise and Customs Department, Income Tax Department, Offices of Director General of Foreign Trade etc. All assesses would be considerably benefited if they have to obtain just one identification number for use by the various Government agencies.
- **Export Licence-**Many items of goods are free for exports without obtaining any licence, if they do not fall in the Negative List. The Negative list consists of goods the import or export of which is prohibited, restricted through licensing or otherwise canalized.

Part–I: Prohibited Items: These items cannot be exported or imported. These items include wild life, exotic birds, wood and wood products in the form of logs, timber, pulp and charcoal.

Part–II: Restricted Items: These are the items, export or import of which is restricted through licence. They can be imported or exported only in accordance with the regulations governing in this behalf.

Part–III: Canalized Items: Goods, which are canalized, can be imported or exported through the canalizing agency, specified in the Negative List. The Director General of Foreign Trade may issue a licence to any other person to import or export those items, which are included in the Negative List. It is evident from the above, all goods may be exported barring items in the Negative List. Items in the

Negative list can be prohibited items, imported or exported by licence or through the designated canalizing agency or others under special conditions. So, it is necessary for the exporter to check the nature of the item before he enters into the contract or even makes efforts to secure the export order. Needless to add, the item of export agreed upon should not fall in the banned list.

6.3.1 Processing of an Export Order

- **Confirmation of order**-On receiving an export order, it should be examined carefully in respect of items, specification, payment conditions, packaging, delivery schedule, etc. and then the order should be confirmed. Accordingly, the exporter may enter into a formal contract with the overseas buyer.
- **Procurement of Goods**-After confirmation of the export order, immediate steps may be taken for procurement/manufacture of the goods meant for export. It should be remembered that the order has been obtained with much efforts and competition so the procurement should also be strictly as per buyer’s requirement.
- **Quality Control**-In today’s competitive era, it is important to be strict quality conscious about the export goods. Some products like food and agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection. Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies. Maintaining high quality is necessary to sustain in export business.
- **Finance**-Exporters are eligible to obtain pre-shipment and post-shipment finance from Commercial Banks at concessional interest rates to complete the export transaction. Packing Credit advance in pre-shipment stage is granted to new exporters against lodgement of L/C or confirmed order for 180 days to meet working capital requirements for purchase of raw material/finished goods, labour expenses, packing, transporting, etc. Normally Banks give 75% to 90% advances of the value of the order keeping the balance as margin. Banks adjust the packing credit advance from the proceeds of export bills negotiated, purchased or discounted. Post Shipment finance is given to exporters normally up to 90% of the Invoice value for normal transit period and in cases of usance export bills up to notional due date. The maximum period for post-shipment advances is 180 days from the date of shipment. Advances granted by Banks are adjusted by realization of the sale proceeds of the export

bills. In case export bill becomes overdue Banks will charge commercial lending rate of interest.

- **Labelling, Packaging, Packing and Marking**-The export goods should be labelled, packaged and packed strictly as per the buyer's specific instructions. Good packaging delivers and presents the goods in top condition and in attractive way. Similarly, good packing helps easy handling, maximum loading, reducing shipping costs and to ensuring safety and standard of the cargo. Marking such as address, package number, port and place of destination, weight, handling instructions, etc. provides identification and information of cargo packed.
- **Insurance**-Marine insurance policy covers risks of loss or damage to the goods while the goods are in transit. Generally in CIF contract the exporters arrange the insurance whereas for C&F and FOB contract the buyers obtain insurance policy.
- **Delivery**-It is important feature of export and the exporter must adhere the delivery schedule. Planning should be there to let nothing stand in the way of fast and efficient delivery.
- **Customs Procedures**-It is necessary to obtain PAN based Business Identification Number (BIN) from the Customs prior to filing of shipping bill for clearance of export good and open a current account in the designated bank for crediting of any drawback amount and the same has to be registered on the system.

In case of Non-EDI, the shipping bills or bills of export are required to be filled in the format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. An exporter need to apply different forms of shipping bill/ bill of export for export of duty free goods, export of dutiable goods and export under drawback etc.

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA. In most of the cases, a Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter the particulars thereof along with details of the testing agency in the ICES/E system.

Any correction/amendments in the check list generated after filing of declaration can be made at the service centre, if the documents have not yet been submitted in the system and the shipping bill number has not been generated. In situations, where corrections are required to be made after the generation of the shipping bill number or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

- The goods have not yet been allowed "let export", amendments may be permitted by the Assistant Commissioner (Exports).
- Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

In both the cases, after the permission for amendments has been granted, the Assistant Commissioner / Deputy Commissioner (Export) may approve the amendments on the system on behalf of the Additional /Joint Commissioner. Where the print out of the Shipping Bill has already been generated, the exporter may first surrender all copies of the shipping bill to the Dock Appraiser for cancellation before amendment is approved on the system.

- **Customs House Agents**-Exporters may avail services of Customs House Agents licensed by the Commissioner of Customs. They are professionals and facilitate work connected with clearance of cargo from Customs.
- **Documentation**-FTP 2015-2020 describe the following mandatory documents for import and export. Bill of Lading/ Airway bill, Commercial invoice cum packing list, shipping bill/ bill of export/ bill of entry (for imports) (Other documents like certificate of origin, inspection certificate etc may be required as per the case.)
- **Submission of documents to Bank**-After shipment, it is obligatory to present the documents to the Bank within 21 days for onward dispatch to the foreign Bank for arranging payment. Documents should be drawn under Collection/Purchase/Negotiation under L/C as the case may be, along with the following documents
- Bill of Exchange
- Letter of Credit (if shipment is under L/C)
- Invoice
- Packing List
- Airway Bill/Bill of Lading

- Declaration under Foreign Exchange
- Certificate of Origin/GSP
- Inspection Certificate, wherever necessary
- Any other document as required in the L/C or by the buyer or statutorily.
- **Realization of Export Proceeds**-As per FTP 2015-2020, all export contracts and invoices shall be denominated either in freely convertible currency of Indian rupees, but export proceeds should be realized in freely convertible currency except for export to Iran. Export proceeds should be realized in nine months.

6.3.2 New Foreign Trade Policy (FTP) or Export-Import Policy (EXIM) (2015-2020)

FTP 2015-20 notified by Central Government provides a framework for foreign trade of India. It came into effect from 1 April, 2015 and shall remain in force up to 31 March, 2020. Two new schemes have been introduced in new FTP namely “Merchandise Exports from India Scheme (MEIS) and “Services Exports From India Scheme”.

Vision of FTP-Government aims to increase India’s exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India’s share in world exports from 2 percent to 3.5 percent.

Objectives of New Foreign Trade Policy

- To provide a stable and sustainable policy environment for foreign trade.
- To increase in the percentage of exports within next five years.
- To link rules, procedures and incentives for exports and imports with other initiatives such as “Make in India”, “Digital India” and “Skills India.”
- To promote the diversification of India’s export basket by helping various sectors of the Indian economy to gain global competitiveness
- To create an Export Promotion Mission.
- To increase the demands of India’s product and to contribute in the Make in India Mission.
- To provide more opportunities in the employment sector.
- To create architecture for India’s global trade engagement with a view to expanding its markets and better integrating with major regions.

- To provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

Features of New Foreign Trade Policy 2015-2020

- **Whole-of-Government Approach & Role of State/UT Governments** - A major path breaking initiative is to mainstream State and Union Territory (UT) Governments and various Departments and Ministries of the Government of India in the process of international trade. State/UT Governments can play a crucial role in promoting exports and rationalizing nonessential imports. Many of the State Governments have nominated Export Commissioners. The Department of Commerce is also helping State Governments to prepare export strategies. An Export Promotion Mission will be constituted to provide an institutional framework to work with State Governments to boost India's exports.
- **Addressing In-House Challenges** - The biggest challenge, however, is to address constraints within the country such as infrastructure bottlenecks, high transaction costs, and complex procedures, constraints in manufacturing and inadequate diversification in our services exports.
- **The Services Sector** - The Services sector is an area of great potential. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets. A Global Exhibition on Services will be held annually, which will provide a forum for showcasing India's strengths in the Services sector. Apart from it "The Served From India Scheme" has been replaced with the "Service Exports from India Scheme" (**SEIS**). SEIS is stated to apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Therefore, SEIS rewards to all service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider.
- **Building the India Brand** - A long term branding strategy has been conceptualized to enable India to hold its own in a highly competitive global environment and to ensure that Brand India becomes synonymous with high quality. Further, a programme to promote the branding and commercialization of products registered as Geographical Indications and to promote their exports will be initiated.
- **Institutional Mechanisms for Trade Promotion** - Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme will continue. The present allocation for the MAI scheme is inadequate; efforts will be made to augment resources for the scheme.

- **Export Promotion Councils are being strengthened**, both in terms of technical capabilities and management structures. Project exports will be encouraged in a big way, especially in the emerging markets with high infrastructure needs, through special lines of credit offered by the Ministry of External Affairs and the Buyers Credit Scheme of the Department of Commerce through EXIM Bank of India. This will, inter alia, enable Indian businesses to develop long term business relationships, facilitate easier acceptance of India's exports and build visibility for Indian products.
- Two institutional mechanisms are being put in place for regular communication with stakeholders, namely, a Board of Trade which will have an advisory role and a Council for Trade Development and Promotion which will have representation from State and UT Governments.
- **Trade Ecosystem** - Several initiatives are underway or in the pipeline for the simplification of procedures and digitization of various processes involved in trade transactions. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces constituted by the Directorate General of Foreign Trade.
- Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes. The Niryat Bandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes.
- **The Multilateral Trading System and India** - The current WTO rules as well as those under negotiation envisage the eventual phasing out of export subsidies. This is a pointer to the direction that export promotion efforts will have to take in future, i.e. towards more fundamental systemic measures rather than incentives and subsidies alone.
- The three mega agreements that are currently being negotiated namely the Trans Pacific Partnership, Trans-Atlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP) add a completely new dimension to the global trading system. India is a party to the RCEP negotiations. The mega agreements are bound to challenge India's industry in many ways, for instance, by eroding existing preferences for Indian products in established traditional markets such as the US and EU and establishing a more stringent and

demanding framework of rules. Indian industry needs to gear up to meet these challenges for which the Government will have to create an enabling environment.

- **Product Strategy** The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals. The challenges posed to the pharmaceuticals sector by NTBs in Japan and regulatory hurdles in China have to be addressed. A composite programme for promotion of healthcare products and services will be conducted in various regions to showcase and market India's unique strengths.
- **Other sectors** which require special attention, in light of India's strengths and their contribution to employment generation, are leather, textiles, gems and jewellery and the sectors based on natural resources, which include agriculture, plantation crops, marine products and iron ore exports. Revitalizing plantations, enabling a less controlled regime for agriculture and aiming at greater value addition and processing would help to increase the value of exports from these sectors. The North-Eastern States are a special focus area for organic product exports.
- **Goods** Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, (VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions attached to their use.

Some other features:

- **Special Economic Zone**s – The policy outlines extended incentives for Special Economic Zones in India.
- **Export Houses** – The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been simplified and changed to One, Two, Three, Four and Five Star Export House.
- **Status Holders** – Business leaders who have excelled in international trade and have successfully contributed to India's foreign trade are proposed to be recognized as Status Holders and given special privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.
- **Resolving Complaints –** In an effort to resolve quality complaints and trade disputes between exporters and importers, a new chapter on Quality Complaints and Trade Disputes has been incorporated into the Foreign Trade Policy.

- Duty-free scrips are paper authorizations that allow the holder to import inputs which are used to manufacture products that are exported, or to manufacture machinery used for producing such goods, without paying duty equivalent to the printed value of the scrip. For instance, duty-free scrip valued at Rupees 1 lakh allows the holder to import goods without paying duty of up to Rupees 1 lakh on the goods.
- Under the new Foreign Trade Policy, all these schemes have been merged into a single scheme, namely the Merchandise Export from India Scheme (**MEIS**) and there is no conditionality attached to scrips issued under the MEIS.
- There would be no conditionality attached to any scrip issued under these schemes.
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2% to 5%.
- Under SEIS the selected Services would be rewarded at the rates of 3% and 5%.

6.4 Check Your Progress

1. Which one of the following is a mode of exporting?
   a) Direct Exporting
   b) Indirect Exporting
   c) Both a & b
   d) None of the above
2. Which one is the advantage of exporting?
   a) Economies of scale
   b) Increase sale and profit
   c) Create Employment opportunities
   d) All of the above
3. Which one has the power to issue importer exporter code number?
   a) Chief Minister
   b) Director General of Foreign Trade
   c) President
   d) None of the above
4. Target set in new foreign trade policy to increase share of foreign trade in World’s trade is...
   a) 2%

b) 2.5%

c) 3.5%

d) 3%

5. Which one is the objective of new foreign trade policy?

a) To provide a stable and sustainable policy environment for foreign trade.

b) To increase in the percentage of exports within next five years.

c) To provide more opportunities in the employment sector.

d) All of the above

6. In which year Foreign Trade (Development & Regulation) Act was passed?

a) 1990

b) 1991

c) 1992

d) 1993

6.5 Summary

Exporting is the oldest and easiest way of sale of surplus production. It is defined as process of selling goods and services into foreign market. In simple word, any goods and services which are to be taken a place outside India. There are three modes of exporting: In direct exporting the manufacturing firm sells the goods and services directly in the foreign market without the involvement if middlemen. Manufacturing firm has single controlling authority over the export business. In indirect exporting the manufacturing firm sells the goods and services through middlemen, local companies and contract with distributors in the foreign market. In indirect exporting involvement of manufacturing firm have less control over the export business. In this export of products is done by collaborative agreements with other firms export marketing groups concerning the performance of exporting functions.

Directorate General of Foreign Trade is the primary governing body responsible for the export and import policies in the country. DGFT organization is an attached office of the Ministry of Commerce and Industry and is headed by Director General of Foreign Trade. Since an export trade has to follow a specific set of procedures from receiving inquiries to completion of the transaction, exporters need to get themselves registered with these authorities for ensuring all the legal formalities as required by them are met and also for receiving incentives which are allowed under the export promotion schemes.

Export procedure includes the following steps: Set up of Infrastructure, Selection of Name of Firm, Approval to Name of Firm and Logo, Selection of an appropriate form of business organization, Opening of Bank Account, Obtaining Permanent Account Number (PAN), Registration with Sales Tax/Value Added Tax/ Goods & Services Tax Authorities, Importer-Exporter Code number (IEC Number), Registration cum Membership Certificate, Registration with ECGC, Registration under Central Excise Law and Export License.

New Foreign Trade Policy 2015-20 notified by Central Government provides a framework for foreign trade of India. Government aims to increase India's exports of merchandise and services through stable and sustainable policy environment for foreign trade; link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", "Digital India" and "Skills India"; promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness; and provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

6.6 Keywords

- **Exporting:** It is defined as a process of selling goods and services into foreign market.
- **Special Economic Zone (SEZ):** Area of privileges and concessions notified by Central Government to insure balanced regional growth.
- **Foreign markets:** Includes all markets other that domestic market.
- **Balanced Growth:** Growth of all sectors and areas equally of an Economy during a time period.
- **Economic development:** Growth of a country in the way of GDP, per capita income etc.
- **Trade concessions:** Tax benefits provided to exporters for the export of the particulars products from India.
- **Tariff:** A tax imposed on export or import of a particular category of products.
- **Direct Exporting-** In direct exporting the manufacturing firm sells the goods and services directly in the foreign market without the involvement of middlemen.
- **Indirect Exporting-** In indirect exporting the manufacturing firm sells the goods and services through middlemen, local companies and contract with distributors in the foreign market.
- **Cooperative exporting-** Export of products is done by collaborative agreements with other firms or export marketing groups.
- **Economies of scale-**Benefits to entrepreneurs originated from large scale production.

- **Political environment-**Ideology of ruling government, political stability, members of opposition parties etc.
- **Product modification-**Changes in the product shape, brand name, design, colour, packaging, weight etc.
- **IEC Number**-Importer Exporter Code number, required for registration for exports and imports of product from India.
- **Trade Ecosystem** –This is environment for foreign trade i.e. procedures and formalities.
- **Export Houses** – A company that does not involve in production of goods rather in financing and handling of exports.
- **Status Holders** – Business leaders who have excelled in international trade and have successfully contributed to India's foreign trade.

6.7 Self-Assessment Test

- What do you mean by Exporting? What are the various modes of Exporting?
- Explain Exporting. Describe the procedure and documentation required for exporting.
- Explain the main features of New Foreign Trade Policy.
- What are various controlling authorities of export in India? Explain.
- Write the main steps to processing an export order.

6.8 Answers to check your progress

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

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Subject: Foreign Trade in India	
Course Code: BC 306	**Author:** Dr. Surinder Singh Kundu
Lesson No.: 7	**Vetter:** Prof. Pardeep Kumar Gupta
LETTER OF CREDIT, PROFORMA INVOICE & BILL OF LADING	

Lesson Structure:

7.0 Learning Objectives

- To understand the concept of Letter of Credit (L/C) and its significance in international business transactions.
- To describe the concept of Bill of Lading (B/L) and its importance in international trade.
- To explain the concept of Proforma Invoice and its use in international trade operations.

7.1 Introduction

To ensure the timely movement of goods from exporter to an importer, an exporter is required to follow certain legal formalities and procedures decided by the export authority of a country (Directorate General of Foreign Trade in India) and it is important to prepare correctly a complete set of export documents related to goods (i.e. Export Invoice, Packing list, Certificate of origin, Certificate of inspection), shipment (i.e. Mate's receipt, Shipping bill, Bill of lading, Airway bill, Marine Insurance policy, Cart ticket) and payment (i.e. Letter of credit, Bill of exchange, Bank certificate of payment). Export documentation is a very important area in export management. Each of these documents serves a specific purpose and hence brings its own unique importance. A clear understanding of all documents and their purpose, how to prepare these, number of copies required, when and where to file, is a must for all export professionals. These decouments make sure the transportation of goods, custom clearance in a timely manner without any extra cost and payment on time. Documentation in export business assumes greater importance as many parties/authorities are involved in a single transaction. There are the buyers and exporters, buying agents, RBI, authorized dealers in India (where the exporter has his bank account), buyer's bank (foreign bank), DGFT, customs and port authorities, GST and excise authorities, Export Promotion Councils, insurance companies, inspection agencies, clearing and forwarding agents, shipping companies/airlines and inland haulage carriers, etc. This chapter provides a comprehensive explanation of Letter of credit, proforma invoice and bill of lading.

7.2 Letter of Credit (L/C)

'Letters of Credit' (L/C) also known as '*Documentary Credits*' is the most commonly accepted instrument of settling international trade payments. A Letter of Credit is an arrangement whereby the bank acting at the request of a customer (importer/buyer), undertakes to pay for the goods/ services, to a third party (exporter/beneficiary) by a given date, on documents being presented in compliance with the conditions laid down. Further, the several definitions of L/C are given as:

- *A Letter of Credit (L/C) is a document containing the guarantee of a bank to honour drafts drawn on it by an exporter, under certain conditions and up to certain amounts, provided that the beneficiary fulfils the stipulated conditions*.
- *A Letter of Credit (L/C), simply defined, is a written instrument issued by a bank at the request of its customer, the importer (buyer), whereby the bank promises to pay the exporter (beneficiary) for goods or services, provided that the exporter presents all documents called for, exactly as stipulated in the L/C, and meet all other terms and conditions set out in the L/C.*

The International Chamber of Commerce (ICC) in the Uniform Custom and Practice for Documentary Credit (UCPDC) defines documentary credit as:

"*An arrangement, however named or described, whereby a bank (the issuing bank) acting at the request and in accordance with the instructions of a customer (the applicant to the credit) to make payment to or to the order third party (the beneficiary) or is to pay, accept or negotiate bills of exchange (drafts) drawn by the beneficiary, or authorise such payments to be made or such drafts to be paid, accepted or negotiated, by another bank, against stipulated documents and compliance with stipulated terms and conditions*."

7.2.1 Parties to a Letter of Credit (L/C)

1. ***Applicant (Opener)*:** The (applicant/buyer/customer/importer) of the goods, who has to make payment to beneficiary, L/C is opened and issued on the basis of his request and instructions.
2. ***Issuing Bank (Opening Bank)*:** The bank issuing the L/C is known as "issuing" bank.
3. ***Beneficiary*:** The beneficiary is the seller/exporter of the goods, who has to receive payment from the applicant.

4. ***Advising Bank*:** The "advising" bank provides advice to the beneficiary and takes the responsibility for sending the documents to the issuing bank and is normally located in the country of the beneficiary.
5. ***Confirming Bank*:** The "confirming" bank adds its guarantee to the credit opened by another bank, thereby undertaking the responsibility of payment/negotiation acceptance under the credit, in addition to that of the issuing bank. The confirming bank serves an important role where the exporter is not satisfied with the undertaking of only the issuing bank. It is situated in exporter's country and if issuing bank fails, the confirming bank has to honours its commitment.
6. **Nominated Bank:** A bank in exporter's country which is specifically permitted by the issuing bank to receive, negotiates, etc., the documents and pays the amount to the exporter under the L/C.
7. **Reimbursing Bank**: A bank authorised to honour the reimbursement claim made by the paying, accepting or negotiating bank. It is normally the bank with which issuing bank has **Nostro Account** from which the payment is made to the nominated bank.
8. **Transferring** Bank: In a transferable L/C, the 1st beneficiary may request the nominated bank to transfer the L/C in favour of one or more second beneficiaries. Such a bank is called transferring Bank.

7.2.2 Types of Letter of Credit (L/C)

1. **Revocable Letter of Credit**: A revocable L/C may be cancelled or modified without the permission of or notice to the exporter/beneficiary by the issuing bank and it is seldom used.
2. **Irrevocable Letter of Credit**: It cannot be cancelled or amended without the beneficiary's consent. An irrevocable L/C obligates the issuing bank to honor all drawings presented in conformity with the terms of the L/C.
3. **Confirmed Letter of Credit**: It is a special type of L/C in which confirming bank (generally a local bank in the exporter's country) in addition to the issuing bank has added its guarantee by adding a clause, 'The above credit is confirmed by us and we hereby undertake to honour the drafts drawn under this credit on presentation provided that all terms and conditions of the credit are duly satisfied.' Although, the cost of confirming by two banks makes it costlier, this type of L/C is more beneficial for the beneficiary as it doubles the guarantee.

4. **Unconfirmed Letter of Credit**: Under it, the issuing bank asks the corresponding bank to advise about the L/C without any confirmation on its part. It mentions, 'The credit is irrevocable on the part of the issuing bank but is not being confirmed by us.'
5. **Sight Letter of Credit**: It states that the payments would be made by the issuing bank at sight, on demand or on presentation. The payment is made when documents are presented.
6. **Usance/Time Letter of Credit**: In case of usance/time credit, drafts are drawn on the issuing bank or the correspondent bank at specified usance period. The credit will show whether the usance draft are to be drawn on the issuing bank or in the case of confirmed credit on the confirming bank. The payment is made at a future fixed time from presentation of documents (e.g. 60 days after sight).
7. **Revolving Letter of Credit**: Under it, the amount involved is reinstated when used, i.e. the amount becomes available again without issuing another L/C and usually under the same terms and conditions.
8. **Back to Back Letter of Credit**: It is issued when exporter uses them as a cover for opening a credit in favour of the local suppliers. As the credits are intended to cover same goods, it should be ensured that the terms are similar except that the price is lower and validity earlier.

7.2.3 Advantages and Disadvantages of Letter of Credit (L/C) to Importer

Advantages to the Importer

- Importer is assured that the exporter will be paid only if all terms and conditions of the L/C have been met.
- Importer is able to negotiate more favourable trade terms with the exporter when payment by L/C is offered.

Disadvantages to the Importer

- A L/C does not offer protection to the importer against the exporter shipping inferior quality goods and/or a lesser quantity of goods. Therefore, it is important that the importer conduct the suitable due diligence to measure the goodwill of the exporter. If the exporter acts fraudulently, the only recourse available to the importer is through legal proceedings. *Note: Added protection to the Importer may be provided by requesting additional documentation in the Letter of Credit, e.g. a Certificate of Inspection*.

- It is necessary for the importer to have a line of credit with a bank before the bank is able to issue a L/C. The amount outstanding under each L/C issued is applied against this line of credit from the date of issuance until final payment.

7.2.4 Advantages and Disadvantages of Letter of Credit (L/C) to Exporter

Advantages to the Exporter

- The risk of payment depends upon the creditworthiness of the issuing Bank and the political risk of the issuing bank's domicile, and not the creditworthiness of the importer.
- Exporter agrees in advance to all requirements for payment under the L/C. If L/C is not issued as agreed, the exporter is not obligated to ship against it.
- Exporter can further reduce foreign political and bank credit risk by requesting confirmation of the L/C by another bank.

Disadvantages to the Exporter

- Documents must be prepared and presented in strict compliance with the requirements stipulated in the L/C.
- Some importers may not be able to open L/C due to the lack of credit facilities with their bank which consequently shows export growth.

7.2.5 An Example of use of Letter of Credit

Nike can attribute part of its international business growth in the 1970s to the use of L/Cs. In 1971 Nike was not well known to businesses in Japan or anywhere else. Nevertheless, by using L/C, it was still able to subcontract the production of athletic shoes in Japan. The L/C assured the Japanese shoe producer it would receive payment for the shoes it would send to the United States and thus facilitated the flow of trade without worry about credit risk. Banks served as the guarantors in the event that the Japanese shoe company was not paid in full after transporting shoes to the United States. Thus, because of the backing of the banks, the L/Cs allowed the Japanese shoe company to do international business without having to worry that the counterparty in its agreement would not fulfill its obligation. Without such agreements, Nike (any many other firms) would not able to order shipments of goods.

Source: Jeff Madura, International Financial Management.

7.3 Bill of Lading (B/L)

The most important transport document used in financing of foreign trade is the bill of lading (B/L). A B/L is a shipping document issued to the exporter or its bank by a common carrier that ships the goods. A carrier is a company or a person legally entitled to transport goods by land, water and air. Therefore, the B/L accepts the receipt of cargo given in the bill for shipment on board of the vessel. It is also an undertaking to deliver the goods in the same order and condition as obtained, to the consignee or his order provided that the freight and other charges specified in the B/L have been duly paid.

The Bill of Lading (B/L) contains the following information:

- Shipping company's name and address;
- Consignee's name and address;
- Port of loading and port of discharge;
- Shipping marks and particulars;
- Number of packages;
- Shipped on board with date and rubber stamp;
- Description of packages and the goods;
- Gross weight and net weight;
- Freight details and name of the vessel;
- Signature of the shipping company's agent.

Bill of Lading (B/L): 'Freight Paid' or 'Freight to Pay'

The B/L may be marked as 'freight paid' or 'freight to pay'. If the freight is pre-paid by the exporter, the B/L is marked or stamped as 'freight paid' while in case the freight has not been paid, 'freight to pay' or 'freight collect' is marked on the B/L. The B/L is issued by the shipping company in exchange for mate's receipt. Therefore, the shipping company ensures that all the clauses appearing on the mate's receipt are reproduced on the B/L prior to signing and issuing it.

7.3.1 Functions of Bill of Lading (B/L)

It serves three important functions:

1. **Receipt of Cargo**: It is a receipt acknowledging that the goods have been received by the carrier (i.e. a receipt of cargo by the shipping company).

2. **Contract of Carriage/Transport**: It is a contract binding the carrier to deliver the goods to the importer.
3. **A Document of Title**: The negotiable B/L, its most common form, is a document that establishes control over the goods.

7.3.2 Types of Bill of Lading (B/L)

The various types of bill of lading are:

1. ***Straight Bill of Lading(B/L)***
   - It consigns the goods to a specific party, normally the importer, and is not negotiable.
   - It is used where no financing is involved.
   - It is not negotiable, not popularly used in export financing.
2. ***Order Bill of Lading(B/L)***
   - The goods are consigned to the order of a named party, usually the importer.
   - The exporter retains title to the goods until it endorses the B/L on the reverse side.
   - The exporter's representative may endorse to a specific party or endorse it in blank by simply signing his or her name.
   - The carrier delivers the goods in the port of destination to the bearer of the endorsed order B/L, who must surrender it.
   - It represents goods in transit that are readily marketable and fully insured, this document is generally considered to be good collateral by banks.
   - It is required under letter of credit financing and for discounting of drafts.
3. ***On Board or Shipped Bill of Lading(B/L)***
   - It states that the goods have been placed "on board" the ship/carrier.
   - It is required in case of FOB (i.e. Free On Board) shipments.
4. ***Received for Shipment Bill of Lading(B/L)***
   - It states that goods have been received by the shipping company pending for shipment and cargo is under custody of the carrier.
   - It is required in case of FAS (i.e. Free Alongside Ship) shipments.
5. **Clean Bill of Lading (B/L)**

- It does not contain any negative remark on either the quality of goods or on the physical condition of package of the cargo received by the shipping company.
- In fact, all importers worldwide insist upon a clean bill of lading.

6. **Dirty (claused) Bill of Lading (B/L)**
   - It contains any negative remark on either the quality of goods or on the physical condition of package of the cargo received by the shipping company.
   - It is not accepted by most importers unless otherwise clearly given in the export contract.
7. **Stale Bill of Lading (B/L)**
   - It is presented after the vessel has sailed and the goods have reached at the port of discharge before the bill of lading could reach the buyer.
   - This may lead to delay in customs clearance of goods, payment of warehousing charges, and the risk of loss or damage to the cargo at destination.
   - However, the issuing bank may issue the importer a guarantee for delivery of goods and a bond, both of which need to be countersigned by the issuing bank for getting the goods clearance through customs in absence of the bill of lading.
   - However, the importer is required to surrender the correctly endorsed bill of lading upon its receipt or replace it in case of its loss.
8. **Trans-shipment Bill of Lading (B/L)**
   - It is also issued when trans-shipment of cargo is required but the first carrier issuing the bill of lading acts as an agent in subsequent stages of voyage.
   - The first carrier cannot be held liable for any loss or damage in the subsequent stages of transport by the holder of trans-shipment bill of lading.
   - Importers generally prefer a through bill of lading.
9. ***Through Bill of Lading* (B/L)**
   - It is issued where the goods are to be moved from one carrier to another.
   - It is a form of combined transport document wherein the first carrier acts as the principal carrier and is responsible for the total voyage and is liable in the event of any loss or damage to the goods.
10. **House (or freight forwarders') Bill of Lading (B/L)**
    - It is issued by the freight forwarder, consolidator or non-vessel carrier (NVC).

- It is a non-negotiable document including the names, addresses of the parties and specific explanation of goods shipped.

11. Short forms/Blank Back Bill of Lading (B/L)

- It is needed when the terms of the shipping contract are not given in the original bill of lading.
- Unless specifically prohibited, banks accept short forms bill of lading.

12. Charter party Bill of Lading (B/L)

- It is issued by the carrier or its agent in case of charter shipping.
- It is not accepted for L/C negotiation unless otherwise authorized in the letter of credit.

7.3.3 Ocean (Marine) Bills of Lading (B/L)

- It is a transport document issued by the shipping company to the shipper for accepting the goods for carriage of merchandise. The shipper (also known as a consignor) is a person or a company responsible for organising and transporting goods from one point to another.
- This document has attained unique importance in shipping – it is the *document of title*, which means that the legitimate holder of the document is entitled to claim ownership of the goods covered therein.
- Therefore, it would be impossible for the importer to get ownership of the cargo unless she/he surrenders a signed original B/L to the shipping company at destination.
- The B/L becomes a '*negotiable*' document, through endorsing it, in which case the goods specified in it can be transferred from one party to another.
- The negotiability is produced in B/L by stating '*to order*' B/L. An exporter should insist upon '*to order*' B/L in which case any cargo would be released on presentation of an original of '*to order*' B/L.
- However, the '*consignee-named*' B/L is prepared in the name of specific party which cannot be negotiated (transferred).
- The consignee named B/L should be accepted by an exporter only in case she/he is confident of receiving timely payment as in case of either advance payment or an irrevocable letter of credit.
- If the B/L includes a trans-shipment clause, the carrier has the right to trans-ship even if the letter of credit prohibits trans-shipment.

7.3.4 Airway Bill of Lading (AWB)

- It is also called air consignment note or airway bill of lading.
- The airway bill is a receipt of goods and an evidence of contract of carriage but unlike ocean B/L, it is not a document of title and therefore, it is non-negotiable.
- The goods are consigned directly to the named consignee and are delivered to the consignee (i.e. the importer) without any further formality once the customs clearance is obtained at the destination.
- Therefore, it is risky to consign the goods directly to the importer unless the exporter has ensured receiving the payment of goods. Alternatively, the exporter may insist upon a provision in the letter of credit to consign the goods to a third party like the issuing bank or arrange for receiving the payment on cash on documents basis.

7.4 Proforma Invoice

It is the basic and most important document in an export transaction on the part of exporter and it is expected that it must give full and correct information. The incorrect and misleading information given in proforma invoice results cancellation of export order, cost to exporter and loss of goodwill in the international market.

What is Proforma Invoice?

Proforma invoice*:* A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer. The exporter sends a reply to the enquiry in the form of a quotation referred to as *proforma invoice*. The proforma invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms. Usually three copies of the offer are sent by the exporter to the importer. If the importer agrees with the terms of the offer, he signs one of the copies and returns it to the exporter. After signing, the offer becomes an export order. Sometimes, the importer makes out his own indent (or order) and sends the same to the exporter.

7.4.1 Key Points of Proforma Invoice

The key points of proforma invoice are as following:

1. **Time of Issue**: It is issued before placement of order.
2. **Birth of Sale Offer**: It creates a sale offer i.e. it is sent to buyer on his request, before any shipment of goods might happen.
3. **Details of Goods**: It provides the full and correct details of goods being shipped, corresponding to the export order and letter of credit.
4. **Helps in decision-making**: It helps the buyer to make a decision.
5. **Similar to quotation**: It is similar to quotation.
6. **No accounting entry**: No entry is made in accounting.
7. **Creation**: It is created by the supplier.
8. **Issued to**: It is issued to buyer/customer.
9. **Effect of Acceptance**: Creation of sale.

7.4.2 Contents of Proforma Invoice

A pro forma invoice should include the following information:

- Provisional invoice number and date.
- Name and address of the exporter.
- Name and address of the importer.
- Mode of transportation such as sea, air or multimodal.
- Name of the port of loading.
- Name of the port of discharge and final destination.
- Exporter’s reference number.
- Buyer’s reference number and date.
- Name of the country of origin of goods.
- Validity of the pro forma invoice
- Proposed terms of sale.

- Proposed terms of payment, if any.
- Certifications required by "Customs Authorities" if any.
- Signature by an authorized person from supplier's company.
- Marks and container number.

7.5 Check Your Progress

1. Which of the following documents are not required for obtaining an export license?
    a. IEC number
    b. Letter of credit
    c. Registration cum membership certificate
    d. Bank account number
2. Which one of the following is not a document related to fulfill the customs formalities
    a. Shipping bill
    b. Export license
    c. Letter of insurance
    d. Proforma invoice
3. Which one of the following is not a part of export documents?
    a. Commercial invoice
    b. Certificate of origin
    c. Bill of entry
    d. Mate's receipt
4. A bill of lading is -
    a. a negotiable instrument;
    b. quasi – negotiable instrument;
    c. a non – negotiable instrument;
    d. non – transferable instrument.
5. A letter of credit is opened on behalf of ______
    a. Exporter Customer
    b. Importer Customer

c. Any party wishing to make payment abroad

d. None of the above

7.6 Summary

Export documentation is a very important area in export management. Each of these documents serves a specific purpose and hence brings its own unique importance. A clear understanding of all documents and their purpose, how to prepare these, number of copies required, when and where to file, is a must for all export professionals. These decouments make sure the transportation of goods, custom clearance in a timely manner without any extra cost and payment on time. Documentation in export business assumes greater importance as many parties/authorities are involved in a single transaction. There are the buyers and exporters, buying agents, RBI, authorized dealers in India (where the exporter has his bank account), buyer’s bank (foreign bank), DGFT, customs and port authorities, GST and excise authorities, Export Promotion Councils, insurance companies, inspection agencies, clearing and forwarding agents, shipping companies/airlines.

The *Bill of lading*, *Letter of Credit* and *Proforma Invoice* are major documents used in an import transaction. The Bill of lading is one of the documents relating to shipment in connection with export transaction. It is a document wherein a shipping company gives its official receipt of the goods put on board its vessel and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

The Letter of credit is one of the documents relating to payment in connection with export transaction. A Letter of credit is a guarantee issued by the importer’s bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions.

After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer. The quotation is known as *proforma invoice.* A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

7.7 Keywords

Bill of lading*:* It is a document prepared and signed by the master of the ship acknowledging the receipt of goods on board. It contains terms and conditions on which the goods are to be taken to the port of destination.

***Letter of credit**:* It is document that contains a guarantee from the importer bank to the exporter's bank that it is undertaking to honour the payment up to a certain amount of the bills issued by the exporter for exports of the goods to the importer.

***Proforma invoice**:* A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

7.8 Self-Assessment Test

1. What is a Letter of Credit (L/C) and how does it facilitates international trade transactions?
2. What is Letter of Credit? Explain the types of it.
3. What is Bill of lading? Describe the functions and types of B/L.
4. Describe the meaning and significance of proforma invoice to facilitate export transaction.
5. Write a note on (a) Ocean Bill of lading and (b) Airway Bill of lading.

7.9 Answers to Check Your Progress

1. B
2. D
3. C
4. B
5. B

7.10 References/Suggested Readings

1. Aseem Kumar, *Export and Import Management*, Excel books, 2007.
2. ICSI, International Business – Laws and Practices.
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Subject: Foreign Trade in India	
Course Code: BC 306	**Author:** Dr. Surinder Singh Kundu
Lesson No.: 8	**Vetter:** Prof. Pardeep Kumar Gupta
INCO TERMS AND INTERNATIONAL PRICE QUOTATIONS	

Lesson Structure:

8.1 Introduction

8.2 What are INCO terms?

8.2.1 What the INCO terms rules do?

8.2.2 What the INCO terms rules do not do?

8.2.3 Purpose of the INCO terms rules

8.2.4 What are different types of INCO terms?

8.3 INCO terms 2020 Rules

8.4 International Price Quotations and INCO terms

8.5 Check Your Progress

8.6 Summary

8.7 Keywords

8.8 Self-Assessment Test

8.9 Answer to Check Your Progress

8.10 References/Suggested Readings

8.0 Learning Objectives

- To understand the meaning and purpose of INCO terms 2020 rules for an international trade transaction.
- To explain what the Incoterms 2020 rules do and do not and how they are best incorporated.
- To understand the transport obligations, costs & risks from viewpoint of both the exporter and importer.
- To explain and learn the use of Incoterms 2020 rules for multi-modal transport and sea & in-land waterway transport (maritime).

- To understand the use of Incoterms in formulating International price quotations.

8.1 Introduction

"INCO terms" is an acronym standing for International Commercial Terms. Incoterms is a registered trademark of the International Chamber of Commerce (ICC), headquarter at Paris, France. The Incoterms rules are the world's essential terms of trade for the sale of goods and provide specific guidance to individuals participating in the export and import of global trade on a daily basis.

Consider the following example to understand the use of Incoterms rules in international trade transaction between the Indian exporter and the Importer of Middle-East country. The Indian exporter has found a buyer for his/her goods in the Middle-East country. The shipment of export items from a warehouse to buyer in the Middle-East would involve various taxes and charges including packaging, loading, domestic in-land transport, terminal charges at the port, loading on the ship or flight, insurance charges, freight charges, arrival charges at the destination port, duties and taxes, delivery to the buyer, while the buyer would pay to the exporter for export items. The exporter is confused who would pay for the additional cost in the transportation and who would pay for the insurance of goods while in transit. This is determined by the Incoterms agreed between the exporter and importer in the Middle-East.

On the release of Incoterms 2020, ICC Secretary General John W.H. Denton AO said: "*Incoterms 2020 rules make business work for everyone by facilitating trillions of dollars in global trade annually. Because they help importers and exporters around the world to understand their responsibilities and avoid costly misunderstandings, the rules form the language of international sales transactions, and help build confidence in our valuable global trading system.*"

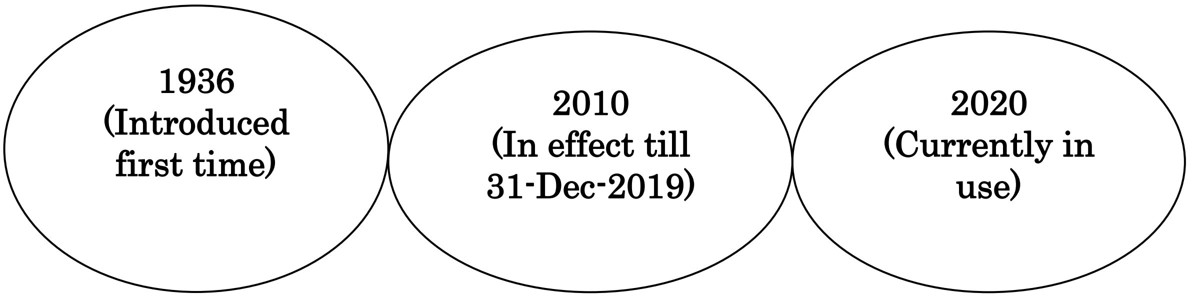
This chapter is designed to provide a quick overview and description of the Incoterms rules 2020 frequently used worldwide in international and domestic sales contract. It states the responsibilities between buyers and sellers with regards to costs, risks, responsibilities for cargo insurance and regulatory compliance. The use of Incoterms in formulating the international price quotations is also described.

8.2 What are INCO terms?

The Incoterms is a series of pre-defined 3 digits alphabetical commercial rules developed by the International Chamber of Commerce (ICC) to facilitate the exporter and importer across the world in creating a sales contract for delivery of goods between buyer and seller.

These terms establish responsibilities of both buyers and sellers at each stage of shipment to avoid misunderstanding. The exporter must agree to a particular Incoterm with importer while generating the export invoice itself. The Incoterms also becomes a part of the agreement between the buyer and seller and is mentioned clearly on all documents involved in the transaction. Therefore, Incoterms are a standard set of terms used by businesses across the world in international trade. The International Chamber of Commerce (ICC) first introduced Incoterms back in the year 1936, in order to provide a standard set of terminology to traders and eliminate misinterpretations in international trade. The International Chamber of Commerce (ICC) launched latest trade terms, known as Incoterms 2020 on 10 September, 2019 and is effective from 1st January 2020 and is part of international sales contract between the buyer and seller. Before the launching of new terms on September 10, 2019, the Incoterms 2010 were used for making sales contract in international trade transactions between buyer and seller across the world.

INCOTERMs



Now the question arises how does Incoterms help?

Each Incoterm clearly details the break-up of costs involved and buyers & sellers responsibilities. For example, if the Incoterm is EXW – Ex Works, the exporter only pays till packaging and delivery right outside the factory gate. The remaining responsibilities to pick it up and get it delivered to the place of choice rests with the buyer. Similarly, if the agreed Incoterm is FOB – Free on Board, the seller responsibility would involve transporting the goods from seller's premises upto the departing ship or air.

8.2.1 What the Incoterms Rules Do?

The Incoterms rules explain a set of eleven of the most commonly used three letter trade terms, e.g. CIF, DAP etc. reflecting business-to-business practice in contracts for sale and purchase of goods. The Incoterms rules describe:

- **Obligations** – Who does what as between buyer and seller. For example, who organizes carriage or insurance of goods or who obtains shipping documents and export or import licences;

- **Risk** – Where and when the seller "delivers" the goods i.e. where risk transfers from seller to buyer;
- **Costs** – Which party is responsible for which costs, such as transport, packaging, loading, unloading costs and checking or security-related costs.

The Incoterms rules cover these areas in a set of ten articles, numbered A1/B1 etc., the A articles represent the seller's obligations and the B articles relate to the buyer's obligations.

Table 8.1: Incoterms rules and Ten Articles

Sr. No.	Title of Articles	Subject-matter
1	A1/B1	General Obligations
2	A2/B2	Delivery/Taking delivery
3	A3/B3	Transfer of risks
4	A4/B4	Carriage
5	A5/B5	Insurance
6	A6/B6	Delivery/Transport document
7	A7/B7	Export/Import clearance
8	A8/B8	Checking/Packaging/Marking
9	A9/B9	Allocation of costs
10	A10/B10	Notices

8.2.2 What the Incoterms Rules Do Not Do?

The Incoterms rules do not deal with the following matters:

- Whether there is a contract of sale at all;
- The specifications of the goods sold;
- The time, place, method, or currency of payment of the price;
- The remedies which can be sought for breach of the contract of sale;
- Most consequences of the delay and other breaches in the performance of contractual obligations.
- The effect of sanctions;
- The imposition of tariffs;
- Export or import prohibitions;

- Intellectual Property Rights;
- Transfer of property/title/ownership of the goods sold.

8.2.3 Purpose of Incoterms Rules

Incoterms are a set of rules that guide domestic and international trade, facilitating the conduct of imports and exports, defining the costs, risks, and obligations of buyers and sellers in international transactions. The core functions of Incoterms 2020 used in international trade are:

- Outline the obligations of the buyer and seller in a trade transaction.
- Clarify when risk passes from seller to buyer under each of these rules.
- Outline how costs are distributed between the buyer and seller.

The main purposes of Incoterms 2020 are:

1. Clarity in interpretation of trade terms and rules.
2. Minimization of trade disputes.
3. Base of contract of sale.
4. Documentary evidence.
5. Solid base to contract.
6. Clear allocation of cost between buyer and seller.
7. Makes Security obligations more prominent.

8.2.4 What are different types of Incoterms?

There are four categories:

1. **E Terms (Departure)**: The most popular is EXW (i.e. Ex Works). If the agreed Incoterm is EXW, the seller makes the goods available at his/her premises for the buyer to collect. This term carries the "minimum obligation" for the seller.
2. **F Terms (Main Carriage Unpaid by the Seller)**: The seller must deliver to the carrier (rail, air, or ship) of choice of the buyer. The seller would deliver the goods till the carrier and the buyer is responsible for carriage from that point onwards. The three types of F-Incoterms are:

   (a) FOB – Free on Board (Applicable for sea & In-land waterway transport only).

   (b) FCA – Free Carrier (Applicable for any mode of transport).

   (c) FAS – Free Alongside Ship (Applicable for sea & In-land waterway transport only).

3. **C Terms (Main Carriage Paid by the Seller)**: The seller must also contract and pay for the carriage, that is, freight or carrying cost, of the choice of the buyer. However, the risk of damage or loss during transit on carriage rests with the seller. The four C-Incoterms are:

   (a) CIF – Cost, Insurance and Freight (Applicable for sea mode of transport)

   (b) CFR – Cost and Freight (Applicable for sea mode of transport)

   (c) CPT – Carriage Paid To (Applicable for any mode of transport)

   (d) CIP – Carriage and Insurance Paid To (Applicable for any mode of transport)

4. **D Terms (Arrival)**: Under D terms, the seller bears the risk till unloading and clearance at the destination terminal or place as per the specific term. The three D terms are:

   (a) DPU – Delivered At Place Unloaded (Applicable for any mode of transport).

   (b) DAP – Delivered At Place (Applicable for any mode of transport).

   (c) DDP – Delivered Duty Paid (Applicable for any mode of transport).

8.3 Incoterms 2020 Rules

In the latest version of Incoterms 2020, there are 11 Incoterms rules which are divided into two classes and four categories. The class one consists of seven rules used for any mode or modes of transport (surface, air, sea or multimodal) while in class second four rules used only for sea & inland waterway transport (canals, rivers and lakes). The Table 8.2 states Incoterms 2020 and its applicability in various modes of transport.

Table 8.2 INCOTERMs 2020 and its Applicability

Category	**Rules for Sea & Inland Waterway Transport**	**Rules for any Mode or Modes of Transport**
E Terms: Departure terms		EXW (Ex Works)
F Terms: Shipment terms, Main carriage unpaid	FAS (Free Alongside Ship) FOB (Free on Board)	FCA (Free Carrier)
C Terms: Shipment terms, Main carriage paid	CFR (Cost and Freight) CIF (Cost, Insurance and Freight)	CPT (Carriage Paid To) CIP (Carriage and Insurance Paid To)
D Terms:		DAP (Delivered at Place)

Delivery terms		DPU (Delivered at Place Unloaded) DDP (Delivered Duty Paid)

Source: Compiled by the Author.

There are two key changes in Incoterms 2020 compared to the 2010 edition:

- DAT (Delivered at Terminal) is renamed Delivered at Place Unloaded (DPU).
- FCA (Free Carrier) now allows for Bills of Lading to be issued after loading.

Further, the Table 8.3 presents the classification of Incoterms 2020 according to three criteria.

Table 8.3 Classification of Incoterms 2020

Acronyms	Incoterm	Three Criteria		
		Mode of Transport used (Any mode or mutli-modal)	**Payment for the main transport (seller or buyer)**	**Transfer of risks in transporting the goods (at origin or destination)**
EXW	Ex Works	Any Mode	Buyer	Origin
FCA	Free Carrier	Any Mode	Buyer	Origin
CPT	Carriage Paid To	Any Mode	Seller	Origin
CIP	Carriage and Insurance Paid To	Any Mode	Seller	Origin
DAP	Delivered at Place	Any Mode	Seller	Destination
DPU	Delivered at Place Unloaded	Any Mode	Seller	Destination
DDP	Delivered Duty Paid	Any Mode	Seller	Destination
FAS	Free Alongside Ship	Sea	Buyer	Origin
FOB	Free on Board	Sea	Buyer	Origin
CFR	Cost and Freight	Sea	Seller	Origin
CIF	Cost, Insurance & Freight	Sea	Seller	Origin

Source: Practical Guide to Incoterms 2020,p.9 (www.globalnegotiator.com)

Incoterms 2020 include a set of 11 terms as under and the key points for each are described as such:

1. EXW – Ex Works (*named place of delivery*)

- "Ex Works" means that the seller delivers when it places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.). The Carriage is to be arranged by the buyer.
- The seller will provide the goods and the commercial invoice, analysis certificate, weighbridge document etc. that might be relevant and specified in the contract. Document can be in paper or electronic form as agreed to in the contract. The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.
- The buyer bears all risks and costs involved in taking the goods from the seller's premises and thereafter.
- Any mode of transport used but the seller cannot provide transport documents.

The figure 8.1 outlines the obligations, costs and risks of the buyer and seller under EXW Incoterm rule.

The Figure 8.1 EXW

Source: www.veljidosabhai.com

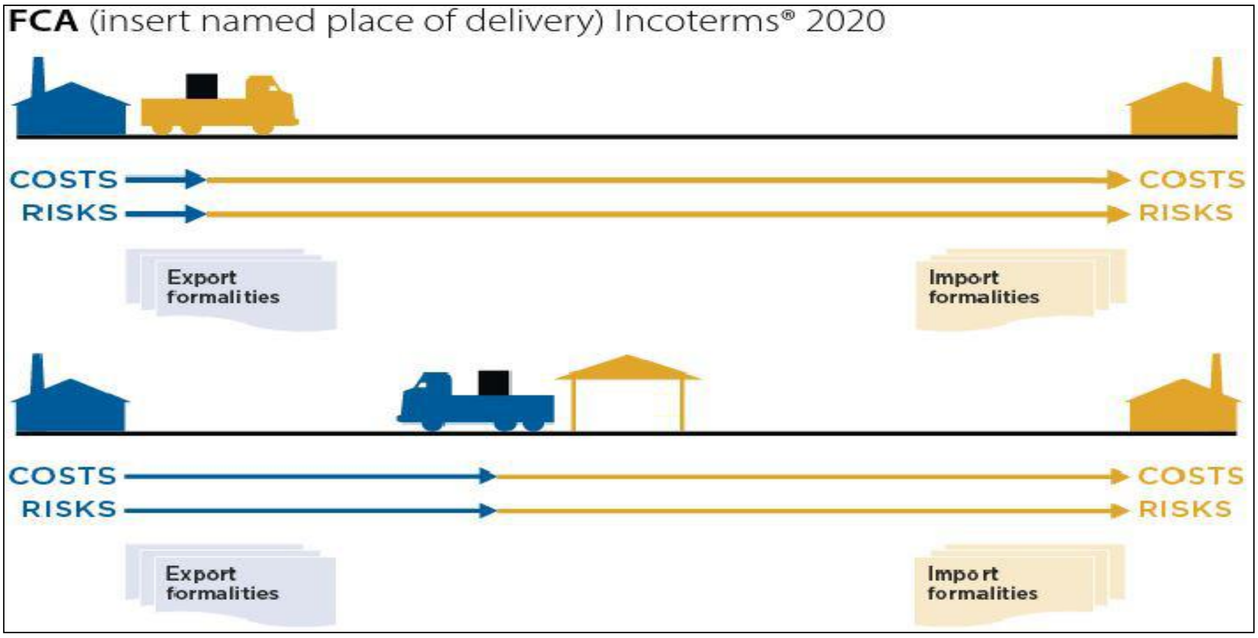
2. FCA (Free Carrier) (*named place of delivery*)

- "Free Carrier" means that the seller delivers the goods, cleared for export, to the carrier or another person nominated by the buyer at the seller's premises or another named place.
- The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.
- Any mode of transport used. The buyer may request to carrier to issue the transport documents to seller and seller is obliged to present these documents in full set to the buyer.

- Carriage is to be arranged by the buyer or the seller on the buyer's behalf.
- The risk transfers from the seller to the buyer when the goods have been delivered to the carrier at the named place.

The figure 8.2 outlines the obligations, costs and risks of the buyer and seller under FCA Incoterm rule.

The Figure 8.2 FCA (Free Carrier)



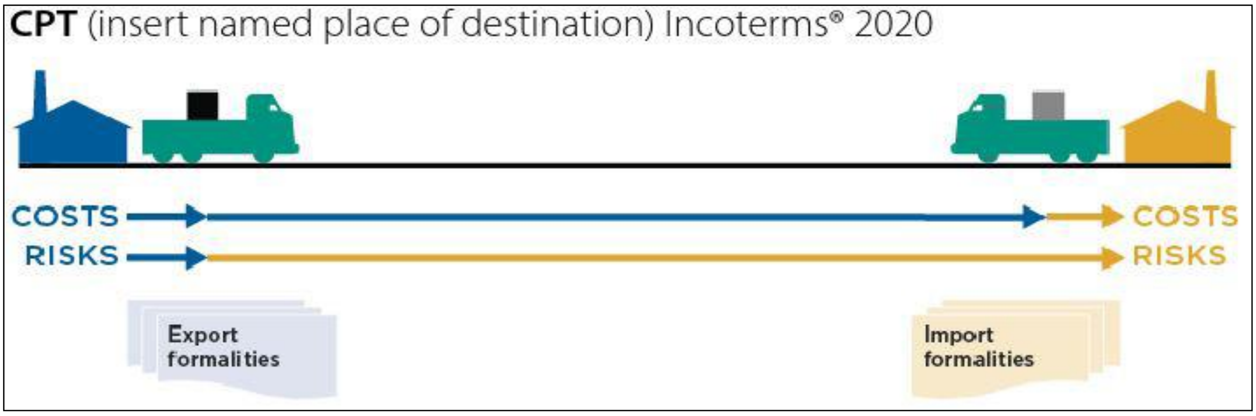
Source: www.veljidosabhai.com

3. CPT (Carriage Paid To) (*named place of destination*)

- "Carriage Paid To" means that the seller delivers the goods by handing them over to its contracted carrier, on the agreed date or within the agreed period and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.
- Delivery occurs when the seller passes the goods to their carrier to transport them, not when the goods reach the destination.
- The seller must arrange insurance which covers "all risks" including the risks from point of delivery to the named place of destination.
- Any mode of transport used.
- Carriage is to be arranged by the seller.
- The risk transfers from the seller to the buyer when the goods have been delivered to the carrier.

The figure 8.3 outlines the obligations, costs and risks of the buyer and seller under CPT Incoterm rule.

The Figure 8.3 CPT (Carriage Paid To)



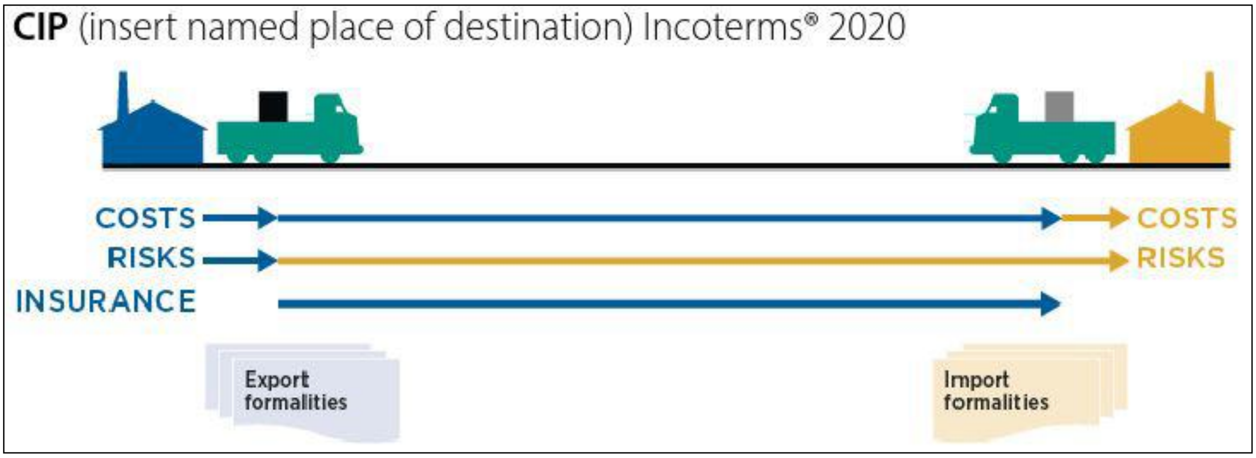
Source: www.veljidosabhai.com

4. CIP (Carriage and Insurance Paid To) (*named place of destination*)

- "Carriage and Insurance Paid to" means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.
- The seller also contracts for insurance cover against the buyer's risk of loss or damage to the goods during the carriage and clears the goods for export.
- Any mode of transport is used and both carriage and insurance are to be arranged by the seller.
- The risk transfers from the seller to the buyer when the goods have been delivered to the carrier.

The figure 8.4 outlines the obligations, costs and risks of the buyer and seller under CIP Incoterm rule.

The Figure 8.4 CIP (Carriage and Insurance Paid To)



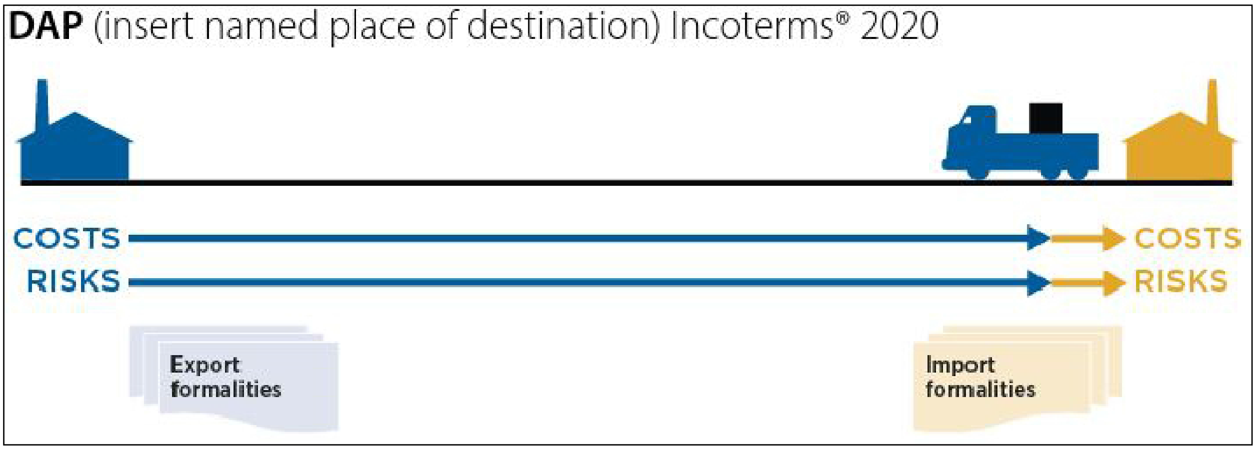
Source: www.veljidosabhai.com

5. DAP (Delivered at Place) (*named place of destination*)

- "Delivered at Place" means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.
- Carriage is to be arranged by the seller.
- Any mode of transport used.
- The risk transfers from the seller to the buyer when the goods are delivered to named place ready for unloading.

The figure 8.5 outlines the obligations, costs and risks of the buyer and seller under DAP Incoterm rule.

The Figure 8.5 DAP (Delivered at Place)



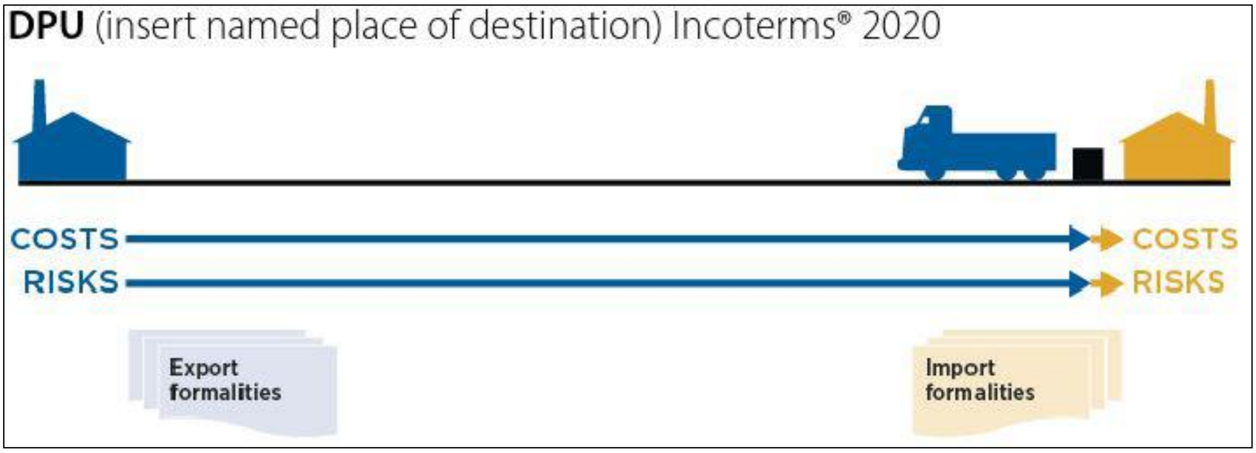
Source: www.veljidosabhai.com

6. DPU (Delivered at Place Unloaded) (*named place of destination*)

- "Delivered at Place Unloaded" means that seller delivers the goods and transfer risk to buyer, when the goods once unloaded from the arriving means of transport are placed at the disposal of the buyer & at the named place or destination or at an agreed point within that place, if any point has been agreed.
- The contract of carriage must be arranged by the seller up to the agreed point of delivery of destination.
- The seller is liable to unload the good from the means of transportation.
- DPU requires the seller to clear the goods for export however the seller is under no obligation to clear the good for import or transit through third countries.
- Buyer must arrange for import customs clearance and customs duties.
- Any mode of transport used.

The figure 8.6 outlines the obligations, costs and risks of the buyer and seller under DPU Incoterm rule.

The Figure 8.6 DPU (Delivered at Place Unloaded)



Source: www.veljidosabhai.com

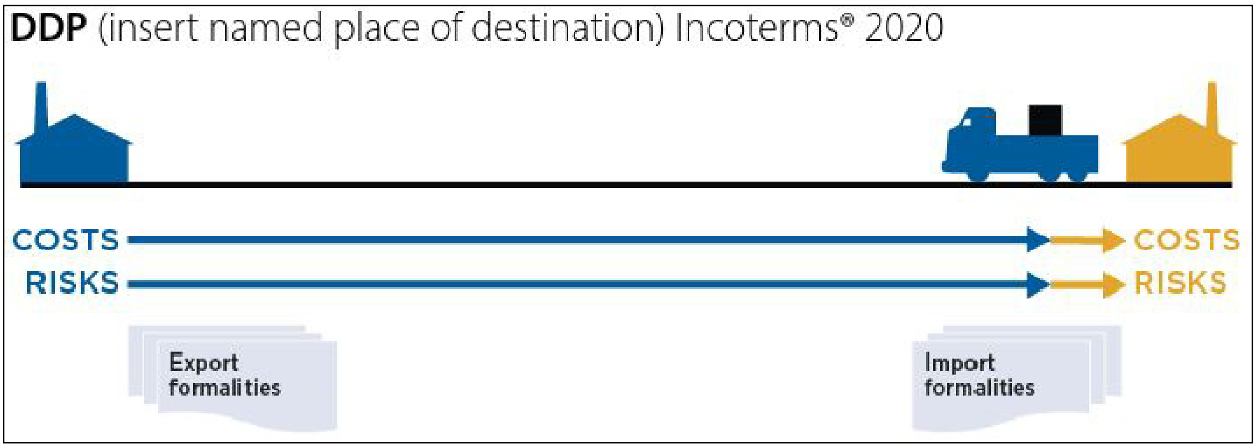
7. DDP (Delivered Duty Paid) (*named place of destination*)

- "Delivered Duty Paid" means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination.

- The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.
- Any mode of transport used and the carriage is to be arranged by the seller.

The figure 8.7 outlines the obligations, costs and risks of the buyer and seller under DDP Incoterm rule.

The Figure 8.7 DDP (Delivered Duty Paid)



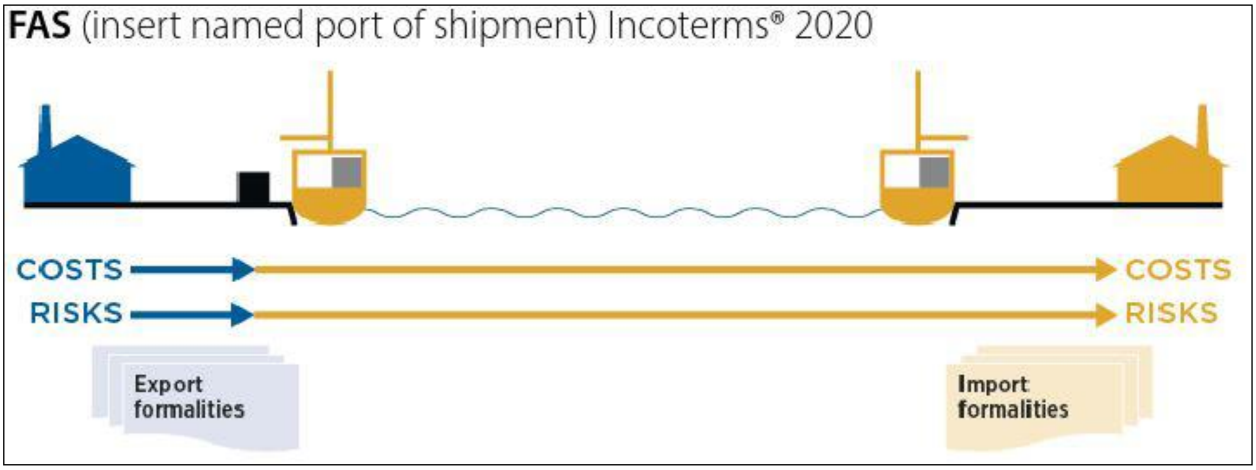
Source: www.veljidosabhai.com

8. FAS (Free Alongside Ship) (*named port of shipment*)

- "Free Alongside Ship" means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment.
- The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.
- Sea or maritime and inland waterway transport is used and the carriage is to be arranged by the buyer.

The figure 8.8 outlines the obligations, costs and risks of the buyer and seller under FAS Incoterm rule.

The Figure 8.8 FAS (Free Alongside Ship)



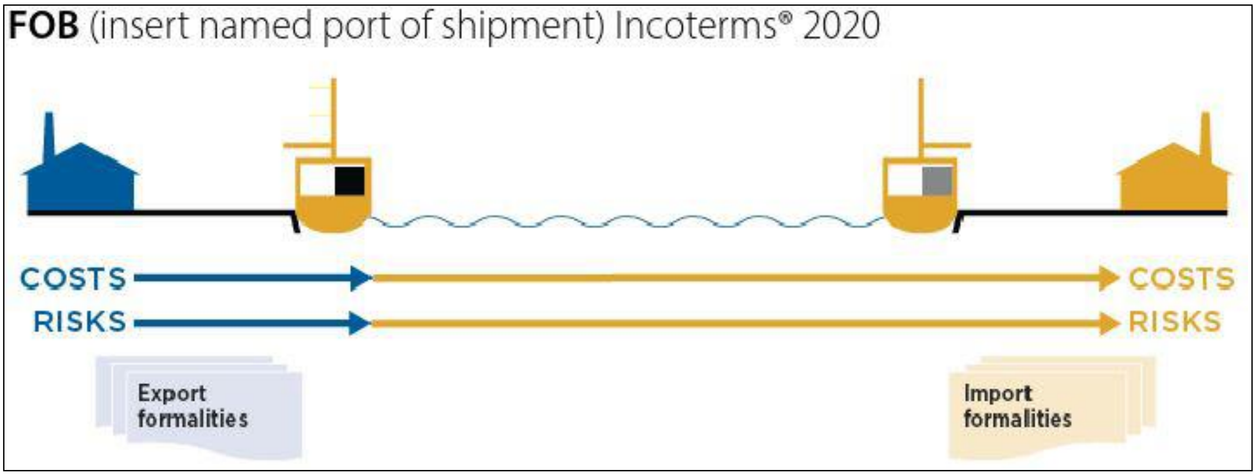
Source: www.veljidosabhai.com

9. FOB (Free on Board) (*named port of shipment*)

- "Free On Board" means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.
- Sea or maritime and inland waterway transport is used and the carriage is to be arranged by the buyer.

The figure 8.9 outlines the obligations, costs and risks of the buyer and seller under FOB Incoterm rule.

The Figure 8.9 FOB (Free on Board)



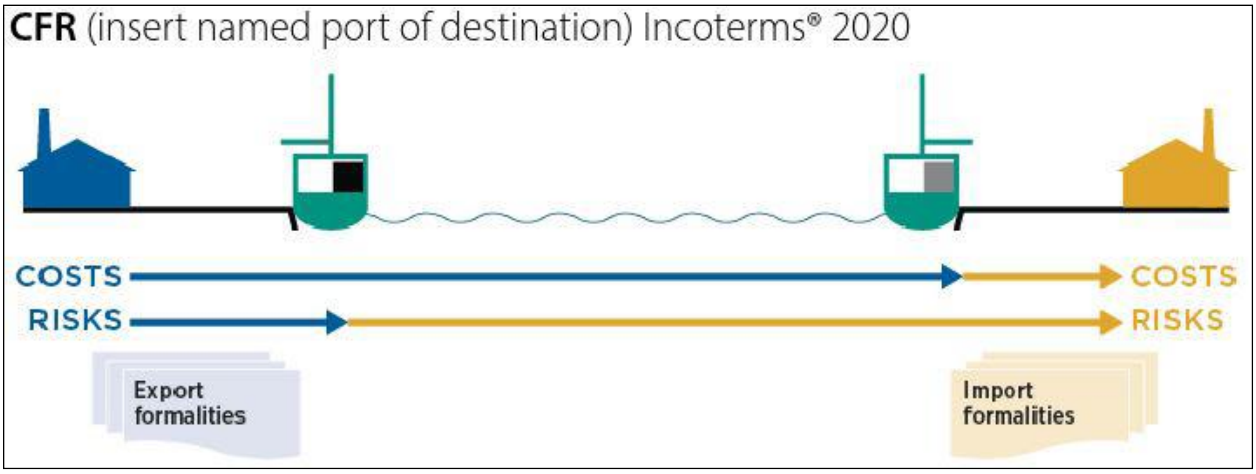
Source: www.veljidosabhai.com

10. CFR (Cost and Freight) (named port of destination)

- "Cost and Freight" means that the seller delivers the goods on board the vessel or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel. the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.
- Sea or maritime and inland waterway transport is used and the carriage is to be arranged by the seller.

The figure 8.10 outlines the obligations, costs and risks of the buyer and seller under CFR Incoterm rule.

The Figure 8.10 CFR (Cost and Freight)



Source: www.veljidosabhai.com

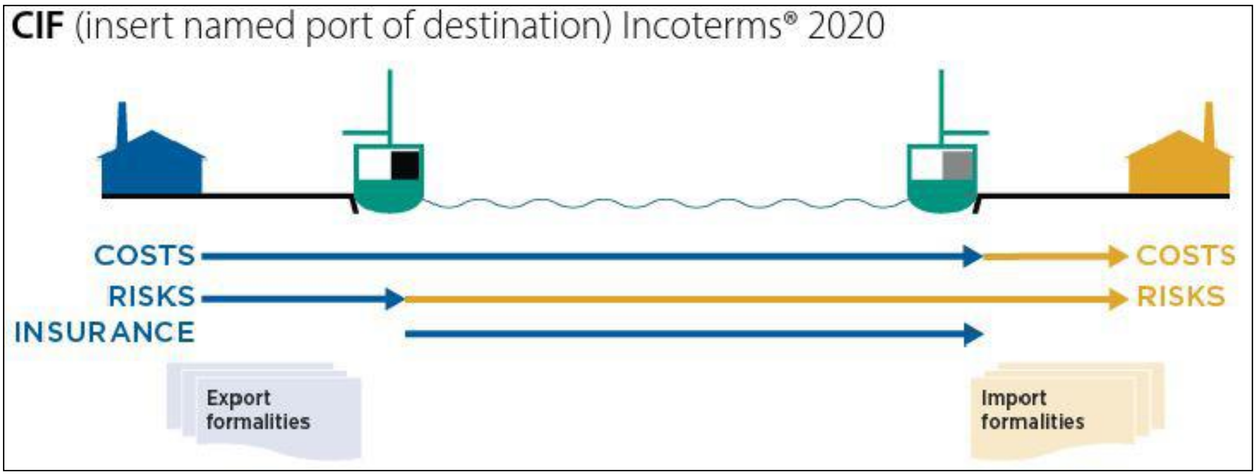
11. CIF (Cost, Insurance and Freight) (*named port of destination*)

- "Cost, Insurance and Freight" means that the seller delivers the goods on board the vessel or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel.
- The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage.

- The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.
- Sea or maritime and inland waterway transport is used.

The figure 8.11 outlines the obligations, costs and risks of the buyer and seller under CIF Incoterm rule.

The Figure 8.11 CIF (Cost, Insurance, Freight)



Source: www.veljidosabhai.com

8.4 International Price Quotations and Incoterms

The term "quotation" refers to an offer to sell goods at a stated price and under specified conditions. An "export offer" or "quotation" is the basis of any export transaction. Whenever an exporter writes a formal letter to an importer with an offer of his export goods, the importer, if replies in positive, needs to have any one of the following methods for an export quotation or order.

1. **Proforma Invoice**: An exporter prepares this after he gets an order from an importer. It is a standardized proforma, which is applicable throughout the world. It is similar to a document known as 'commercial invoice'. It shows the price as well as other charges as per terms of contract given in shipment. The proforma invoice is needed by the importer to get the import license or allotment of foreign exchange.
2. **Global Price List**: The offer may be made in response to a public global tender given by a buyer. Such offer consists of all conditions of the tender and listing out the price together with other charges e.g. freight, insurance, customs, tariffs etc.

3. **Letter Showing the Price**: An offer can be given in the form of a letter showing the price, terms of payment and delivery of goods.
4. **Price List**: An offer may be in the form of a printed price list where the goods have a standard export price.

The price quotation describes a specific product, states the price for the product as well as a specified delivery location, sets the time of shipment and specifies payment terms. The responsibilities of the buyer and the seller should be mentioned as they relate to what is and what is not included in the price quotation and when ownership of goods passes from seller to buyer. Incoterms are the internationally accepted standard definitions for terms of sale set by the International Chamber of Commerce. Published in September 2019, Incoterms 2020 may be used to define the responsibilities of buyer and seller in contracts effective from 1st January 2020. The 11 terms contained in Incoterms 2020 as described earlier e.g. EXW, FCA, CPT, CIP, DAP, DPU, DDP, FAS, FOB, CFR, and CIF. The other quotations terms traditionally used were local price, free or Franco price and in bond price. The following precautions are to be taken when quoting international prices by the exporter:

- Increase in cost of goods to be exported.
- Change in quality specifications by importer.
- Variations in the rate of foreign exchange.
- Cost of packaging.
- Providing guarantees and warranties.
- Supply of spare parts free of cost with the machinery.
- Penalty on exporter due to failure of export obligation.

8.5 Check Your Progress

1. Incoterms 2020 enter into force from ________________.
2. Based on Incoterms 2020 there are how many terms?
3. Incoterms are developed by ______________.
4. CIF refers to _____________.
5. A _______ is a preliminary bill of sale sent to buyers in advance of a shipment or delivery of goods.

8.6 Summary

In an international transaction, a set of trade terms is often used to describe the rights and responsibilities of the buyer and seller with regard to sale and transport of goods. The latest even rules for interpretation of international commercial terms (Incoterms) defining the costs, risks, and obligations of buyers and sellers in international transactions have been developed by the International Chamber of Commerce (ICC) on 10th September 2019 which are applicable from 1st January, 2020. Incoterms directly deal with the questions related to the delivery of the products from the seller to the buyer. This includes the carriage of products, export and import responsibilities, who pays for what and who has the risk for the condition of the products at different locations within the transport process. The price quotation describes a specific product, states the price for the product as well as a specified delivery location, sets the time of shipment and specifies payment terms.

8.7 Keywords

- EXW – Ex-Works: The term 'Ex' means that the price quoted by the seller applies at a specified point of origin, usually the factory, warehouse, mine or plantation, and the buyer is responsible for all charges from this point. The term represents the minimum obligation for the exporter.
- FOB – Free on Board: The exporter's price quote includes coverage of all charges upto the point when goods have been loaded on to the designated transport vehicle.
- CFR – Cost and Freight: The seller's liability ends when the goods are loaded on board a carrier or are in the custody of the carrier at the export dock.

8.8 Self-Assessment Test

1. What are Incoterms ? What are the core functions and purposes served by these rules?
2. Explain what the Incoterms rules do? Discuss the various types of Incoterms.
3. Explain what the Incoterms rules do not do?
4. Explain in brief the Incoterms 2020 rules for sea and in-land waterway transport.
5. Explain in brief the Incoterms 2020 rules for any mode of transport.
6. Elaborate the international price quotations with the help of Incoterms 2020 rules.

8.9 Answers to Check Your Progress

1. January 1
2. 11
3. ICC (International Chamber of Commerce)
4. Cost, Insurance and Freight
5. Pro forma invoice

8.10 References/Suggested Readings

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Subject: Foreign Trade in India	
Course Code: BC 306	**Author:** Dr. Surinder Singh Kundu
Lesson No.: 9	**Vetter:** Prof. Pardeep Kumar Gupta
METHODS OF PAYMENT IN INTERNATIONALTRADE	

Lesson Structure:

9.0 Learning Objectives

- Identify various payment terms in foreign trade.
- To describe the five-principal means of payment in international trade.
- To understand the advantages of Letter of Credit (L/C) to the exporter and importer.
- To understand the risk-cost trade-off of various modes of payment in international trade.

9.1 Introduction

The international trade is one of the most significant global economic activities of most Multinational Corporations (MNCs). The financing of trade-related working capital needs large amounts of money as well as financial services such as letter of credit and acceptances. Therefore, it is important, that the global financial managers have knowledge of the institutions and documentary procedures that have developed over time to facilitate the international movement of goods. This chapter provides a detailed explanation of the various payment terms related with international trade.

9.1.1 Methods of Payment in International Trade

To succeed in today's global physical marketplace and digital marketspace, exporters must offer their customers attractive sales terms supported by the suitable payment method to win sales against foreign competitors. The main objective of export sale is receiving payment in full and on time. A suitable payment method must be selected carefully to minimize the payment risk of exporter while also accepting the needs of the buyer.

In any international trade transaction, credit is given by either the supplier (exporter), the buyer (importer), one or more financial institutions, or any combination of these. The supplier may have adequate money to finance the whole trade cycle, beginning with the production of the product until payment is eventually made by the buyer. The kind of credit is called *supplier credit*. In some cases, the exporter may need bank financing to support its cash flow. On the other hand, the supplier may not desire to provide money in which case the buyer will have to finance the transaction itself, either internally or externally, through its bank. Banks on both sides of the transaction can play an integral role in trade financing.

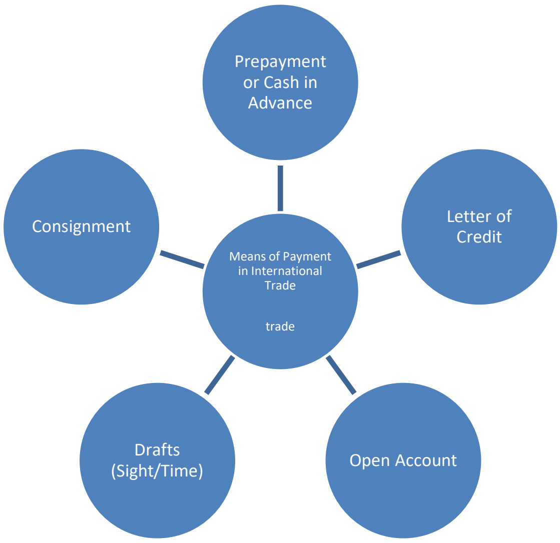
The methods of payment states how and when the money is released and transferred from the importer to the exporter. The methods of payment differs widely, depends upon the following factors:

1. Nature of market competition

2. Nature of products
3. Credit worthiness of buyers/importers
4. Exporter's relationship and experience with the importer.
5. Risk related with mode of payment.
6. Speed, Security and Cost related with mode of payment.

In general, five basic methods of payment are used to settle international transactions, each with a different degree of risk to the exporter and importer (*Exhibit 9.1*):

Exhibit 9.1: Modes of Payment in International Trade



As shown in (*Exhibit 9.2*) below, there are five primary methods of payment for international transactions. During or before contract negotiations, it is advisable to consider which method in the diagram below is mutually desirable for exporter and importer.

Cost to Importer

Lowest ⟶ Highest

Open Account	Consignment	Time Draft	Sight Draft	Irrevocable Letter of credit	Confirmed Irrevocable Letter of credit	Advance Payment

Highest ⟵ Lowest

Risk to Exporter

Exhibit 9.2: Risk-cost trade-off for International payment modes.

Therefore, the key points in modes of payment in international trade from the viewpoint of both the exporter and importer are:

- International trade presents a spectrum of risk, causing uncertainty over the timing of payments between the exporter (seller) and importer (foreign buyer).
- To exporters, any sale is a gift until payment is received.
- Therefore, the exporter wants payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer.
- To importers, any payment is a donation until the goods are received.
- Therefore, the importer wants to receive the goods as soon as possible, but to delay payment as long as possible, preferably until after the goods are resold to generate sufficient cash to make payment to the exporter.

9.1.2 Pre-payment or Cash-in-Advance

With the cash-in-advance payment method, the exporter can avoid *credit risk*, since payment is received prior to the transfer of ownership of the goods. *Wire transfers* and *credit cards* are the most commonly used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer, as this method creates cash flow problems. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who may be willing to offer more attractive payment terms.

Key Points

- Full or significant partial payment is required, usually via credit card or bank/wire transfer, prior to the transfer of ownership of the goods.
- Cash-in-advance, especially a wire transfer, is the most secure and favorable method of international trading for exporters and, consequently, the least secure and attractive option for importers. However, both the credit risk and the competitive landscape must be considered.
- Insisting on these terms ultimately could cause exporters to lose customers to competitors who are willing offer more favorable payment terms to foreign buyers in the global market.
- Creditworthy foreign buyers, who prefer greater security and better cash utilization, may find cash-in-advance terms unacceptable and may simply walk away from the deal.

- Where the goods are made to order, prepayment is usually demanded, both to finance production and to reduce marketing risks.

Characteristics of Cash-in-Advance Payment Method

1. **Applicability**: It is recommended for use in high-risk trade relationships or export markets, and ideal for e-commerce (i.e. digital) businesses.
2. **Risk**: The exporter is exposed to virtually no risk as the burden of risk is placed nearly fully on the importer.
3. **Pros**: (i) It provides the exporter the greatest protection because payment is received either before shipment or upon arrival of the goods; (ii) it eliminates risk of non-payment.
4. **Cons**: (i) Exporters may lose customers to competitors over payment terms; and (ii) no additional earnings through financing operations.

Suitability of use Cash-in-Advance Terms

- The importer is a new customer and/or has a poor operating history.
- The importer's creditworthiness is doubtful, unsatisfactory, or unverifiable.
- The political and commercial risks of the importer's home country are very high i.e. political instability or exchange controls in the buyer's country may cause payment delays or even prevent fund transfers.
- The exporter's product is unique, made to order, not available elsewhere, or in heavy demand or has inelastic demand in the buyer's country.
- The exporter operates an Internet-based business where the use of convenient payment methods is a must to remain competitive.

9.3 Letter of Credit (L/C)

The letter of credit (L/C) as a documentary credit, is a contractual agreement whereby a bank in the buyer's country, known as the issuing bank, acting on behalf of its customer (the buyer or importer), authorizes a bank in the seller's country, known as the advising bank, to make payment to the beneficiary (the seller or exporter) against the receipt of stipulated documents. The L/C is a separate contract from the sales contract on which it is based and, therefore, the bank is not concerned whether each party fulfills the terms of the sales contract. The bank's obligation to pay is solely conditional upon the seller's compliance with the terms and conditions of the L/C. In L/C transactions, banks deal in documents only, not goods.

9.3.1 Documentary Credit with Letter of Credit (L/C)

A documentary credit is a promise of a bank to pay the seller of goods or services a certain sum of money subject to presentation of specified documents showing the shipment of goods or performance of services within a given time period. The various steps of documentary credit with L/C are shown in Fig. 9.3.

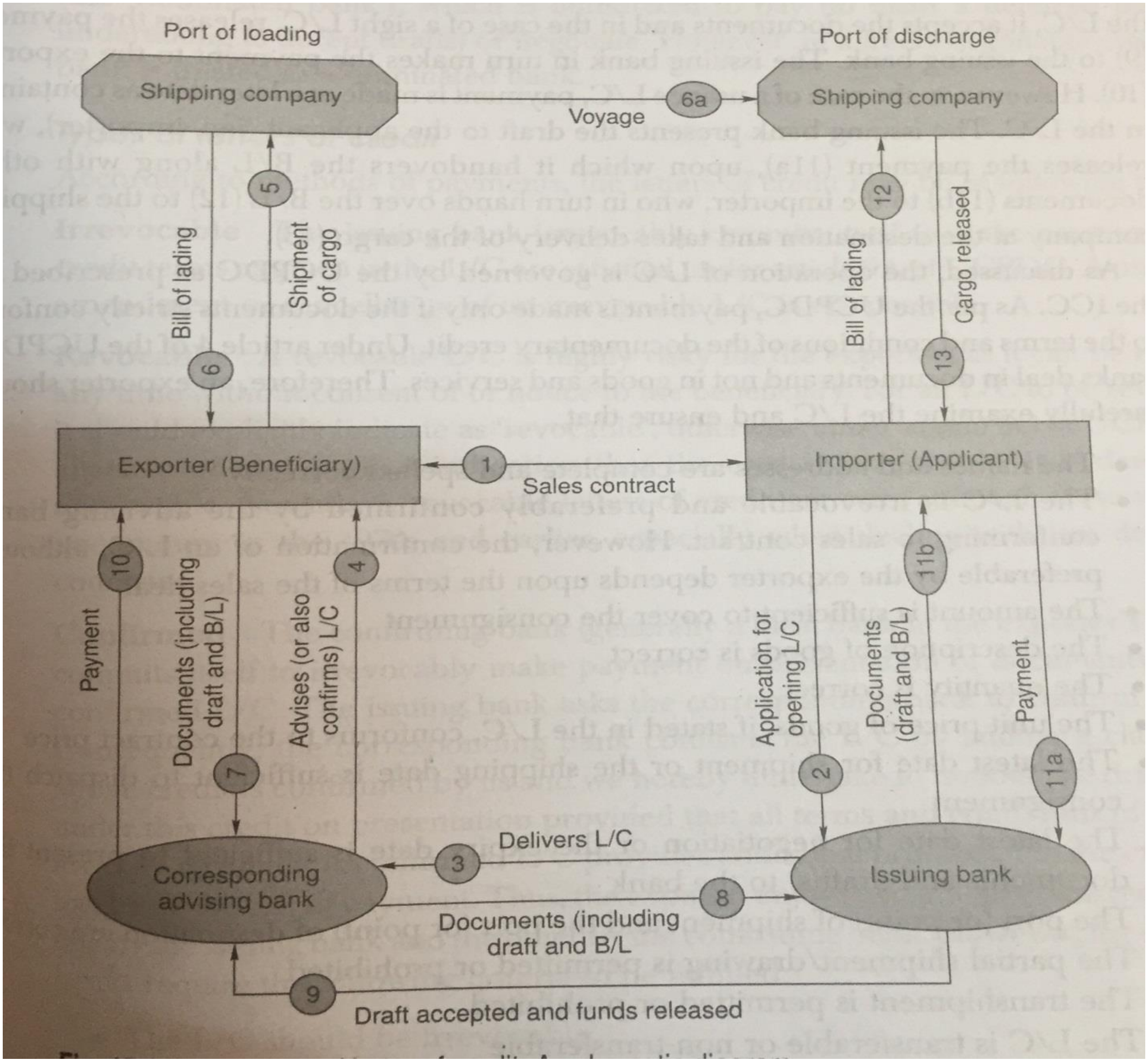
1. **Sales Contract**: A sales contract is made between the exporter (i.e. beneficiary) and importer (i.e. applicant) as per mutually agreed terms and conditions of international trade transactions.
2. **Application for Opening L/C**: The importer applies to the issuing bank situated in his/her country for issuing an L/C subject to the terms of sales contract.
3. **Delivery of L/C to Corresponding & Advising Bank**: The issuing bank opens the L/C and delivers it to the corresponding bank based in the exporter’s country.
4. **Confirmation of L/C to Exporter**: The corresponding bank advises or confirms L/C to the exporter who checks the L/C and satisfies about it. However, if the exporter not satisfied with L/C due to some mistake in it, the exporter reports to the importer and demands correction in it.
5. **Shipment of Cargo**: Once the exporter gets fully satisfied of the terms given in the L/C, the exporter makes shipment of cargo to the shipping company.
6. **Bill of lading (B/L)**: After getting the cargo from the exporter, the shipping company issues bill of lading to the exporter. The B/L is a document for the title of the goods.
7. **Submission of documents to the Advising Bank**: The exporter submits the full set of documents like B/L, draft drawn by the exporter to the corresponding/advising bank.
8. **Sending documents to the Issuing Bank**: The corresponding bank sends complete documents to the issuing bank in the importer country.
9. **Drafts accepted and Funds released**: The issuing bank verifies the documents and if found as per terms of L/C, it accepts the documents and in the case of a sight L/C, releases the payment to the corresponding bank.
10. **Payment to the Exporter**: The corresponding bank makes payment to the exporter. However, in the case of a time draft L/C, payment is made at a later date as given in the L/C.

11(a). **Payment by the Importer to the Issuing Bank**: The issuing bank presents the draft to the applicant (i.e. importer) who makes payment to the issuing bank.

11(b). **Submission of Documents to the Importer**: After getting payment from the importer, the issuing bank handovers the B/L along with other documents to the importer.

12. **Submission of Bill of Lading to the shipping company**: The importer hands over the B/L to the shipping company at the destination i.e. port of discharge.
13. **Cargo Released**: The shipping company releases cargo to the importer.

Figure 9.3: Operation of Letter of Credit: A Schematic diagram



Source: Joshi, Rakesh Mohan, *International Business*, New Delhi: Oxford University Press, 2019, p.661.

9.3.2 Documentary Credit with Sight Draft (Documents against Payment)

The various steps of documentary credit without L/C in case of sight draft are shown in Fig. 9.4.

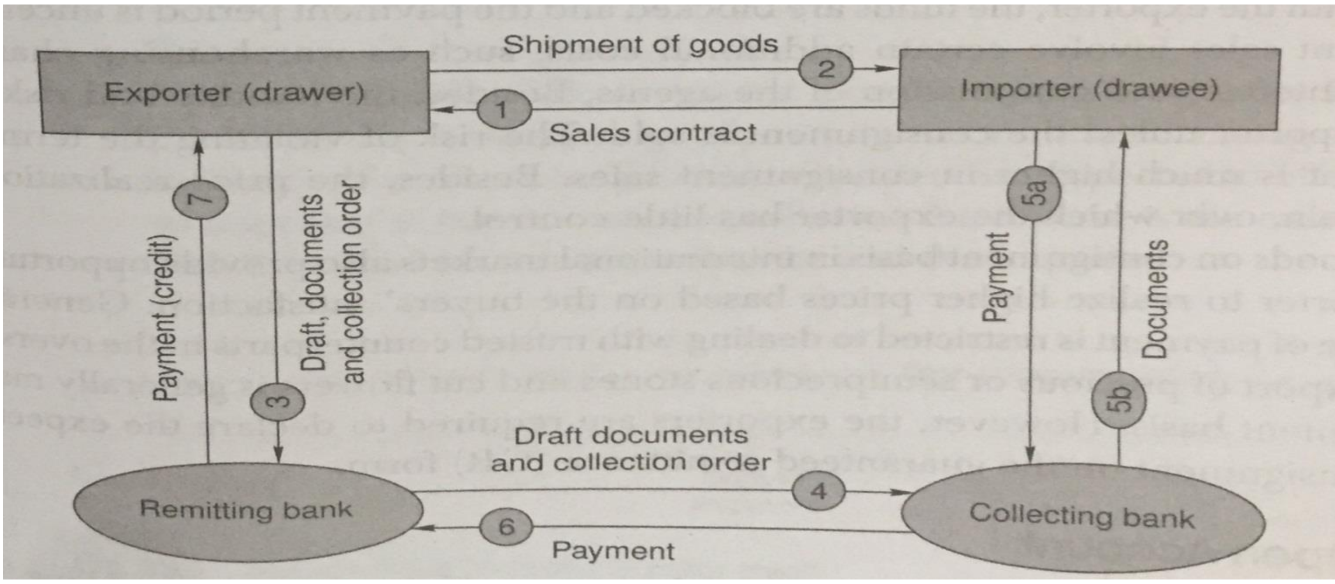
1. **Sales Contract**: The exporter (i.e. drawer) and the importer (i.e. drawee) enter into a sales contract on mutually agreed terms and conditions.
2. **Shipment of goods**: The exporter ships the goods to the importer after finalization of contract.
3. **Draft, documents and collection order**: The exporter submits the documents along with the draft (i.e. bill of exchange) and collection order to his/her remitting bank based in exporter's country.
4. **Submission of full documents to the Collecting Bank**: The remitting bank submits the full documents to the collecting/corresponding bank based in the importer's country.

5(a). **Payment by Importer to the Collecting Bank**: The corresponding/collecting bank presents the draft to the importer who makes payment at sight. Thus, under 'documents against payment' the importer can take physical ownership of goods only when he/she made the payment before getting the documents from the bank.

5(b). **Handover documents to the Importer**: After getting payment, the collecting bank hands over documents to the importer.

6. **Transfer of Payment**: The collecting bank transfers the payment to the remitting bank in exporter's country.
7. **Payment to the Exporter**: The remitting bank makes payment to the exporter. Sight drafts are generally considered safer as the exporter has ownership and title of goods till the time payment is made.

Figure 9.4: Operation of sight draft (document against payment): A Schematic diagram



Source: Joshi, Rakesh Mohan, *International Business*, New Delhi: Oxford University Press, 2019, p.665.

9.3.3 Documentary Credit with Time Draft (Documents against Acceptance)

This mode of payment creates significant risk as the documents are delivered to the importer, who subsequently takes title of the goods before the payment is made. In case of failure of payment obligation, the recovery of sales amount is complex and involves a large process. The various steps of documentary credit without L/C in case of usance/time draft are shown in Fig. 9.5.

1. **Sales Contract**: The exporter (i.e. drawer) and the importer (i.e. drawee) enter into a sales contract on mutually agreed terms and conditions.
2. **Shipment of goods**: The exporter ships the goods to the importer.
3. **Draft, documents and collection order**: The exporter submits the documents along with the draft (i.e. bill of exchange) and collection order to his/her remitting bank based in exporter's country.
4. **Submission of full documents to the Collecting Bank**: The remitting bank submits the full documents to the collecting/corresponding bank based in the importer's country.

5(a). **Trade Acceptance**: The collecting bank presents the draft to the importer who gives his/her acceptance of the payment promise on due date by signing the draft.

5(b). **Hand over documents to the Importer**: The collecting bank gives the B/L along with other documents to the importer for taking delivery of the goods.

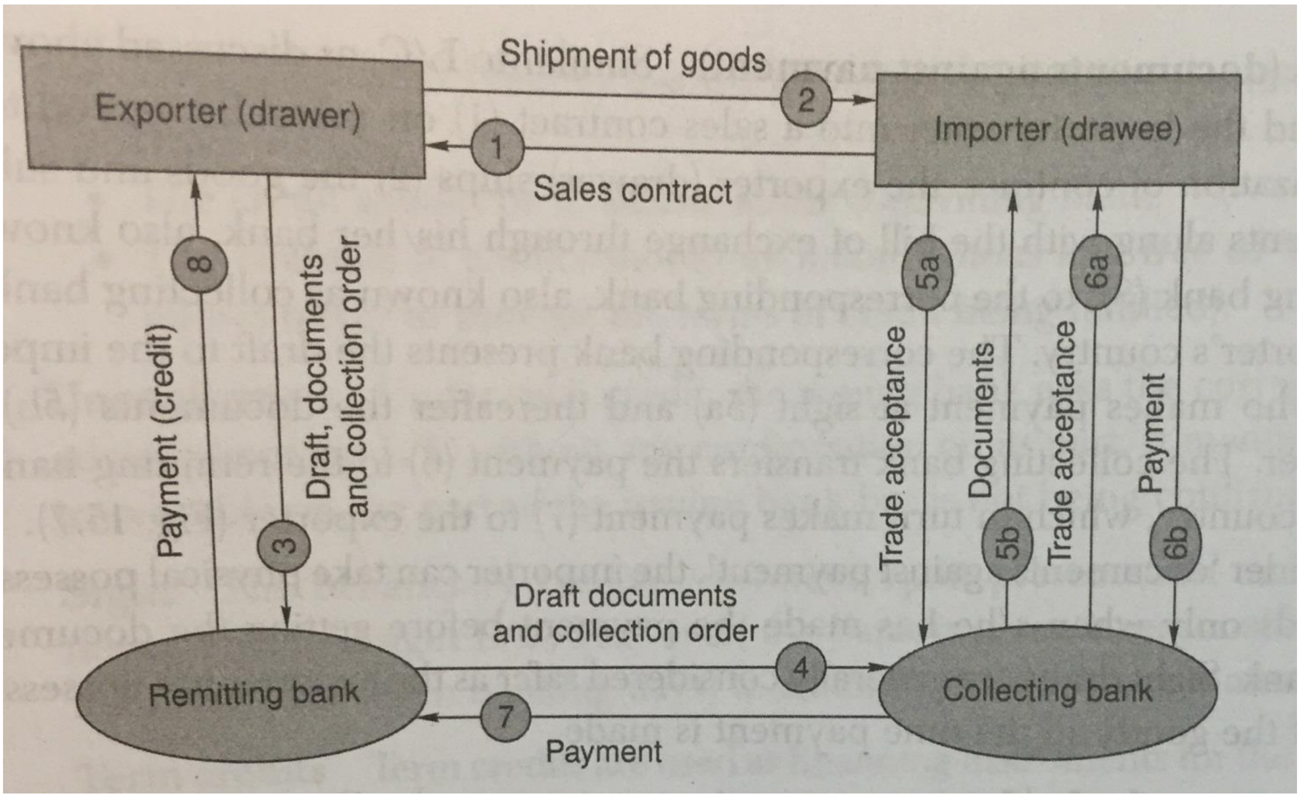
6(a) **Draft presented again on due date**: The payment under time draft is usually to be made after 30, 60, 90 or more days. The bill of exchange (i.e. draft) is again presented to the importer on the due date.

6(b). **Payment by the Importer to the Collecting Bank**: The importer makes payment to the collecting bank.

7. **Transfer funds to the Remitting Bank**: The Collecting bank transfer funds to the remitting bank.

9. **Payment to the Exporter**: The remitting bank makes payment to the exporter.

Figure 9.5: Operation of Usance/Time draft (document against acceptance): Schematic diagram



Source: Joshi, Rakesh Mohan, *International Business*, New Delhi: Oxford University Press, 2019, p.666.

9.3.4 Advantages of Letter of Credit (L/C) to the Exporter

Most advantages of an L/C are obtained by the seller/exporter. The advantages to the exporter are as follows:

1. **Eliminates Credit Risk**: An L/C eliminates credit risk if the bank that issues it is of sound credit standing. Therefore, the firm need verify only on the credit goodwill of the issuing bank.
2. **Reduces Payment Risk**: An L/C also reduces the danger that payment will be delayed or suspended because of exchange controls or other political instability in the importer country. Countries permit local banks to honor their letters of credit and failure to honor them could destroy the country's credit standing and credibility.
3. **Reduces Uncertainty**: The exporter knows all the conditions for payment because they are clearly specified on the L/C.
4. **Protection against Preshipment Risks**: The exporter who produces under contract a specialized piece of asset runs the risk of contract cancellation before shipment. The condition of L/C will give protection during the production stage.

5. **Facilitates Financing:** The L/C facilitates financing because it ensures the exporter a ready buyer for its product. It also becomes easy to create a banker's acceptance – a draft accepted by a bank.

9.3.5 Advantages of Letter of Credit to the Importer

Some advantages of an L/C are obtained by the buyer/importer. The advantages to the importer are as follows:

1. **Ensures Shipment Delivery**: Because payment is only in compliance with the L/C's mentioned conditions, the importer is able to determine that the goods are really shipped on, or before, a certain date by requiring an on-board bill of lading and inspection certificate.
2. **Ensures Accuracy in Documentation**: Any documents required are carefully inspected by people with years of experience in issuing bank and the bank bears responsibility for any mistake.
3. **Favourable Credit Terms or Prices**: An L/C is about as good as cash-in-advance, so the importer can demand more favourable credit terms and prices.
4. **Economical**: L/C financing may be cheaper than the alternatives, so L/C substitutes for cash-in-advance.
5. **Safety of Money**: If prepayment is required, the importer is safe by depositing money with a bank than with the seller because it is easier to recover the deposit if the exporter is unable to make shipment.

9.4 Other Terms Related with Payment

9.4.1 Draft/Bill of Exchange

Commonly used in international trade, a draft is an unconditional order in writing – usually signed by the exporter (seller) and addressed to the importer (buyer) or the importer's agent – ordering the importer to pay on demand, or at a fixed or determinable future date, the amount given on its face. The draft is also known as a *bill of exchange,* serves three important functions:

1. It provides written evidence, in clear and simple terms, of a financial obligation.
2. It enables both parties to potentially reduce their costs of financing.
3. It provides a negotiable and unconditional instrument. (That is, payment must be made to any holder in due course despite any disputes over the underlying commercial transaction.)

The exporter uses the services of its bank as a collection agent and the bank forwards the draft or bill of exchange to the foreign buyer (either directly or through a branch or correspondent bank), collects on the draft and then remits the money to the exporter. The bank has all the necessary documents for control of the goods and hands over to the importer only when the draft has been paid or accepted in accordance with the exporter’s instructions.

The conditions for a draft to be negotiable are that:

- It must be in writing;
- It must be signed by the issuer (drawer);
- It must be an unconditional order to pay;
- It must be a certain sum of money;
- It must be payable on demand or at a definite future time;
- It must be payable to order of bearer.

There are usually three parties to a draft. The party who signs and sends the draft to the second party is called the *drawer*; payment is made to the third party, the payee. Normally, the drawer and payee is the same person. The party to whom the draft is addressed is the *drawee*, who may be either the buyer or, if a letter of credit is used, the buyer’s bank. In the case of a confirmed L/C, the drawee would be the confirming bank.

Sight and Time Drafts

- Drafts may be either sight or time drafts.
- Sight drafts must be paid on presentation while time drafts are payable at some specified future date.
- The maturity of a time draft is known as its *usance* or *tenor*.
- A time draft becomes an *acceptance* after being accepted by the drawee.
- Accepting a draft means writing *accepted* across its face, followed by an authorized person’s signature and the date. The party accepting a draft bears the obligation to pay it at maturity.
- A draft accepted by a bank becomes a *banker’s acceptance*; one drawn on and accepted by a commercial enterprise is termed a *trade acceptance*.
- The exporter can hold the acceptance or sell it at a discount from face value to its bank, to some other bank, or to an acceptance dealer. The discount is normally less than the prevailing prime rate for bank loans.
- An acceptance can be transferred from one holder to another by *endorsement*.

Clean or Documentary Drafts

- Drafts can be *clean* or *documentary*.

- A clean draft, one alone by any other papers, normally is used only for nontrade remittances. The main purpose is to put pressure on a debtor that must pay or accept the draft or else face damage to its credit goodwill.
- Most drafts used in international trade are documentary.
- A documentary draft, which can be either sight or time, is accompanied by documents that are to be delivered to the drawee on payment or acceptance of the draft. Typically, these documents include the bill of lading in negotiable form, the commercial invoice, the consular invoice where required, and an insurance certificate.
- The bill of lading in negotiable form is the most important document because it gives its holder the right to control the goods covered.
- A documentary sight draft is also known as a D/P (documents against payment) draft; if documents are delivered on acceptance, it is a D/A draft.

There are two main aspects to shipping goods under documentary time drafts for acceptance. First, the exporter is extending credit to the importer for the usance of the draft. Second, the exporter is freeing control of the goods in return for a signature on the acceptance to assure it of payment.

The use of a sight or accepted time draft is warranted only when the exporter has faith in the importer's financial strength and integrity.

9.4.2 Consignment

The main points of consignment are:

- Under a consignment arrangement, the exporter ships the goods to the importer i.e. goods sent on consignment are only shipped, but not sold, to the importer.
- The exporter (consignor) retains title to the goods until the importer (consignee) has sold them to a third party.
- The importer has access to the inventory but does not have to pay for the goods until they have been sold to a third party.
- The exporter believes on the importer to remit payment for the goods sold at that time.
- There is little evidence of the buyer's obligation to pay, and should the buyer default, it will prove difficult to collect.
- If the importer fails to pay, the exporter has limited recourse because no draft is involved and the goods have already been sold.

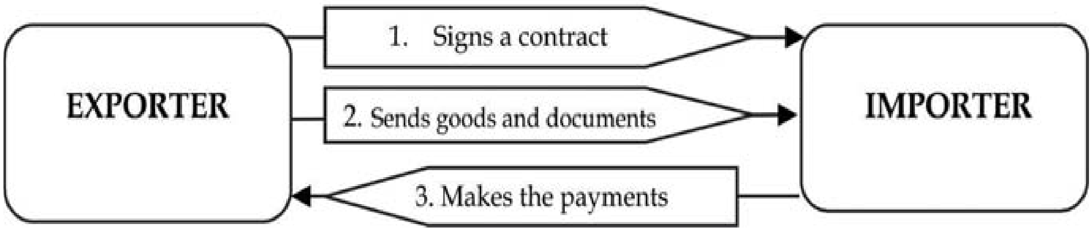
- As a result of the high risk, consignments are seldom used except by affiliated and subsidiary companies trading with the parent company. So, this arrangement is normally made only with a related company because of large risks involved.
- Some equipment suppliers permit importers to hold some equipment on the sales floor as demonstrator models. Once the models are sold or after a specified period, payment is sent to the supplier.
- The seller must carefully consider the credit risks involved as well as the availability of foreign exchange in the importer's country.

9.4.3 Open Account

The main points of open account are:

- An open account transaction means that the goods are shipped and delivered before payment is due, usually in 30 to 90 days.
- The opposite of prepayment is the open account transaction in which the exporter ships the merchandise and expects the buyer to remit payment according to the agreed-upon terms.
- Open account is the most beneficial choice to the importer in cash flow and cost terms, but it is consequently the highest risk option for an exporter.
- Because of the strong competition for export markets, foreign buyers often press exporters for open account terms. Therefore, exporters who are unwilling to extend credit may face the possibility of the loss of the sale to their competitors.
- Open account enhances export competitiveness, exporters should thoroughly examine the political, economic, and commercial risks, as well as cultural influences to ensure that payment will be received in full and on time. It is possible to substantially mitigate the risk of nonpayment related with open account trade by using such trade finance techniques as export credit insurance and factoring.
- Exporters may also wish to seek export working capital financing to ensure that they have access to financing for both the production for export and for any credit while waiting
- The exporter is relying fully upon the financial creditworthiness, integrity and reputation of the buyer.
- As might be expected, this method is used when the seller and buyer have mutual trust and a great deal of experience with each other.

- Despite the risks, open account transactions are widely utilized, particularly among the industrialized countries.
- The process of execution for payment under open account is as under:



- Open account terms may be offered in competitive markets with the use of one or more of the following trade finance techniques:
    1. Export Working Capital Financing,
    2. Government-Guaranteed Export Working Capital Programs,
    3. Export Credit Insurance,
    4. Export Factoring, and
    5. Forfaiting.

The Table 9.1 provides a comparison of various payment methods used in international trade.

Table 9.1 Comparison of Payment Methods

Method	**Usual Time of Payment**	**Goods Available to Buyers**	**Risk to Exporter**	**Risk to Importer**
Prepayment/Cash-in-Advance	Before shipment	After payment	None	Relies fully on exporter to ship as ordered
Letter of Credit	When shipment is made	After payment	Very little or none, depending on credit terms	Assured shipment made, but relies on exporter to ship goods described in documents
Sight draft: Documents against payment	On presentation of draft to buyer	After payment	If draft unpaid, must dispose of goods	Same as above unless importer can inspect goods before payment

Time draft: Documents against acceptance	On maturity of drafts	Before payment	Relies on buyer to pay drafts	Same as above
Consignment	At the time of sale by buyer	Before payment	Allows importer to sell inventory before paying exporter	None; improves cash flow to buyer
Open Account	As agreed	Before payment	Relies fully on buyer to pay account as agreed	None

(Source: Adapted from International Corporate Finance, by Jeff Madura, p.393)

9.4 Check Your Progress

Q1. A ____ is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met:

a) Agreement

b) Letter of Credit

c) Bill Paper

d) None of The Above

Q2. Letter of Credit is beneficial for which party:

a) Seller (Exporter)

b) Buyer (Importer)

c) Both of The Above

d) None of The Above

Q.3 A bill of exchange includes.

a) An order to pay

b) A request to pay

c) A promise to pay

d) All the above

Q.4 Which bill is drawn and accepted in the same country?

a) Trade Bill

b) Foreign Bill

c) Inland Bill

d) Accommodation Bill

Q5. Letter of Credit can be transferred:

a) Yes

b) No

d) None of The Above

9.5 Summary

The chapter provides an overview of modes of payment in international trade. In international trade payment terms are crucial. The mode of payment describes how funds are transferred from buyer (i.e. importer) to seller (i.e. exporter). Advance payment, documentary credit with L/C or without L/C using sight or time draft, consignment sales, and open account are the major types of payment methods in international trade.

9.6 Keywords

- Bill of Exchange: An order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time.
- Bill of lading: A document issued to an exporter by a common carrier transporting merchandise. It serves as a receipt, a contract, and a document of title.
- Draft: An order written by an exporter telling an importer what and when to pay.
- Exporting: Sale of products produced in one country to residents of another country.
- International Trade: It occurs when a firm exports goods or services to consumers in another country.
- Letter of Credit: Issued by a bank, indicating that the bank will make payments under specific circumstances.
- Sight draft: A draft payable on presentation to the drawee.
- Time draft: A promise to pay by the accepting party at some future date.

9.7 Self-Assessment Test

1. Briefly explain the various modes of payment in international trade.
2. Explain with the explain of a suitable diagram the procedure of operation of letter of credit (L/C) with documentary credit.
3. Explain with the explain of a suitable diagram the procedure of operation of letter of credit (L/C) without documentary credit in case of sight draft.
4. Explain with the explain of a suitable diagram the procedure of operation of letter of credit (L/C) without documentary credit in case of time draft.
5. Distinguish between the sight and time drafts and its implications on international trade.
6. What is pre-payment or cash-in-advance mode of payment in international trade? Explain the various points of suitability of use this mode.
7. Explain the advantages of Letter of Credit (L/C) to both the exporter and importer.
8. What is draft or bill of exchange? Explain the use of draft as a mode of payment in international trade.
9. Differentiate between consignment and open account modes of payment in international trade.

9.9 Answers to Check Your Progress

1. Letter of Credit
2. Both of the Above
3. An Order to Pay
4. Inland Bill
5. Yes

9.10 References/Suggested Readings

Books

1. Alan C. Shapiro, Multinational Financial Management, 8th Edition, WILEY-INDIA, New Delhi, 2008.
2. Jeff Madura, International Corporate Finance, 8th Edition, CENGAGE Learning, New Delhi, 2006
3. Rakesh Mohan Joshi, International Business, 2nd Edition, OXFORD University Press, New Delhi, 2019.

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Subject: Foreign Trade in India	
Course Code: BC 306	**Author:** Dr. Surinder Singh Kundu
Lesson No.: 10	**Vetter:** Prof. Pardeep Kumar Gupta
RECENT FOREIGN TRADE POLICY: REGULATIONS AND EXPORT PROMOTION MEASURES	

Lesson Structure:

10.0 Learning Objectives

- To understand the meaning and significance of foreign trade policy.
- To discuss salient features of New Foreign Trade Policy (2015-2020).
- To explain the objectives of New Foreign Trade Policy (2015-2020).

- To explain the Mid-Term Review of New Foreign Trade Policy (2015-2020).
- To understand the foreign trade regulation in India and export promotion measures.

10.1 Introduction

Trade policy refers to the complete framework of laws, regulations, international agreements, and negotiating stances adopted by a government to attain legally binding market access for domestic firms. It also seeks to develop rules providing predictability and security for firms. To be effective, trade policy needs to be supported by domestic policies to foster innovation, flexibility, pragmatism and international competitiveness.

India maintains a large number of incentive programmes/policies for exports promotion and includes – income tax exemptions, subsidized credit, export insurance and guarantees, export marketing assistance schemes and access to some imports that are normally subject to restrictive licensing.

The focus of Foreign Trade Policy (hereafter FTP) reforms in India has been on liberalization, openness and globalization with a basic drive on outward oriented export promotion activity, removal of quantitative restrictions and improving competitiveness of the Indian industry to meet global market requirements.

[The Ministry of Commerce and Industry, Department of Commerce, Government of India] announces Export-Import Policy (now ***Foreign Trade Policy i.e. FTP***) which governs laws related to the import and export of items within that period. The Directorate General of Foreign Trade (DGFT) is an attached office of the Department of Commerce, Ministry of Commerce and Industry, Government of India with its headquarter in New Delhi and a network of 38 Regional Authorities (RAs), is headed by the Director General of Foreign Trade.

The DGFT office assists the government in formulation of FTP and is responsible for implementing the FTP with the main objective of promoting India's exports. Further, it is responsible for implementation of Foreign Trade (Development and Regulation) Act, 1992 and Rules and Regulations notified thereunder. The DGFT also issues authorizations/permissions to exporters and monitors their corresponding obligations.

10.2 Foreign Trade Policy (FTP) from (01.04.2015 – 31.03.2020)

In exercise of powers conferred by ***Section 5*** of the ***Foreign Trade (Development & Regulation) Act, 1992***, as amended from time to time, the Central Government notifies the Foreign Trade Policy (FTP).

The Central Government reserves the right to make any amendment to the FTP by means of notification, in public interest.

The current Five-year Foreign Trade Policy (FTP) 2015-20, launched on 1st April, 2015. It provides a framework for ***increasing exports of goods and services*** as well as ***generation of employment*** and ***increasing value addition in the country***. The focus of the government is to support both the manufacturing and service sectors, with a special focus on improving the ***'ease of doing business'*** and '***trade facilitation'*** in the country.

With the release of the Foreign Trade Policy (FTP) 2015-20, FTP Statement, Handbook of Procedures, Appendix and Aayat-Niryat forms were also released on 01.04.2015. The Director General of Foreign Trade (DGFT) may notify Hand Book of Procedures (HBP) and Appendices & Aayat Niryat Forms (AANF) or amendment thereto; laying down the procedure to be followed by an exporter or importer or by any Licensing/Regional authority under provision of FTP.

The FTP Statement explains the vision, goals, and objectives and describes the market and product strategy predicted and the measures required for both export promotion and development of the entire trade ecosystem.

The Handbook of Procedures notifies the procedure to be followed by an exporter or importer or by the licensing/Regional Authority or by any authority for purpose of implementing the provisions of Foreign Trade (Development and Regulation) Act, 1992, Rules, Standard Input Output Norms (SION) and Orders issued under the provisions of FTP. The procedure contains the following documents:-

(a) Hand Book of Procedures.

(b) Appendices & Aayat Niryat Forms and

(c) Standard Input Output Norms (SION).

The FTP through its various schemes serves the objective of neutralization of duty incidence, encourages technological up-gradation and provides promotional measures to boost India's exports with the objective to offset infrastructural inefficiencies and related costs involved in order to provide exporters a level playing field. The FTP has been suitably modified to incorporate the relevant Goods and Services Tax (GST) provisions.

Through its foreign trade policy, government envisages:

- employment creation in both manufacturing and services through the generation of foreign trade opportunities;
- Zero defect products with a focus on quality and standards;

- A stable agricultural trade policy encouraging the import of raw material where required and export of processed products;
- A focus on higher value addition and technology infusion;
- Investment in agriculture overseas to produce raw material for the Indian industry;
- Lower tariffs on inputs and raw materials; and
- Development of trade infrastructure and provision of production and export incentives.

10.2.1 Objectives of Foreign Trade Policy (2015 – 2020)

A vision is best achieved through measurable targets. Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2 percent to 3.5 percent. The FTP for 2015-2020 seeks to achieve the following objectives:

(1) To provide a stable and sustainable policy environment for foreign trade in merchandise and services;

(2) To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", "Digital India" , "Skills India" and "ease of doing business" to create an "Export Promotion Mission" for India;

(3) To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;

(4) To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship "Make in India" initiative;

(5) To provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance. The government has reduced the number of mandatory documents required for exports and imports to three which is comparable with international standards.

In order to achieve these objectives, the following measures are considered:

- To help improve India's export competitiveness and deepen engagements with new markets;
- To operationalise institutional mechanisms in existing Bilateral Trade Agreements (BTAs) and Regional Trade Agreements (RTAs);
- To deepen and widen the export basket;
- To reduce transaction costs;

- To make efforts to reduce the cost of export credit;
- To help improve infrastructure e.g. ports, laboratories and Common Facility Centres;
- To promote product standards, packaging and branding of Indian products;
- To rationalise tax incidence - introduce the Goods and Services Tax (GST);
- To help improve manufacturing by mainstreaming exports;
- To incentivise potential winners for promising markets;
- To promote and diversify Services Exports; and
- To make participation of mainstream States and Ministries in India's Export Strategy.

10.2.2 Features of Foreign Trade Policy (2015 – 2020)

A. SIMPLIFICATION & MERGER OF REWARD SCHEMES

1. Merchandise Exports from India Scheme (MEIS)

Earlier, there were different schemes for rewarding merchandise exports with different kinds of duty scrips and with varying conditions linked to their use. These schemes were (i) Focus Product Scheme (FPS), (ii) Focus Market Scheme (FMS), (iii) Market Linked Focus Product Scrip (MLFPS), (iv) Vishesh Krishi and Gram Udyog Yojna (VKGUY), (v) Agriculture Infrastructure Incentive Scrip and (vi) Incremental Export Incentive Scheme. Now all these schemes have been merged into a single scheme, namely ***Merchandise Export from India Scheme (MEIS),*** introduced through the Foreign Trade Policy (FTP) 2015-20 on 1st April 2015. The main features of MEIS, including details of various groups of products supported under MEIS and the country groupings are:

(i) **Objective of MEIS**: It is to offset infrastructural inefficiencies and related costs involved in exporting goods/ products which are produced/ manufactured in India.

(ii) **Duty Credit Scrips**: The scheme incentivizes exporters in terms of Duty Credit Scrips at the rate 2, 3, 4, 5, 7 per cent of Free On Board (FOB) value of exports realized. These scrips are transferable and can be used to pay certain Central Duties/ taxes including customs duties.

(iii) **Tariff Lines**: The scheme covers exports of more than 8000 tariff lines. A single item in a country's tariff schedule is known as tariff line or a product as defined in lists of tariff rates.

(iv) **Online filing of Applications**: The process from application till final issuance of the MEIS scrip is digitized end to end, without any physical interface for more than 99 per cent of Harmonised System (HS) Codes on which MEIS is eligible.

(v) **Free on Board (FOB) Value of Exports**: Notified goods exported to notified markets would be rewarded on realised FOB value of exports.

(vi) **No Conditionality**: No conditionality is attached to the scrips issued under the scheme.

(vii) **Country Groups**: The three categories of country groups are:

(a) Category A: Traditional Markets (30) – European Union (28), USA and Canada;

(b) 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.

(c) Category C: Other Markets – for grant of incentives (70).

(viii) **Product Groups**: Major product groups covered under MEIS are: Agricultural products, fruits, flowers, vegetables, tea, coffee, spices, value added and packaged products, handicraft, handloom, jute products, textile and garments, pharmaceuticals, surgical, herbals, project goods, auto components, telecom, computer, electrical and electronics products, railway, transport equipment, industrial machinery, IC engines, machine tools, parts, hand tools, pumps of all types, automobiles, two wheelers, bicycles, ships, planes, chemicals, plastics, rubber, ceramic and glass, leather garments, saddlery items, footwear, steel furniture, prefabs, lighters wood, paper, stationary ,iron, steel, and base metals, products.

2. Service Exports from India Scheme (SEIS)

The Served from India Scheme (SFIS) has been replaced with the Service Export from India Scheme (SEIS). The SEIS applies to 'service providers located in India' instead of 'Indian Service Providers'. The main features of this scheme include:

(i) **Incentives**: It provides for incentives to all service providers of notified services who are providing services from India, regardless of the constitution or profile of the service provider.

(ii) **Basis of Rate of Reward**: The rate of reward issued as duty credit scrip under SEIS would be based on net foreign exchange earned.

(iii) **No Actual User Condition**: The incentive issued as duty credit scrip will no longer carry an actual user condition.

(iv) **Free Transferable and Usable**: The incentive issued as duty credit scrip will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and services tax debits on procurement of services/goods.

(v) **Current Rates of Rewards and their Review**: The rates of reward are 3% and 5% as on 01.04.2015. The list of services and the rates of rewards would be reviewed after 30.9.2015. The various sectors and admissible rates are as such:

Sr. No.	Sectors	Admissible Rates
1.	Business Services	
A.	Professional services	5%
B.	Research and development services	5%
C.	Rental/Leasing services without operators	5%
D.	Other business services: Advertising services, Market research and public opinion polling services Management consulting service	3%
2.	Communications Services	5%
3.	Construction and Related Engineering Services	5%
4.	Educational Services	5%
5.	Environmental Services	5%
6.	Health-Related And Social Services	5%
7.	Tourism And Travel-Related Services	
A	Hotels and Restaurants (including catering)	
a.	Hotel	3%
b.	Restaurants (including catering)	3%
B.	Travel agencies and tour operators services	5%
C.	Tourist guides services	5%
8.	Recreational, Cultural and Sporting Services	5%
9.	Transport Services	
A	Maritime Transport Services	5%
B	Air transport services	5%
C.	Road Transport Services	5%
D.	Services Auxiliary To All Modes Of Transport.	5%

Source: Compiled by Author.

3. **Incentives (MEIS & SEIS) to be available for Special Economic Zones (SEZs) units**

The FTP 2015-20 extends the benefits of the MEIS & SEIS to Special Economic Zones (SEZs) as well which will give a new help to the development and growth of SEZs.

4. **Duty credit scrips to be freely transferable and usable for payment of custom duty, excise duty and service tax**: These are freely transferable and usable for:

(i) Payment of custom duty on import of inputs/ goods including capital goods;

(ii) Payment of excise duty on domestic procurement of inputs or goods including capital goods; and

(iii) Payment of service tax on procurement of services as per Department of Revenue (DoR) notification.

5. **Status Holders**

Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.

The FTP provides Status Category to export house on the basis of export performance:

Status Category	Export Performance FOB/FOR (as converted) value [US$ million]
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

B. BOOST TO "MAKE IN INDIA"

6. **Reduced Export Obligation (EO)**

It is for domestic procurement under Export Promotion Capital Goods (EPCG) scheme from 90% to 75%.

7. **Higher Level of Rewards under MEIS**

It is for export items with high domestic content and value addition, as compared to products with high import content and less value addition.

C. TRADE FACILITATION & EASE OF DOING BUSINESS

Trade facilitation is a priority of the Government for reducing the transaction cost and time, thereby providing Indian exports more competitive. The following steps are initiated for trade facilitation & ease of doing business by the government:

(i) **DGFT as a Facilitator of Exports/Imports**: The focus is on good governance which depends on efficient, transparent and accountable delivery systems. In order to facilitate international trade, DGFT consults various Export Promotion Councils as well as Trade and Industry bodies from time to time.

(ii) **Niryat Bandhu** – Hand Holding Scheme for new export/import entrepreneurs.

(iii) **Online Complaint Registration and Monitoring System**: It allows users to register complaint and receive status/reply online.

(iv) **e-IEC**: Issue of e-IEC (Electronic – Importer Exporter Code) to the applicant within 2 working days.

(v) **Electronic Bank Realization Certificate (e-BRC) Project:** It has enabled DGFT to capture details of realization of export proceeds directly from the banks through secured electronic mode. This has facilitated the implementation of various export promotion schemes without any physical contact with the stakeholders.

(vi) **Mandatory Documents**: Reduction in mandatory documents required for export and import of goods from/into India have been reduced to three each.

(vii) **Documents for Export of Goods**: Mandatory documents required for export of goods from India: (1) Bill of Lading/Airway Bill; (2) Commercial Invoice cum Packing List; (3) Shipping Bill/Bill of Export.

(viii) **Documents for Import of Goods**: Mandatory documents required for import of goods into India: (1) Bill of Lading/Airway Bill; (2) Commercial Invoice cum Packing List; (3) Bill of Entry.

(ix) **Single Window in Customs**: The single window scheme is basically a network of cooperating facilities bound by trust and set of agreed interface specifications in which trade has continuous access to regulatory services delivered through electronic means. Benefits of Single Window Scheme include reduced cost of doing business, enhances transparency, integration of regulatory requirements at one common platform reduces duplicity and cost of compliance, optimal utilization of manpower.

(x) **EDI System**: DGFT has put in place a robust Electronic Data Interchange (EDI) system for the purpose of export facilitation and good governance.

(xi) **EDI Message Exchange**: DGFT has set up a secured EDI message exchange system for various documentation related activities with community partner viz, customs, banks, export promotion councils.

(xii) **Free Passage**: Free passage of export consignment and in case of any doubt, authorities concerned may ask for an undertaking from exporter and release such consignment.

(xiii) **Citizen's Charter**: DGFT has in place a Citizen's Charter, giving time schedules for providing various services to clients.

8. **Online Filing of Documents/ Applications and Paperless Trade in 24x7 Environment provided by DGFT**

(i) Online facility to upload documents by chartered accountant/company secretary/cost accountant.

(i) It helps in savings paper as well as cost and time for the exporters.

9. **Online Inter-Ministerial Consultations**

The FTP provides online inter-ministerial consultations for approval of export of "Special Chemicals, Organism, Materials, Equipment and Technologies" (SCOMET) items, Norms fixation, Import Authorizations, Export Authorization, in a phased manner, with the objective to reduce time for approval.

10. **Simplification of Procedures/Processes, Digitisation and E-Governance**.

(i) **Time-Duration of Records**: The EPCG Authorisation holders are required to maintain records for 2 years after redemption of Authorisations.

(ii) **Exporter Importer Profile**: Facility has been created to upload documents in Exporter/Importer Profile.

(iii) **Communication with Exporters/Importers**: Certain information, like mobile number, e-mail address etc. has been added as mandatory fields, in IEC data base.

(iv) **CBDT & MCA**: Online message exchange with Central Board of Direct Taxes (CBDT) and Ministry of Corporate Affairs (MCA).

(vi) **Communication**: Faster and paperless Communication with various Committees of DGFT

(vii) **Refunds**: Online applications for refunds.

11. **Forthcoming E-Governance Initiatives**

DGFT is currently working on the following EDI initiatives:

(i) Message exchange for transmission of export reward scrips from DGFT to Customs.

(ii) Message exchange for transmission of Bills of Entry (import details) from Customs to DGFT.

(iii) Online issuance of Export Obligation Discharge Certificate (EODC).

(iv) Message exchange with Ministry of Corporate Affairs for Corporate Identification Number (CIN) & Directors Identification Number (DIN).

(v) Message exchange with CBDT for PAN.

(vi) Facility to pay application fee using debit card / credit card.

D. Other new Initiatives

12. **New initiatives for Export Oriented Units (EOUs), Electronic Hardware Technology Parks (EHTPs) and Software Technology Parks (STPs)**

(i) EOUs, EHTPs, STPs have been allowed to share infrastructural facilities in an optimum way among themselves to save cost and avoid duplication of efforts.

(ii) Inter unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs to avoid transportation cost, logistic cost and result in maintaining effective supply chain.

(iii) EOUs have been allowed facility to set up warehouses near the port of export to reduce lead time for delivery of goods.

(iv) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes. This will help these units in developing skills of their employees.

13. **Facilitating & Encouraging Export of dual use items (SCOMET)**

(i) "Special Chemicals, Organism, Materials, Equipment and Technologies (SCOMET)" items are dual-use items having potential for both civilian and Weapons of Mass Destruction (WMD) applications.

(ii) Export of SCOMET items is either restricted, requiring an authorisation for their export, or is prohibited. The Validity of SCOMET export authorisation has been extended from the present 12 months to 24 months.

14. **Facilitating & Encouraging Export of Defence Exports**

(i) Export obligation period for export items falling in the category of defence, military store, aerospace and nuclear energy shall be 24 months from the date of issue of authorization.

15. **e-Commerce Exports**

(i) Goods having FOB value up to Rs.25000 per consignment (finalized using e-Commerce platform) shall be eligible for benefits under FTP.

(ii) E-Commerce exports of employment creating sectors have been supported under the `Merchandise exports from India Scheme' through courier or foreign post offices.

16. **Duty Exemption**

(i) Imports against Advance Authorization shall also be eligible for exemption from Transitional Product Specific Safeguard Duty.

(ii) In order to encourage production of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

17. **Additional Ports allowed for Export and import**

(i) **Customs clearance at the 18 Sea Ports**: The facility of 24 × 7 customs clearance for specified import viz, goods covered by 'facilitated' Bills of Entry and specified exports viz, Factory stuffed containers and goods exported under free shipping bills has been made available at the 18 sea ports at: Chennai, Cochin, Ennore, Gopalpur, JNPT, Kakinada, Kandla, Kolkata, Mumbai, New Mangalore, Marmagoa, Mundra, Okha, Paradeep, Pipavav, Sikka, Tuticorin, Vishakapatnam.

(ii) **Customs clearance at the 17 Air Cargo:** The facility of 24 × 7 Customs clearance for specified imports viz. Goods covered by 'facilitated' Bills of Entry and all exports viz. Goods covered by all Shipping Bills has also been made available at the 17 air cargo complexes at: Ahmedabad, Amritsar, Bangalore, Chennai, Coimbatore, Cochin, Calicut, Delhi, Goa, Hyderabad, Indore, Jaipur, Kolkata, Mumbai, Nashik, Thiruvananthapuram, Vishakhapatnam.

(iii) Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

18. **Duty Free Tariff Preference (DFTP) Scheme**

India has already extended duty free tariff preference to 33 Least Developed Countries (LDCs) across the globe. This is being notified under FTP.

19. **Quality complaints and Trade Disputes**

(i) In an endeavour to resolve quality complaints and trade disputes, between exporters and importers, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy.

(ii) For resolving such disputes at a faster pace, a Committee on Quality Complaints and Trade Disputes (CQCTD) is being constituted in 22 offices and would have members from Export Promotion Councils (EPCs)/Federation of Indian Export Organisations (FIEOs)/Agricultural and Processed Food Products Export Development Authority (APEDA)/EICs.

20. **Vishakhapatnam and Bhimavaram added as Towns of Export Excellence**

(i) **Towns of Export Excellence (TEE)**: Selected towns producing goods of Rs. 750 crore or more may be notified as TEE based on potential for growth in exports. However, for TEE in Handloom, Handicraft, Agriculture and Fisheries sector, threshold limit would be Rs. 150 crore.

(ii) Vishakhapatnam and Bhimavarm added as Towns of Export Excellence.

(iii) The FTP contains the following list of Towns of Export Excellence**:**

Sr. No	**Town of Export Excellence**	**State**	**Product Category**
1	Tirupur	Tamil Nadu	Hosiery
2	Ludhiana	Punjab	Woollen Knitwear
3	Panipat	Haryana	Woollen Blanket
4	Kanoor	Kerala	Handlooms
5	Karur	Tamil Nadu	Handlooms
6	Madurai	Tamil Nadu	Handlooms
7	AEKK (Aroor, Ezhupunna, Kodanthuruthu & Kuthiathodu)	Kerala	Seafood
8	Jodhpur	Rajasthan	Handicraft
9	Kekhra	Uttar Pradesh	Handlooms

10	Dewas	Madhya Pradesh	Pharmaceuticals
11	Alleppey	Kerala	Coir Products
12	Kollam (Quilon)	Kerala	Cashew Products
13	Indore	Madhya Pradesh	Soya Meal and Soya Products
14	Bhilwara	Rajasthan	Textiles
15	Surat	Gujarat	Gems and Jewellery
16	Malihabad	Uttar Pradesh	Horticulture Products
17	Kanpur	Uttar Pradesh	Leather Products
18	Ambur	Tamil Nadu	Leather Products
19	Jaipur	Rajasthan	Handicrafts
20	Srinagar	Jammu & Kashmir	Handicrafts
21	Anantnag	Jammu & Kashmir	Handicrafts
22	Barmer	Rajasthan	Handicrafts
23	Bhiwandi	Maharashtra	Textiles
24	Agra	Uttar Pradesh	Leather Products
25	Firozabad	Uttar Pradesh	Glass Artwares
26	Bhubaneshwar	Orissa	Marine Products
27	Agartala	Tripura	Bamboo Cane & Handicrafts
28	Ahmedabad	Gujarat	Textiles
29	Kolhapur	Maharashtra	Textiles
30	Saharanpur	Uttar Pradesh	Handicrafts
31	Morbi	Gujarat	Ceramic Tiles & Sanitaryware
32	Gurgaon	Haryana	Apparel
33	Thoothukudi (Tuticorin)	Tamil Nadu	Marine
34	Visakhapatnam	Andhra Pradesh	Seafood
35	Bhimavaram	Andhra Pradesh	Seafood

10.2.3 Foreign Trade Policy – Mid Term Review

In the mid-term review of FTP released on 5th December 2017, some additional measures have been taken to help India’s trade sector.

- MEIS (Merchandise Exports from India Scheme) incentives for two sub-sectors of Textiles i.e. Ready Made Garments and Made Ups increased from 2% to 4% involving additional annual incentives of Rs. 2743 crore.

- To provide an impetus to the services trade, the SEIS (Service Export from India Scheme) incentives have been increased by 2% for notified services such as Business, Legal, Accounting, Architectural, Engineering, Educational, Hospital, Hotels and Restaurants amounting to Rs. 1140 crore.
- The validity period of the Duty Credit Scrips has been increased from 18 months to 24 months to enhance their utility in the GST framework. GST rate for transfer/sale of scrips has been reduced to zero from the earlier rate of 12%.
- New trust based Self Ratification Scheme introduced to allow duty free inputs for export production under duty exemption scheme with a self-declaration. Under this scheme, instead of getting a ratification of the Norms Committee for inputs to be used in the manufacture of export products, exporters will self-certify the requirement of duty free raw materials/ inputs and take an authorization from DGFT. The scheme would initially be available to the Authorized Economic Operators (AEOs).
- Contact@DGFT service for Complaint Resolution has been activated on the DGFT website (www.dgft.gov.in) as a single window contact point for exporters and importers for resolving all foreign trade related issues.
- To focus on improving Ease of Trading across Borders for exporters and importers, a professional team envisaged to handhold, assist and support exporters with their export related problems, accessing export markets and meeting regulatory requirements.
- New Logistics Division created in the Commerce Department to develop and coordinate implementation of an Action Plan for the integrated development of the logistics sector, by way of policy changes, improvement in existing procedures, identification of bottlenecks and gaps and introduction of technology in this sector.
- For clarity, a negative list of capital goods which are not permitted under the EPCG (Export Promotion on Capital Goods) scheme has been notified.
- The concept of Domestic Tariff Area (DTA) sale from Export Oriented Units (EoUs) on concessional and full duty has been removed and hence, the limit on entitlement of DTA sale has also been removed. Consequently, restriction on DTA sale of motor cars, alcoholic liquors, books and tea has been removed.

- Second Hand Goods imported for the purpose of repair/ refurbishing/re-conditioning or re-engineering have been made free, thereby facilitating generation of employment in the repair services sector.
- Issue of working capital blockage of the exporters due to upfront payment of GST on inputs has been addressed. Under advance authorization Export Promotion for Capital Goods (EPCG) Scheme, 100% EoU's, exporters have been extended the benefit of sourcing inputs/capital goods from abroad as well as domestic suppliers for exports without upfront payment of GST. Further an e wallet will be launched from 1st April 2018 to make these schemes operational from 1st April, 2018.
- The Union Cabinet Committee on 15th December 2017 approved the special package for employment generation in leather and footwear sector. The package involves implementation of Central Sector Scheme "Indian Footwear, Leather & Accessories Development Programme" with an approved expenditure of Rs. 2600 crore over the three years from 2017-18 to 2019-20. The scheme would lead to development of infrastructure for the leather sector, address environment concerns specific to the leather sector, facilitate additional investments, employment generation and increase in production. The Special Package has the potential to generate 3.24 lakhs new jobs in 3 years and assist in formalization of 2 lakh jobs as cumulative impact in Footwear, Leather & Accessories Sector.
- Services Exports from India Scheme is an incentive scheme for eligible service exports and it was introduced in the Foreign Trade Policy (2015-20) replacing the Served from India Scheme (SFIS).
- SEIS offers reward @ 3 per cent or 5 per cent of net foreign exchange earned. Only Mode 1 and Mode 2 services are eligible. This scheme covers 'Service Providers located in India' instead of 'Indian Service Providers', which was the case in the earlier policy. Under the new scheme, the incentive scrips issued are transferable. The validity of the scrips under SEIS, which was 18 months, has been increased to 24 months in order to enhance the utility of the scrips.
- Some important Services covered under SEIS are as follows: (i) Legal, Accounting, Architectural, Engineering, Educational, Hospital services at 5%; (ii) Hotels and restaurants, Travel agencies and tour operators, other business services at 3%.
- Other Export Promotion Schemes under earlier Foreign Trade Policies: Scrips are also issued under various schemes viz. (i) Focus Product Scheme (FPS), (ii) Focus Market Scheme (FMS),

(iii) Vishesh Krishi and Gram Udyog Yojna (VKGUY), (iv) Incremental Export Incentive Scheme, (v) Served From India Scheme and (vi) Status Holder Incentive Scrip (SHIS).

10.2.4 Foreign Trade Policy (2015-2020) – Extended for One Year

On 31st March 2020, the Union Commerce and Industry Ministry announced changes in the Foreign Trade Policy (FTP) of Government of India. The present Policy which came into force on 1 April, 2015, is for 5 years and has validity upto 31 March, 2020. In view of the unprecedented current situation arising out of the pandemic Novel COVID-19, the Govt. has decided to continue relief under various export promotion schemes by granting extension of the existing Foreign Trade Policy by another one year i.e. up to 31 March, 2021. Several other relief measures have also been announced to support trade and industry. Salient points of the changes made in the FTP are as follows:

1. To provide continuity in the policy regime, the current FTP, valid till 31.03.2020 has been extended till 31.03.2021. Similar extension is made in the related procedures, by extending validity of Hand Book of Procedures.
2. Benefit under all the Export Promotion Schemes (except SEIS) and other schemes, available as on date, will continue to be available for another 12 months. Decision on continuation of SEIS will be taken and notified subsequently.
3. Similarly, validity period of the Status Holder Certificates is also extended. This will enable the Status Holders to continue to avail the specified facilities/benefits.
4. Exemption from payment of IGST and Compensation Cess on the imports made under Advance/EPCG Authorisations and by EOUs etc. has been extended up to 31.03.2021.
5. The scheme for providing “Transport Marketing Assistance on the specified Agricultural Products” is further extended for one year.
6. Validity period for making imports under various duty free import authorizations (AA/DFIA/EPCG) expiring between 01.02.2020 and 31.07.2020,has been allowed automatic extension for another six months from the date of expiry, without requirement of obtaining such endorsement on these authorizations.
7. Where ever the period to make export is expiring between 01.02.2020 and 31.07.2020 under various authorizations, automatic extension in the export obligation period is allowed for another six months from the date of expiry, without payment of any composition fee.

8. Validity period of Letter of Permission/ Letter of Intent as granted to EOUs, units in STPs/EHTPs/BTPs are further extended up to 31st December, 2020.

10.3 Foreign Trade Regulation in India

- The foreign trade in India is regulated by the FOREIGN TRADE (DEVELOPMENT AND REGULATION) ACT, 1992 (No.22 OF 1992) as amended in the year 2010, known as THE FOREIGN TRADE (DEVELOPMENT AND REGULATION) AMENDMENT ACT, 2010.
- The objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for matters connected therewith or Incidental thereto.
- This act gives power to Central Government to make orders and announce Export-Import Policy (EXIM)/New Foreign Trade Policy.
- In exercise of the powers conferred by section 19 of the Foreign Trade (Development and Regulation) Act, 1992, the Central Government makes rules, namely, FOREIGN TRADE (REGULATION) RULES, 1993.

10.4 Export Promotion Measures

Export oriented countries have been able to ensure development and economic progress and prosperity for their citizens. India also has had a rich heritage of trade and commerce right from ancient times. Therefore, promoting trade and exports has been one of the highest priorities of Government of India (GOI) and has taken several steps and measures to make exports competitive, viable and lucrative. These export promotion schemes have helped Indian industry and exporters compete in the world markets. They have also given an impetus to ‘Make in India’, and helped create employment and bring growth and development to large parts of the country. The list of export promotion schemes is given in table 9.1:

Foreign Trade Policy	Export Promotion Schemes
Current Foreign Trade Policy (2015-2020)	1. Merchandise Exports from India Scheme (MEIS) 2. Services Exports from India Scheme (SEIS)

Earlier Foreign Trade Policies	1. Focus Market Scheme (FMS) 2. Focus Product Scheme (FPS) 3. Vishesh Krishi & Gram Udyog Yojna (VKGUY) 4. Served From India Scheme (SFIS) 5. Status Holder Incentive Scrip (SHIS) 6. Incremental Export Incentivisation Scheme (IEIS) 7. Duty Free Import Authorization (DFIA) Scheme 8. Duty Entitlement Pass Book Scheme 9. Replenishment Licence - Schemes for Gems & Jewellery Sector 10. Advance Authorization Scheme 11. Export Promotion of Capital Goods (EPCG) Scheme 12. Export Licence for restricted items 13. Import Licence for restricted items

Further, the export promotion schemes are divided into various categories on the basis of several criteria given in table 9.2

Basis of criteria	Export promotion schemes
Reward/Incentive Schemes	1. Merchandise Exports from India Scheme (MEIS) 2. Services Exports from India Scheme (SEIS) 3. Focus Market Scheme (FMS) 4. Focus Product Scheme (FPS) 5. Vishesh Krishi & Gram Udyog Yojna (VKGUY) 6. Served From India Scheme (SFIS) 7. Status Holder Incentive Scrip (SHIS) 8. Incremental Export Incentivisation Scheme (IEIS)
Duty Remission Schemes	1. Advance Authorization Scheme 2. Duty Free Import Authorization (DFIA) Scheme 3. Export Promotion of Capital Goods (EPCG) Scheme
Duty Neutralisation Scheme	1. Duty Entitlement Pass Book Scheme

Licence Schemes	1. Replenishment Licence - Schemes for Gems & Jewellery Sector 2. Export Licence for restricted items 3. Import Licence for restricted items

The export promotion schemes and their features are given below:

1. Export from India Schemes

(i) **Objective**: The objective of schemes is to provide rewards to exporters to offset infrastructural inefficiencies and associated costs.

(ii) **Types**: Export from India Schemes is divided into two types: (a) Merchandise Exports from India Scheme (MEIS); and (b) Service Exports from India Scheme (SEIS).

(iii) **Nature of Rewards**: Duty Credit Scrips are granted as rewards under MEIS and SEIS which are free transferable and can be used for payment of central duties/taxes including custom duties.

2. Merchandise Exports from India Scheme (MEIS)

(i) **Objectives**: (a) To promote the manufacture and export of notified goods/products; (b) To offset infrastructural inefficiencies and related costs involved in exporting goods which are produced in India.

(ii) **Introduction**: The scheme is introduced w.e.f. 01.04.2015 in the FTP (2015-2020).

(iii) **Nature of Rewards**: MEIS incentives are available at 2, 3, 5, 7, 10 and 20% of the FOB value of exports.

(iv) **Tariff Lines**: It covers exports of more than 8,000 tariff lines, all with global coverage.

(v) **E-Commerce**: Export of goods through courier or foreign post offices using e-commerce of FOB value upto Rs. 25,000 per consignment is entitled for rewards under MEIS.

(vi) **Digital Process**: The process from application till final issuance of the MEIS scrip is digitized end to end, without any manual interface for more than 99 per cent of Harmonised System (HS) Codes on which MEIS is eligible.

(vii) **Validity Period**: The validity period of the duty credit scrips has been increased from 18 months to 24 months to increase their utility in the GST framework. GST rate for transfer/sale of scrips has been reduced to 0% from 12%.

3. Service Exports from India Scheme (SEIS)

(i) **Objective**: To encourage and maximize export of notified services from India.

(ii) **Introduction**: The scheme is introduced w.e.f. 01.04.2015 in the FTP (2015-2020). This scheme covers 'Service Providers located in India' instead of 'Indian Service Providers'.

(iii) **Nature of Rewards**: SEIS incentives are available at 5 per cent and 7 per cent of Net Foreign Exchange Earnings (NFEE) for exports made in a financial year. The duty credit scrips are transferable and can be used to pay certain central duties/taxes including customs duties.

(iv) **Beneficiary**: Service providers of notified services, located in India, is rewarded under SEIS.

(v) **Minimum Earning Criteria**: Service providers should have minimum net free foreign exchange earnings of US$15,000 (for individual service providers and sole proprietorship, such criteria is US$10,000) in preceding financial year.

(vi) **Definition of Net Foreign Exchange**: Gross Earnings of Foreign Exchange minus Total expenses/payment/remittances of Foreign Exchange by the IEC holder, relating to service sector in the financial year.

4. Export Promotion Capital Goods Scheme (EPCG)

(i) **Objective**: To facilitate import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness.

(ii) **Focus**: This Scheme allows exporters to import capital goods (except certain specified items under the Scheme) for pre-production, production and post-production at zero customs duty.

(iii) **Export Obligation**: The exporters are required to fulfill the export obligation to the tune of six times the import duties, taxes and cess saved amount on capital goods, to be fulfilled in six years from date of issue of the Authorization.

(iv) **IGST Exemption**: Capital goods imported under EPCG authorizations for physical exports are also exempt from Integrated Goods and Services Tax (IGST) and Compensation Cess, at present up to 31.03.2020.

5. Advance Authorisation Scheme including (Advance Authorisation of Annual Requirement)

(i) **Objective**: To enable duty free import of inputs for export production including replenishment of inputs or duty remission.

(ii) **Focus**: This Scheme allows duty free import of inputs, which are physically incorporated in export products (making normal allowance for wastage). In addition, fuel, oil, catalyst which are consumed/ utilized in the process of production of export products are also be allowed.

(iii) **SION**: Advance authorisation for Annual Requirement shall only be issued for items notified in Standard Input Output Norms (SION).

6. Duty Free Import Authorization (DFIA)

(i) **Objective**: To facilitate transfer of the authorization or the inputs imported as per SION, once export is completed.

(ii) **Focus**: It is issued on post export basis for products for which Standard Input Output Norms (SION) have been notified.

7. Interest Equalization Scheme (IES)

(i) **Duration**: The scheme came into effect from 01.04.2015 for a period of 5 years.

(ii) **Implementation**: This scheme is being implemented by the DGFT through Reserve Bank of India (RBI) for pre and post Shipment Rupee Export Credit.

(iii) **Interest Equalisation Rate**: Under the Scheme, interest equalization @ 3 per cent per annum has been made available to eligible exporters.

(iv) **MSME Sector**: W.e.f. 02.11.2018, the interest equalization rate has been increased from 3 per cent to 5 per cent for exports made by MSME sector under the ongoing Interest Equalization Scheme (IES) on Pre and post Shipment Rupee Export Credit.

(v) **Merchant Exporters**: The merchant exporters have also been included at the interest equalization rate of 3 per cent under this scheme w.e.f. 02.01.2019.

8. Export Oriented Units (EOUs)/Electronic Hardware Technology Park (EHTP)/Software Technology Park (STP)/Bio-Technology Parks (BTPs) Scheme

(i) **Objectives**: (a) To promote exports; (b) To enhance foreign exchange earnings; (c) To attract investment for export production and (d) To generate employment.

(ii) **Scope of Units**: The units undertaking to export their entire production of goods and services (except permissible sales in Domestic Tariff Area) may be set up under the schemes. Trading units are not covered under these schemes.

(iii) **Focus**: Under this scheme, the EOUs etc. are permitted to import and/ or procure from DTA or bonded warehouse in DTA or from international exhibition held in India till 31.03.2020 without payment of customs duty and additional duty.

9. Deemed Export Scheme

(i) **Meaning of Deemed Exports**: Deemed Exports refers to those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange.

(ii) **Objective**: To provide a level-playing field to domestic manufacturers in certain specified cases, as may be decided by the Government from time to time.

(iii) **Focus**: Under the scheme of deemed exports, exemption/ refund of duties on the goods manufactured and supplied to specified categories of deemed exports is provided to ensure a level playing field to domestic manufacturers.

(iv) **Benefits**: The benefits include duty exemption, refund of terminal excise duty, refund of duties suffered by the inputs utilized in manufacture and supply of the goods to the specified categories of deemed exports.

(v) **Duty Drawback**: Under the GST regime, the Duty Drawback is limited to exemption/ refund of basic custom duties.

10. Transport and Marketing Assistance (TMA) for Specified Agriculture Products Scheme

(i) **Objectives**: (a) To reduce higher cost of transportation of export of specified agriculture products and (b) To promote brand recognition for Indian agricultural products in specified overseas markets.

(ii) **Introduction**: It is launched in February, 2019 and is available for exports occurring from 01.03.2019 to 31.03.2020.

11. Trade Infrastructure for Export Scheme (TIES)

(i) **Objective**: To assist Central and State Government Agencies for creation of appropriate infrastructure for growth of exports from the States.

(ii) **Launch**: The Government of India has launched this scheme from financial year 2017-18.

(iii) **Focus**: The Scheme provides financial assistance in the form of grant-in-aid to Central/State Government owned agencies for setting up or for up-gradation of export infrastructure as per the guidelines of the Scheme.

12. Schemes for Exporters of Gemsand Jewellery

(i) **Objective**: To import/procure duty free input for production of export product by exporters of Gems and Jewellery.

(ii) **Types of Schemes**: (a) Advance procurement/Replenishment of Precious Metals from Nominated Agencies; (b) Replenishment Authorisation for Gems; (c) Replenishment Authorisation for Consumables; and (iv) Advance Authorisation for Precious Metals.

13. Remission of Duties and Taxes on Exported Products (RoDTEP)

On dated 13th March 2020, The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi, has given its approval for introducing the Scheme for "Remission of Duties and Taxes on Exported Products (RoDTEP)" to boost exports scheme for enhancing exports to international markets. The Salient features are:

(i) **Objective**: To make Indian exports cost competitive and create a level playing field for exporters in international market.

(ii) **WTO Compliant**: This scheme is WTO compliant and will reimburse taxes/duties/levies at the central, state and local level, which are currently not being refunded.

(iii) **Employment Generation**: To give a boost to employment generation in various sectors.

(iv) **Monitoring and Audit Mechanism**: Items will be shifted in a phased manner from existing scheme MEIS to RoDTEP with proper monitoring & audit mechanism

14. Rebate of State and Central Taxes and Levies (RoSCTL)

A new scheme called Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) covering export of garments and made-ups was notified on 7.3.2019 providing refund of duties/taxes at higher rates.

15. Other Export Promotion Schemes under earlier Foreign Trade Policy

Scrips are also issued under various schemes viz. (i) Focus Product Scheme (FPS), (ii) Focus Market Scheme (FMS), (iii) Vishesh Krishi and Gram Udyog Yojna (VKGUY), and (iv) Incremental Export Incentive Scheme, (v) Served From India Scheme, (vi) Status Holder Incentive Scrip (SHIS).

(i) **Focus Product Scheme (FPS)**: It was launched w.e.f. 01.04.2006 for offsetting high freight cost and other externalities to select international markets with a view to enhance India's export competitiveness in the countries. Exporters of all products to notified countries are entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports.

(ii) **Focus Market Scheme (FMS)**: It was introduced w.e.f. 01.04.2006 to incentivize export of such products which have high export intensity/employment potential, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products. Exports of notified products to all countries (including SEZ units) shall be entitled for Duty Credit Scrip equivalent to 2% or 5% of FOB value of exports (in free foreign exchange) for exports made from 27.8.2009 onwards.

(iii) **Vishesh Krishi and Gram Udyog Yojana (VKGUY)**

The objective of this scheme was to promote employment generation in rural and semi -urban areas. Duty Credit Scrips are granted with an aim to compensate high transport costs, and to offset other disadvantages.

(iv) **Served From India Scheme (SFIS)**

The objective is to increase growth in export of services so as to create a powerful and unique 'Served from India' brand instantly recognized and respected the world over. Service Providers are entitled to Duty Credit Scrip @10% of the free foreign exchange earned.

10.5 Check Your Progress

1) Name the two schemes introduced under the new foreign trade policy?
   a. Merchandise Export from India Scheme & Services Export from India Scheme
   b. Services Export from India Scheme & Services Import from India Scheme
   c. Services Import from India Scheme & Merchandise Export from India Scheme
   d. Merchandise Import from India Scheme & Services Export from India Scheme
2) FTP stands for _____________.
3) The Indian Government unveiled the new Foreign Trade Policy 2015-20 on _____.
   a. 30th Mar 2015
   b. 31st Mar 2015
   c. 1st April 2015
   d. 30th April 2015
4) SCOMET refers to ___________.
5) Full Form of ITC (HS) is ____________.

10.6 Summary

Government is taking holistic measures to make exports competitive whether it is ensuring access to affordable credit, initiating exporter friendly schemes, promoting districts as export hubs, improving logistics and improving utilisation of Free Trade Agreements (FTAs). A new Foreign Trade Policy (FTP) 2015-20 was launched on 1 April 2015. The policy, inter alia, rationalised the earlier export promotion schemes and introduced two new schemes, namely Merchandise Exports from India Scheme (MEIS) for improving export of goods and 'Services Exports from India Scheme (SEIS)' for increasing exports of services. Duty credit scrips issued under these schemes were made fully transferable. Based on Mid-term Review of the FTP 2015-20 undertaken on 5th December, 2017, incentives for labour intensive / MSME sectors were increased by 2%. A new Logistics Division was created in the Department of Commerce for integrated development of the logistics sector. Interest Equalization Scheme on pre and post shipment rupee export credit was introduced from 1.4.2015 providing interest equalisation at 3% for labour intensive / MSME sectors. The rate was increased to 5% for MSME sectors with effect from 2.11.2018 and merchant exporters were covered under the scheme with effect from 2.1.2019. A new scheme called "Trade Infrastructure for Export Scheme (TIES)" was launched with effect from 1 April 2017 to address the export infrastructure gaps in the country. A comprehensive "Agriculture Export Policy" was launched on 6th December, 2018 with an aim to double farmers' income by 2022 and provides an impetus to agricultural exports. A new scheme called "Transport and Marketing Assistance" (TMA) has been launched for mitigating disadvantage of higher cost of transportation for export of specified agriculture products. A new scheme called Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) covering export of garments and made-ups was notified on 7.3.2019 providing refund of duties/taxes at higher rates. The Government has introduced a new Scheme for Remission of Duties and Taxes on Exported Products (RoDTEP) on 13-03-2020 for re-imbursement of taxes/ duties/ levies, which are currently not being refunded under any other mechanism, at the central, state and local level.

10.7 Keywords

- **Act**: It means Foreign Trade (Development and Regulation) Act, 1992 (No.22 of 1992) as amended from time to time.
- **Authorisation**: It means permission as included in Section 2(g) of the Act to import or export as per provisions of FTP.

- **Domestic Tariff Area (DTA)**: It means area within India which is outside SEZs and EOU/ EHTP/STP/BTP. Area where normal import tariffs and taxes are applicable for production and movement of goods.
- **ITC (HS)**: It refers to Indian Trade Classification (Harmonized System) at 8 digits.
- **SCOMET**: It is the nomenclature for dual use items of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET).
- **Services**: It includes all tradable services covered under General Agreement on Trade in Services (GATS) and earning free foreign exchange.
- **SION**: It means Standard Input Output Norms notified by DGFT.
- **Status holder**: It means an exporter recognized as One Star Trading House/ Two Star Trading House / Three Star Trading House/ Four Star Trading House/ Five Star Trading House by DGFT/Development Commissioner.

10.8 Self-Assessment Test

1. Explain the origin and objectives of Foreign Trade Policy (2015-20).
2. Discuss the salient features of Foreign Trade Policy (2015-20).
3. What are the various points introduced by the government in the Mid-term review of Foreign Trade Policy (2015-20).
4. Explain the regulation of foreign trade in India.
5. Explain the various export promotion measures available in Foreign Trade Policy (2015-20).

10.9 Answers to Check Your Progress

1. A
2. Foreign Trade Policy
3. C
4. Special Chemicals, Organisms, Materials, Equipment and Technologies
5. Indian Trade Classification (based on Harmonized System)

10.10 References/Suggested Readings

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Subject: Foreign Trade of India	
Course Code: BC 306	**Author:** Mr. Kapil Singh
Lesson No.: 11	**Vetter: Prof. Pardeep Kumar Gupta**
SPECIAL ECONOMIC ZONES (SEZs) AND EXPORT ORIENTED UNITS' SCHEME	

Structure

11.0 Learning Objective

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

- Understand meaning, definition and role of Special Economic Zones.
- Learn the approval mechanism of setting up of SEZ.
- Learn the provisions of Special Economic Zone Act, 2005.
- Understand various infrastructures available for exporter in India.
- Understand various export oriented unit schemes in India

11.1 Introduction

Every country wants to increase its Gross Domestic Product (GDP) and a surplus balance of trade. For this, export of goods and services are beneficial to counter these problems. In this direction Ministry of

Commerce had propounded the concept of Special Economic Zone (SEZ) to boost domestic production, investment, employment as well as the export. The concept had originated in 1960s when the world's first Export Processing Zone (EPZ) was established in Ireland. At large scale, this concept was used in China. In the present scenario, special economic zones play a very important role in the economic growth of any nation. India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965.

11.2 Special Economic Zone (SEZ): Meaning, Definition and Role

Meaning

Special Economic Zone (SEZ) is the specified notified geographic areas which enjoy special privileges in form of various tax concessions, low checks and control, less formalities, liberal laws as compare to non-SEZ areas from Government.

Definition

As per Special Economic Zones Act, 2005, "SEZ 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".

An SEZ is an enclave within a country that is typically duty-free and has different business and commercial laws chiefly to encourage investment and create employment. Apart from generating employment opportunities and promoting investment, SEZs are created also to better administer these areas, thereby increasing the ease of doing business.

Role of Special Economic Zones

The followings are the main roles of SEZ

- Help to boost Export and Infrastructural facilities.
- Help to boost Employment and Investment.
- Help to boost Standard of living.

- Help to boost Research & Development.
- Optimum utilization of resources.
- Linking with other countries.

11.2.1 Special Economic Zone (SEZ) Act, 2005

The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class 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.

11.2.2 Rules in SEZ Act

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;

- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification;
- Approval mechanism and Administrative set up of SEZs.

11.2.3 Objectives of the SEZ Act

The followings are the main objectives of SEZ Act:

- Generation of additional economic activity.
- Promotion of exports of goods and services.
- Promotion of investment from domestic and foreign sources.
- Creation of employment opportunities.
- Development of infrastructure facilities.

11.2.4. Incentives offered to Special Economic Zones

These incentives are classified into two categories:

- Incentives and Facilities to Units set up in SEZ
- Incentives and facilities available to SEZ developers

11.2.4.1 Facilities and Incentives to Units set up in SEZ

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

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

- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Exemption from State sales tax.
- The above three taxes have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
- Other levies as imposed by the respective State Governments.
- Single window clearance for Central and State level approvals.

11.2.4.2 The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- 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.
- Exemption from Minimum Alternate Tax (MAT) under Section 115 JB of the Income Tax Act.
- Exemption from Dividend Distribution Tax (DDT) under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST), Value Added Tax (VAT).
- Exemption from Service Tax.

11.2.5 Minimum land area requirement for Setting up of a SEZ

All states have their different SEZ policies. These policies guide a SEZ developer the minimum land area requirement and procedure attached with it for setting up of a SEZ. Policy of Haryana state regarding minimum land requirement for a SEZ is as follows:

Type of SEZ	Land Requirement (in hectare)
Multi Sector SEZ	500
Sector Specific SEZ, Multi-services SEZ	50
Free Trade Warehouse Zone (FTWZ)	40
Handicraft/Biotechnology/Non-conventional Energy/Gems and Jewellery Sector SEZ	10
IT/ITES Sector SEZ	Nil

Source: www.sezindia.nic.in

11.2.6 Approval mechanism of SEZ

The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval. The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus. The Board of Approval has 19 Members. The Board shall consist of:

- An officer not below the rank of an Additional Secretary to the Government of India in the Ministry or Department of the Central Government dealing with Commerce -Chairperson, ex officio.

- Two officers, not below the rank of a Joint Secretary to the Government of India, to be nominated by the Central Government to represent the Ministry or Department of the Central Govt. dealing with revenue – Members, ex officio.

- One officer not below the rank of Joint Secretary to the Government of India to be nominated by the Central Government the Ministry or Department of the Central Government dealing with economic affairs (financial services) – Members, ex officio.
- Such number of officers, not exceeding 10, not below the rank of the Joint Secretary to the Government of India, to be nominated by the Central Government to represent the Ministries or Departments of the Central Government dealing with commerce, industrial policy and promotion, science and technology, small scale industries and agro and rural industries, home affairs, defence, environment and forests, law, overseas Indian affairs and urban development - Members, ex officio.
- A nominee of the State Government concerned -Member, ex officio.
- The Director General of Foreign Trade or his nominee - Member, ex officio.
- The Development Commissioner concerned - Member, ex officio.
- A Professor in the Indian Institute of Management, being a society registered under the Societies Registration Act, 1860 or 21 of 1860. The Indian Institute of Foreign Trade, being a society registered under the Societies Registration Act, 1860, as may be, nominated by the Central Government - Member, ex officio.
- An officer not below the rank of Deputy Secretary to the Government of India dealing with the Special Economic Zones in the Ministry or Department of the Central Government, dealing with commerce to be nominated by the Central Government - Member-Secretary, ex officio.

11.2.7 Administrative set up

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee. Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency; broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The performance of the SEZ units is periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

11.3 Fact Sheet on Special Economic Zones (SEZs) in India

Table 1 is showing some important facts regarding SEZs in India. There are 421 total number of formal approved SEZ and 376 total number of notified SEZ in which 7 Central & 12 State Govt. /Private Sector SEZ set up prior to the enactment of SEZ Act, 2005. There are 32 In-Principle Approved SEZ, 248 Operational SEZ and 5524 total Approved SEZ in India.

A total 47,563.20 hectare land area is for all SEZs set up prior to the Act, notified and approved SEZ in India. Investment for Central Govt. SEZs, SEZs notified under this act and SEZs set-up prior to the act is Rs. 5,71,735 Crore.

SEZs contribution in employment generation in Central Govt. SEZs, SEZs set up prior to the Act and notified SEZ under this Act is 1, 97,777 persons, 1, 09,124 persons and 19, 31,404 persons respectively in India. SEZs contribution in export of India is Rs. 7, 96,669 Crore which depicts a growth of 21% over 2018-19.

Table 1 Fact Sheet on Special Economic Zones (SEZs) in India

Number of Formal approvals	421
Number of notified SEZs	357 + (7 Central Govt.+12 State Govt. / Private Sector SEZs set up prior to the enactment of SEZ Act, 2005)
Number of In-Principle Approvals	32

<table>
<tr><td colspan="2">Operational SEZs</td><td colspan="4">248 (Break up: 25 are multi product SEZs, remaining are sector specific SEZs)</td></tr>
<tr><td colspan="2">Units approved in SEZs</td><td colspan="4">5,524</td></tr>
<tr><td rowspan="2">Land for SEZs</td><td>7 Central Govt. + 12 State Govt. /Pvt. SEZs notified before SEZ Act, 2005</td><td>Notified SEZs under the SEZ Act, 2005</td><td>Total Notified SEZs Area</td><td>Formally Approved SEZs</td><td>Total Area</td></tr>
<tr><td>2,172.75 Ha</td><td>39,936.74 Ha</td><td>42,109.49 Ha</td><td>5,453.71 Ha</td><td>47,563.20 Ha</td></tr>
</table>

Investment	**Investment (As on February, 2006)**	**Incremental Investment**	**Total Investment (As on 31st March, 2020)**
Central Government SEZs	Rs. 2,279.20 cr.	Rs. 18,277.80 cr.	Rs. 20,557 cr.
State/Pvt. SEZs set up before 2006	Rs. 1,756.31 cr.	Rs. 11,777.69 cr.	Rs. 13,534 cr.
SEZs Notified under the Act	-	Rs. 5,37,644 cr.	Rs. 5,37,644 cr.
Total	**Rs. 4,035.51 cr.**	**Rs. 5,67,699.49 cr.**	**Rs. 5,71,735 cr.**
	Employment	**Incremental**	**Total Employment**

Employment	(As on February, 2006)	Employment	(As on 31st March, 2020)
Central Government SEZs	1,22,236 persons	75,541 persons	1,97,777 persons
State/Pvt. SEZs set up before 2006	12,468 persons	96,656 persons	1,09,124 persons
SEZs Notified under the Act	-	19,31,404 persons	19,31,404 persons
Total	**1,37,704 persons**	**21,03,601 persons**	**22,38,305 persons**

Exports in 2019-20	Rs. 7,96,669 Crore (Growth of 21% 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 (As on 30th June, 2020)	Rs. 1,52,944 Crore (Decrease of -21.46% over the exports of the corresponding period of FY 2019-20)

Source: www.sezindia.nic.in

11.3.1 State wise distribution of SEZs in India

Table 2 is showing state wise distribution of SEZ in India. As per table Karnataka and Telangana has 63-63 Formal Approved SEZs while Tamilnadu (56), Maharastra (50), Andhra Pardesh (32), Kerala (29), Gujarat (26), Haryana & UP (23), MP (12), Goa, Odhisha & WB (07), Punjab & Rajasthan (05), Chandigarh, Chattishgarh, Delhi, Jarkhand & Nagaland (02), and Manipur, Puducherry, Tripura (01).

Table 2 State-wise distribution of approved SEZs in India

State-wise distribution of approved SEZs				(As on 29.02.2020)
States/UTs	**Formal Approvals**	**In-principle approvals**	**Notified SEZs**	**Total Operational SEZs (Including prior to SEZs Act + under the SEZs Act)** ***(as on 31.12.2019)***
Andhra Pradesh	32	4	27	20
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	1
Delhi	2	0	0	0
Goa	7	0	3	0
Gujarat	26	4	22	20
Haryana	23	3	20	7
Jharkhand	2	0	2	0
Karnataka	63	0	52	32
Kerala	29	0	25	19
Madhya Pradesh	12	0	7	5
Maharashtra	50	12	44	32
Manipur	1	0	1	0
Nagaland	2	0	2	0

Odisha	7	0	5	5
Puducherry	1	1	0	0
Punjab	5	0	3	3
Rajasthan	5	1	4	3
Tamil Nadu	56	4	52	41
Telangana	63	0	56	30
Tripura	1	0	1	0
Uttar Pradesh	23	1	20	13
West Bengal	7	2	5	7
GRAND TOTAL	**421**	**33**	**354**	**240**

Source: www.sezindia.nic.in

Total operational SEZs (Including prior to SEZs Act and under the SEZs Act) is 240 in India in which Tamil Nadu (41), Karnataka & Maharashtra (32), Telengana (30), Andhra Pardesh & Gujarat (20), Kerala (19), UP (13), Haryana & WB (07), MP & Odisha (05), Punjab & Rajasthan (03), Chandigarh (02) and Chhattisgarh (01).

11.3.2 Sector wise distribution of SEZs in India

Table 3 is showing sector wise distribution of SEZs in India. It is clear from the table that formal approval of SEZ in IT/ITES/Electronic Hardware/ Semi-conductor/ Telecom equipments sector is 276 while in Biotechnology (23), Multi-Product (20), Pharmaceuticals/chemicals (17) and Engineering/Metallurgical Engineering (14).

Total operational SEZs (Including prior to SEZs Act and under the SEZs Act) is 240 in which IT/ITES/Electronic Hardware/ Semi-conductor/ Telecom equipments sector is 145 while in Multi

Product (25), Pharmaceuticals/chemicals & Engineering/Metallurgical Engineering (12) and Textiles/Apparel/Wool (07).

Table 3 Sector-wise Distribution of approved SEZs in India

Sector-wise Distribution of approved SEZs (As on 29.02.2020)				
Sectors	**Formal Approvals**	**In-Principle approvals**	**Notified SEZs**	**Total Operational SEZs (Including prior to SEZs Act + under the SEZs Act) as on 31.12.2019**
Agro-processing	5	2	5	2
Airport based multiproduct	2	0	0	0
Alumina/Aluminium	2	0	2	1
Auto/Automobile Ancillary	2	1	2	1
Aviation/Aerospace/ Copper	5	1	4	3
Beach & mineral/ metals	2	0	2	1
Biotechnology	23	1	16	4
Building prod./mal./ transport equipments / ceramic and glass	2	2	2	2
Electronic product/Industries	2	0	2	2
Engineering/Metallurgical Engineering	14	1	13	12

Footwear/Leather	5	0	5	4
Food Processing	3	0	2	2
FTWZ	9	6	5	3
Gems and Jewellery	4	3	1	4
Handicrafts & Carpets	2	0	1	1
IT/ITES/Electronic Hardware/ Semi-conductor/ Telecom equipments	276	0	236	145
Multi-Product	20	9	17	25
Multi-Services	4	1	4	2
Non-Conventional Energy	2	0	2	2
Petrochemicals & petro./oil and gas	2	1	0	0
Pharmaceuticals/chemicals	17	2	17	12
Port-based multi-product	4	1	3	2
Power/solar	4	1	4	3
Textiles/Apparel/Wool	7	1	7	7
Writing and printing paper mills	1	0	1	0
Granite processing Industries and other allied machinery/	2	0	1	0

manufacturing				
Grand Total	**421**	**33**	**354**	**240**

Source: www.sezindia.nic.in

11.3.3 Institutional Infrastructure for Export Promotion in India

(A) **Department of Commerce**-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, 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 is functionally organized into the following 10 Divisions:

- International Trade Policy Divisions
- Foreign Trade Territorial Division
- Export Products Division
- Export Industries Division
- Export Services Division
- Economic Division
- Administration & General Service Division
- Finance Division
- Supply Division
- Logistics Division

(B) **Autonomous Bodies**

- **Commodity Boards-**There are five statutory Commodity Boards i.e. Coffee Board, Rubber Board, Tea Board, Tobacco Board, Spices Board under the Department of Commerce. These Boards are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

- **Marine Products Export Development Authority (MPEDA)-**It was set up under Section (4) of MPEDA Act, 1972 and became functional from 20th April, 1972. The MPEDA, a statutory body, is responsible for development of the marine products industry with special reference to exports.

- **Agricultural and Processed Food Products Export Development Authority (APEDA)-**It was established by the Government of India under the Agricultural and Processed Food Products Export Development Authority Act passed by the Parliament in December, 1985. APEDA has been entrusted with the responsibility of export promotion and development of 14 agricultural and processed food product groups listed in the Schedule to the APEDA Act.

- **Export Inspection Council (EIC)-**It is the official export certification body of India which ensures quality and safety of products exported from India. EIC was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 to ensure sound development of export trade of India through quality control and inspection and matters connected therewith.

- **Indian Institute of Foreign Trade (IIFT)-** It was set up by Government of India on 2nd May, 1963 with a focus on foreign trade related research and training. Today, the Institute is widely recognized for its knowledge and resource base, rich heritage and for strong alumni network both in India and abroad.

- **Indian Institute of Packaging (IIP)-**It is an autonomous body in the field of packaging technology which was set up on 14th May, 1966 as a society under society registration act, 1860 by the leading packaging and allied industries and the Ministry of Commerce, Govt. of India. The main objective of this Institute is to promote the export market by way of innovative package design and development and also to upgrade the packaging standards at National Level.

- **Indian Institute of Plantations Management** (IIPM)-It is an autonomous institution set up by the Ministry of Commerce, Government of India in 1990 to provide professional management education in the field of plantation sector. The objective of the Institute is to provide education, research, training, development and consultancy services to the industry and other agencies engaged in economic and social development of the plantation & associated agro-business sector.

(C) Public Sector Undertakings

- **State Trading Corporation of India Limited (STC)-**It was set up on 18th May, 1956 primarily with a view to undertake trade with East European countries and to supplement the efforts of private trade and industry in developing exports from the country. It has arranged imports of essential items of mass consumption (such as wheat, pulses, sugar, edible oils, etc.) into India and contributed significantly in developing exports of a large number of items from India.

- **MMTC Limited**-It was created in 1963 as an independent entity on separation from State Trading Corporation of India Ltd. primarily to deal in exports of minerals and ores and imports of non-ferrous metals. In 1970, MMTC took over imports of fertilizer raw material and finished fertilizers. Over the years, import and export of various other items like steel, diamonds, bullion, agro, hydrocarbon, etc. were progressively added to the portfolio of the company.

- **The Project and Equipment Corporation of India Ltd. (PEC Ltd.)**-It was carved out of the STC in 1971-72 to take over the canalized business of STC's (State Trading Corporation of India Ltd.) railway equipment division, to diversify into turn-key projects especially outside India and to aid and assist in promotion of exports of Indian engineering equipment.

- **Export Credit Guarantee Corporation of India Ltd. (ECGC Ltd.)** –It is wholly owned by Government of India, was set up in 1957 with the objective of promoting exports from the country by providing credit risk insurance and related services for exports. Over the years it has designed different export credit risk insurance products to suit the requirements of Indian exporters. ECGC is essentially an export promotion organization, seeking to improve the competitiveness of the Indian exports by providing them with credit insurance covers.

- **India Trade Promotion Organisation (ITPO)-**It is the premier trade promotion agency of India, provides a broad spectrum of services to trade and industry and acts as a catalyst for growth of India’s trade. The main objectives are: To promote external and domestic trade of India in cost effective manner by organizing and participating in international trade fairs in India and abroad; organizing buyer-seller meets and contact promotion programmes abroad; conducting overseas market surveys etc.

(D) Export Promotion Councils

In India, there are many export promotion councils which help in exports of products and goods from India to the rest of world. These are as follows:

- EEPC India
- Export promotion council for EOUs & SEZs
- Project Export Promotion Council of India (PEPC)
- Basic chemicals, cosmetics and dyes Export Promotion Council
- Chemical and Allied Products Export Promotion Council
- Council for Leather exports
- Sports Goods Export Promotion Council
- Gem and Jewellery Export Promotion Council
- Shellac Export Promotion Council
- Cashew Export Promotion Council of India
- The Plastics Export Promotion Council
- Pharmaceutical Export Promotion Council

- Indian Oil Seeds and Produce Export Promotion Council
- Services Export Promotion Council

(E) Other Organizations

- **Federation of Indian Export Organisations (FIEO)-**It was set up in 1965 under the aegis of Ministry of Commerce, as an Apex Body of Export Promotion Organisations. It has been serving as a platform of interaction between exporters and policy makers, and has been instrumental in promoting the efforts of Indian exporting community. The main objective of FIEO is to render an integrated package of services to various organizations connected with export promotion.

- **Indian Diamond Institute (IDI)-**It was established as a Society in the year 1978 at Surat, Gujarat with the objective of imparting education in the field of Gem & Jewellery sector including Diamond Manufacturing aspects and thereby enhancing the quality, design and global competitiveness of the Indian Jewellery. It has developed itself, gradually over a period of 36 years, as a premier institute for imparting technical skills to Diamond, Gems & Jewellery Industry. The Institute conducts various diploma and other courses related to Diamond, Jewellery & Gem Stone trade and Industry.

- **Footwear Design and Development Institute (FDDI)-**It was established in the year 1986 as a Society under the Societies Registration Act, 1860 with an objective to provide skilled manpower to the leather industry. It conducts wide range of professional programmes in the area of Footwear Design & Production Management, Creative Designing CAD/CAM, Fashion Merchandizing & Retail Management, Leather goods & Accessories Design, Fashion Design and Business management etc. thus, providing trained high-class professionals, managers, fashion Designers, technologists to the industry to keep pace with the growing demand.

- **National Centre for Trade Information (NCTI)-**It was incorporated on 31st March, 1995 as a company under Section 25 of Companies Act, 1956. The company started functioning w.e.f. March, 1996. Main activities of NCTI includes Trade data based research and analysis – 2/4/6/8 digit HS classification – India/ Target Country – 9/10 digit level. Focus Market: Focus Product – Export potential studies. Drawing/ evaluating wish lists/ offer lists under various PTA/ FTAs of India (existing and prospective).

- **India Brand Equity Foundation (IBEF)**-It is a Trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India in 2003 with the objective of promoting and creating international awareness of the Made in India label in markets overseas and to facilitate dissemination of knowledge of Indian products and services.

- **Price Stabilization Fund Trust (PSFT)**-It was registered in September 2003, initially for a period of 10 years. The registration has been further extended for a period of 10 years w.e.f. 11.09.2013. The Price Stabilization Fund (PSF) Scheme was launched by Government of India in April 2003 against the backdrop of decline in international and domestic prices of tea, coffee, rubber and tobacco causing distress to primary growers. The objective of the scheme was to safeguard the interests of the growers of these commodities and provide financial relief when prices fall below a specified level.

11.3.4 Export Oriented Units' Schemes

The purpose of the scheme was basically to boost exports by creating additional production capacity. Under this scheme, the units undertaking to export their entire production of goods are allowed to be set up. These units may be engaged in the manufacture, services, development of software, trading, repair, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites. The EOUs can export all products except prohibited items of exports in ITC (HS).

Under the EOU scheme, the units are allowed to import or procure locally without payment of duty all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipments including material handling equipments, required for export production or in connection therewith. Even the goods appearing in the restricted list of the EXIM Policy (1997-02) are permitted to be imported. However, the goods prohibited for import are not permitted. In the case of EOUs engaged in agriculture, animal husbandry, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granite quarrying; only specified categories of goods mentioned in the relevant notification have been permitted to be imported duty-free.

The EOUs are licensed to manufacture goods within the bonded premises for the purpose of export. As per the policy, the period of bonding is initially for five years, which is extendable to another five years by the Development Commissioner. On completion of the bonding period, it is for the unit to decide whether to continue under, or to opt out, of the scheme.

The imported capital goods are allowed to be warehoused for a period of five years. For other goods, the warehousing period is one year, which can be extended further by the Commissioner / Chief Commissioner of Customs. On an application being made by the unit extension of the time limit is granted in all cases unless there is malafide and diversion of duty free materials.

General Conditions of Duty free Import

The facility of duty free import (extending exemption both from basic & countervailing duty) is subject to certain general conditions in accordance with the EXIM Policy and these are summed up as follows:

- The goods are required to be imported into the EOU premises directly. However, Granite Quarrying units, agriculture and allied sector units are allowed to supply /transfer the capital goods and the inputs in the farms/fields with prior permission of Customs.
- Prior to undertaking import / local procurement duty free, the unit is required to get their premises customs bonded. The unit is also required to execute a B-17 bond with surety/ security with jurisdictional Customs/ Central Excise officers and take out a licence under section 58 of the Customs Act, 1962.
- The goods, except capital goods and spares, are required to be utilised within a period of one year or within such period as may be extended by the Customs authorities.
- The importer is required to maintain a proper account of the import, consumption and utilisation of all imported/locally procured materials and exports made and submit them periodically to the Development Commissioner/ Customs.
- The importer is required to achieve minimum NFEP/export performance as per the provisions of EXIM Policy.

- The importer is required to abide by the terms and conditions of the Letter of Permission /Letter of Intent /Industrial Licence issued to the unit.

However, the sector specific customs / excise duty exemption notification(s) have certain additional conditions, which are also required to be followed by the units.

B-17 Bond

- All the EOUs are required to execute a single all-purpose bond i.e B-17 bond undertaking themselves to fulfil the conditions stipulated in the exemption notification of EOU scheme. This bond is taken to take care of the interests of revenue arising out of goods lost in transit, goods taken into Domestic Tariff Area for job work/ repair/ display etc but not brought back etc.

- The bond is executed with the jurisdictional Assistant Commissioner of Customs/Central Excise in charge of the unit. The format of the bond is prescribed vide notification No. 6/98-CE (NT) dated 2-3-1998. The bond covers the activities which include, inter alia, transhipment of import /export goods between port of import/export and units' premises; duty-free import/procurement from the indigenous sources as per relevant notification and warehousing/storage in the unit; movement of duty-free goods for job work and return; temporary clearance for repair and display in exhibitions, testing/approvals etc.; and movement of goods against AR-4, AR-3A and CT-3 etc. and transfer from one warehouse to another.

- However, it does not cover the differential duty amount against advance DTA sale for which a separate bond is to be executed. The bond is taken for an amount equal to 25% of the duty forgone on the sanctioned requirement of capital goods plus the duty forgone on raw materials required for three months.

- Surety or security equivalent 5% of the bond amount in the form of bank guarantee is required to be given by the EOUs.

Import and Export Procedure

With regard to clearance of import cargo, the EOUs are placed in a special category, eligible for fast track or green channel clearance through the Customs. Clearance of import consignments is allowed at the gateway port/ Air cargo Complexes on the strength of procurement certificate issued to the EOU by the jurisdictional Assistant Commissioner/Deputy Commissioner. In general, the EOU cargo is not examined at the gateway port. In case of loose cargo, marks & numbers on the packages are verified. As for sealed containers, the seal number and container number are verified with the Bill of Lading. If the seal is found intact, the container is allowed clearance. The imported cargo so cleared and brought into the unit’s premises is examined by the jurisdictional Customs/Central Excise officials. After examination (percentage check only), the goods are allowed to be used for export production. Re-warehousing certificate is to be submitted to the Assistant Commissioner/Deputy Commissioner in charge of the port of import within 90 days of the issue of procurement certificate.

On the export side, the units having status of a Super Star Trading House, Star Trading House, Trading House, and Export House are allowed the facility of self-sealing of their export containers.

Goods Imported /Exported and Found Defective

Subject to grant of GR Waiver by the RBI the EOUs are allowed to make free replacement of the goods exported by them earlier and found defective, damaged or otherwise unfit by the overseas buyer. However, such defective, damaged or otherwise unfit for use goods are required to be brought back subsequently, to the country. The units are also allowed to reimport part consignment/full consignment in case of failure of the foreign buyer to take delivery.

The EOUs are also allowed to receive free replacement of the goods imported and found defective, damaged or otherwise unfit for use prior to re-export of the same. However, such damaged, defective goods are required to be re-exported subsequently. In case the supplier of such goods does not insist for re-exportation, such goods are required to be either destroyed or cleared into DTA on payment of full customs duty.

Procurement of Goods Indigenously under CT-3 Procedure

- The EOUs can procure goods from DTA without payment of Central Excise duty subject to following of the Chapter X procedure of erstwhile Central Excise Rules, 1944. Such procurement from DTA is against CT-3, which is issued by the Superintendent of Customs/Central Excise in charge of the EOU.

- Such goods are required to be brought directly from the manufacturer /warehouse into the unit's premises under AR3A and examined by the designated officer. After examination of such goods, one copy of AR-3A is sent by registered post to the jurisdictional Central Excise authorities as a Re-warehousing Certificate in token of receipt of the goods in the unit.

- To avoid separate permission every time, the EOUs are issued pre-authenticated CT-3 in booklet form and against such pre-authenticated CT-3, the EOUs are allowed to procure capital goods, raw materials, consumables etc. Goods procured from DTA and found to be defective can be returned to the manufacturer under Chapter X procedure of erstwhile Central Excise Rules, 1944.

DTA sale

The EOUs (other than gems & jewellery units) are allowed to sell goods (including rejects and byproducts) manufactured by them in DTA up to 50% of FOB value of exports on payment of concessional duty subject to achievement of prescribed NFEP. However, the DTA sale facility is not available for certain products such as motor car, alcoholic liquor, tea (except instant tea), books etc. The EOUs are allowed to remove the goods into DTA on an invoice. The invoice is used both as a transport document and also as a document for determining the assessable value. The EOUs can pay the duty by depositing the same in an authorized bank or the duty can also be debited from the Personal Ledger Account if an account current is maintained.

Valuation of Goods Sold in DTA

Section 3 of the Central Excise Act, 1944 provides that the valuation of goods manufactured in the EOU and cleared into DTA is to be done in accordance with the provisions of the Customs law. Thus, when the invoice price of the goods under assessment is in the nature of transaction value, such invoice value can be accepted.

Levy of Central Excise Duty on Goods Produced or Manufactured by EOUs and Cleared into Domestic Tariff Area

In terms of section 3 of the Central Excise Act, 1944, the excise duty leviable on goods manufactured in an EOU/EPZ unit and cleared into Domestic Tariff Area is the amount equal to the customs duty leviable under section 12 of the Customs Act, 1962 or under any other law for the time being in force on like goods produced or manufactured outside India, if imported into India. Thus, the measure of excise duty leviable on goods manufactured in EOU/ EPZs is worked out exactly in the same manner as applicable to imported goods. On fulfilment of NFEP (Net Foreign Exchange Earnings as Percentage of Exports) the EOUs other than gem and jewellery units, are allowed to sell goods including rejects (up to 5% of FOB value of exports), waste, scrap, byproducts and services in DTA up to 50% of FOB value of exports at a concessional rate of duty in an amount equal to 50% of Customs duties. Sales beyond 50% attract full duties. It may be noted that the words "FOB value of exports" refers to physical exports only. Therefore, the value of deemed exports made by the unit is not considered while determining the FOB value of exports.

Goods Manufactured from Indigenous Materials in 100% EOUs

A concessional duty has been prescribed for goods sold in DTA which are manufactured entirely out of indigenous materials. In such cases, the duty charged is the effective rate of excise duty which is leviable on like goods manufactured & cleared by DTA units. However, if such goods manufactured by a DTA unit are fully exempt from excise duty or are chargeable to 'nil' rate of duty, the EOUs are required to pay 30% of each of duties of customs leviable on similar imported goods.

Clearance of Byproducts, Rejects, Waste and Scrap, Non-excisable Goods, etc. The DTA clearance of by-products and rejects on concessional rate duty is not allowed to the EOUs, which have failed to achieve the prescribed NFEP. In such cases, the EOUs are liable to pay full duty. Further, in case of these units, DTA clearance of finished goods is not allowed even on payment of full duty. In case of waste/scrap/remnants, the same are allowed to be sold in DTA on payment of concessional rate of duty within overall limit of 50% of FOB value of exports without insisting on achievement of prescribed NFEP.

In case of sale of scrap/waste/remnants beyond this limit, it is allowed on payment of full duty. As for DTA clearance of goods manufactured by the EOUs which are not excisable (e.g. cut flowers) the duty on inputs and consumables etc. procured/imported duty free under exemption notifications, which have gone into production of such non-excisable goods cleared into DTA, is recovered.

S**pecial Concessions for Certain Waste products and other Goods cleared from 100% EOUs**

Apart from the above general concessions, special concessions are available for certain products. As per instance, under notification No.103/93-CE, dated 27.12.93 rags, trimmings and tailor cuttings arising in the course of manufacture of readymade garments are fully exempt from excise duty when cleared into DTA by EOUs. This is subject to the condition that the percentage of waste material in the form of rags, trimmings and tailor cuttings does not exceed the percentage fixed in this regard by the Board of Approval.

Further the waste of fish or crustaceans, mollusks or other aquatic invertebrates falling in chapter heading 05.01, castor oil cake manufactured from the indigenous castor oil seeds on indigenous plant and machinery falling under chapter heading 23.02, guar meal manufactured wholly from indigenous guar seeds falling under chapter heading 23.01 and yarn of jute and goods of jute, manufactured from wholly indigenous raw materials headings 53.07, 53.10, 5702.12, 5703.20, 58.01, 58.02, 58.06 or 6305.10 are fully exempt from payment of duty if manufactured by EOUs and cleared into DTA. Also, cotton waste falling under heading 52.02 are fully exempted if produced or manufactured by EOU and allowed to be sold in India.

In case of Gems and Jewellery EOUs, the units are allowed to sell up to 10% of FOB value of exports of the preceding year in DTA subject to fulfilment of NFEP as prescribed under the Export and Import Policy. In case of sale of plain gold jewellery, plain silver jewellery, studded gold jewellery, unsuitable/broken cut and polished diamonds, rough diamonds, precious and semi precious stones or dead stock in DTA, the units are allowed to pay concessional rate of duty.

In addition to the above, under notification No. 20/98-CE, dated 18-7-1998, certain specified textile items are allowed to pay concessional duty in case of DTA sales of such items by EOUs.

Sale of Surplus/ Unutilized Goods

The EOUs are allowed to sell surplus/unutilized goods, imported or procured duty free in DTA on payment of duty on the value at the time of import/procurement and at rates in force on the date of payment of such duty, in case the unit is unable for valid reasons to utilize the goods. The permission for such DTA sale is given by the jurisdictional Assistant Commissioner /Deputy Commissioner of Customs/ Central Excise as the case may be.

Likewise, obsolete/surplus capital goods and spares can either be exported or disposed of in the DTA on payment of applicable duties. The benefit of depreciation, as applicable, is allowed in such cases. Duty is not charged if the goods are destroyed with the permission of Customs.

Clearance of Goods Manufactured by EOUs against Advance Release Order (ARO) or Back-to-Back Inland Letter of Credit issued against an Advance Licence or Duty Free Replenishment Certificate (DFRC).

The goods manufactured by EOUs are allowed to be cleared against ARO & Back-to-Back Inland Letter of Credit issued against Advance License (except Advance License for intermediate supply) without payment of basic and additional duty of customs subject to following the provisions of EXIM Policy & HOP Vol.–1, 1997-2002 & conditions of notification 28/2001-CE dated 16-5-2001. The goods may also be cleared to a person holding an ARO issued by the Licensing Authority against a DFRC or Back-to-Back Inland Letter of Credit issued by a bank on the payment of additional duty of customs subject to following of the provisions of EXIM Policy and HOP Vol.1 Vol.–1, 1997-2002 & conditions of notification No. 28/2001-CE dated 16-5-2001.

Sub-Contracting

The EOUs, other than Gem & Jewellery units, are allowed to sub-contract part of their production process in DTA. These units may also sub-contract up-to 50% of production for job-work in DTA. Sub-contracting of both production and production process are also allowed to be undertaken through other EOU/EPZ/EHTP/STP/SEZ units on the basis of records maintained by the unit.

For sub-contractual work performed outside, the units are required to take annual permission from the Customs authorities and are required to furnish information, such as, processes to be carried out on sub-contract basis and the name, address of the subcontractor etc.

After getting the permission, the unit is required to follow the Receipt Challan/ Despatch Challan (RCDC) procedure. Under this procedure, at the time of removal of goods, the unit prepares Despatch Challan giving information, such as, value of the goods, name & address of job worker, duty forgone on the goods and the period within which the goods will be received back. Similarly, the goods after completion of sub contractual work are received back in the unit on the basis of Receipt Challan. The scrap/waste/remnants generated at the job worker's premises can be either cleared from the job worker's premises on payment of duty or returned to the supplying unit. Exports from job worker's premises are allowed in cases where the job workers are registered with the Central Excise department. A sample of goods exported is sent to the EOU for checking whether the goods supplied by it are utilised by the job worker in the export product.

The EOUs are also allowed to remove moulds, jigs, tools, fixtures, tackles, instruments, hangers and patterns and drawings to the premises of sub-contractors subject to the condition that they are brought back to the bonded premises of EOU on completion of the job work within a stipulated period.

The EOUs are allowed to sub-contract part of the production process abroad. The approval for sub-contracting abroad is accorded by the Board of Approval. The goods sent for job work abroad are required to be returned to the unit for final processing/manufacturing before exports. The unit is required to execute a suitable bond for sub-contracting of goods abroad and is required to account for the goods including waste/rejects in the manner as prescribed by the Commissioner of Customs/ Central Excise in this behalf.

To help utilize the idle capacity, the EOUs are allowed to undertake job work for export on behalf of DTA units. This is subject to the condition that the finished goods are exported directly from the EOU and export documents are made in the name of the DTA unit. On export of such goods manufactured by EOUs on behalf of the DTA unit, the DTA unit is entitled to refund of duty paid on the inputs by way of brand rate of duty drawback.

Temporary Removal of Goods

The EOUs, Software Technology Park Units or Electronic Hardware Technology Park Units engaged in development of software are allowed to remove imported laptop computers and video projection system out of the bonded premises temporarily without payment of duty subject to following the prescribed procedures.

Inter-unit transfer

An EOU is allowed to transfer imported or manufactured goods to another EOU/EPZ/STP/EHTP/SEZ unit. The officers in charge of the EOU supplying the material and the EOU receiving the material are expected to keep a watch on the movement of material between the EOUs. The re-warehousing certificate on transfer of the goods from one EOU to another is obtained by post and is crosschecked occasionally with the Superintendent in charge of the other unit to see whether the goods have been actually received in the unit or not. In case of non-receipt of re-warehousing certificate and similarly, non-receipt of proof of export from the proper officer within 90/180 days, the duty is demanded from the sending unit.

Repair, Reconditioning etc.

The EOUs are permitted to import goods of any origin to carry on re-conditioning, repair, testing, calibration, quality improvement, up gradation of technology and re-engineering activities for export in freely convertible foreign currency provided such repairs, reconditioning, reengineering etc. are carried out in Customs bonded premises and the final goods are not sold within the country.

Recovery of Duty Forgone under EOU Scheme and Penal Action for Abuse/ Diversion etc. Under EOU Scheme, the units are required to achieve minimum NFEP and Export Performance as stipulated in the Exim Policy. In case of failure to achieve the minimum NFEP and EP, the duty forgone under the EOU scheme along with interest is recoverable from the units. Further, the duty is recoverable from the units in case of non receipt of imported/ indigenously procured goods in the factory premises after import/procurement, loss of goods in transit, non account al of imported/ indigenously procured goods, unauthorized DTA sale, clandestine removal etc. Duty can also be demanded in case of failure to utilize duty free imported/indigenously procured goods including capital goods within the prescribed time limit. The duty is also recoverable on goods removed for job working/ display/ testing/ quality testing, but not received back in the unit within the specified period of time.

Apart from recovery of duty forgone, the law also provides for taking penal action where any 100% EOU is found to have indulged into any fraudulent activities e.g. clandestine removal of production into DTA without payment of duties, diversion of duty free materials in transit to the unit after customs clearance or after receipt etc., not only the offending goods can be seized and confiscated, but even units penalized heavily/ prosecuted.

De-Bonding

An EOU may debond into a normal DTA unit subject to the approval of the Development Commissioner and following of prescribed procedure & fulfilling the laid down conditions. Such de-bonding is subject to penalty, if any, that may be imposed and payment of duties of customs and excise applicable at the time of de-bonding. The standard conditions of debonding, as indicated in the Handbook of Procedures provide, amongst other conditions, that the applicable customs and central excise duty would be paid on imported and indigenous capital goods, finished goods, raw materials, consumables, components etc. in stock. Further, the unit in question continues to be treated as an EOU till the date of final deboning order.

The duty payable in terms of the relevant notifications by the units seeking de-bonding is as under:

(a) Semi-finished and finished goods lying in stock at the time of de-bonding can be cleared on payment of the excise duty equal to aggregate duties of Customs payable on similar imported goods.

(b) Capital goods, material handling equipment, office equipment and captive power plants can be cleared on payment of an amount equal to the customs duty leviable on such goods on the depreciated value thereof and at the rates in force on the date of payment of such duty.

(c) Goods including containers suitable for repeated use other than those at (b) above can be allowed clearance on payment of customs duty on their value at the time of important at the rate of duty in force on the date of payment of such duty.

(d) Used packing materials such as cardboard boxes, polyethylene bags of a kind unsuitable for repeated use can be cleared without payment of duty. At the time of de-bonding, the EOUs are entitled for depreciation on imported/indigenous capital goods. The rates of depreciation on capital goods have been specified and in case of the computers and computer peripherals, accelerated rate of depreciation have been provided for.

11.4 Check Your Progress

1. Which one of the following is a rule in SEZ act?

    a) Simplified procedures for development.

b) Single window clearance for setting up of an SEZ.

c) Single window clearance for setting up a unit in a SEZ.

d) All of the above

2. Full form of SEZ is.....

a) Statutory Economy Zone

b) Special Economic Zone

c) Specific Economy Zone

d) None of the above

3. Land area required for Multi-sector SEZ is.....

a) 400

b) 50

c) 500

d) 10

4. Which one in the followings is the objective of SEZ?

a) Promotion of exports of goods and services.

b) Promotion of investment from domestic and foreign sources.

c) Creation of employment opportunities.

d) All of the above

5. Who can pass the law for e-banking?

a) Duty free import/domestic procurement of goods for development.

b) 100% Income Tax exemption on export income.
c) Exemption from Minimum Alternate Tax (MAT) and Exemption from Central Sales Tax.
d) All of the above

6. Which one is an export promotion council?

a) EEPC India
b) Export Promotion Council of India (PEPC)
c) Council for Leather export
d) All of the above

11.5 Summary

Special Economic Zones play a very important role in the economic growth of any nation. These are the specified notified geographic areas which enjoy special privileges in form of various tax concessions, low checks and control, less formalities, liberal laws as compare to non-SEZs areas from Government. The SEZ Rules provide for different minimum land requirement for different class 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. In India there are 421 total number of formal approved SEZ and 376 total number of notified SEZ in which 7 Central & 12 State Govt. /Private Sector SEZ set up prior to the enactment of SEZ Act, 2005. There are 32 In-Principle Approved SEZ, 248 Operational SEZ and 5524 total Approved SEZ in India. A total 47,563.20 hectare land area is for all SEZs set up prior to the Act, notified and approved SEZ in India. Investment for Central Govt. SEZs, SEZs notified under this act and SEZs set-up prior to the act is Rs. 5,71,735 Crore. SEZs contribution in employment generation in Central Govt. SEZs, SEZs set up prior to the Act and notified SEZ under this Act is 1, 97,777 persons, 1, 09,124 persons and 19, 31,404 persons respectively in India. SEZs contribution in export of India is Rs. 7, 96,669 Crore which depicts a growth of 21% over 2018-19.

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. Under the EOU scheme, the units are allowed to import or procure locally without payment of duty all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipment's including material handling equipment, required for export production or in connection therewith.

11.6 Keywords

- **Export:** Transfer of surplus production into another country.
- **Exporter:** It refers to a business unit which is engaged in export business.
- **SEZ: It is special economic zone i.e.** specified notified geographic areas which 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.
- **Free trade zone:** It is a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured and re-exported under specific customs regulation 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 which, has been granted by the Central Government a letter of approval for set up a SEZ.
- **Duty free Import:** It is an import arrangement that exempts international importer 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.

11.7 Self-Assessment Test

- What do you mean by SEZ? What are the rules, objectives and approval mechanism in SEZ Act, 2005?
- Describe SEZ. What are various incentives and facilities offered to Special Economic Zone in India?
- Explain in detail Special Economic Zone, Act, 2005.
- What are various Infrastructures available to Indian exporter? Explain.

- Write short note on:
    - Export oriented unit scheme
    - Indian Institute of Packaging(IIP)
    - State Trading Corporation of India Limited (STC)
    - Department of Commerce, Govt. of India.

11.8 Answers to check your progress

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

11.9 References/ Suggested Readings

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Subject: Foreign Trade of India	
Course Code: BC 306	**Author:** Mr. Kapil Singh
Lesson No.: 12	**Vetter: Prof. Pardeep Kumar Gupta**
STAR TRADING HOUSES:CRITERION AND AVAILABLE BENEFITS	

Structure

12.0 Learning Objective

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

- Understand meaning and role of star trading houses.
- Learn the benefits for procedure of getting Status Holders Certificate.
- Understand various criteria set up for star export houses
- Understand various incentives for star trading houses in India

12.1 Introduction

Every country wants to satisfy the needs through their natural and manmade resources. But sometimes it will seem very difficult to do this with their limited resources. In this situation foreign trade plays important role. This not only increase their Gross Domestic Product (GDP) and investment but also employment of a country. Export Houses plays very important role in foreign trade. This concept were first discussed in 1958. In initial resolution (1962) constituting Export Houses as public limited companies with no shareholder holding more than 10% shares. During 1988-93, the eligibility of grant of Export House/Trading House Certificate was to be determined on the basis of the 'Net Foreign Exchange Earnings' (NFE) from the exports made in the preceding three years. After introduction of LPG era, performance of exporter in the export of country had determined as a base of Export House/Trading House Certificate.

With the recognition of Services sector was recognized in the country, these were counted towards exports. Emphasis were given to diversity of export produces by insistence that not more than 75% must be from some export groups like Engineering Goods, Chemicals and Allied Products, Textiles. This underwent a modification and from 1st April 1994, the criterion for recognition as Export House, Trading House, Star Trading House or Super Star Trading House was allowed either on the basis of the FOB value or NFE value.

12.2 Meaning of Status Holders

Meaning

Status Holders are business leaders who have excelled in international trade and have successfully contributed to 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. 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 will depend on export performance. An applicant shall be categorized as status holder on achieving export performance during the current and previous three financial years (for Gems& Jewellery Sector the performance during the current and previous two financial years shall be considered for recognition as status holder) as indicated in Foreign Trade Policy.

12.2.1 Status Category

The export performance will be counted on the basis of FOB of export earning in freely convertible foreign currencies. For deemed export, FOR value of exports in Indian Rupees applicable on 1st April of each Financial Year. For granting status, export performance is necessary in at least two out of four years.

12.2.2 Eligibility Criteria

There are the following eligibility criteria to recognize an exporter as a “status holder exporter”:

- The applicant for the grant of Star Export House must have the Import – Export Code Number (IEC-Number).
- The certificate is given depending upon the certain level of export performance achieved by the exporters.

Status Category	**Export Performance FOB / FOR Value (in Rs.)**
One Star Export House	15 crore
Two Star Export House	100 crore
Three Star Export House	500 crore
Four Star Export House	1500 crore
Five Star Export House	5000 crore

Source: Foreign Trade Policy, 2020

The above Export performance is to be achieved in the current plus previous three Financial Years. For -Example, if a businessman was applying for Star Export House Certification in July 2019, then your total Export Turnover for the Current FY (i.e., April to July 2019) plus previous three FY (i.e. 2016-17, 2017-18 & 2018-19) should be Rs.15 Crore to be eligible for One Star Export House Certification.

12.2.3 Grant of Double Weightage

- The exports by IEC holders under the following categories shall be granted double weightage for calculation of export performance for grant of status.
    - Micro, Small & Medium Enterprises (MSME) as defined in Micro, Small & Medium Enterprises Development (MSMED) Act 2006.
    - Manufacturing units having ISO/BIS.
    - Units located in North Eastern States including Sikkim and Jammu & Kashmir.
    - Units located in Agri-Export Zones.
- Double Weightage shall be available for grant of One Star Export House Status category only. Such benefit of double weightage shall not is 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.
- A shipment can get double weightage only once in any one of above categories.

12.2.4 Other conditions for grant of status

- 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.
- Exports made on re-export basis shall not be counted for recognition.

- Export of items under Authorisation, including SCOMET items, would be included for calculation of export performance.

12.2.5 Benefits or Privileges of Star Trading House in India

Star export house is an Indian exporter who has excelled in international trade and successfully achieved certain minimum amount of export performance in two out of three financial years. To obtain star export house status, the exporter involved in export of goods or service must have a valid import-export code (IEC). On being recognised as a star export house, the exporter enjoys various benefits and privileges as under:

- Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis.
- Input-Output norms may be fixed on priority within 60 days by the Norms Committee.
- Special scheme in respect of Input Output Norms to be notified by DGFT from time to time, for specified status holder.
- Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP.
- 100% retention of foreign exchange in EEFC account.
- Exemption from compulsory negotiation of documents through banks. Remittance / receipts, however, would be received through banking channels.
- Enhancement in normal repatriation period from 180 days to 360 days.
- Entitlement for consideration under the ‘Target Plus Scheme’.
- Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.

- Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC.
- The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.
- Manufacturer exporters who are also Status Holders shall be eligible to self-certify their goods as originating from India.
- Status holders shall be entitled to export freely exportable items (excluding Gems and Jewellery, Articles of Gold and precious metals) on free of cost basis for export promotion subject to an annual limit of Rupees One Crore or two percent of average annual export realization during preceding three licensing years, whichever is lower.
- For export of pharma products by pharmaceutical companies, the annual limit would be two percent of the average annual export realisation during preceding three licensing years. In case of supplies of pharmaceutical products, vaccines and lifesaving drugs to health programmes of international agencies such as UN, WHO-PAHO and Government health programmes, the annual limit shall be up to eight percent of the average annual export realisation during preceding three licensing years. Such free of cost supplies shall not be entitled to Duty Drawback or any other export incentive under any export promotion scheme.

12.3 Procedure for Status Holder certificate

The procedure for Status Holder certificate is given in Foreign Trade Policy 2015-20. Followings is the main provisions:

12.3.1 Who is eligible for Star Export House?

Merchant as well as Manufacturer Exporters, Service Providers, Export Oriented Units (EOUs) and Units located in Special Economic Zones (SEZs), Agri Export Zone (AEZ’s), Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio Technology Parks (BTPs) shall be eligible for applying for status as Star Export Houses.

12.3.2 Application for grant of Status Certificate

- Status Certificates issued under FTP 2009-14 to an IEC holder shall remain valid till 30th June 2015 or till the issuance of status certificate to such IEC holder under this policy, whichever is earlier.
- Applicants shall be required to file an application online for recognition of status under the Policy in ANF 3C. Scanned copy of relevant prescribed documents shall be uploaded by the applicant unless prescribed otherwise.
- Online Application for status certificate shall be filed using digital signature with jurisdictional RA / Development Commissioner (DC) by Registered Office in the case of Company and by Head Office in the case of others as indicated in table below:

Sr. No.	**Category**	**Issuing/renewing Authority for Status Certificate**
1	IEC holder having exports of DTA unit as well as exports of SEZ/EOU unit. EHTP/STP/BTP	Concerned Regional Authority
2	IEC holder having SEZ/EOU unit only	Concerned Development Commissioner
3	IEC holder having DTA unit only	Concerned Regional Authority

Source: www.dgft.gov.in

12.3.3 Documents required for Star Export House Certificate

There are the following documents required for Star Export House Certificate:

- Application Form –ANF 3C
- Submitting Hard copy of ANF3C
- CA Certificate as per Annexure to ANF 3C,

- Statement of Export, Certified by Chartered Accountant (CA),
- Self-certified copy of IEC,
- Self-certified copy of valid RCMC,
- Self-certified copy of PAN.

12.3.4 Additional Documents Required for Claiming Double Weightage.

For claiming the benefit of Double Weightage to get one star export house status, you will need any one of these additional documents:

- MSME/SSI Certificate,
- ISO Certificate,
- Valid address proof that states that your business is situated in Sikkim, Jammu & Kashmir or at any other North-eastern States,
- Valid proof that your Business Units are situated in the Agri-Export Zones.

12.3.5 Export House Certificate Application Procedure

- An applicant who wishes to apply for Export House Certificate need to make the application online on the DGFT website.
- Online Application shall be filled on the Website of DGFT (www.dgft.gov.in), need to select online E-com Application under Services Tab.
- Application shall be filled by the Application form ANF-3C with the help of Digital Signature Certificate.
- All the required details shall be filled in ANF 3C, CA Certificate as per annexure, an export statement certified by a chartered accountant, Self-Certified copy of IEC, Valid RCMC, and pan card needs to be scanned and uploaded online.

- There is no Government fee required to submit for the Export House Certificate.
- After submission of application in concern Regional Authority of DGFT file no. shall be generated.
- The Hard copy of all the documents is required to be submitted in DGFT.
- DGFT will review the application and issue Certificate, all the export data required to stay for two years after the issuance of certificate.
- Concerned RA of DGFT may ask for the documents for inspection & verification.

12.3.6 Validity of status certificate

- Status Certificates issued under this FTP shall be valid for a period of 5 years from the date on which application for recognition was filed.
- Status Certificates valid beyond 31.3.2020 shall continue to remain in force, in case provisions of subsequent Foreign Trade Policy continue to recognize the status.
- On the expiry of such certificate, application for renewal of status certificate shall be required to be made within a prescribed period. During the said period, the star export house shall be eligible to claim the usual facilities and benefits.

12.3.7 Maintenance of Accounts

Status Holders shall maintain true and proper accounts of its exports and imports based on which such recognition has been granted. Records shall be maintained for a period of two years from the date of grant of status certificate. These accounts shall be made available for inspection to RA concerned or any Authority nominated by DGFT.

12.3.8 Refusal /Suspension /Cancellation of Certificate

Status Certificate may be refused / suspended/ cancelled by RA concerned, if status holder or authorized representative acting on his behalf:

- Fails to discharge export obligation imposed;
- Tampers with Authorisations;
- Misrepresents or has been a party to any corrupt or fraudulent practice in obtaining any Authorisation;
- Commits a breach of FT (D& R) Act, or Rules, Orders made there under and FTP, The Customs Act 1962, The Central Excise Act 1944, FEMA Act 1999 and COFEPOSA Act 1974; or
- Fails to furnish information required by this Directorate.

A reasonable opportunity shall be given to Status Holder before taking any action under this paragraph.

12.3.9 Appeal

An applicant, who is not satisfied with decision taken to suspend or cancel Status Certificate, may file an appeal to Director General of Foreign Trade within 45 days. Decision of DGFT shall be final and binding thereon.

12.3.10 List of Star Export Houses in India

The following are few examples of Star Export Houses in India:

ONE STAR EXPORT HOUSE			
Sr. No.	**Name of Firm**	**Valid Up to**	**Certificate No.**
1	3A COMPOSITES INDIA PVT. LTD.	03.09.2020	03/1/0029/150928
2	4SPID CONSULTANCY (INDIA) PVT. LTD.	18.11.2020	03/1/0645/151208
3	A & L APPARELS PVT LTD	17.08.2020	03/1/0771/151016
4	A-1 FENCE PRODUCTS CO.PVT.LTD.	22.10.2020	03/1/0828/151105
5	A. R. GOLD PRIVATE LIMITED	30.09.2020	03/1/0762/151013

TWO STAR EXPORT HOUSE			
Sr. No.	**Name of Firm**	**Valid Up to**	**Certificate No.**
1	ADF FOODS LTD.	27.09.2020	03/2/0012/151007
2	ADINATH JEWELLERY EXPORTS	09.06.2020	03/2/0011/151005
3	ADVANTAGE OVERSEAS PRIVATE LTD.	06.07.2020	03/2/0005/151001
4	AEGIS LTD.	05.11.2020	03/2/0294/151208
5	AGARWAL FASTNERS PVT LTD.	21.09.2020	03/2/0014/151007
THREE STAR EXPORT HOUSES			
Sr. No.	**Name of Firm**	**Valid Up to**	**Certificate No.**
1	AARTI DRUGS LTD.	28.09.2020	03/3/0010/151217
2	AARTI INDUSTRIES LTD.	04.10.2020	03/3/0011/160113
3	ACG ASSOCIATED CAPSULES PVT. LTD.	15.07.2020	03/3/0007/151005
4	AFCONS INFRASTRUCTURE LTD.	26.05.2020	03/3/0002/151001
5	AJANTA PHARMA LTD.	12.07.2020	03/3/0003/151001
FOUR STAR EXPORT HOUSES			
Sr. No.	**Name of Firm**	**Valid Up to**	**Certificate No.**
1	ALOK INDUSTRIES LTD.	01.06.2020	03/4/0101/20151001
2	BALKRISHNA INDUSTRIES LTD.	02.06.2020	03/4/0111/151001
3	DHARMANANDAN DIAMONDS PVT LTD.	20.05.2020	03/4/0131/20151001

4	ESSAR STEEL INDIA LTD.	23.07.2020	03/4/0191/151001
5	GITANJALI GEMS LTD.	28.09.2020	03/4/0132/160105
FIVE STAR EXPORT HOUSES			
Sr. No.	**Name of Firm**	**Valid Up to**	**Certificate No.**
1	JET AIRWAYS(INDIA) LTD.	29.07.2020	03/5/0012/151019
2	JSW STEEL LTD.	24.06.2020	03/5/0011/151015
3	RELIANCE INDUSTRIES LTD.	13.07.2020	03/5/0051/151001
4	TATA CONSULTANCY SERVICES LTD.	11.08.2020	03/5/0062/20151001
5	ESSAR OIL LTD.	02.06.2020	03/5/0046/151001

Source: www.dgftcom.nic.in

12.3.11 Incentives for Star Trading Houses in India

Government of India has liberalized the schemes for export oriented units and export processing Zones. Agriculture, Horticulture, poultry, fisheries and dairies have been included in the export oriented units. Export processing zones have been allowed to export through trading and star trading houses and can have equipment on lease. These units have been allowed cent percent participation in foreign equities.

The followings are the main incentives to the export houses in India:

- **Assistance to States for Infrastructure Development of Exports (ASIDE)-**The State Governments shall be encouraged to participate in promoting exports from their respective States. For this purpose, Department of Commerce has formulated a scheme called ASIDE. Suitable provision has been made in the Annual Plan of the Department of Commerce for allocation of funds to the states on the twin criteria of gross exports and the rate of growth of exports. The States shall utilise this amount for developing infrastructure such as roads connecting production centres with the ports, setting up of Inland Container Depots and Container Freight Stations, creation of new State level export promotion industrial parks/zones, augmenting common facilities in the existing zones, equity participation in infrastructure projects, development of minor ports and jetties, assistance in setting up of common effluent treatment facilities, stabilizing power supply and any other activity as may be notified by Department of Commerce from time to time.

- **Market Access Initiative (MAI)-**This scheme is intended to provide financial assistance for medium term export promotion efforts with a sharp focus on a country and product. The financial assistance is available for Export Promotion Councils, Industry and Trade associations , Agencies of State Governments , Indian Commercial Missions abroad and other eligible entities as may be notified from time to time,. A whole range of activities can be funded under the MAI scheme. These include market studies, setting up of showroom/ warehouse, sales promotion campaigns, international departmental stores, publicity campaigns, participation in international trade fairs, brand promotion, registration charges for pharmaceuticals and testing charges for engineering products etc. Each of these export promotion activities can receive financial assistance from the Government ranging from 25% to 100% of the total cost depending upon the activity and the implementing agency, as indicated in the detailed guidelines.

- **Marketing Development Assistance (MDA)-**This scheme is intended to provide financial assistance for a range of export promotion activities implemented by export promotion councils, industry and trade associations on a regular basis every year. As per the revised MDA guidelines with effect from 1st April, 2004 assistance under MDA is available for exporters with annual export turnover up to Rs. 5 crores. These include participation in Trade Fairs and Buyer Seller meets abroad or in India, export promotion seminars, etc Further, assistance for participation in Trade Fairs abroad and travel grant is available to such exporters if they travel to countries in one of the four Focus Areas, such as , Latin America, Africa, CIS Region, ASEAN countries, Australia and New Zealand. For participation in trade fairs, etc, in other areas financial assistance without travel grant is available. Financial assistance would be provided to deserving exporters on the recommendation of Export Promotion Councils for meeting the cost of legal expenses relating to trade related matters.

- **Towns of Export Excellence-**A number of towns in specific geographical locations have emerged as dynamic industrial clusters contributing handsomely to India's exports. It is necessary to grant recognition to these industrial clusters with a view to maximizing their potential and enabling them to move higher in the value chain and tap new markets. Selected towns producing goods of Rs. 1000 crore or more will be notified as Towns of Exports Excellence on the basis of potential for growth in exports. However for the Towns of Export Excellence in the Handloom, Handicraft, Agriculture and Fisheries sector, the threshold limit would be Rs. 250 crores. Common service providers in these areas shall be entitled for the facility of the EPCG scheme. The recognised associations of units will be able to access the funds under the Market Access Initiative scheme for creating focused technological services. Further such areas will receive priority for assistance for rectifying identified critical infrastructure gaps from the ASIDE scheme.

- **Brand Promotion and Quality-**The Central Government aims to encourage manufacturers and exporters to attain internationally accepted standards of quality for their products. The Central Government will extend support and assistance to Trade and Industry to launch a nationwide programme on quality awareness and to promote the concept of total quality management.

- **Test Houses-**The Central Government will assist in the modernisation and up gradation of test houses and laboratories in order to bring them at par with international standards.

- **Quality Complaints/ Disputes-**The Regional Sub-Committee on Quality Complaints (RSCQC) set up at the Regional Offices of the Directorate General of Foreign Trade shall investigate quality complaints received from foreign buyers. The guidelines for settlement of quality complaints, in particular, and such other complaints.

- **Trade disputes affecting trade relations-**If it comes to the notice of the Director General of Foreign Trade or he has reason to believe that an export or import has been made in a manner that (i) is gravely prejudicial to the trade relations of India with any foreign country; or (ii) Is gravely prejudicial to the interest of other persons engaged in exports or imports; (iii) Has brought disrepute to the country;

- **Export Promotion Council for Services-**Services include all the 161 tradable services covered under the General Agreement on Trade in Services where payment for such services is received in free foreign exchange. All provisions of this Policy shall apply mutatis mutandi to export of services as they apply to goods, unless otherwise specified. Service exporters are required to register themselves with the Federation of Indian Exporters Organisation. However, software exporters shall register themselves with Electronic and Software Export Promotion Council. In order to give proper direction, guidance and encouragement to the Services Sector, an exclusive Export Promotion Council for Services shall be set up. The Services Export Promotion Council shall: Map opportunities for key services in key markets and develop strategic market access programmes for each component of the matrix; Co-ordinate with sectoral players in undertaking intensive brand building and marketing programmes in target markets; and Make necessary interventions with regard to policies, procedures and bilateral/ multilateral issues, in co-ordination with recognised nodal bodies of the services industry.

- **Common Facility Centres**-Government shall promote the establishment of Common Facility Centres for use by home-based service providers, particularly in areas like Engineering & Architectural design, Multi-media operations, software developers etc., in State and District-level towns, to draw in a vast multitude of home-based professionals into the services export arena.
- **'Served From India' Scheme-**The objective is to accelerate the growth in export of services so as to create a powerful and unique 'Served From India' brand, instantly recognized and respected the world over. All Service providers who have a total foreign exchange earning of at least Rs.10 lakhs in the preceding or current financial year shall be eligible to qualify for a duty credit entitlement. For individuals who are service providers, the total foreign exchange earned criteria would be Rs.5 lakhs in the preceding financial year.
- **Hotels & Restaurants-**All Service providers (other than hotels and restaurants) shall be entitled to duty credit equivalent to 10% of the foreign exchange earned by them in the preceding financial year. Hotels of one-star and above (including managed hotels and heritage hotels) approved by the Department of Tourism, and other Service providers in the tourism sector registered with the Department of Tourism, shall be entitled to duty credit equivalent to 5% of the foreign exchange earned by them in the preceding financial year. Stand-alone restaurants will be entitled to duty credit equivalent to 20% of the foreign exchange earned by them in the preceding financial year.

Note: In the case of one and two star hotels and stand-alone restaurants, the foreign exchanged earned through International Credit Cards and sources as may be notified only shall be taken into account for the purposes of computation of duty credit entitlement under the scheme.

- **Imports allowed**-Duty credit entitlement may be used for import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, provided it is part of their main line of business. In the case of hotels and stand-alone restaurants, the duty credit entitlement may also be used for the import of food items and alcoholic beverages. The entitlement and the goods imported shall be non-transferable.

- **Healthcare & Education-**In order to enable Healthcare and Educational Institutions to have world-class state-of-the-art infrastructure, service providers in these sectors shall, as for other service sectors, be entitled to duty credit equivalent to 10% of the foreign exchange earned by them in the previous financial year.

▪ The foreign exchange turnover for Healthcare Institutions would include amounts earned through medical treatment, surgery, testing, consultancy and health care provided by the institution.

▪ The foreign exchange turnover for Educational Institutions would include amounts earned through the courses and consultancy provided by the institution.

▪ In either case, it will not include foreign exchange remittances through any other source including equity participation, donations etc.

▪ The capital goods and the consumer goods imported under the duty free entitlement shall have a nexus with the activities of the healthcare or educational institutions concerned.

Special provisions-Government reserves the right in public interest to specify from time to time the category or type of service exports which shall not be eligible for calculation of either eligibility or of entitlement. Similarly, Government may from time to time also notify the goods which shall not be allowed for import under the duty free entitlement certificate issued under the scheme.

- **Target Plus Scheme-**The objective of the scheme is to accelerate growth in exports by rewarding Star Export Houses who have achieved a quantum growth in exports. High performing Star Export

Houses shall be entitled for a duty credit based on incremental exports substantially higher than the general annual export target fixed (Since the target fixed for 2004-05 is 16 %, the lower limit of performance for qualifying for rewards is pegged at 20% for the current year.). All Star Export Houses which have achieved a minimum export turnover in free foreign exchange of Rs 10 crores in the previous licensing year are eligible for consideration under the Target Plus Scheme. The entitlement under this scheme would be contingent on the percentage incremental growth in FOB value of exports in the current licencing year over the previous licencing year, as under:

Percentage incremental growth	**Duty Credit Entitlement (as a % of the incremental growth)**
20% and above but below 25%	5%
25% or above but below 100%	10%
100% and above	15% (of 100%)

Source: www.dgftcom.nic.in

Note: Incremental growth beyond 100% will not qualify for computation of duty credit entitlement. For the purpose of this scheme, the export performance shall not be transferred to or transferred from any other exporter. In the case of third party exports, the name of the supporting manufacturer/ manufacturer exporter shall be declared. Exporters shall have the option to apply for benefit either under the Target Plus Scheme or under the Vishesh Krishi Upaj Yojana, but not both in respect of the same exported product/s. Provided that in calculating the entitlement the total eligible exports shall be taken into account for computing the percentage incremental growth but the duty credit entitlement shall be arrived at on the eligible exports reduced by the amount on which the benefit is claimed. All exports including exports under free shipping bill verified and authenticated by Customs and Gems& Jewellery shipping bills but excluding specified exports shall be eligible for benefits under the ‘Target Plus Scheme’.

Applicant Companies-Companies which are Star Export Houses as well as part of a Group company shall have an option to either apply as an individual company or as a Group based on the growth in the

Group's turnover as a whole. If a Group company chooses to apply based on the export of one or more of its individual Star Export House companies, the entitlement would be calculated considering the export performance of the applicant company during the previous licencing year and current licencing year. It shall be necessary that the adjusted export performance of all the Star Export House companies of the Group during the current licencing year does not fall below the combined performance of all Star Export House companies of the Group in the previous licencing year. In case the Group chooses to apply based on the overall growth in Group's turnover (i.e the turnover of all the Star Export House companies) , any one of the Star Export House companies of the Group may file an application on behalf of all the Star Export House companies of the Group.

The following exports shall not be taken into account for calculation of export performance or for computation of entitlement under the scheme:

- Export of imported goods covered under Para 2.35 of the Foreign Trade Policy or exports made through transhipment.
- Export turnover of units operating under SEZ/EOU/EHTP/STPI/ BTP Schemes or products manufactured by them and exported through DTA units.
- Deemed exports (even when payments are received in Free Foreign Exchange and payment is made from EEFC account).
- Service exports.
- Rough, uncut and semi polished diamonds and other precious stones.
- Gold, silver, platinum and other precious metals in any form, including plain jewellery thereof. However exports of studded jewellery and any item as may be notified from time to time will be counted for the entitlement under the scheme.
- Export performance made by one exporter on behalf of another exporter.

- **Imports allowed-**The Duty Credit may be used for import of any inputs, capital goods including spares, office equipment, professional equipment and office furniture provided the same is freely importable under ITC (HS), for their own use or that of supporting manufacturers as declared in Appendix 17 D. Agricultural products listed in Chapter 1 to 24 of ITC (HS) except as may be notified from time to time, shall not be permissible for imports under this scheme.

- **Cenvat/ Drawback**-Additional customs duty/excise duty paid in cash or through debit under Target Plus shall be adjusted as CENVAT Credit or Duty Drawback as per rules framed by the Department of Revenue.

- **Special Provision**-Government reserves the right in public interest, to specify from time to time the category of exports and export products, which shall not be eligible for calculation of incremental growth/ entitlement. Similarly, Government may from time to time also notify the list of goods, which shall not be allowed for import under the duty credit entitlement certificate issued under the scheme.

- **Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme)-**The objective of the scheme is to promote export of fruits, vegetables, flowers, minor forest produce, and their value added products, by incentivising exporters of such products. Exporters of such products shall be entitled for duty credit scrip equivalent to 5% of the FOB value of exports for each licencing year commencing from 1st April, 2004. The scrip and the items imported against it would be freely transferable. The Duty Credit may be used for import of inputs or goods including capital goods, as may be notified, provided the same is freely importable under ITC (HS). Imports from a port other than the port of export shall be allowed under TRA facility as per the terms and conditions of the notification issued by Department of Revenue. Additional customs duty/excise duty paid in cash or through debit under Vishesh Krishi Upaj Yojana shall be adjusted as CENVAT Credit or Duty Drawback as per rules framed by the Department of Revenue. Government reserves the right in public interest, to specify from time to time the export products which shall not be eligible for calculation of entitlement.

- **Merchandise Exports from India Scheme (MEIS)-**Under this scheme, exports of notified goods/ products to notified markets as listed in Appendix 3B of Handbook of Procedures, are granted freely transferable duty credit scrips on realized FOB value of exports in free foreign exchange at specified rate (2-5%). Such duty credit scrips can be used for payment of custom duties for import of inputs or goods, payment of excise duty on domestic procurement, payment of service tax and payment of custom duties in case of EO default. Exports of notified goods of FOB value upto Rs 25, 000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit.

- **Duty Exemption & Remission Schemes**-These schemes enable duty free import of inputs for export production with export obligation. This scheme consists of:-
- **Advance Authorization Scheme**-Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION or on the basis of self-declaration, as per procedures of FTP. AA normally have a validity period of 12 months for the purpose of making imports and a period of 18 months for fulfilment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturers.
- **Advance Authorization for annual requirement**-Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorization for Annual requirement. This shall only be issued for items having SION.
- **Duty Free Import Authorization (DFIA) Scheme**-DFIA is issued to allow duty free import of inputs, with a minimum value addition requirement of 20%. DFIA shall be exempted only from the payment of basic customs duty. DFIA shall be issued on post export basis for products for which SION has been notified. Separate schemes exist for gems and jewellery sector for which FTP may be referred.
- **Duty Drawback of Customs/Central Excise Duties/Service Tax**-The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways: i) All Industry Rates : As per Schedule

ii) Brand Rate : As per application on the basis of data/documents

Refund of service tax paid on specified output services used for export of goods is available at specified all industry rates.

In addition to the above schemes, facilities like 24X7 customs clearance, single window in customs, self-assessment of customs duty, prior filing facility of shipping bills etc are available to facilitate exports.

12.4 Check Your Progress

1. What is the eligibility criterion for Two Star Export House?

   a) 15 Crore
   b) 500 Crore
   c) 100 Crore
   d) 1500 Crore

2. Document required for Status Holder Certificate is…..

   a) Self-certified copy of IEC,

   b) Self-certified copy of valid RCMC,

   c) Self-certified copy of PAN

   d) All of the above

3. Promotional schemes for Status holders in India are……….

   (a) Duty Exemption & Remission Schemes

   (b) Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme)

   (c) Merchandise Exports from India Scheme (MEIS)

   (d) All of the above

4. Which one in the followings is the incentive or benefits for status holder in India?

(a) Exemption from furnishing of Bank Guarantee.

(b) 100% retention of foreign exchange in EEFC account.

(c) Enhancement in normal repatriation period from 180 days to 360 days.

(d) All of the above

5. On which website a business unit can apply for Status Holder Certificate?

a) www.dgft.gov.in

b) www.comdeptt.gov.in

c) www.india.gov.in

d) None of the above

6. Which one is a Three Star Export House in India?

(a) Aarti Industries Ltd.

(b) Afcons Infrastructure Ltd.

(c) Ajanta Pharma Ltd.

(d) All of the above

12.5 Summary

Export Houses plays very important role in foreign trade. This concept was first discussed in 1958. In initial resolution (1962) constituting Export Houses as public limited companies with no shareholder holding more than 10% shares. From 1st April 1994, the criterion for recognition as Export House, Trading House, Star Trading House or Super Star Trading House was allowed either on the basis of the FOB value or NFE value. Status Holders are business leaders who have excelled in international trade and have successfully contributed to 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.

The export performance will be counted on the basis of FOB of export earning in freely convertible foreign currencies for Star export house, the exporter enjoys various benefits and privileges as under: Authorization and Customs Clearances for both imports and exports may be granted on self-declaration basis; Input-Output norms may be fixed on priority within 60 days by the Norms Committee; Special scheme in respect of Input Output Norms to be notified by DGFT from time to time, for specified status holder; Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP; 100% retention of foreign exchange in EEFC account; Exemption from compulsory negotiation of documents through banks. Remittance / receipts, however, would be received through banking channels etc. Government of India has liberalized the schemes for export oriented units and export processing Zones. Agriculture, Horticulture, poultry, fisheries and dairies have been included in the export oriented units. Export processing zones have been allowed to export through trading and star trading houses and can have equipment on lease. These units have been allowed cent percent participation in foreign equities. Assistance to States for Infrastructure Development of Exports (ASIDE); Market Access Initiative (MAI); Marketing Development Assistance (MDA); Common Facility Centres; 'Served From India' Scheme; Target Plus Scheme; Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme); Merchandise Exports from India Scheme (MEIS); and Duty Exemption & Remission Schemes are some of the incentive or promotional measures followed for export promotion in India.

12.6 Keywords

- **Status Holder:** These are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade.

- **Star Export Houses:** Export business houses those fulfilled eligibility criteria to recognize an exporter as a status or star holder exporter.

- **DGFT:** Directorate General of foreign Trade is the agency of the Ministry of Commerce and Industry of the Government of India, responsible for execution of the import and export Policies of India.

- **NFE:** Net Foreign Exchange = Gross Earnings of Foreign Exchange minus Total expenses / payment / remittances of Foreign Exchange by the IEC holder, relating to service sector in the Financial year.

- **Privileges:** It is a special right, advantage, or immunity granted or available only to a particular person or group.

- **Foreign Exchange:** Foreign Exchange i.e. forex or FX is the trading of one currency for another. For example, one can swap the U.S. dollar for the euro.

- **Agri-Export Zone**: An Agri Export Zone or AEZ is a specific geographic region in a country demarcated for setting up agriculture based processing industries, mainly for export.

- **Technology Parks:** It is area where companies have offices and laboratories and do work involving science and technology.

- **Trade War:** Trade war, an economic conflict between nations over the trade of the nation's goods, services, and or citizenry.

- **Excise Duty:** An excise tax is a legislated tax on specific goods or services at purchase such as fuel, tobacco, and alcohol.

- **Common Facility Centre:** A Common Facility Centre (CFC) is a facilitating centre for testing, raw material depot, complementing production processes, and training.

- **FEMA Act, 1999:** Rules and regulations that regulate the foreign exchange management in India.

- **IEC Number:** An Importer -Exporter Code Number is a key business identification number which is mandatory for export from India or Import to India.

- **Export Promotion Council:** The Export Promotion Councils is to promote and develop the exports of the country.

- **FOB:** FOB is a term in international commercial law specifying at what point respective obligations, costs, and risk involved in the delivery of goods shift from the seller to the buyer under the Incoterms standard published by the International Chamber of Commerce.

12.7 Self-Assessment Test

- What do you mean by Status Holder? What are the various rules for getting a Status Holder certificate?
- What is Star Trading House? Explain the main benefits or privileges available for Indian export houses.
- Explain the promotional measures or incentives scheme for Status Holder in India.
- What are various steps in status holder application procedure? Explain the eligibility criteria and other provisions in the regard.
- Write short note on:
    - Export Promotion Council for Services
    - Duty Exemption & Remission Schemes
    - Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme)
    - Merchandise Exports from India Scheme (MEIS)

12.8 Answers to check your progress

1(c), 2 (d), 3(d), 4 (d), 5(a), 6 (d)

12.9 References/ Suggested Readings

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Subject: Foreign Trade of India	
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Lesson No.: 13	**Vetter**: Prof. Pardeep Kumar Gupta
INTERNATIONAL FINANCIAL INSTITUTIONS: WTO, WORLD BANK AND IMF	

Structure

13.0 Objectives

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

- Understand the meaning, role and components of financial system

- Understand the meaning, types, advantages and disadvantages of financial institutions
- Understand the objectives, functions and structure of WTO
- Understand the objectives and structure of World Bank
- Understand the objectives, functions and structure of IMF

13.1 Introduction

Foreign trade is the engine of economic growth. Development of any country, including India depends upon it, so no country can ignore it. Indian Government globalized Indian economy for foreign trade by announcing economic liberalization in 1991. Globalization means integration of Indian economy with the rest of world economies. It implies opening up of Indian economy for foreign direct investment by liberalizing the rules and regulations. In this, a well-structured mechanism of trade and financial institutions play a significant role at world level in achievement of economic goals a country. It not only helps in economic development of a country but also in the socio-cultural development of a country.

13.2 Meaning, role, and components of Financial System

Economic development of a country depends upon well-developed financial system. The financial system of a country is a mechanism which mobilizes the savings of the country into productive sectors or activities for the economic development. It includes individuals, companies, markets and government that are exchanging financial assets.

Role/Functions of Financial System

The followings can be the major functions of a financial system:

- Provide a platform to savers and investors.
- Helps in capital Formation.
- Help in selection and finance of a project.

- It helps in moving financial resources beyond geographical boundaries.
- Provides detail information to all the players of market such as individuals, govt. and other institutions.

Components of Financial System

The followings can be the major components of a financial system:

- Financial Institutions/Intermediaries,
- Financial Markets,
- Financial Instruments/Products, and
- Financial services

13.2.1 International Financial Institutions: Meaning, Types, advantages and disadvantages

An international financial institution (IFI) is a part of financial systems of world economies. It is a financial institution that has been founded by more than one country or by groups of countries to promote public and private investment to foster economic and social development in developing and developed countries.

Its owners or shareholders generally include national governments, banks and other organizations. The first International Financial Institutions, also known as Multilateral Development Banks (MDBs), were established after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system. Later, regional development banks were founded to promote economic growth and cooperation. IFIs work internationally hence they have to follow international law.

Types of International Financial Institutions

- **Government-backed Institutions**

Federal Reserve, World Bank and International Monetary Fund are good examples of financial institutions which are inherently linked with a government. The IMF is an international institution that provides countries experiencing an economic crisis with a temporary loan to stabilize its economy. This loan is backed by the institution's founder, the United States government. The World Bank is a specialized institution of the United Nations designed to give aid to governments, private agencies and corporations. The goal of these loans is to assist with development and health-related projects.

- **Private Institutions**

Several international institutions are private, such as Deutsche Bank, HSBC, Goldman Sachs and AIG. These companies make loans based on the risk level of the investment and the potential for profit. As is the case with most financial decisions: The higher the risk, the greater the potential reward. For example, a financial institution may decide to invest in Nigerian oil fields despite the government's high level of corruption and known vandalism. The primary incentive under which private institutions issue loans is for the sake of increasing wealth to its shareholders.

Advantages and Disadvantages of International Financial Institutions

International financial institutions provide loan not only to governments during emergency but to the businesses also. By making funds available to them, IFI helps in the economic growth and development of a nation. Followings are the main advantages and disadvantages of International financial institutions:

Advantages

- **Economic growth and development**- Economic growth and development includes the development of all sectors of a country i.e. Govt. sector, private sector, household sector etc. As international financial institutions provide long term economical finance to their member countries, so it is easy for them to develop all the sectors of their economy.

- **Reduce poverty**- Easy availability of funds help to set up new industries which ultimate provide employment to the member countries. As the level of employment increases the poverty will reduce.

- **Consultancy Services**-Besides providing funds, many of these institutions endow with financial, administrative, technical advice and trade related guidance and consultancy to their member countries.

- **Provide long term finance on economical rates**-The commercial banks can fulfil short term finance requirement not long term. Financial institutions provide long-term finance on simple rate of interest and with convenient & economical facilities for repayment. This will helps to implements long term plans of modernization and development without much strain.

- **Help in Planning and Management**-Along with finance, a company can obtain specialist guidance and direction for the successful planning and management of projects in general and in reverse conditions also. The funds are made available even during periods of depression when other sources of finance are not available.

Disadvantages

- **Expensive and time-consuming procedure**-As these institutions come under government criteria, they follow rigid rules and regulation for granting loans. Too many formalities make the procedure time-consuming. Many deserving countries may fail to get assistance for want of security and other conditions laid down by these institutions.

- **Dispute settlement**-The dispute settlement system of these institutions provide for adjudication of issues pertaining to the internal policies of the member countries. Such provisions pose a threat to sovereignty of the countries.

- **Faulty lending procedure** is another problem for borrowings countries before granting any aid. These types of restrictions are not in favour of under-developed and developing countries.

- **Discriminatory**-These institutions are also criticized on the basis of discrimination adopted by it in its purpose - Lending procedure of these institutions laid more emphasis on the repaying capacity of the wise and region wise assistance towards developing countries.

- **Fails to maintain exchange rate stability**- it was in the objective list of these institutions but they failed to achieve it.

13.2.2 General Agreements on Tariffs and Trade (GATT) and Its Rounds

The General Agreement on Tariffs and Trade (GATT) was an International body which was signed on October 30, 1947 by 23 countries, including India, and come into force on January 1, 1948. It was founded as a general agreement of trade concession and to minimize trade barriers between countries by eliminating or reducing quotas, tariffs, and subsidies through legal regulations. The GATT was a post war development, made by the allied powers through reconstructing and liberalizing global trade and to create a well-developed mechanism of international trade and payments intended to boost economic recovery after World War II. The GATT held eight rounds in total from April 1947 to September 1986, each with significant achievements and outcomes. After serving for a period of 46 years, in 1995 the GATT was replaced by World Trade Organization (WTO).

General Agreement on Tariffs and Trade (GATT) Rounds

- **First round-** The first round was held in Geneva, Switzerland on October 30, 1947 and included 23 countries. The focus in this opening conference was on tariffs and it was the first attempt to write a rule book for commerce, and includes tariff cuts on one-fifth of world trade.

- **Second Round**-The second round was begun in April 1949 and was held in Annecy, France. Again, tariffs were the primary topic and accomplished an additional 5,000 tax concessions reducing tariffs. Ten new countries joined the GATT.

- **Third Round**-The third round was held at in Torquay, England in September 1950- April 1951. This time 38 countries were involved and almost 9,000 tariff concessions passed, reducing tax levels by as much as 25%.

- **Fourth Round**-The fourth round of GATT was held at Geneva, Switzerland in 1955-56. Japan became involved for the first time. It was decided by 26 countries that this time worldwide tariffs would be reduced by US$2.5 billion.

- **Fifth Round**-the fifth round also held at Geneva, Switzerland in 1960-62. This round is also known as Dillon Round, Named after U.S. Undersecretary of State Douglas Dillon, who proposed the negotiations. Involving 26 countries, the round focuses largely on harmonizing concessions within the new European Economic Community and about 4,400 tariff concessions covering $4.9 billion of trade.

- **Sixth Round**-The sixth round was held at Geneva, Switzerland in 1964-67. This round is also known as Kennedy Round, Named after assassinated U.S. President John F. Kennedy. This round covers 62 participating countries representing 75 percent of total world trade. Concessions cover trade valued at an estimated $40 billion.

- **Seventh Round**-the seventh round of GATT was held at Tokyo in 1973 and ended in 1979 in Geneva. The round involves 102 countries that negotiate agreements on tariff reductions and bindings - commitments not to increase current tariffs - which cover more than $300 billion of trade. Subsidies, government procurement and trade in dairy products and civil aircraft are brought under GATT's wing.

- **Eighth Round or Uruguay Round**- Eighth round of GATT was held at Punta Del Esta, Uruguay from September 1986 to December 15, 1993. Total 115 countries involved in it. It was most ambitious round, bringing trade in services and agriculture into negotiations for the first time. The thorny issue of farm subsidies, which pits the United States against the EC, delays an accord by three years.

The Eighth round or Uruguay round of Multilateral Trade Negotiations were over on December 15, 1993. The final act was signed by 125 countries including India on April 15, 1994 under the chairmanship of Arthur Dunkel, then the Director-General of GATT. This was popularly known as Dunkel Draft or Dunkel Agreement. The GATT was finally replaced in World Trade Organization (WTO) in 1995.

13.2.3 Criticism of GATT

GATT was criticized on the following grounds:

- Before sixth round all member countries were following such agricultural trade policies which were inconsistent with GATT rules. Focus on agricultural trade was much less then industrial trade.

- Most of the tariffs had abolished by developed countries but still there were other tariffs which must be abolished others also.

- All the rules regarding subsidies were side tracked due to increased use of subsidies. That's why GATT rules were not explicit on subsidies.

- GATT didn't possess any mechanism to get its rules implemented by contracting parties.

13.2.4 World Trade Organization (WTO): Meaning, Preamble, Objectives, Structure, and Functions

GATT was replaced with the World Trade Organization (WTO). It has a set of rules and principles which were mutually designed to reduce tariffs & import barriers and promote international trade. It was come into effect on January 1, 1995 with the support of 85 member countries. Now WTO has 164 members (including European Union) and 23 observer governments (like Iran, Iraq, Bhutan, Libya etc) which represent 98% of the world trade. It is the third pillar of worldwide economic dimensions along with the IMF and World Bank. It has taken regulation and administration charges of global trade as decided in Uruguay round.

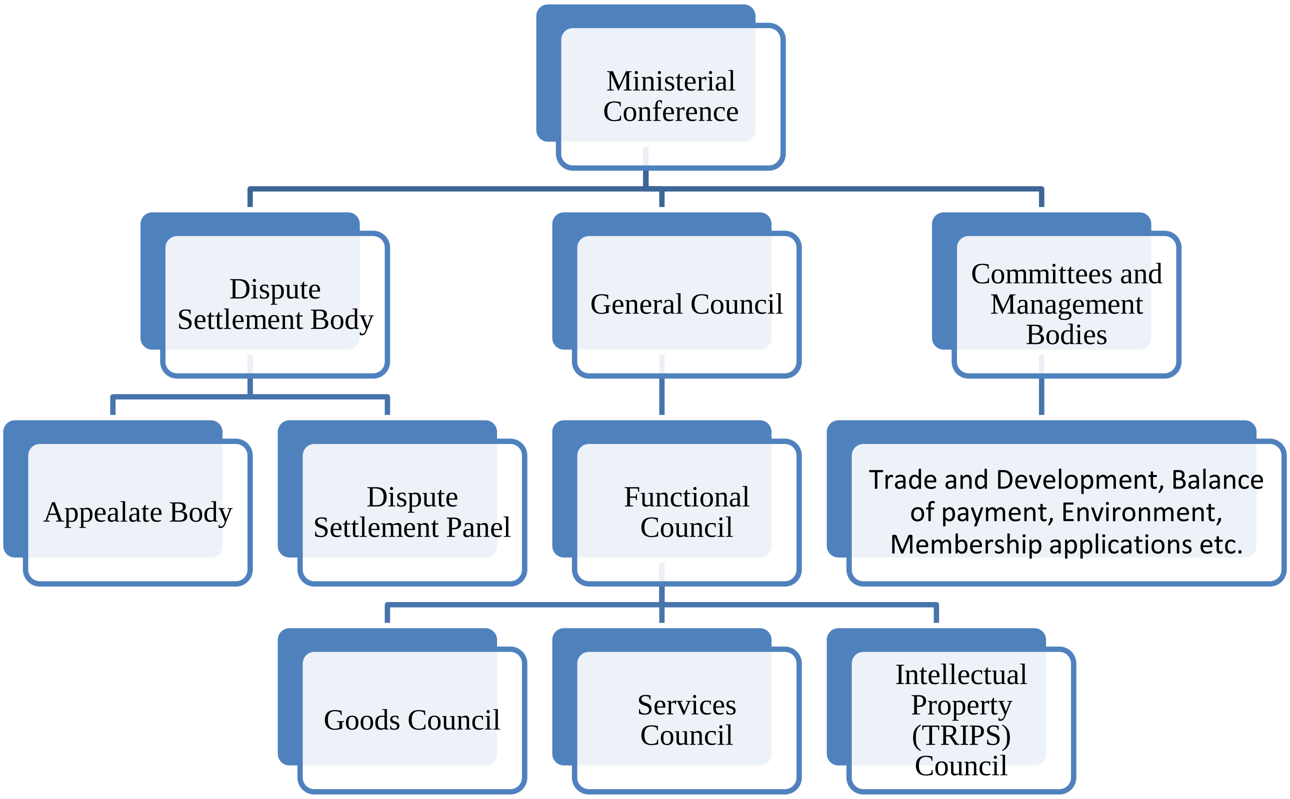
The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible.

Preamble of WTO

The Preamble of WTO states that **"There is a need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development."**

Structure of WTO

The WTO has 164 members, accounting for 98% of world trade. A total of 22 countries are negotiating membership. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, the GATT. The WTO's agreements have been ratified in all members' parliaments. WTO has four level hierarchical structure:



Organizational Structure of WTO

- **Ministerial Conference-** WTO's top level decision-making, policy & strategy making body is the Ministerial Conference in which includes all the representatives of member countries. This body meets once in every two years. All the decision regarding Multilateral Trade Agreements and WTO functioning come under the preview of this body.

- **General Council-** This is executive body of WTO. Ministerial conference formulates the policies and strategies implemented and executed through general council. General council meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.

- **Functional council under General council**-There is three Functional council:

- **Goods Council**- Multilateral Trade Agreements regarding goods came under this council.
- **Services Council**- Multilateral Trade Agreements regarding services came under this council.
- **Intellectual Property (TRIPS) Council**-Functioning relating to TRIPS undertakes by this council.

- **Committees and Management bodies-**Numerous specialized committees, working groups and working parties have been set up by Ministerial conference to discharge their respective function, such as Trade and development, Balance of payment, environment, membership applications and regional trade agreements.

Objectives of WTO

- The foremost objective of WTO is to lower trade barriers internationally through agreements and negotiations.
- To raise standard of living by providing large scale employment opportunities and to provide to provide goods and services on cheaper price.
- To cut the cost of doing business internationally.
- To encourage good governance and transparency at all levels.
- To provide a linkages between trade policies, environment policies and sustainable development.

Functions of WTO

- **Management of Multilateral Trade Agreements**-Proper management of Multilateral Trade Agreements on the reduction or elimination of obstacles to trade such as import tariffs and other barriers to trade and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.).

- **Administration of WTO rules application**-Proper Administration, implementation and monitoring of the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights.

- **Administering TPRM**-Monitoring and reviewing the trade policies of members through Trade Policy Review Mechanism (TPRM), as well as ensuring transparency of regional and bilateral trade agreements.

- **Dispute settlement**-Settling disputes among member countries regarding the interpretation and application of the rules and regulation of agreements.

- **Coordination with World Bank and IMF**-Coordination with other International institutions like World Bank, IMF etc.

- **Conducting economic research**-Conducting economic research and collecting and disseminating trade data in support of the WTO's other main activities.

- **Awareness education**-Explaining to and educating the public about the vision and mission of WTO.

13.2.5 India and the WTO

India is a member of WTO since January 1995 and also had been a member of the WTO's General Agreement on Tariffs and Trade (GATT) since July 1948. As a developing country, India has played a significant role in the proceedings of the WTO. It has also some of agreements with WTO. They are discussed below:

- **Reduction of Tariff and Non-Tariff Barriers-**The agreement proposes an overall reduction of tariffs on manufactured products and the phasing out of the quantitative restrictions over a period of time.

- **Trade-Related Investment Measures (TRIMS)-**This agreement forbids the host country to discriminate against investments from abroad vis-a-vis domestic investment i.e. agreement requires investment to be freely allowed by nations.

- **Trade-Related Intellectual Property Rights (TRIPS)-**Intellectual property rights seek to protect and provide legal recognition to the creator of the intangible and illegal use of his creation. It includes patents, copyrights, geographical indications, trademarks, industrial circuits, designs and trade secrets. As a result, India amended the Copyright Act, the Patents Act, and the Trade and Merchandise Act.

- **Agreement on Agriculture (AOA)-**Uruguay round began with a goal to reduce or eliminate trade barriers in agriculture by doing something about the national agriculture policies that distort production, consumption and trade. This agreement deals with giving market access, reducing export subsidies and government subsidies on agricultural products.

- **Agreement on Sanitary and Phytosanitary measures (SPM)-**This agreement provides its member to take necessary measures for protection of its human, animal and plants. This further describes that measures should be based on scientific principles. This is particularly related to industries such as marine food, food processing and other packed food.

- **Multi-Fibre Agreement (MFA)-**This agreement is no longer applied. It was valid until 2004 only. It had essentially placed quotas on the amount of textile and clothing exports from developing to developed countries.

- **Agreement on Anti-dumping**- India have to follow the anti-dumping rules framed by WTO. According to the WTO, if a country wants to put an anti-dumping tariff on a trading partner, then that country needs to prove the occurrence of the dumping and its impact on the local market. Dumping is a price discrimination policy. It is practice of selling a product in one national market at a lower price that it is sold in another market. It can of three types:

    - **Sporadic dumping**-In this type of dumping companies dump excess unsold inventories foreign market at lower price to avoid price wars. If they are unable to sale then they dump by destroying excess supplies.

    - **Predatory dumping**-In the predatory the monopolist sale of goods in a foreign market at a price lower in the beginning to eliminate competition and increase the price when they leave the market.

- **Persistent dumping-**When a country consistently sells products at a lower price in the foreign market compared to the local prices continuously.

- **Reverse dumping-**In reverse dumping a company charge a higher price in the foreign market and a lower price in the local market.

Latest Developments

There are four important recent developments related to India and WTO. These are as follows:

- **Ban on Chinese Mobile Apps** – As per the rules of the WTO, a country can take action against companies if it is a threat to the national security and sovereignty of the nation. As per above rule India banned 59 mobile apps of China. They have claimed that India has violated WTO rules but there is no bilateral agreement between India and China related to Smartphone apps.

- **Peace Clause-**Recently there was an issue high subsidies have seen in the global trade. The peace clause protects a developing country's food procurement programs against action from WTO members in case subsidy ceilings are breached.

- **Information and Communication Technology (ICT) Tariff Case**

- Japan and Taiwan filed a case against India in WTO over the import duties imposed on certain ICT goods. WTO has decided to set up a dispute panel against India. The dispute panels of the WTO would determine whether India's customs duties on imports of certain information and communications technology (ICT) products infringe WTO norms or not. India has stated that these ICT products are part of WTO's Information Technology Products (ITA-2) agreement. India is a part of ITA-1, signed in 1997.

- **Fisheries Subsidies**

- India has sought a clear dispute settlement mechanism in the global agreement to end harmful fisheries subsidies. WTO members are negotiating to finalize disciplines to eliminate subsidies for illegal, unreported and unregulated (IUU) fishing, and to prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing.

13.3 World Bank: History, Objectives, Organization and Functions

History

The World Bank or the International Bank for Reconstruction and Development (IBRD) was established in 1945 during the Bretton Woods Conference, officially known as the United Nations Monetary and Financial Conference, with a gathering of 44 nations, held at Bretton Woods, New Hampshire (USA) during July, 1944. They agreed upon a series of new rules for international financial and monetary order after the World War II. This conference gave birth to International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF). Primarily, IRBD was established to reconstruct and rebuild the destroyed economies in World War II.

Objectives

- Funding of large infrastructure projects such as dams, electrical grids, irrigation systems and roads.
- Help the developing countries in eradication of poverty, food production, rural and urban development, population, health and nutrition.
- Help the social development of developing countries through dealing with the issues of social life, education, climate change communication, cultural heritage etc.

All of these efforts support the Bank Group's twin goals of ending extreme poverty by 2030 and boosting shared prosperity of the poorest 40% of the population in all countries.

Organization of World Bank

World Bank is an International financial body, made up of 189 member countries. **Board of Governors** is the ultimate policymakers. Generally, the governors are member countries' ministers of finance or ministers of development. They meet once a year at the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. The governors delegate specific duties to 25 **Executive Directors**, who work on-site at the Bank. The five largest shareholders appoint an executive director, while other member countries are represented by elected executive directors. The World Bank Group President chairs meetings of the Boards of Directors and is responsible for overall management of the Bank. The President is selected by the Board of Executive Directors for a five-year, renewable term. The Executive Directors make up the **Boards of Directors** of the World Bank. They normally meet at least twice a week to oversee the Bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies and borrowing and financial decisions. The World Bank operates day-to-day under the leadership and direction of the president, management and senior staff, and the vice presidents in charge of Global Practices, Cross-Cutting Solutions Areas, regions, and functions.

Functions of World Bank

The World Bank provides low-interest loans, interest-free credit, and grants not only for improving education, health, and infrastructure of its member countries but also to modernize a country's financial sector, agriculture, and natural resources management. The Bank's stated purpose is to "bridge the economic divide between poor and rich countries." It does this by turning "rich country resources into poor country growth." It has a long-term vision to "achieve sustainable poverty reduction."

- Help in reconstruction and rebuilding of countries emerging from war, the biggest cause of extreme poverty.
- Provide a customized solution to help middle-income countries by interest free financing.
- To promote private foreign private investment by means of guarantee of participation in loans and other investments.
- It provides policy advice through technical assistance and research analysis to developing countries.
- It also helps the member countries in capacity building.
- Helps the member countries in the areas of education, climate change, health, agriculture, infrastructure, administration etc.

13.3.1. WORLD BANK: A GROUP OF INSTITUTIONS

The World Bank Group consists of five development institutions:

- **International Bank for Reconstruction and Development (IBRD)**

International Bank of Reconstruction and Development was set up to revive the war destroyed economies. It has broadened its mandate to increase global economic growth and eliminating poverty. The Bank finances only in those projects which are backed by governments. Fast-growing economies like Indonesia, India, and Thailand, are often attracting a lot of foreign investment and large infrastructure building projects.

IBRD governed by Boards of Governors which consist of one Governor and one Alternate Governor appointed by each member country. The Board of Governors delegates most of its authority over daily matters such as lending and operations to the Board of Directors. Its Board of Directors consists of 25 executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors. Executive Directors select the World Bank President, who is the Chairman of the Board of Directors. Executive Directors are authorized for daily matters such as lending and operations.

- **International Development Association (IDA)**

IDA provides interest free loans to world’s poorest countries. Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing loans (called “credits”) and grants for programs that boost economic growth, reduce inequalities, and improve people’s living conditions. IDA supports a range of development activities that pave the way toward equality, economic growth, job creation, higher incomes, and better living conditions. IDA's work covers primary education, basic health services, clean water and sanitation, agriculture, business climate improvements, infrastructure, and institutional reforms.

It is governed by Boards of Governors consist of one Governor and one Alternate Governor appointed by each member country. The office is usually held by the country's minister of finance, governor of its central bank. The Board of Governors delegates most of its authority over daily matters such as lending and operations to the Board of Directors. Its Board of Directors consists of executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors. IDA lends money on concessional terms. This means that IDA credits have a zero or very low-interest charge and repayments are stretched over 30 to 38 years, including a 5- to 10-year grace period.

- **International Finance Corporation (IFC)**

IFC is the largest global development institution focused exclusively on the private sector. It helps in the economic development of the developing countries by investing in for-profit and commercial projects for poverty reduction and promoting development.

IFC is governed by Boards of Governors, it consist one Governor and one Alternate Governor appointed by each member country. The office is usually held by the country's minister of finance, governor of its central bank. The Board of Governors delegates most of its authority over daily to the Board of Directors. Its Board of Directors consists of executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors. Voting power on issues brought before them is weighted according to the share capital each director represents. The directors meet regularly to review and decide on investments and provide overall strategic guidance to IFC management. IFC attempts to guide businesses toward more sustainable practices particularly with regards to having good governance, supporting women in business, and proactively combating climate change.

- **Multilateral Investment Guarantee Agency (MIGA**)

MIGA was established in 1988 to promote foreign direct investment (FDI) into developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. MIGA was created to complement public and private sources of investment insurance against non-commercial risks (currency inconvertibility and transfer restriction; government expropriation; war, terrorism, and civil disturbance; breaches of contract; and the non-honoring of financial obligations) in developing countries.

It is governed by Council of Governors which is representing by its member countries. The Council of Governors holds corporate authority, but primarily delegates such powers to MIGA's Board of Directors. The Board of Directors consists of directors and votes on matters brought before MIGA.

Each director's vote is weighted in accordance with the total share capital of the member nations that the director represents.

- **International Centre for Settlement of Investment Disputes (ICSID)**

ICSID was established in 1966 by the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention). The ICSID Convention is a multilateral treaty formulated by the Executive Directors of the World Bank to further the Bank’s objective of promoting international investment. States have agreed on ICSID as a forum for investor-State dispute settlement in most international investment treaties and in numerous investment laws and contracts. Bilateral investment treaties (BITs) are proliferating, many such treaties contain text that refers present and future investment disputes to the ICSID. ICSID provides for settlement of disputes by conciliation, arbitration or fact-finding.

It is governed by its Administrative Council which consist one representative of each Member State, and one vote per State. This council adopts ICSID arbitration, conciliation and fact-finding rules. Elects Secretary-General and Deputy Secretaries-General. Each State designates persons to a list of arbitrators and conciliators. Its secretariat led by Secretary-General which provides technical and administrative support to proceedings. It is also offers training and technical assistance to governments and the public.

13.3.2 Membership of World Bank Group

For the membership of World Bank, a country must first join the International Monetary Fund (IMF). Membership in IDA, IFC, and MIGA are conditional on membership in IBRD. Membership in ICSID is available to IBRD members, and those which are a party to the Statute of the International Court of Justice (ICJ), on the invitation of the ICSID Administrative Council by a vote of two-thirds of its members.

13.3.3 India and the World Bank

India was one of the 44 founder members of International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). The bank had started lending to India in 1949 with a loan to the Indian railways. During the 1950s, the IBRD was India's sole source of World Bank borrowings. In 1960s, the United States, until then India's largest source of external resources, sharply cut its bilateral aid program. Since then, the WB emerged as the most important source of official long-term finance. In 1960s and 1970s, India was by far the largest recipient of IDA funds, accounting for more than two-fifths of all its lending. During the 1980s, while the WB shifted its emphasis to stress policy reforms and greater economic liberalization, it continued to lend to poorly governed public sector institutions in India and was muted in its criticism of India's closed economy. The lending portfolio changed sharply after the 1991 macroeconomic crisis. In the immediate aftermath, India became one of the last important WB borrowers to partake of structural adjustment lending, which supported policy reforms in finance, taxation, and the investment and trade regime.

Between 2015 and 2018, the World Bank lent around $10.2 billion to India. The World Bank Group (WBG) has approved a $25-30 billion commitment plan for India for the period 2019-22. Recently, World Bank’s Board of Executive Directors has approved a fast-track $1 billion financial aid for India for COVID-19 Emergency Response and Health Systems Preparedness Project. This fund will be utilized to prevent, detect, and respond to the COVID-19 pandemic and strengthen its public health preparedness. This is the largest ever health sector support from the Bank to India.

13.3.4 International Monetary Fund: History, Objective and Structure and Resources

History

In 1944, representatives of 44 nations met in Bretton Woods, New Hampshire, to draw up a plan for the post-World War II economic order. Their goal was to avoid a repetition of the destructive policies that could spark another conflict. So they created the IMF to promote international monetary cooperation. Ever since, the IMF has played a vital role in maintaining global economic stability and ensuring broadly shared prosperity.

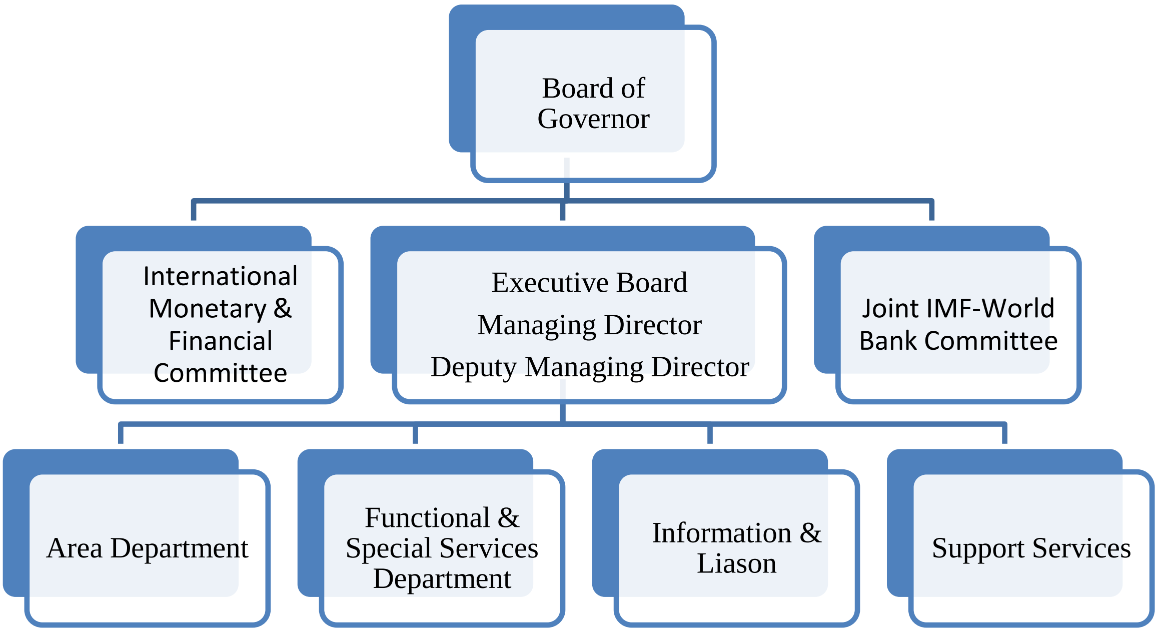
Objectives of IMF

- To promote international monetary co-operation through a permanent institutions, that will provide the mechanism for consultation and collaboration on international monetary problems.

- To promote exchange stability and to avoid the bad effects of depreciation on exchange rates.
- To facilitates the expansion of balanced growth by the promotion and maintenance of high level of employment as the primary objective of economic policy. It also helps to exploit natural resources and to put into productive channel.
- Establishment and multilateral trade and payment system in place of old bilateral trade by the elimination of exchange restrictions which hampers the growth of smooth trade relations in the world trade.
- To eliminate the disequilibrium in the balance of payment by selling or lending foreign currencies to the member countries. With its financial assistance and guidance, International Monetary Fund helps to lessen the degree of disequilibrium in the balance of payment of its member nations.
- To provide short-term monetary help to its member countries during any type of emergency.

Organization Structure of IMF

- **Board of Governors-**The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank. While the Board of Governors has delegated most of its powers to the IMF's Executive Board. The Boards of Governors of the IMF and the World Bank Group normally meet once a year. The Annual Meetings are chaired by a Governor of the World Bank and the IMF, with the chairmanship rotating among the membership each year. Every two years, at the time of the Annual Meetings, the Governors of the Bank and the Fund elect Executive Directors to their respective Executive Boards.



Organizational structure of IMF

- **International Monetary and Financial Committee (IMFC) -**The main purpose of this committee is to advice the IMF Board on common concern affecting the global economy and direction its work. The IMFC has 24 members, drawn from the pool of 189 governors. Its structure mirrors that of the Executive Board and its 24 constituencies. As such, the IMFC represents all the member countries of the Fund. The IMFC meets twice a year.

- **The Development Committee-**It is a joint committee of IMF-World Bank to discuss the issues related to economic development in emerging and developing countries. The committee has 24 members (usually ministers of finance or development).

- **The Executive Board-**The day to day operations of IMF is directed by its 24-member Executive Board which represents by all member countries. The managing director is the head of IMF staff and the chairman of Executive board is assisted by four Deputy Managing Director. Board meets several times in the week to discuss all aspects of the Fund’s work, from the IMF staff's; annual health checks of member countries' economies to policy issues relevant to the global economy.

13.3.5 Resources of IMF

- **Quota**: Primary source of IMF's financial resources is Quotas. Each member of the IMF is assigned a quota, based broadly on its relative position in the world economy which determines its maximum contribution in the IMF's financial resources. The IMF regularly conducts general reviews of quotas to assess the adequacy of overall quotas and their distribution among members. The most recent increase in quotas, to SDR 477 billion (US$ 651 billion), was agreed under the 14th Review (concluded in December 2010, effective from January 2016.) The 15th Review was concluded in February 2020 without a quota increase.

- **Multilateral Borrowing-**Through the New Arrangements to Borrow (NAB) a number of member countries and institutions stand ready to lend additional resources to the IMF. The NAB constitutes a second line of defense to supplement IMF resources to forestall or cope with an impairment of the international monetary system. In January 2020, the IMF's Executive Board approved a doubling of the NAB resources from the current SDR 182 billion to SDR 365 billion, for a new NAB period from 2021 to 2025. This doubling is subject to creditors' consents and is targeted to become effective on January 1, 2021.

- **Bilateral Borrowing Agreements-**It serves as a third line of defense after quotas and the NAB. Since the onset of the global financing crisis, the IMF has entered into several rounds of bilateral borrowing agreements (BBAs) to ensure that it can meet the financing needs of its members. The current BBAs, agreed in 2016, were extended in 2019 for one further year and run through end-2020. To succeed these agreements, the Executive Board approved in March 2020 a framework for a new round of bilateral borrowing. The new framework is broadly the same as that agreed in 2016 for the current BBAs. The new BBAs are to take effect from January 1, 2021.

- **Special Drawing Rights (SDRs) –** IMF issues SDR an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Member countries can voluntarily exchange SDRs for currencies among themselves. So far SDR 204.2 billion (equivalent to about US$281 billion) have been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. Holders of SDRs can obtain these currencies in two ways: first by voluntarily exchange and second by purchase i.e. member with strong external position purchases it from member with weak external position.

13.4 Check Your Progress

1. Which one of the following is full form of GATT?

   a) General Agreement on Tariff and Trade

   b) General Agreement on Tax and Trade

   c) Both a & b

   d) None of the above

2. When was WTO established?

   a) January 1, 1993
   b) March 1, 1994
   c) January 1, 1995
   d) March 1, 1999

3. IMF was founded for:

   a) Securing economic stability
   b) To promote international monetary co-operation
   c) Both A & B
   d) None of the above

4. International Bank for Reconstruction and Development (IBRD) is also known as:

   a) IMF
   b) World Bank
   c) WTO
   d) Both A & B

7. Organization structure of World Bank includes:

   a) Board of Governors

   b) Executive Directors

   c) President

   d) All of the above

8. Resources of IMF includes:

   a) Quota
   b) SDRs
   c) Both A & B
   d) None of the above

13.5 Summary

Financial system of a country is a mechanism which mobilizes the savings of the country into productive sectors or activities for the economic development. The General Agreement on Tariffs and Trade (GATT) was founded as a general agreement of trade concession and to minimize trade barriers between countries by eliminating or reducing quotas, tariffs, and subsidies through legal regulations.

World Trade Organization (WTO) has a set of rules and principles which were mutually designed to reduce tariffs & import barriers and promote international trade. WTO has four levels hierarchical structure includes Ministerial conference, General Council, Functional council and Management bodies & committee. India is playing a significant role in the proceedings of the WTO and has various agreements on tariff & trade, agriculture etc. with it.

The World Bank or the International Bank for Reconstruction and Development (IBRD) was established to set-up new rules for international financial and monetary order after the World War II. It provides funding of large infrastructure projects such as education, dams etc. Organization structure of World Bank includes Board of Governors, Executives Director and Board of Director which govern it. In World Bank group five institutions include namely International Bank for Reconstruction and

Development (IBRD); International Development Association (IDA); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); and International Centre for the Settlement of Investment Disputes (ICSID).

IMF was established to draw a plan for post-World War II economic order. So they created the IMF to promote international monetary cooperation. The IMF has played a vital role in maintaining global economic stability and ensuring broadly shared prosperity. It is governed by Board of Governor, IMFC & Development Committee and Executive Board. IMF generally uses Quota, SDRs, NAB and BBAs as a resource.

13.6 Key Words

- **Financial Institution:** A banking unit that mobilize the saving of the country into productive sectors or activities. Such as central bank, investment banks etc.
- **Economic stability:** It refers to an absence of excessive fluctuations in the overall economy.
- **SDRs:** Special Drawing Rights refers to an international type of monetary reserve currency created by IMF in 1969.
- **International markets:** Markets situated out of the boundaries of a country i.e. other than domestic market.
- **Reconstruction:** It is the process of making a country normal again after a war.
- **TRIPs:** It is an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal agreement between all the member nations of WTO.
- **Balanced Growth**: Consistent growth of all sectors of an economy during a time period.
- **Economic development:** Growth of a country in the way of GDP, per capita income etc**.**
- **Tariff:** A tax or duty to be paid on a particular class of imports or exports.

- **Patents:** A government authority or license conferring a right or title for a set period, especially the sole right to exclude others from making, using, or selling an invention.

- **MFN:** A most-favored-nation (MFN) clause requires a country to provide any concessions, privileges, or immunities granted to one nation in a trade agreement to all other World Trade Organization member countries.

- **Quota:** A fixed share of something that a person or group is entitled to receive or is bound to contribute.

- **Financial Services:** It is concerned with the design and delivery of financial instruments and advisory services to individuals and businesses.

- **Loans:** It refers to the financial assistance provided by the Govt. or banks or a financial institution to the borrower, which is repayable after some time with interest.

- **Grants:** These are the financial aid awarded by the government for a specific purpose.

- **Subsidies:** A subsidy is a benefit given by the government to groups or individuals, usually in the form of a cash payment or tax reduction.

- **Socio-cultural environment:** Structure of society, male & female, Income and education level; values, customs, taste, preferences, beliefs of a particular group of people that affect trade.

13.7 Self-Assessment Test

- What do you mean by Financial Institutions? Explain the main International Financial Institutions.

- What is World Trade Organization (WTO)? Explains its objectives, functions and structure.

- What is International Monetary Fund (IMF)? Explains the major resources of IMF.

- Explain World Bank? Why it was founded? What is the position of India in World Bank?

- Differentiate World Bank and IMF. Which one is better in context of India?

13.8 Answers to check your progress

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

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