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SCHOOL OF MANAGEMENT STUDIES

UNIT – I – International Trade – SBAA1602

SYLLABUS: UNIT 1: INTRODUCTION TO INTERNATIONAL TRADE

International Trade – Importance of International trade – Theories of Foreign Trade Smith, Ricardo, Haberier's Hechsher –Ohlin – Domestic Vs International – Advantages of International Trade International Business Environment (IBE) – Elements of IBE – Importance of understanding IBE – Trade in Services.

INTRODUCTION

The term International business has emerged from "International marketing" .International business involves transactions across the national boundaries. It includes the transfer of goods, services, technology, managerial knowledge and capital to other countries. International business has gained greater visibility and importance in recent years because of the large multinational corporations.

MEANING AND DEFINITION

Marketing is a human activity directed at satisfying needs and wants through exchange process. Marketing tries to actualize potential exchange for the purpose of satisfying human needs. In the process, it analyses the markets for their potentials in order to assess the needs of the customers.

International trade is a part of total marketing process. It refers to the marketing activities carried on by a marketer in more than one nation.

"Trade carried on across national boundaries"

"The Performance of business activities that directs the flow of goods and services to consumers or users in more than one nation" – Hess & Cateor

SCOPE OF INTERNATIONAL BUSINESS

1. Exports and Imports - It includes merchandise (tangible or having physical existence) of Goods. Export merchandise means sending goods to other nations. Import merchandise means receiving goods from other nations. It does include the trade of services.

2. Service Trade - It is also known as invisible trade. It includes the trade of services (intangible or no physical existence). There is both export and import of services. Services like tourism, hotel, transportation, training, research etc.,

3. Licensing & Franchising - Under this permission is given to the organization of other countries. To sell the product of a particular company. Under its trademark, patents in return of some fees. ***Example****– Pepsi and Coca Cola are produced and sold through different sellers abroad.* Franchising is similar to licensing but associated with services. ***Example***- Dominos, burger king, etc.,

4. Foreign Investment - It includes the investment of available funds in foreign companies to get returns. It can be of 2 types :(1) **Direct investment** means investing funds in plant and machinery for marketing and production, also known as a foreign direct investment (FDI). Sometimes these investments are done jointly known as joint ventures. (2) **Portfolio investment** means one company invests in another company by way of investing in its securities and earn income in the form of interest and dividends.

5. **Consultancy services –** The exporting company offers consultancy service by undertaking Turnkey projects in foreign countries. For this purpose it sends its consultants and experts to foreign countries who guide and direct the manufacturing activities of the spot.

6. Exchange of Technical and Managerial Knowhow – The Technicians and Managerial personnel of the exporting company guide and train the technicians and the manager of the importing company.

CHARACTERISTICS OR FEATURES OF INTERNATIONAL TRADE:

The following are the distinguishing features of international trade:

1. Immobility of Factors: The degree of immobility of factors like labour and capital is generally greater between countries than within a country. Immigration laws, citizenship, qualifications, etc. often restrict the international mobility of labour.

2. Heterogeneous Markets: In the international economy, world markets lack homogeneity on account of differences in climate, language, preferences, habit, customs, weights and measures, etc. The behaviour of international buyers in each case would, therefore, be different.

3. Different National Groups: International trade takes place between differently cohered groups. The socio-economic environment differs greatly among different nations.

4. Different Political Units/Legal Systems: International trade is a phenomenon which occurs amongst different political units.

5. Different National Policies and Government Intervention: Economic and political policies differ from one country to another. Policies pertaining to trade, commerce, export and import, taxation, etc., also differ widely among countries though they are more or less uniform within the country. Tariff policy, import quota system, subsidies and other controls adopted by governments interfere with the course of normal trade between one country and another.

6. Different Currencies: Another notable feature of international trade is that it involves the use of different types of currencies. So, each country has its own policy in regard to exchange rates and foreign exchange.

7. Procedures and documentations: The different laws and customs of trade in each country demand different procedures and documentary requirements for the import and export of the goods and services.

Table 1: DIFFERENCE BETWEEN DOMESTIC AND INTERNATIONAL TRADE

Basis	**Domestic Trade**	**International Trade**
Nationality of Buyers and Sellers	Under this person of one nation work in their respective domestic market.	Under this person from different nations works in the international market.
Nationality of Other Stakeholders	Stakeholders like suppliers, producers, employees, Middleman, etc. are of the same nation.	Stakeholders like suppliers, producers, employees, Middleman, etc., are of different nations

Mobility of Factors of Production	Factors of production like capital and labour are mobile across one nation.	Factors of production like capital and labour are mobile across the different nation.
Heterogeneous Customers	Usually, customers are homogeneous in the domestic market	Customers are not homogeneous in the international market due to a different religion, caste, language, etc.
Risks	Under this one nation is subject to the political risk of its respective nation.	This may be a barrier to international trade as different nations have different political risks.
Policies	These are subject to different policies and regulations, laws of a single nation.	These are subject to different policies and regulations, laws of multiple nations.
Currency	Only one currency is involved.	There is involvement of more than one currency.

DETERMINANTS OR FACTORS OF INTERNATIONAL BUSINESS POLICIES

1. Political factors: Various political factors affect the international factors. Political factors such as changes in tax rates, policies and actions of government, political stability of country, foreign trade regulations etc. affects the working of an international business firm. Lack of political stability in the country directly impacts the operations of business firm. Also, various tax policies and government initiatives sometimes hinders the expansion of business in other countries. Thus, effective political environment of business influences the growth of business firm (Shaw, 2018).

2. Economic factors: Economic factors relates to the economic system of the country where the firm has its operations. Various economic factors such as inflation rate, interest rate, income distribution, employment level, allocation of government budget, etc., directly impacts the operations of business firm (NDUNGU, 2012). Various economic factors such as purchasing power of customers also determines the demand of various products and services.

3. Legal factors: Legal factors relate to the legal environment of the country in which firm operates. Different laws prevail in different countries and international business firms have to abide by the laws of each country. Laws relating to age and disability discrimination, wage rates, employment and environment laws affects the working of business firms. Along with this, various international lending agencies affects the legal culture and working policies of business firm.

4. Social factors: Social factors such as education, awareness and trends and status of people in the society affects the consumer behavior to purchase various goods and services. Also, Social environment and culture such as customs, lifestyles and values differs from country to country which further directly impacts the international business.

5. Environmental factors: Environment factors such as weather, climate change, temperature etc. affects the business firm and the demand pattern of various goods and services. increasing environment awareness has made this external environment factor a significant issue to be considered by business firms. Move towards environment friendly products and services also has affected the demand pattern of various goods and services.

6. Technical factors: Technological changes in the industry has both positive and negative impacts on the working of business firms. Technological changes and development of automated work processes helps in increasing the efficiency of business processes. However, technological changes also threaten the demand of various products and services in the industry.

METHODS OF ENTERING FOREIGN MARKET

a. Exporting: Exporting is the direct sale of goods and / or services in another country. It is possibly the best-known method of entering a foreign market, as well as the lowest risk. It may also be cost-effective as you will not need to invest in production facilities in your chosen country – all goods are still produced in your home country then sent to foreign countries for sale. However, rising transportation costs are likely to increase the cost of exporting in the near future.

The majority of costs involved with exporting come from marketing expenses. Usually, you will need the involvement of four parties: your business, an importer, a transport provider and the government of the country of which you wish to export to.

b. Licensing: Licensing allows another company in your target country to use your property. The property in question is normally intangible – for example, trademarks, production techniques or patents. The licensee will pay a fee in order to be allowed the right to use the property.

Licensing requires very little investment and can provide a high return on investment. The licensee will also take care of any manufacturing and marketing costs in the foreign market.

c. Franchising: Franchising is somewhat similar to licensing in that intellectual property rights are sold to a franchisee. However, the rules for how the franchisee carries out business are usually very strict – for example, any processes must be followed, or specific components must be used in manufacturing.

d. Joint venture: A joint venture consists of two companies establishing a jointly-owned business. One of the owners will be a local business (local to the foreign market). The two companies would then provide the new business with a management team and share control of the joint venture.

There are several benefits to this type of venture. It allows you the benefit of local knowledge of a foreign market and allows you to share costs. However, there are some issues – there can be problems with deciding who invests what and how to split profits.

e. Foreign direct investment: Foreign direct investment (FDI) is when you directly invest in facilities in a foreign market. It requires a lot of capital to cover costs such as premises, technology and staff. FDI can be done either by establishing a new venture or acquiring an existing company.

f. Wholly owned subsidiary: A wholly owned subsidiary (WOS) is somewhat similar to foreign direct investment in that money goes into a foreign company but instead of money being invested into another company, with a WOS the foreign business is bought outright. It is then up to the owners whether it continues to run as before or they take more control of the WOS.

g. Piggybacking: Piggybacking involves two non-competing companies working together to cross-sell the other's products or services in their home country. Although it is a low-risk method involving little capital, some companies may not be comfortable with this method as it involves a high degree of trust as well as allowing the partner company to take a large degree of control over how your product is marketed abroad.

ADVANTAGES OF INTERNATIONAL TRADE:

The following are the major gains claimed to be emerging from international trade:

1. Optimum Allocation: International specialization and geographical division of labour leads to the optimum allocation of world's resources, making it possible to make the most efficient use of them.

2. Gains of Specialization: Each trading country gains when the total output increases as a result of division of labour and specialization. These gains are in the form of more aggregate production, larger number of varieties and greater diversity of qualities of goods that become available for consumption in each country as a result of international trade.

3. Enhanced Wealth: Increase in the exchangeable value of possessions, means of enjoyment and wealth of each trading country.

4. Larger Output: Enlargement of world's aggregate output.

5. Welfare Contour: Increase in the world's prosperity and economic welfare of each trading nation.

6. Cultural Values: Cultural exchange and ties among different countries develop when they enter into mutual trading.

7. Better International Politics: International trade relations help in harmonizing international political relations.

8. Dealing with Scarcity: A country can easily solve its problem of scarcity of raw materials or food through imports.

9. Advantageous Competition: Competition from foreign goods in the domestic market tends to induce home producers to become more efficient to improve and maintain the quality of their products.

10. Larger size of Market: Because of foreign trade, when a country's size of market expands, domestic producers can operate on a larger scale of production which results in further economies of scale and thus can promote development. Synchronized application of investment to many industries simultaneously become possible. This helps industrialization of the country along with balanced growth.

DISADVANTAGES OF INTERNATIONAL TRADE:

When a country places undue reliance on foreign trade, there is a likelihood of the following disadvantages:

1. Exhaustion of Resources: When a country has larger and continuous exports, her essential raw materials and minerals may get exhausted, unless new resources are tapped or developed (e.g., the near-exhausting oil resources of the oil-producing countries).

2. Blow to Infant Industry: Foreign competition may adversely affect new and developing infant industries at home.

3. Dumping: Dumping tactics resorted to by advanced countries may harm the development of poor countries.

4. Diversification of Savings: A high propensity to import may cause reduction in the domestic savings of a country. This may adversely affect her rate of capital formation and the process of growth.

5. Declining Domestic Employment: Under foreign trade, when a country tends to specialize in a few products, job opportunities available to people are curtailed.

6. Over Interdependence: Foreign trade discourages self-sufficiency and self-reliance in an economy. When countries tend to be interdependent, their economic independence is jeopardized. For instance, for these reasons, there is no free trade in the world. Each country puts some restrictions on its foreign trade under its commercial and political policies.

IMPORTANCE OF EXPORT BUSINESS IN INDIA

1. Meeting imports of industrial needs – Imports of capital equipments, raw materials of critical nature, technical know-how for building the industrial base in the country for rapid industrialization and developing the necessary infrastructure.

2. Debt Servicing – India has been receiving external aid over the years for its industrial development resulting in the need for debt servicing. Therefore, it is essential to concentrate on export earnings to cover both imports and debt servicing.

3. Fast Economic Growth – The countries that would like it grow economically should create exportable surpluses i.e., surpluses after meeting domestic demands.

4. Optimum Use of Natural Resources – Foreign exchange can be utilized in establishing industrial unit based on different natural resources availability in the country by making the necessary imports of plant and machinery for the purpose.

5. Meeting Competitions – To improve the exports, the government announces several concessions and incentives. By utilizing these concessions domestic producers concentrates his mind towards the improvement of quality of goods produced and reduces the cost of production so as to face the acute competitive situation in the foreign markets by making intensive use of latest technology.

6. Increasing Employment Opportunities – The problem of employment and underemployment can be solved to some extent by increasing the level of export.

7. Increasing National Income – A country's national income increases to a sizable extent through organized export marketing.

8. Increasing the standard of Living in the following ways

a. Import of necessary items.

b. Purchasing power increases.

c. Widespread industrialization.

d. Competitive quality

9. Develops International Collaboration – To settle international issues some countries from group or a common platform to discuss various issues concerning their international trade and take decision. OPEC & EEC are such groups.

10. Develops Cultural Relations – Local representatives and other related persons come into contact with foreign representatives and know their habits and customs.

11. Brings Political Peace – Various countries with different political ideologies import or export their product, which enhances the chances of peace.

ELEMENTS/COMPONENTS/"Four Ts" OF INTERNATIONAL BUSINESS ENVIRONMENT:

There are four major cost components in international trade, known as the "Four Ts":

1. Transaction costs. The costs related to the economic exchange behind trade. It can include the gathering of information, negotiating, and enforcing contracts, letters of credit, and transactions, including monetary exchange rates, if a transaction takes place in another currency. Transactions taking place within a corporation are commonly lower than for transactions taking place between corporations. Still, with e-commerce, they have declined substantially.

2. Tariff and non-tariff costs. Levies imposed by governments on a realized trade flow. They can involve a direct monetary cost according to the product being traded (e.g. agricultural goods, finished goods, petroleum, etc.) or standards to be abided to for a product to be allowed entry into a foreign market. A variety of multilateral and bilateral arrangements have reduced tariffs, and internationally recognized standards (e.g. ISO) have marginalized non-tariffs barriers.

3. Transport costs. The full costs of shipping goods from the point of production to the point of consumption. Containerization, intermodal transportation, and economies of scale have reduced transport costs significantly.

4. Time costs. The delays related to the lag between an order and the moment it is received by the purchaser. Long-distance international trade is often associated with time delays that can be compounded by custom inspection delays. Supply chain management strategies are able to mitigate effectively time constraints, namely through the inventory in transit concept.

THEORIES OF TRADE MERCHANTALISM:

- First theory emerged in England in the mid of 16 century.
- Gold and silver is the main national wealth and essentials of commerce.
- During 17 century gold and silver became the currency of trade between countries and they tried to earn gold and silver by exporting and importing.
- To discourage imports and to achieve surplus government imposed "Tarriffs and Quotas and subsiding export" came into existence

Mercantilism involves

- Restrictions on imports – tariff barriers, quotas or non-tariff barriers.
- Accumulation of foreign currency reserves, plus gold and silver reserves. (also known as bullionism) In the sixteenth/seventeenth century, it was believed that the accumulation of gold reserves (at the expense of other countries) was the best way to increase the prosperity of a country.
- Granting of state monopolies to particular firms especially those associated with trade and shipping.
- Subsidies of export industries to give a competitive advantage in global markets.
- Government investment in research and development to maximise the efficiency and capacity of the domestic industry.
- Allowing copyright/intellectual theft from foreign companies.
- Limiting wages and consumption of the working classes to enable greater profits to stay with the merchant class.

- Control of colonies, e.g. making colonies buy from Empire country and taking control of colonies wealth.

Examples of mercantilism

- England Navigation Act of 1651 prohibited foreign vessels engaging in coastal trade.
- All colonial exports to Europe had to pass through England first and then be re-exported to Europe.
- Under the British Empire, India was restricted in buying from domestic industries and was forced to import salt from the UK. Protests against this salt tax led to the 'Salt tax revolt' led by Gandhi.
- In seventeenth-century France, the state promoted a controlled economy with strict regulations about the economy and labour markets
- Rise of protectionist policies following the great depression; countries sought to reduce imports and also reduce the value of the currency by leaving the gold standard.
- Some have accused China of mercantilism due to industrial policies which have led to an oversupply of industrial production – combined with a policy of undervaluing the currency.
- However, the extent of mercantilist policies are disputed – See – Is China Mercantilist? NBER

Modern Mercantilism

In the modern world, mercantilism is sometimes associated with policies, such as:

- Undervaluation of currency. e.g. government buying foreign currency assets to keep the exchange rate undervalued and make exports more competitive. A criticism often levelled at China.
- Government subsidy of an industry for unfair advantage. Again China has been accused of offering state-supported subsidies for industry, leading to oversupply of industries such as steel – meaning other countries struggle to compete.

- A surge of protectionist sentiment, e.g. US tariffs on Chinese imports, and US policies to 'Buy American.'
- Copyright theft

ABSOLUTE ADVANTAGE THEORY by Adam Smith

- Adam Smith argued that a country has an absolute advantage in the production of a product when it is more efficient than any other country producing it.
- Countries should specialize in the production of goods for which they have an absolute advantage and then trade these goods for the goods produced by other countries.
- In economics, principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce more of a good or service than competitors, using the same amount of resources.

Assumptions

- Trade is between two countries
- Only two commodities are traded
- Free Trade exists between the countries
- The only element of cost of production is labour

Table 2: Man-hours required to produce a unit of wheat or cloth in the U.S.A. and India

Particulars	**U.S.A**	**India**
Wheat	3	10
Cloth	6	4

It will be seen from the above table that to produce one unit of wheat in the U.S.A. 3 man-hours and in India 10 man-hours are required. On the other hand, to produce one unit of cloth, in the U.S.A. 6 man-hours and in India 4 man-hours are required. Thus the U.S.A. can produce wheat more efficiently (that is, at a lower cost), while India can produce cloth more efficiently.

Significance

- More quantity of both products
- Increased standard of living for both countries
- Increased production efficiency
- Increase in global efficiency and effectiveness
- Maximization of global productivity and other resources productivity

Limitations

1. No absolute advantages for many countries
2. Country size varies
3. Country by country differences in specializations
4. Deals with labour only and neglects other factors of production
5. Neglected Transport cost
6. Theory is based on an assumption that Exchange rates are stable and fixed.
7. It also assumes that labor can switch between products easily and they will work with same efficiency which in reality cannot happen.

Implications of theory of Absolute Advantage

a) If a country has an absolute advantage in producing a product there exist potential for gains from trade.

b) The more the country is able to specialize in the production of the good it produces most efficiently,

c) The greater are its potential gains in the national wellbeing.

d) Within one country the gains from trade are not evenly distributed by the competitive market.

THEORY OF COMPARITIVE ADVANTAGE by David Ricardo

This theory is based on opportunity cost.

- The country should specialize in the goods which the country has the greater relative advantage.
- The country should buy the product from other country which have less relative advantage.
- Absolute advantage means being more productive or cost-efficient than another country whereas comparative advantage relates to how much productive or cost efficient one country is than another.

Assumption:

- Labour is the only element of cost of production
- Labour is homogeneous
- Production is subject to the law of constant returns
- Free Trade exists between the countries
- There is no transport cost
- There is full employment
- There is perfect competition
- There are only two countries and two commodities

Example

In order to understand how the concept of comparative advantage might be applied to the real world, we can consider the simple example of two countries producing only two goods – motor cars and commercial trucks.

Table 3: Comparative Advantages

Maximum outputs	Country - A	Country - B
CARS	30 m	35 m
TRUCKS	6 m	21 m

Using all its resources, country A can produce 30 m cars or 6 m trucks, and country B can produce 35 m cars or 21m trucks. This can be summarised in a table.

In this case, country B has the absolute advantage in producing both products, but it has a comparative advantage in trucks because it is relatively better at producing them. Country B is 3.5 times better at trucks, and only 1.17 times better at cars.

Limitations:

1. There are only two countries in production and consumption of goods but, currently 180 countries and countless transactions takes place worldwide.
2. Transportation cost are major expenses in international trade.
3. Theory consider labour is the only factor of production that helps convert raw material to finished goods.

FACTOR ENDOWMENT/ FACTOR PROPORTION THEORY BY HECKSCHER, BERTIL OHLIN

- According to this theory, one condition for trade is that countries differ with respect to the availability of the factors of production
- The Heckscher-Ohlin theory focuses on the two most important factors of production: **labor** and **capital**
- In the 2x2x2 model or two countries, two commodities & two factor model, implies that the capital rich country will export capital intensive commodity and the labor rich country will export labor intensive commodity
- A country has a comparative advantage in producing products that intensively use factors of production (resources) it has in abundance.
- Factors of production: labor, capital, land, human resources, technology

Assumptions

- There are two countries involved.
- Each country has two factors (labour and capital).
- Each country produce two commodities or goods (labour intensive and capital intensive).
- There is perfect competition in both commodity and factor markets.
- All production functions are homogeneous of the first degree i.e. production function is subject to constant returns to scale.
- Factors are freely mobile within a country but immobile between countries.
- Two countries differ in factor supply
- Each commodity differs in factor intensity.
- The production function remains the same in different countries for the same commodity. For e.g. If commodity A requires more capital in one country then same is the case in other country.

- There is full employment of resources in both countries and demand are identical in both countries.
- Trade is free i.e. there are no trade restrictions in the form of tariffs or non-tariff barriers.
- There are no transportation costs

Explanation

- The theory believes that different countries are endowed with varying proportions of different factors of production.
- Some countries have large population and large labour resource. The others have abundance of capital but short of labour resource.
- Thus, a country with large labour force will be able to produce those goods at lower cost that involve labour intensive mode of production.
- Similarly the countries with large supply of capital will specialize in those goods that involve capital intensive mode of production.

Limitations

- Partial Equilibrium Analysis and it fails to develop a general equilibrium concept
- This theory maintains that there are no qualitative differences in factors and that these factors are capable of exact measurement so that factor endowment ratios can be calculated. In the real world, however, qualitative factor differences exist
- This theory is based upon highly over-simplifying assumptions of perfect competition, full employment of resources, identical production function, constant returns to scale, absence of transport costs and absence of product differentiation. Given this set of assumptions, the whole model becomes quite unrealistic.

QUESTION BANKS – UNIT - 1

S.No	PART - A	CO	Blooms Level
1	Define International trade?	CO1	L1
2	List the differences between domestic market and International market?	CO1	L 1
3	State the concept of joint venture?	CO1	L 1
4	Recall the various mode of entering into foreign market?	CO1	L 1
5	Define Mercantilism?	CO1	L 1
6	List the assumptions of Absolute advantage theory?	CO1	L 1
7	Bring out the assumptions of comparative advantage theory?	CO1	L 1
8	List the assumptions of factor endowment theory?	CO1	L 2
9	Describe the limitation of absolute advantage theory?	CO1	L 1
10	Enumerate the limitation of comparative advantage theory of International trade?	CO1	L 2

S.No	PART - B	CO	Blooms Level
1	Explain the various scope and characteristics of International Trade	CO1	L 5
2	Assess the factors that determine the international business and various methods of entering into foreign market	CO1	L 6
3	Defend the major advantages and disadvantages of International trade?	CO1	L 5
4	Elaborate the importance of Export business in India	CO1	L 4
5	Critically analyse the theories of trade mercantilism	CO1	L 4
6	Critically evaluate the Adam Smith’s absolute advantages of International trade?	CO1	L 5
7	Assess the theory of comparative advantage in International trade?	CO1	L 4
8	Write an essay about the Factor Endowment Theory of OHLIN	CO1	L 6
9	Write an essay on international trade and important scope of International Trade	CO1	L 4
10	Discuss the various methods of entering into international trade	CO1	L 5

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SCHOOL OF MANAGEMENT STUDIES

UNIT – II – International Trade – SBAA1602

SYLLABUS: UNIT 2 : EXPORT AND IMPORT

Legal aspects of exports and trade – International Law – Private Law Transport Contracts – Payment and Credit Settlement of disputes – Indian Laws: Exim policy – Law relating to packing – Pricing – Advertising, Distribution – Free Trade Vs Protection: Barriers to Trade – Tariff & Non-tariff barriers – GATT and WTO – Origin, objectives, structure and functions – GATS & TRIPS – UNCTAD – Objectives, structure and functions - GSP & GSTP.

LEGAL ASPECTS OF EXPORT AND TRADE

Legal aspects are backbone for unbeaten & flourishing business environment of any nation. These legal aspects highlight the reflection of policy makers towards the mass, businessmen, and workers. In some countries, Legal Aspects are very rigid whereas in some others it's too flexible. But the most imperative thing is its effect & implementation. Generally, internal instability occurs in some countries for a long time. Consequently, industrialists & businessman cannot exercise these legal aspects in such rubble. Legal aspects are indispensable for corporate world because it determines the proper & healthy functioning of the organization.

Legal Aspects ensure that how to regulate the company & flourish it without any hassle or obstacle. In India, there are so many acts which regulates the healthy functioning of a company such as the Industries (development & regulation) Act, 1951, Foreign Exchange Regulation Act (FERA), Foreign Exchange Management Act (FEMA), the Arbitration & Conciliation Act, 1996 but the two foremost Act concerned with industries & businesses are - The Companies Act, 1956 and The Contract Act, 1872

The Companies Act, 1956: The foremost law of Indian business industry which control & legalize every aspects of a company is known as Companies Act, 1956. It includes so many important aspects & some of them are role & responsibilities of managerial boards & directorial boards, establishment of company, rebuilding of company & even winding up a company.

The Contract Act, 1872: The Contract Act, 1872 is also an indispensable legislation which deals with various sorts of contracts including basic doctrine related to the formation & enforceability of the contracts. So for the establishment of any company & its proper functioning, its important to know all the legal & technical aspects.

Trade Unions Act: Trade union is an indispensable part of industrial sector in India. Trade unions play constructive role by acting as a pressure group in a capitalism society. In fact trade unions act as an effective platform for the workers class to enjoy their due rights without being exploited. To strengthen the fundamental rights of voiceless working class trade unions are originated. Gradually trade union got recognition from the authority and became a legally approved representation of labor mass.

In India various trade union related Acts and regulations are enacted to empower the working classes. Indian Trade Union Act 1926 is a principal act that provides adequate safeguards to the rights of labor masses. With the rising complexities in trade union affairs the government has enacted several other labor acts and trade union bills to ensure appropriate representation of labor powers.

Import quotas and licenses

The item in question may be subject to a numerical quota that may be global (originating from anywhere), bilateral (originating from a particular country) to discretionary (changes according to the particular economic situation). Such quotas have been in place for many years, and apply to a wide range of products, from dairy foods to anchovies. Some of these quotas are blatantly for the protection of the farm vote. Others are the result of international commodity agreements. Still others are for national security or foreign policy reasons (e.g. the Cuba boycott). To obtain a share of the quota, an exporter may have to purchase a license, often by public auction.

Non-tariff barriers

Most of these arise out of safety and health regulations, but may also include environmental concerns, consumer protection legislation, and product standards. Excessive use of "product standards" to inhibit imports resulted in the 1979 GATT Agreement on Technical Barriers to Trade (the Standards Code) which provides that imported products (e.g. processed foods) must be accorded the same treatment as the same product sourced domestically. Standards must not create unnecessary obstacles to trade, and must be related to a legitimate domestic objective (e.g. consumer health and safety) or environmental reasons (e.g. the recent import ban on Australian shrimp to the USA because Australian fishermen refused to fit turtle exclusion devices to their nets).

Tariff barriers

These, when added to the imported product, raise the price to a level which may make the import uncompetitive. In many cases, there is a cat and mouse game between the exporter and the importing country's customs agents as to which is the appropriate level of duty to apply. An exporter who is familiar with the importing country's tariffs can find legal ways of minimizing the duties paid and thus maximize returns (for example, setting up operation in an undeveloped country to take advantage of concessional tariff rates given by the USA (or other importer) to that country, or by exporting the product in a form that (legally) attracts minimal duty (i.e. as an ingredient, rather than a separate product).

The legal risks of exporting

Exporters expose themselves to various legal risks each time they export. These risks can be grouped as - Home country statute risk; Import country statute risk; Home country third party risk; Import country third-party risk; and International trade law risk

Home country statute risk

The exporter may run foul of home country laws and regulations directed at exporting. Such laws and regulations may include those relating to quarantine, export inspection, documentation, finance, charges, shipping, occupational health and safety, packaging, and the environment. They also include antitrust and foreign corrupt practices legislation (see earlier). An example would be failure to comply with airline packaging requirements, or misrepresentation of product, or export of a prohibited product or species.

Importing country statute risk

This includes all laws and regulations directed at controlling imports and regulating international trade. Such laws include quarantine, inspection, safety, documentation, and payment of appropriate duties and charges. They may be quite different to those of the exporters home country, in both form and effect. An example would be misrepresentation of product.

Home Country Third-Party Risk

The risk associate with statutory or common-law claims relating to such issues as injury caused by negligence, misrepresentation, or unconscionability that may adhere to the transaction. An example here would be where an employee was injured by a sharp edge or nail on a packing crate.

Importing Country Third-Party Risk

This relates to actions brought by overseas claimants. An example would be an action brought by a company in Japan against an Australian exporter for use of a Japanese registered trademark or brand name, or an outbreak of illness in Japan due to contamination of Australian products during processing in Australia.

International Trade Law Risk

This includes factors such as appropriate jurisdiction, processes for dispute resolution, and claims for damages imposed on domestic traders by international courts. Such risks arise from the adoption of agreements such as the UN Convention for the International Sale of Goods (UN DOC.. If the parties to an export transaction belong to countries which are signatories to this agreement, it automatically applies to all contracts between them. If a dispute arises that cannot be resolved by personal negotiation between the parties, the resolution of the dispute will be according to the Convention. The Convention will also apply for contracting parties whose countries are not parties to the Convention if they elect to have the Convention apply to their transactions.

INTERNATIONAL LAW

An introductory knowledge of the international legal environment will alert global firms to the potential perils and pitfalls of conducting business with organizations of, or in, foreign lands. For the global managers- The most important question is always, how does the law affect our business plans?. The emphasis is on strategic planning, keeping a business from getting into legal trouble, and learning how to ask the right questions worldwide to get the best information for making management decisions.

International law is the body of rules and norms that regulates activities carried on outside the legal boundaries of states. International law is viewed as consisting of two distinct branches-

- Public international law
- Private international law

Public International Law

This law deals primarily with the rights and duties of states and inter-governmental organizations between themselves. Three types of regulations are of particular interest to the global manager:

- Export controls
- Boycotts
- Sanctions and Embargoes.

a) Export controls: These laws are designed to deny or at least delay the acquisition of strategically important goods to adversaries.

b) Boycotts: A boycott is collaboration to prevent a country from carrying on international trade by preventing or obstructing other countries from dealing with it.

c) Sanctions and Embargoes: Sanctions tend to consist of specific trade measures such as the cancellation of trade financing or the prohibition of high technology trade. Embargoes are usually much broader than sanctions in that they prohibit trade entirely.

PRIVATE INTERNATIONAL LAW

Private International law is the division of international law that deals primarily with the rights and duties of individuals and non- governmental organizations in their international affairs. Private international law is the domain of rights, duties and disputes among persons from different places. It concerns how a nation‘s courts deal with a different nation‘s laws. This refers to as the field of ‗Conflict of laws‘ which consists of three areas:

- Choice of law(which law apply to the transaction)
- Choice of forum(who has jurisdiction or the power to hear the case)
- Recognition and enforcement of judgments.

The global manager has to be familiar with International contracts, settlement of disputes, antitrust laws, bribery and corruption, extraterritoriality, intellectual property rights etc.

INTERNATIONAL CONTRACT

Most global business transactions fall into one of several categories:

i) The sale of goods and services

ii) Licensing and franchising

iii) Direct investment

Each of these categories of global business activity relies heavily on some form of contractual relationship.

INDIAN LAWS

In India, exports and imports are regulated by the Foreign Trade (Development and Regulation) Act, 1992, which replaced the Imports and Exports (Control) Act, 1947, and gave the Government of India enormous powers to control it. The salient features of the Act are as follows:-

- It has empowered the Central Government to make provisions for development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for all matters connected therewith or incidental thereto.
- The Central Government can prohibit, restrict and regulate exports and imports, in all or specified cases as well as subject them to exemptions.
- It authorizes the Central Government to formulate and announce an Export and Import (EXIM) Policy and also amend the same from time to time, by notification in the Official Gazette.

- It provides for the appointment of a Director General of Foreign Trade by the Central Government for the purpose of the Act. He shall advise Central Government in formulating export and import policy and implementing the policy.
- Under the Act, every importer and exporter must obtain a 'Importer Exporter Code Number' (IEC) from Director General of Foreign Trade or from the officer so authorised.
- The Director General or any other officer so authorised can suspend or cancel a licence issued for export or import of goods in accordance with the Act. But he does it after giving the licence holder a reasonable opportunity of being heard.
- As per the provisions of the Act , the Government of India formulates and announces an
- Export and Import policy (EXIM policy) and amends it from time to time.

EXIM policy refers to the policy measures adopted by a country with reference to its exports and imports. Such a policy become particularly important in a country like India, where the import and export of items plays a crucial role not just in balancing budgetary targets, but also in the over all economic development of the country.

The principal objectives of the policy are:-

- To facilitate sustained growth in exports of the country so as to achieve larger percentage share in the global merchandise trade.
- To provide domestic consumers with good quality goods and services at internationally competitive prices as well as creating a level playing field for the domestic producers.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
- To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitiveness to meet the requirements of the global markets.

- To generate new employment opportunities and to encourage the attainment of internationally accepted standards of quality.

EXIM POLICY

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

History of EXIM Policy of India

In the year 1962, the Government of India appointed a special Exim Policy Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce Minister and announced the Exim

Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India

EXIM Policy Documents:

The EXIM Policy of India has been described in the following documents:

- Interim New EXIM Policy 2009 - 2010
- EXIM Policy: 2004- 2009
- Handbook of Procedures Volume I
- Handbook of Procedures Volume II
- TC(HS) Classification of Export- Import Items

The major information in matters related to export and import is given in the document named "EXIM Policy 2002-2007". An exporter uses the Handbook of Procedures Volume-I to know the procedures, the agencies and the documentation required to take advantage of a certain provisions of the Indian EXIM Policy. For example, if an exporter or importer finds out that paragraph 6.6 of the EXIM Policy is important for his export business then the exporter must lso check out the same paragraph in the Handbook of Procedures Volume- I for further details.

The Handbook of Procedures Volume-II provides very crucial information in matters related to the Standard Input-Output Norms (SION). Such Input output norms are applicable for the products such as electronics, engineering, chemical, food products including fish and marine products, handicraft, plastic and leather products etc. Based on SION, exporters are provided the facility to make duty-free import of inputs required for manufacture of export products under the Duty Exemption Scheme or Duty Remission Scheme.

Objectives of the EXIM Policy

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

EXIM Policy 1997 -2002

With time the EXIM Policy 1992-1997 became old, and a New Export Import Policy was need for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new EXIM Policy for the year 1997-2002. This policy has further simplified the procedures and educed the interface between exporters and the Director General of Foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalized and better efforts have been made to promote Indian exports in international trade.

Objectives of the EXIM Policy 1997 -2002

The objectives of the Export Import Policy 1997 -2002 are as under:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To motivate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To create new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer products at practical prices.

Highlights of the EXIM Policy 1997-2002

- This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1997 to 31st March 2002.
- A very important feature of the policy is liberalization. It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

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

- Export Promotion Capital Goods (EPCG) Scheme The duty on imported capital goods under EPCG Scheme has been reduced from 15% to 10%. Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors

- Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months. A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

LAW RELATING TO PACKING

An important stage after manufacturing of goods or their procurement is their preparation for shipment which involves packing and labeling of goods to be exported. Proper packing and labeling not only makes the final product look attractive but also save a huge amount of money by saving the product from wrong handling the export process. The primary role of packing is to contain, protect and preserve a product as well as aid in its handling and final presentation. Packing also refers to the process of design, evaluation, and production of packages. The packing can be done within the export company or the job can be assigned to an outside packaging company.

Packaging provides following benefits to the goods to be exported:

- Physical Protection
- Containment or agglomeration
- Convenience
- Security

Different countries have different norms for packing the physical goods to be sold in their country.

Some important labeling requirements

Product labels must contain the following information:

- Name, trade name or description;
- Name and complete address of manufacturer/packer, importer, country of origin of the imported food;
- Net weight, number or volume of contents in metric units;
- Distinctive batch, lot or code number;
- Month and year of manufacture and packaging;
- Month and year by which the product is best consumed;
- Information about pharmaceutical and industrial products must be in English;
- If food products have been genetically modified this must be indicated in the label.

LAW RELATING TO PRICING

To establish an overseas price, you need to consider many of the same factors involved in pricing for the domestic market. These factors include competition; costs such as production, packaging, transportation and handling, promotion and selling expenses; the demand for your product or service and the maximum price that the market is willing to pay.

There are three common methods of pricing exports:

- Domestic Pricing is a common but not necessarily accurate method of pricing exports. This type of pricing uses the domestic price of the product or service as a base and adds export costs, including packaging, shipping and insurance. Because the domestic price already includes an allocation of domestic marketing costs, prices determined using the method might be too high to be competitive.
- Incremental cost pricing determines a basic unit cost that takes into account the costs of producing and selling products for export, and then adds a markup to arrive at the desired profit margin. To determine a price using this method, first establish the

"export base cost" by stripping profit markup and the cost of domestic selling. In addition to the base cost, include genuine export expenses (export overheads, special packing, shipping, port charges, insurance, overseas commissions, and allowance for sales promotion and advertising) and the unit price necessary to yield the desired profit margin.

- Cost modification involves reducing the quality of an item by using cheaper materials, simplifying the product or modifying your marketing program, which lowers the price.

LAW RELATING TO ADVERTISING

Advertising Law refers to the body of laws related to the means and methods of communicating information about a product or service to the public. Obviously, effective marketing is key to the success of any business, but all businesses also have a legal obligation to ensure that any claims or representations they make in their advertising claims are truthful, not deceptive, or in some other way violate the law. These laws can have a significant impact on a number of areas of a business's operations, including how that business labels its products, how it conducts email and telemarketing campaigns, claims related to results the products might have on one's health or the environment, and many others.

This deals with truth in advertising and unfair trade practices. For examples this deals with - prohibitions against unreasonable health claims (e.g., that a pill well make one fit and beautiful), violations of others trademarks, or representations about the environmental impact of a product (e.g., claiming that a product is made of recycled materials when it is not). There are several laws in India that relate to advertising.

Consumer Protection Act, 1986- Section 6 of the Act grants consumers the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services, as the case may be so as to protect the consumer against unfair trade practices. Section 2(r) of the Act, under the definition of the term "unfair trade practice", covers the gamut of false advertisements including misrepresentations or false allurements. Redress against such unfair trade practices pertaining to false advertisements may be sought under the Act.

LAW RELATING TO DISTRIBUTION

Distributorship Law is the law pertaining to the supply chains for certain types of sales arrangements. Distributors and dealers are participants in what is sometimes called a ―supply channel. The distributor is typically a wholesaler who sells merchandise to dealers. Dealers, in turn, are typically retailers who sell directly to the public. This traditional terminology is most easily translatable to the automotive industry and the distribution of machinery and mechanical goods. This basic structure has many variants, but the overall scheme is conceptually the same. One company provides the product to a distributor who then re-sells the product to dealers who then sell the items to the end purchaser. There can be multiple levels of distributors and dealers, and in some instances dealers may even sell to the distributors of another retail chain. The laws affecting these business relationships cross over into many practice areas. For example, there are usually a number of contracts securing these relationships, there are shipping and tax implications, there are consumer protection laws, and a variety of intellectual property and licensing issues.

FREE TRADE Vs. PROTECTIONISM: OVERVIEW

One view says that we should make it as easy as possible for goods and services to move between countries. This approach is based on the argument that more trade makes us wealthier and is therefore a good thing. It is known as *free trade*.

Another approach says that we should restrict trade. We might do this to protect certain jobs. We might think that we need certain industries – such as food production or steel-making – just in case things go wrong in the wider world. We might want to restrict imports from countries with lower labour or environmental standards so they can't undercut our industries. This approach is known as *protectionism*.

Many economists agree that some restrictions on trade are desirable, but that we should be careful, as such restrictions can make us poorer overall. For example, limits on agricultural imports may be good for British farmers, but they also increase food prices.

The following sections set out some of the arguments in more detail.

Arguments for Free Trade

There are several key arguments in favour of free trade:

- Free trade increases the size of the economy as a whole. It allows goods and services to be produced more efficiently. That’s because it encourages goods or services to be produced where natural resources, infrastructure, or skills and expertise are best suited to them. It increases productivity, which can lead to higher wages in the long term. There is widespread agreement that rising global trade in recent decades has increased economic growth.

- Free trade is good for consumers. It reduces prices by eliminating tariffs and increasing competition. Greater competition is also likely to improve quality and choice. Some things, such as tropical fruit, would not be available in the UK without trade.

- Reducing non-tariff barriers can remove red tape, thus reducing the cost of trading. If companies that trade in several countries have to work with only one set of regulations, their costs of ‘compliance’ come down. In principle, this will make goods and services cheaper.

- In contrast, protectionism can result in destructive trade wars that increase costs and uncertainty as each side attempts to protect its own economy. Protectionist rules can tend to favour big business and vested interests, as they have the resources to lobby most effectively.

Arguments for Protectionism

While free trade increases the size of the economy as a whole, it isn’t always good for everyone:

- As more countries experience industrial development, traditional domestic industries can decline. In the UK, for example, the shipbuilding industry has declined in the face of international competition since the 1950s and currently steel production faces increasing competition. Protectionism can help preserve jobs in these sectors, or at least slow the process of change.

- Protectionism can also help build up new industries. In sectors with high start-up costs, new firms might find it difficult to compete if there is not support from government in the form of tariffs or subsidies. Once they have become competitive, such barriers can be removed.

- Protectionism can be used to safeguard ‘strategic’ industries such as energy, water, steel, armaments and food. For example, ‘food security’ may be seen as important so that we can feed ourselves if something terrible happens to disrupt the system of world trade.

- Some people worry that free trade deals can lead to a lowering of standards. Such deals might require us to let in goods and services even though they don’t meet our standards, which might then be cheaper than those made by domestic industries. For example, some people have been worried recently that a free trade deal with the US might let in imports of chlorine-washed chicken. There might also be pressure to reduce our standards for workers’ rights or environmental protection so that our companies can compete with companies in countries that have lower standards.

WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) was established on January 1, 1995 as a result of the conclusion of the Uruguay Round negotiations in 1994. The WTO is based in Geneva and headed by a Director-General, who is now Roberto Azevêdo from Brazil.

The predecessor of the WTO is the General Agreement on Tariffs and Trade (GATT). Both the GATT and WTO aim at reducing tariff and eliminating other trade barriers among Members. The GATT was founded in 1947 with 23 Members and now, the WTO has 164 Members, contributing to 98% of global trade.

The WTO draws up globally binding trade rules to augment the transparency and predictability of international trade.

Table 1: Summary of GATT rounds

Year	Place	Matters Covered	Counties participated
1947	Geneva	Tariff Reduction	23
1949	Annecy	Tariff Reduction	13
1950	Torguay	Tariff Reduction	38
1956	Geneva	Tariff Reduction	26
1960	Geneva	Tariff Reduction	26
1964	Geneva	Tariff and Anti- dumping	62
1973	Tokyo/Geneva	Tariff and Non-tariff	102
1986	Uruguay/Geneva	Tariff, Non-tariff, TRIPs, TRIMs	123

Table 2: Difference between GATT and WTO

S.No.	GATT	WTO
1	GATT was ad-hoc & Provisional	WTO and its agreements are permanent
2	GATT had contracting parties	WTO members
3	GATT allowed existing domestic legislation to continue even if it violated a GAAT agreement	WTO does not permit it
4	GATT was less powerful, dispute settlement system was slow and less efficient, Its ruling could be easily blocked	WTO is more powerful than GATT, dispute settlement mechanism is faster and more efficient, very difficult to block the ruling

Objectives of WTO

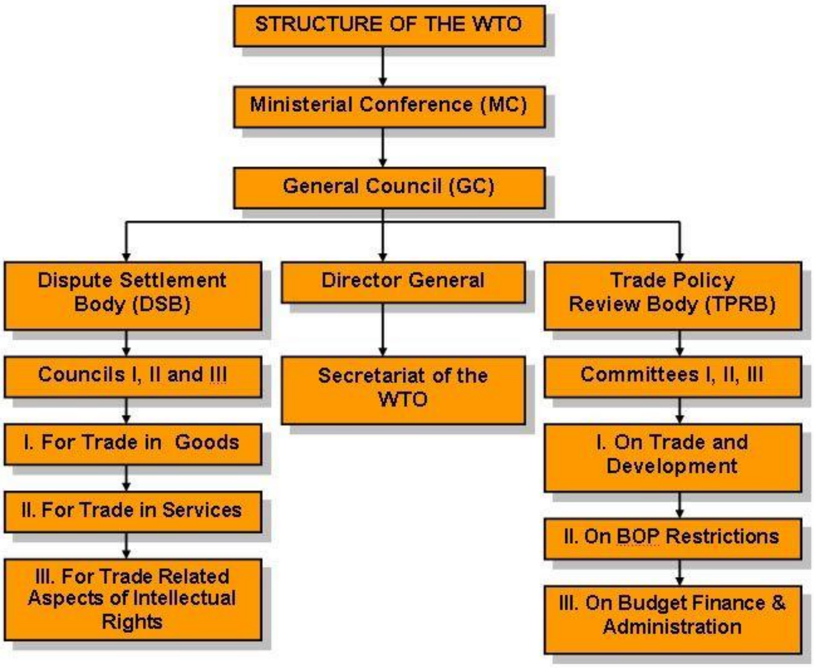
1. To improve the standard of living of people of the member countries in incomes, employment, production and trade expansions, utilisation of world resources.
2. To ensure full employment and broad increase in effective demand
3. To enlarge production and trade of goods
4. To increase the trade of services

5. To ensure optimum utilization of world resources

6. To protect the environment

7. To accept the concept of sustainable development

Fig. 1: Organizational Structure of WTO



Functions of WTO

1. Administration of agreement: It looks after the administration of the 29 agreements (signed at the conclusion of Uruguay round in 1994), plus a number of other agreements, entered into after the Uruguay round.

2. Implementation of reduction of trade barriers: It checks the implementation of the tariff cuts and reduction of non-tariff measures agreed upon by the member nations at the conclusion of the Uruguay round.

3. Examination of Members' Trade Policies: It regularly examines the foreign trade policies of the member nations, to see that such policies are in line with WTO guidelines.

4. Collection of foreign trade information: It collects information in respect of export-import trade, various trade measures and other trade statistics of member nations.

5. Settlement of disputes: It provides conciliation mechanism for arriving at an amicable solution to trade conflicts among member nations. The WTO dispute settlement body adjudicates the trade disputes that cannot be solved through bilateral talks between member nations.

6. Consultancy services: It keeps a watch on the development in the world economy and it provides consultancy services to its member nations.

7. Forum for negotiation: WTO is a forum where member nations continuously negotiate the exchange of trade concessions. The member nations also discuss trade restrictions in areas of goods, services, intellectual property etc.

8. Assistance of IMF and IBRD: It assists IMF and IBRD for establishing coherence in universal economic policy administration.

ROLE OF WORLD TRADE ORGANIZATION IN CONFLICT RESOLUTION:

Settling disputes is the responsibility of the **DISPUTE SETTLEMENT BODY (DSB) OF WTO**. DSB consists of all WTO members. The Dispute Settlement Body has the sole authority to establish 'panels' of experts to consider the case, and to accept or reject the findings of the panels or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

First stage - Consultation - up to 60 days: Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.

Second stage - The panel - up to 45 days for a panel to be appointed, plus 6 months for the panel to conclude: If consultations fail, the complaining country can ask for a panel to be appointed. The country "in the dock" can block the creation of a panel once, but when the Dispute Settlement Body meets for a second time, the appointment can no longer be blocked, unless there is a consensus against appointing the panel.

The main stages are:

Before the first hearing: Each side in the dispute presents its case in writing to the panel.

First hearing: The case for the complaining country and defence: the complaining country (or countries), the responding country, and those that have announced they have an interest in the dispute, make their case at the panel's first hearing. **Rebuttals:** The countries involved submit written rebuttals and present oral arguments at the panel's second meeting.

Experts: If one side raises scientific or other technical matters, the panel may consult experts or appoint an expert review group to prepare an advisory report.

First draft: The panel submits the descriptive (factual and argument) sections of its report to the two sides, giving them two weeks to comment. This report does not include findings and conclusions.

Interim report: The panel then submits an interim report, including its findings and conclusions, to the two sides, giving them one week to ask for a review.

Review: The period of review must not exceed two weeks. During that time, the panel may hold additional meetings with the two sides.

Final report: A final report is submitted to the two sides and three weeks later, it is circulated to all WTO members. If the panel decides that the disputed trade measure does break a WTO agreement or an obligation, it recommends that the measure be made to confrm with WTO rules. The panel may suggest how this could be done.

The report becomes a ruling: The report becomes the Dispute Settlement Body's ruling or recommendation within 60 days unless a consensus rejects it.

Appeals: Both sides can appeal the report. Either side can appeal a panel's ruling.

Sometimes both sides do so. Appeals have to be based on points of law such as legal interpretation —they cannot re-examine existing evidence or examine new issues.

Uphold Modify or Reverse: The appeal can uphold, modify or reverse the panel's legal findings and conclusions. Normally appeals should not last more than 60 days, with an absolute maximum of 90 days.

Acceptance or rejection by DSB: The Dispute Settlement Body has to accept or reject the appeals report within 30 days —and rejection is only possible by consensus.

TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS. [TRIPS]

The TRIPS Agreement is Annex 1C of the WTO Agreement, which entered into force on 1 January 1995. The TRIPS Agreement is binding on each Member of the WTO from the date the WTO Agreement becomes effective for it. However, the TRIPS Agreement gave original Members transitional periods, which depend on the level of their development, to bring themselves into compliance with its rules.

The introduction of TRIPS was a result of intense lobbying by the United States, supported by developed nations like the European Union and Japan. This was a culmination of several factors in a globalizing economy in the 1980s.

Technology became increasingly important in international competition. IPR protection in the field of new technologies to create or reinforce exclusive rights was required. At the same time, globalization broke down barriers to trade and communication, which increased opportunities for direct export to developing countries. Multinational enterprises were concerned about poor intellectual property protections in developing countries, which would hamper their developmental prospects. Therefore, TRIPS was created out of a need to establish minimum standards and an effective mechanism for enforcement.

Main Features of TRIPS

The three main features of TRIPS are standards, enforcement and dispute settlement.

Part II of TRIPS sets out minimum standards of IP protection to be provided by each Member in:

(1) Copyright and related rights including computer programs and databases;

(2) Trademarks;

(3) Geographical indications;

(4) Industrial designs;

(5) Patents;

(6) Layout designs of integrated circuits; and

(7) Undisclosed information, including trade secrets and test data.

In particular, the main elements of protection are the subject matter eligible for protection, the scope of rights to be conferred, permissible exceptions to those rights, and the minimum duration of protection.

Part III of TRIPS deals with domestic procedures and remedies for the enforcement of IPRs, and Part V deals with dispute prevention and settlement.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

- Established in 1964
- Head Quarters : Geneva, Switzerland
- Current membership: 194
- UNCTAD is the part of the United Nations Secretariat dealing with trade, investment, and development issues particularly in developing countries.
- The organization's goals are to: "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis".
- Meets once in 4 years.
- All members of UNITEDNATIONS are eligible for UNCTAD.

Objectives of UNCTAD

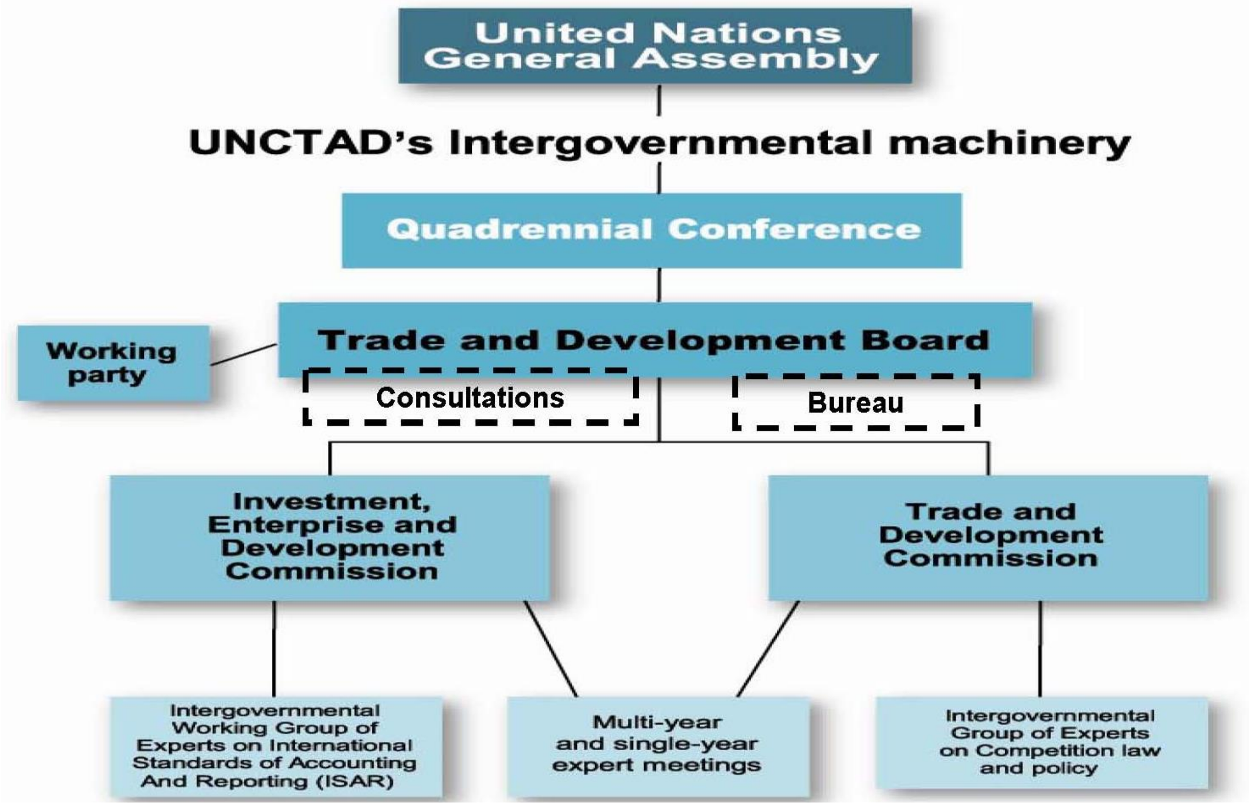
i. Providing a forum for inter-governmental deliberation

ii. Undertaking research, policy analysis and data collection

iii. To review and facilitate the co-ordination of activities of the other institutions within the U.N system in the field of international trade

iv. Providing technical assistance to developing countries

Fig. 2: Organization Structure of UNCTAD



Areas of work of UNCTAD

- Globalization and Development
- International trade and commodities
- Investment and Enterprise
- Technology and Logistics

Table 3: Meetings of UNCTAD

Conference	Year	Place
Conference 1	1964	Geneva, Switzerland
Conference 2	1968	New Delhi, India
Conference 3	1972	Santiago, Chile
Conference 4	1976	Nairobi, Kenya
Conference 5	1979	Manila, Philippines
Conference 6	1983	Belgrade, Serbia
Conference 7	1987	Geneva, Switzerland
Conference 8	1992	Cartagena, Colombia
Conference 9	1996	Midrand, South Africa
Conference 10	2000	Bangkok, Thailand
Conference 11	2004	Sao Paulo, Brazil
Conference 12	2008	Accra, Ghana
Conference 13	2012	Doha, Qatar
Conference 14	2016	Nairobi, Kenya

GSP and GSTP

The generalized System of preferences (GSP)

The generalized System of preferences (GSP) is a scheme designed by the UNCTAD to encourage exports of developing countries to developed countries. Under this scheme, developed countries grant duty concession on imports of specified manufacturers and semi-manufactures from developing countries.

It was a resolution adopted at the UNCTAD –II held in 1968 in New Delhi, that led to the introduction of the GSP, which is the result of the realization that temporary advantages in the form of generalized arrangements for special tariff treatment for developing countries in the market of developed countries may assist developing countries to increase their export earnings and so contribute to an acceleration in the areas of their economic growth.

The EEC countries and a number of other countries, such as the USA, Japan, Norway, New Zealand, Finland, Sweden, Hungary, Switzerland, Australia, Canada, Australia, Bulgaria and Poland have introduced the GSP.

The GSP facility is available only to developing countries; it is subject to certain stringent limitations and is applicable only for a period of 10 years from its institutions by the preference granting countries.

The preferential rates of duty allowed on the import of manufactures and semi manufacturers and processed agricultural products differ in schemes of different developed countries because each country has developed its own GSP, keeping in view its local production base and certain other factors. Each scheme has a safeguard clause or an escape clause to protect the sensitive sectors in its economy.

A particular item is qualified for GSP benefits only if the following conditions are satisfied:

1. The product must be included in the GSP list;
2. The country exporting the item should be declared under the GSP as a beneficiary country.
3. The value added requirements/process criteria must be complied with;
4. The product must be imported into the GSP donor country from a GSP beneficiary country;
5. The exporter must send to his buyer/importer a certificate of origin in form ‘A’ duly fled in and duly signed by him, ad then certified by a designated Government authority;
6. If the import of the GSP item in question is subject to a quota/ceiling, the quota/ceiling of the import from the GSP beneficiary countries has so far not been exhausted in EEC countries. However, in the USA, US imports of articles from India must not have exceeded US $ 33.442 million and must not have accounted or 50 per cent of the total US imports of the article in the previous year (known as competitive need clause).

Global System of Trade Preferences (GSTP):

Expansion of trade among the developing countries is viewed as an important aspect of economic cooperation among developing (ECDC). It is felt that trade preferences can help achieve expansion of South-South trade.

Although the UNCTAD gave its sanction to a scheme of trade preferences as far back as 1968, it was not until 1979 that the Group of 77drew up an action plan for collective self reliance. It took three more years for the Group to formally adopt a program of Global System of trade Preferences (GSTP).

The group of 77 ministerial conference held in New Delhi in July 1985, resolved to complete the first round of negotiations on GSTP by May1, 1987. The agreement reached at the Conference included across the board tariff preference margin of 10 per cent, the removal of reduction of non tariff barriers, selection of specific sectors and products where trade preferences could be extended and trade creating production sharing and marketing arrangements.

The inordinate delay in formulating and implementing a meaningful of GSTP is an indicator of a lack of unity of purpose and will among the developing countries. Curiously, the Generalized System of Preferences (GSP), designed by the major industrialized countries to give tariff concessions in favor of developing countries to facilitate easier access for the latter's exports to the former, particularly of manufactures and semi-manufactures, came into being much faster than the GSTP. Indeed, the Problem of trade preferences among developing countries is a complex one. These countries form an extremely heterogeneous lot with great diversities in levels of development and industrialization trade regimes and in the least of all, approaches to development. Further however effective the GSTP may be it can only be one of the many instruments for promoting out South-South financial and monetary cooperation, new payment arrangements and joint debentures in production and marketing. On the most of these issues, the developing countries have made little progress in the past decade. Unless they display a unity of purpose and sense of urgency backed by strong political will, South-South trade will continue to remain on a weak wicket.

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QUESTION BANK – UNIT – 2

S.No	PART - A	CO	Blooms Level
1	Draw the organization structure of WTO?	CO2	L 1
2	Enumerate the areas does the TRIPS cover?	CO2	L 1
3	Write a short note on TRIPS?	CO2	L 2
4	List out main features of TRIPS?	CO2	L 1
5	Describe the concept of Generalized Systems of Preferences (GSP)	CO2	L 2
6	List the objectives of EXIM policy in India	CO2	L 1
7	Define the Global Systems of Trade Preferences	CO2	L 2
8	Write a short note on UNCTAD	CO2	L 1
9	Enumerate the major objectives of UNDTAD	CO2	L 2
10	Brief the law relating to pricing	CO2	L 2

S.No	PART - B	CO	Blooms Level
1	Write a detailed note on GATT and TWO and critically evaluate its performance on international trade?	CO2	L 5
2	Examine the important functions of World Trade Organization?	CO2	L 5
3	Critically examine the contributions of WTO on growth of International business among the member countries?	CO2	L 5
4	Analyse the circumstances leading to the formation of World Trade Organization?	CO2	L 6
5	Write an essay on the role of TRIPS on Intellectual Property Rights of developing countries?	CO2	L 4
6	Critically evaluate the role of UNCTAD on growth of International trade and economic development of member countries	CO2	L 5
7	Discusses the various functional differences between GATT and WTO?	CO2	L 6
8	Explain the concept of free trade and protectionism and arguments favour to free trade and protectionism	CO2	L 5
9	Critically evaluate the concepts of Generalized Systems of Preferences (GSP) and Global System of Trade Preferences (GSTP)	CO2	L 6
10	Analyse the role of EXIM policy on growth of International business in India?	CO2	L 6

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SCHOOL OF MANAGEMENT STUDIES

UNIT – III – International Trade – SBAA1602

SYLLABUS - UNIT: 3: EXPORT FINANCE

Export financing – methods and sources of export finance – terms of payment for export – letter of credit – Institutional aid for export financing. RBI – EXIM Bank, ECGC – Commercial Banks – Export pricing: factors influencing export price – forms of pricing International Economic Groupings: Meaning and stages in their evolution – Regional Trading Agreements – EU, NAFTA, SAFTA, BIMSTEC, ASEAN – Objectives and Functions.

EXPORT FINANCE

Export financing broadly cover all aspects of arranging finance for export and securing payments from the overseas buyers. Financial facilities are available to the exporters from the banks even before the shipment of goods and after the shipment of goods. Besides these facilities from the network of financial institutions, export credit guarantees and export credit insurance facilities have also been provided to the exporter.

NEEDS FOR EXPORT FINANCE

With more competitions gaining momentum in the world market and with new regulations introduced by the World Trade Organization (WTO), it is important that **export finance** plays a major role in increasing our country's exports. We can state the following reasons for the need of export finance.

1. Increase in production: Generally, manufacturers, do not enjoy enough financial support and unless sufficient finance is provided, they cannot take up increase in production to meet export requirements.

2. Increase in production: Generally, manufacturers do not enjoy enough financial support and unless sufficient finance is provided, they cannot take up increase in production to meet export requirements.

3. Improvement in Technology: Export market requires an updating of technology and without proper technological support, exporters will not be able to win over the traditional market. The changing technology has also resulted in cutting down the cost of production, if the exporter does not take this into account, he is bound to lose the foreign market. For upgrading the technology, **export finance** is required.

4. Importing of capital equipment: Certain export companies fully depend on foreign machinery. For example, the export of knitted fabric in India depends on the foreign machinery. This involves foreign exchange and the exporter should be given finance in terms of foreign currency.

5. Value added exports: Goods which are exported in the form of raw materials and semi-finished goods are not exported in the form of finished products which are value added exports. These involve more finance for the exporter.

6. Project exports: Of late, India has started getting more export projects, by undertaking civil construction, oil wealth, erection of plant and machinery and railways. These not only involve more foreign exchange but also involve a guarantee for the completion of the project.

7. Non-tariff barriers in the importing country: After the introduction of WTO norms, certain countries started imposing restrictions on Indian products through non-tariff measures, such as banning products manufactured by child labor or products which cause pollution, etc. To overcome these, the exporter has to incur more expenditure for which he needs finance.

TYPES OF EXPORT FINANCE

Depending on your requirements, there are various forms of financing available for exporters, from long term and short term loans to additional credit lines. Below are some of the more common tools you can use to finance your export operations.

- **Pre Shipment Finance**
- **Post Shipment Finance**

FINANCE REQUIRED AT PRESHIPMENT STAGE:

1. To purchase raw materials to manufacture.
2. To assemble the goods.
3. To pay for packing, marking and labelling of goods.
4. To store the goods in suitable warehouses.
5. To pay for consultancy services.
6. To pay for Export documentation.

FINANCE REQUIRED AT POSTSHIPMENT STAGE:

1. To pay agents/ distributor and others for their services.

2. For publicity and advertising in overseas market.

3. To pay towards Export duty tax, if any.

4. To pay towards ECGC premium.

5. Freight and other shipping expenses.

6. Information collection, fairs, market analysis.

Note:

- Depends upon the value of capital goods.
- May be short term [90 days] by commercial bank.
- Medium term [90 days – 5 years] by commercial and EXIM bank.
- Long term [10 years] EXIM bank but rate of interest are given by RBI

ROLE OF COMMERCIAL BANKS IN EXPORT FINANCE

Commercial banks play an important role in financing the credit requirements of exporters at different stages of export, viz., pre-shipment and post-shipment stage. Granting of short-term finance for working capital requirements has always remained an area exclusively reserved for the commercial banks. Commercial banks also offer post-shipment finance against deferred payment at a concession& rate of interest together with the EXIM Bank. In recent times, commercial banks have assumed a greater role by promoting projects of small entrepreneurs. The assistance of commercial banks to the exporters can be grouped under two heads:

1. **Fund based Assistance**
2. **Non-Fund based Assistance**

Fund based Assistance of Commercial Banks:

Fund based assistance is in the form of credit and loans directly extended by the commercial banks to the exporters at different stages of export procedure. The fund based assistance of commercial banks includes:

(a) **Pre-shipment Finance:** Pre-shipment finance refers to the credit extended to exporters prior to the shipment of goods for the execution of export orders. It is also known as 'Packing Credit'. Such finance is available in the following forms:

- Extended Packing Credit Loan.
- Packing Credit Loan (Hypothecation).
- Packing Credit Loan (Pledge).
- Secured Shipping Loan.

(b) **Post-Shipment Finance:** Post-shipment finance (short-term) refers to the credit extended to exporters after the shipment of goods for meeting working capital requirement. Such finance is available in the following forms:

- Discounting of export bills;
- Advance against bills sent on collection
- Advance against goods sent on consignment basis;
- Advance against undrawn balances;
- Advance against retention money, etc.

(C) **Finance against deferred Payment Export:** Export of goods or services against payment to be received partly or fully beyond the period statutorily prescribed for realization of export proceeds are treated as deferred payment' exports. Finance against such payments is referred to as Deferred Credit. Commercial rate of interest together with the EXIM Bank.

Non-Fund based Assistance of Commercial Banks:

Commercial banks also provide a number of non-fund based services, viz.

(a) Bank Guarantees: RBI has authorized commercial banks to issue guarantees and bid bonds in favor of importers. No prior permission of the RBI is required for the issue of such guarantees except in case of export of capital goods under deferred payments and turnkey projects. Various guarantees issued by banks are:

Bid Bonds: bid bonds issued by commercial banks enable the Indian exporters to participate in various global tenders.

Performance Guarantee: Commercial banks provide performance guarantee for the export of capital goods under deferred payment terms. **Advance Payment Guarantee:** They also provide advance payment guarantee for the transactions involving advance payment.

Guarantee for Payment of Retention Money: they guarantee the payment of retention money by foreign importers:

Guarantee for Loans in Foreign Currency: They guarantee the foreign currency loans taken by Indian exporters from foreign financial institutions.

(b) Credit-worthiness of importers: banks undertake credit rating of foreign importers on request from the exporters. They collect detailed information about their credit-worthiness and supply it to the exporters.

(c) Information about Foreign Exchange: Commercial banks provide valuable information on foreign exchange rates, forward premiums, hedging instruments and foreign exchange management.

(d) Dollar Accounts: Under 25% Dollar Account facility an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India. This account helps exporters to meet payments in foreign currencies.

(e) Documents, Rules and Regulations: Commercial banks also provide advisory services to the exporters regarding rules and regulations about foreign trade procedures, documentation, etc.

(f) Invoicing in a Foreign Currency: Sometimes, foreign buyers insist on invoicing in a foreign currency. In such cases, commercial banks provide necessary information about the marketability of the said currency.

(g) Advising and Confirming Letters of Credit (L/C): Commercial banks also undertake the job of advising and confirming letter of credit (L/C) opened by the foreign importers.

(h) Forward Exchange Contracts: Commercial banks cover the risks of fluctuations in foreign exchange rates by fixing exchange rate in advance for the future transactions. Such rates are known as forward exchange rates.

(i) Currency for Invoicing Services: Commercial banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their release.

(j) Other Services:

Issue of bank drafts,

Collection of payments,

Sending duplicate copies of GR form to RBI,

Issue of bank certificate in respect of export sales value, which is use'. for claiming export incentives.

ROLE OF RBI IN EXPORT FINANCE

- RBI introduced the Export Financing scheme in 1968.
- RBI does not directly provide finance directly but encourages directly to financial institutions to provide credit to exporter. They allot exporter code number, commission fixing to agents, reduction in invoice price of export goods.
- The policy behind the scheme was to make short-term export finance available to exporters at internationally competitive interest rates
- Under the scheme, banks extend working capital loans to exporters at pre and post shipment stages. The credit limits sanctioned to exporters is based upon the financing banks' perception of the exporter's creditworthiness and past performance.

ROLE OF EXIM BANK IN EXPORT FINANCE

The Export and Import Bank of India, popularly known as the EXIM Bank was set up in 1982. It is the principal financial institution in India for foreign and international trade. It was previously a branch of the IDBI, but as the foreign trade sector grew, it was made into an independent body.

The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country. And it oversees and coordinates the working of other institutions that work in the import-export sector. The ultimate aim is to promote foreign trade activities in the country.

The important functions of the EXIM Bank

1. Financing of export and import of goods and services both of India and of outside India.

2. Providing finance for joint ventures in foreign countries.

3. Undertaking merchant banking functions of companies engaged in foreign trade.

4. Providing technical and administrative assistance to the parties engaged in export and import business.

5. Offering buyers' credit and lines of credit to the foreign governments and banks.

6. Providing advance information and business advisory services to Indian exports in respect of multilaterally funded projects overseas.

EXPORT PROMOTIONS

Export Promotions means that the policies initiated by the government to increase the domestic production for the purpose of export.

A number of institutions have been set up by the government of India to promote exports. The export and import functions are looked after by the Ministry of Commerce. The Government formulates the export-import policies and programmes that give direction to the exports.

EXIM policies aim at export assistance such as export credit, cash assistance, import replenishment, licensing, free trade zones, development of ports, quality_control and pre-shipment inspection, and guidance to Indian entrepreneurs to set up ventures abroad.

GOVERNMENT ESTABLISHED ORGANIZATIONS FOR EXPORT PROMOTIONS IN INDIA

In India there are a number of organisation and agencies that provides various types of support to the exporters from time to time. These export organisations provides market research in the area of foreign trade, dissemination of information arising from its activities relating to research and market studies. So, exporter should contact them for the necessary assistance.

1. Export Promotion Councils (EPC):

Export Promotion Councils are registered as non -profit organisations under the Indian Companies Act. At present there are eleven Export Promotion Councils under the administrative control of the Department of Commerce and nine export promotion councils related to textile sector under the administrative control of Ministry of Textiles. The Export Promotion Councils perform both advisory and executive functions. These Councils are also the registering authorities under the Export Import Policy, 2002-2007.

2. Commodity Boards:

Commodity Board is registered agency designated by the Ministry of Commerce, Government of India for purposes of export-promotion and has offices in India and abroad. There are five statutory Commodity Boards, which are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

3. Federation of Indian Export Organisations (FIEO):

FIEO was set up jointly by the Ministry of Commerce, Government of India and private trade and industry in the year 1965. FIEO is thus a partner of the Government of India in promoting India’s exports.

4. Indian Institute of Foreign Trade (IIFT):

The Indian Institute of Foreign Trade (IIFT) was set up in 1963 by the Government of India as an autonomous organisation to help Indian exporters in foreign trade management and increase exports by developing human resources, generating, analysing and disseminating data and conducting research.

5. Indian Institution of Packaging (IIP):

The Indian Institute of Packaging or IIP in short was established in 1966 under the Societies Registration Act (1860). Headquartered in Mumbai, IIP also has testing and development laboratories at Calcutta, New Delhi and Chennai. The Institute is closely linked with international organisations and is recognized by the UNIDO (United Nations Industrial Development Organisation) and the ITC (International Trading Centre) for consultancy and training. The IIP is a member of the Asian Packaging Federation (APF), the Institute of Packaging Professionals (IOPP) USA, the Insitute of Packaging (IOP) UK, Technical Association of PULP AND Paper Industry (TAPPI), USA and the World Packaging Organisation (WPO).

6. Export Inspection Council (EIC):

The Export Inspection Council or EIC in short, was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 in order to ensure sound development of export trade of India through Quality Control and Inspection.

7. Indian Council of Arbitration (ICA):

The Indian Council for Arbitration (ICA) was established on April 15, 1965. ICA provides arbitration facilities for all types of Indian and international commercial disputes through its international panel of arbitrators with eminent and experienced persons from different lines of trade and professions.

8. India Trade Promotion Organisation (ITPO)

ITPO is a government organisation for promoting the country's external trade. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer-Seller Meets, Contact Promotion Programmes, Product Promotion Programmes, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination.

9. Chamber of Commerce & Industry (CII)

CII play an active role in issuing certificate of origin and taking up specific cases of exporters to the Govt.

10. Federation of Indian Chamber of Commerce & Industry (FICCI)

Federation of Indian Chambers of Commerce and Industry or FICCI is an association of business organisations in India. FICCI acts as the proactive business solution provider through research, interactions at the highest political level and global networking.

11. Bureau of Indian Standards (BIS)

The Bureau of Indian Standards (BIS), the National Standards Body of India, is a statutory body set up under the Bureau of Indian Standards Act, 1986. BIS is engaged in standard formulation, certification marking and laboratory testing.

12. Textile Committee:

Textile Committee carries pre-shipment inspection of textiles and market research for textile yarns, textile machines etc.

13. Marine Products Export Development Authority (MPEDA):

The Marine Products Export Development Authority (MPEDA) was constituted in 1972 under the Marine Products Export Development Authority Act 1972 and plays an active role in the development of marine products meant for export with special reference to processing, packaging, storage and marketing etc.

14. India Investment Centre (IIC):

Indian Investment Center (IIC) was set up in 1960 as an independent organization, which is under the Ministry of Finance, Government of India. The main objective behind the setting up of IIC was to encourage foreign private investment in the country. IIC also assist Indian Businessmen for setting up of Industrial or other Joint ventures abroad.

15. Directorate General of Foreign Trade (DGFT):

DGFT or Directorate General of Foreign Trade is a government organization in India responsible for the formulation of guidelines and principles for importers and exporters of country.

16. Director General of Commercial Intelligence Statistics (DGCIS)

DGCIS is the Primary agency for the collection, compilation and the publication of the foreign inland and ancillary trade statistics and dissemination of various types of commercial information.

PROMOTIONAL MEASURES FOR EXPORT PRODUCTION

1. Duty Free Replenishment Certificate (DFRC): DFRC is issued to a merchant exporter or manufacturer exporter for the duty free import of inputs such as raw materials, components, intermediates, consumables, spare parts, including packing materials to be used for export production. Such license is given subject of the fulfillment of time bound export obligation.

2. Duty Entitlement Passbook Scheme (DEPB): Under the DEPB scheme, an exporter may apply for credit as a specified percentage of FOB (Free on Board or Freight on Board) value of exports, made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade (DGFT) by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging materials, etc.

3. Export Promotion Capital Goods Scheme (EPCG): EPCG scheme was introduced by the EXIM policy of 1992-97 in order to enable manufacturer exporter to import machinery and other capital goods for export production at concessional or no customs duties at all. This facility is subject to export obligation, i.e., the exporter is required to guarantee exports of certain minimum value, which is in multiple of tit1e value of capital goods imported.

4. Duty Drawback (DBK): The Duty Drawback Scheme is administered by the Directorate of Drawback, Ministry of Finance. Under this scheme, an exporter is entitled to claim

- Customs duty paid on the import of raw materials, components and consumables
- Central excise duty paid on indigenous raw materials, components

- Consumables utilized in the manufacture of goods meant for export

5. Excise Duty Refund: Excise duty is a tax imposed by the central government on goods manufactured in India. This duty is collected at source, i.e., before removal of goods from the factory premises. Export goods are totally exempted from central excise duty. However, necessary clearance has to be obtained in one of the following ways

- Export under rebate
- Export under bond

6. Octroi Exemption: Octroi is a duty paid on manufactured goods, when they enter the municipal limits of a city or a town. However, export goods are exempted from Octroi.

Other export promotion measures are listed below

1. Import facilities for actual users by government like importing of spare parts, import of non-perishable spares, import of chanalised items.

2. Import facilities for registered exporter like IMPORT REPLENISHMENT [doing business for existing customer] , IMPREST LICENSE[license issued before license received by government].

3. Import of capital goods.[heavy investment products].

4. Import of office machines.

5. Foreign collaboration in export oriented units.

6. Relaxation in industrial licensing.

7. Relaxation under MRTP act.

8. FREE TRADE ZONES.

9. 100% industrial licensing.

10. Relaxation under MRTP act.

11. 100% EXPORT ORIENTED UNITS [EOU]

12. Industrial raw material assistance central scheme [IRMAC]

13. Import of technology.

EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

Establishment

- In India ECGC was established in 1954
- The Exporter Risk Insurance Co-Operation (ERIC) was merged
- Controlled by Ministry of commerce
- Head Office in Mumbai
- Regional Office at Kolkata, Chennai, Delhi and Mumbai
- Operates on "No Profit No Loss" basis

Role of ECGC

- To support and strengthen the Export Promotion driven in India by providing arrange of credit risk
- Basically provides two types of services
  - ❖ Export Credit Insurance Policies against the risk of not being paid by the overseas customers
  - ❖ Issues specific policies for exports of high-value goods where payments are normally made on deferred terms
- Timely and adequate credit facilities at the Pre-shipment as well as Post-shipment stage
- ECGC has designed several schemes of guarantees to banks with a view to enhance the credit worthiness of the exporters

Special Schemes by ECGC

- ECGC has issued standard policies to exporters to protect them against payment to protect Indian firms against payment risk
- ECGC has issued specific policies to protect Indian firms against payment risk

- ECGC has issued financial guarantees to banks
- ECGC sponsors various special schemes
- ECGC sponsors various policies to protect exporters against the inherent risks of export operations. Besides it also provides financial guarantees to banks and exporters for exports against deferred credit payment terms

EXPORT PRICING

Price fixed for the export products or services which the exporter intends to sell in the overseas market is called export pricing. Export price of a given product is determined by many factors. There are a number of methods used for the purpose of costing in exports. These methods are divided into three groups.

Export pricing is a technique of fixing the prices of goods and services which are intended to be exported and sold in the overseas markets. Export pricing is much more difficult than domestic pricing, because the exporter has to take into account not only the cost of production but also the influence and impact of the conditions prevailing in the international markets.

Therefore export pricing is not just an arithmetical calculation, but a practical proposition based on market situation. The success of an export firm largely depends on its effective pricing policy.

FACTORS DETERMINING EXPORT PRICING IN INTERNATIONAL MARKET

Pricing of goods to be exported depends on several factors. The demand for exported goods in the international market, competitive environment and regulations of the government should also be evaluated by the exporters besides manufacturing costs.

1. Cost: One of the most important factor in fixing export price for goods is the cost. It constitute a large part of the price. The direct cost involved in export pricing such as raw materials should be taken into account. Indirect cost like distribution overheads should also be considered.

2. Demand: Price of goods to a great extent depends upon the shape of the demand curve for the product. If there is a lot of demand for the goods it will result in profit maximization, even if there is no rise in costs and a rise in cost may justify an increase in price. However, in all cases, it may not be possible to do so because of the reaction of the market conditions.

3. Competition: The competition in the foreign market is much more severe than in the domestic market, as the exporters have to compete with foreign producers who manufacture under different environment and conditions, as well as their country's regulations.

Competition from developed countries would be tough because of the certain established advantages; and developing countries may have to mark the price to compete in the foreign market.

4. Attitude towards Countries' Products: Buyers in the International market normally develop prejudice against goods imported from the developing countries. Exporters should take this factor into account while fixing price, as goods from developed countries command higher prices as compared to the goods from the developing countries.

5. Product differentiation and Brand Image: If products are well differentiated and if they have built a brand image for themselves, manufacturers would be in a comfortable position to charge competitively higher prices. Brand names like Dunlop, Bata, Colgate, etc., command higher prices due to their brand image.

6. Nature of Purchase: Price, at times, depends upon the frequency of purchase. In case of gift items, people will be willing to pay a high price, if the particular goods catch their fancy.

7. Quality and Price Relationship: Consumers tend to rely on price as an indicator of product's quality, especially in the case of prestige products. The general consideration is that, when the price is low, it results in higher sales which may not be true is all cases.

It should also be noted that customers in developed countries may wish to pay higher price for the product when compared to those from developing ones.

8. Delivery Schedule: If the goods are supplied punctually according to the delivery schedule, the seller can quote a higher price than otherwise.

9. Marketing Policies: The price is also affected by channels of distribution, sales promotion policies, after-sale-service etc. For instance, longer the chain of distribution, higher could be the price.

10. Period of Export Strategy: The shorter the period, higher could be the price so as to skim the cream from the market and longer the period, lower be the price in the initial stages to penetrate the market.

11. Exchange and Inflation Rate: Differential pricing strategy can be adopted while fixing price of goods to be exported. While doing so, the stability of exchange and inflation rates prevailing in the country should also be taken into account.

Higher prices can be charged on exports for a particular country which is subject to continuous fluctuations in exchange and inflation rates.

METHODS OF PRICING

A. Cost Pricing:

> **1. Full Cost Pricing:** Fixed cost + variable cost + % of profit.[eg:100 tons of metal transported at a time.]
>
> **2. Marginal Cost Pricing:** Variable cost +incremental cost + % of profit.[eg:100 tons of metal are subdivided and transported .]

B. Market Pricing [Based on 3 strategies]

> **1. Relevant Demand Schedule:** Based on demand and pricing increases price also increases or decreases.
>
> **2. Relevant Cost Schedule:** Based on cost of production at particular time.
>
> **3. Price that offers higher profit.**

PRICING STRATEGIES

1. Market Penetration Strategy: Initially priced less and gradually price is increased.

2. Probe Penetration Strategy: To maintain the status first few offers maintain high status for the product[eg-Iphone]

3. Follow the Leader Pricing: Following the leaders price in the market.

4. Skim the Cream Pricing: Fixing higher price in the introductory phase and earn more profit till the entry of the competitors.

5. Deferential Trade Margin Strategy: Giving different types of discounts for the customers.

6. Standard Export Pricing Strategy: One price for all products by the underdeveloped country.

7. Cheaper price for original equipment and higher price for its spare parts.

INTERNATIONAL ECONOMIC GROUPING:

International Economic grouping is an arrangement among nations that typically includes the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. Economic integration aims to reduce costs for both consumers and producers and to increase trade between the countries involved in the agreement.

International Economic grouping is sometimes referred to as regional integration as it often occurs among neighboring nations.

When regional economies agree on integration, trade barriers fall and economic and political coordination increases.

STAGES OF ITS EVOLUTION:

Specialists in this area define seven stages of economic integration: a preferential trading area, a free trade area, a customs union, a common market, an economic union, an economic and monetary union, and complete economic integration. The final stage represents a total harmonization of fiscal policy and a complete monetary union.

Advantages of Economic Integration

- More specifically, economic integration typically leads to a reduction in the cost of trade, improved availability of goods and services and a wider selection of them, and gains in efficiency that lead to greater purchasing power.
- Employment opportunities tend to improve because trade liberalization leads to market expansion, technology sharing, and cross-border investment.
- Political cooperation among countries also can improve because of stronger economic ties, which provide an incentive to resolve conflicts peacefully and lead to greater stability.

REGIONAL TRADING AGREEMENTS

Regional trading agreements refer to a treaty that is signed by two or more countries to encourage free movement of goods and services across the borders of its members. The agreement comes with internal rules that member countries follow among themselves. When dealing with non-member countries, there are external rules in place that the members adhere to.

Quotas, tariffs, and other forms of trade barriers restrict the transport of manufactured goods and services. Regional trading agreements help reduce or remove the barriers to trade.

Types of Regional Trading Agreements

1. Preferential Trade Areas: The preferential trading agreement requires the lowest level of commitment to reducing trade barriers, though member countries do not eliminate the barriers among themselves. Also, preferential trade areas do not share common external trade barriers.

2. Free Trade Area: In a free trade agreement, all trade barriers among members are eliminated, which means that they can freely move goods and services among themselves. When it comes to dealing with non-members, the trade policies of each member still take effect.

3. Customs Union: Member countries of a customs union remove trade barriers among themselves and adopt common external trade barriers.

4. Common Market: A common market is a type of trading agreement wherein members remove internal trade barriers, adopt common policies when it comes to dealing with non-members, and allow members to move resources among themselves freely.

5. Economic Union: An economic union is a trading agreement wherein members eliminate trade barriers among themselves, adopt common external barriers, allow free import and export of resources, adopt a set of economic policies, and use one currency.

6. Full Integration: The full integration of member countries is the final level of trading agreements.

Benefits of Regional Trading Agreements

1. Boosts Economic Growth: Member countries benefit from trade agreements, particularly in the form of generation of more job opportunities, lower unemployment rates, and market expansions. Also, since trade agreements usually come with investment guarantees, investors who want to invest in developing countries are protected against political risk.

2. Volume of Trade: Businesses in member countries enjoy greater incentives to trade in new markets, thanks to attractive trading conditions due to the policies included in the agreements.

3. Quality and Variety of Goods: Trade agreements open a lot of doors for businesses. As they gain access to new markets, the competition becomes more intense. The increased competition compels businesses to produce higher quality products. It also leads to more variety for consumers. When there is a wide variety of high-quality products, businesses can improve customer satisfaction.

EUROPEAN UNION

The EU was created by the Maastricht_Treaty, which entered into force on November 1, 1993. The European Union (EU) is a political and economic union of 27 member states that are located primarily in Europe.

The EU's members are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lat via, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. The United Kingdom, which had been a founding member of the EU, left the organization in 2020.

The EU has developed an internal single market through a standardized system of laws that apply in all member states in those matters, and only those matters, where members have agreed to act as one. EU policies aim to ensure the free movement of people, goods, services and capital within the internal market; enact legislation in justice and home affairs; and maintain common policies on trade, agriculture, fisheries and regional development. Passport controls have been abolished for travel within the Schengen Area. A monetary union was established in 1999, coming into full force in 2002, and is composed of 19 EU member states which use the euro currency.

Goals/Objectives of EU

- To promote peace, its values and the well-being of its citizens
- To offer freedom, security and justice without internal borders
- To create sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection
- To combat social exclusion and discrimination
- To promote scientific and technological progress
- To create enhance economic, social and territorial cohesion and solidarity among EU countries
- To respect its rich cultural and linguistic diversity

- To establish an economic and monetary union whose currency is the euro.

Values of EU

- **Human dignity:** Human dignity is inviolable. It must be respected, protected and constitutes the real basis of fundamental rights.
- **Freedom:** Freedom of movement gives citizens the right to move and reside freely within the Union. Individual freedoms such as respect for private life, freedom of thought, religion, assembly, expression and information are protected by the EU Charter of Fundamental Rights.
- **Democracy:** The functioning of the EU is founded on representative democracy. Being a European citizen also means enjoying political rights. Every adult EU citizen has the right to stand as a candidate and to vote in elections to the European Parliament. EU citizens have the right to stand as candidate and to vote in their country of residence, or in their country of origin.
- **Equality:** Equality is about equal rights for all citizens before the law. The principle of equality between women and men underpins all European policies and is the basis for European integration. It applies in all areas. The principle of equal pay for equal work became part of the Treaty of Rome in 1957. Although inequalities still exist, the EU has made significant progress.
- **Rule of law:** The EU is based on the rule of law. Everything the EU does is founded on treaties, voluntarily and democratically agreed by its EU countries. Law and justice are upheld by an independent judiciary. The EU countries gave final jurisdiction to the European Court of Justice which judgements have to be respected by all.
- **Human rights:** Human rights are protected by the EU Charter of Fundamental Rights. These cover the right to be free from discrimination on the basis of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, the right to the protection of your personal data, and the right to get access to justice.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

The North American Free Trade Agreement (NAFTA), which was enacted in 1994 and created a free trade zone for Mexico, Canada, and the United States, is the most important feature in the U.S.-Mexico bilateral commercial relationship. As of January 1, 2008, all tariffs and quotas were eliminated on U.S. exports to Mexico and Canada under the North American Free Trade Agreement (NAFTA).

Objectives/Functions of NAFTA

- NAFTA granted most-favored-nation status to all co-signers.
- NAFTA eliminated many tariffs on imports and exports between the three countries and NAFTA created specific rules to regulate trade in farm products, automobiles, and clothing.
- Exporters were required to get Certificates of Origin to waive tariffs. That meant the export had to originate in the United States, Canada, or Mexico.
- NAFTA established procedures to resolve trade disputes.
- All NAFTA countries were required to respect patents, trademarks, and copyrights.
- The agreement allowed business travelers easy access throughout all three countries.

SOUTH ASIAN FREE TRADE AREA (SAFTA)

The South Asian Free Trade Area (SAFTA) is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC). The agreement came into force in 2006, at the 12th SAARC summit in Islamabad, Pakistan. SAFTA signatory countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

It created a free-trade area of 1.6 billion people in SAFTA members countries to reduce customs duties of all traded goods to zero by the year 2016.

Objectives/Functions of SAFTA:

- To promote competition in the area and to provide equitable benefits to the countries involved.
- It aims to benefit the people of the countries by bringing transparency and integrity among the nations.
- The SAFTA was also formed in order to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and barriers
- To provide special preference to the Least Developed Countries (LDCs) among the SAARC nations.
- To establish a framework for further regional cooperation. SAARC also maintain free trade agreement among membering nations.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

(BIMSTEC) is a regional organization comprising seven Member States lying in the littoral and adjacent areas of the Bay of Bengal constituting a contiguous regional unity. This sub-regional organization came into being on 6 June 1997 through the Bangkok Declaration. It constitutes seven Member States: five deriving from South Asia, including Bangladesh, Bhutan, India, Nepal, Sri Lanka, and two from Southeast Asia, including Myanmar and Thailand.

The regional group constitutes a bridge between South and South East Asia and represents a reinforcement of relations among these countries. BIMSTEC has also established a platform for intra-regional cooperation between SAARC and ASEAN members.

Objectives /Functions of BIMSTEC

- To create an enabling environment for rapid economic development through identification and implementation of specific cooperation projects in the sectors of trade, investment and industry, technology, human recourse development, tourism, agriculture, energy, and infrastructure and transportation.

- To accelerate the economic growth and social progress in the sub-region through joint endeavors in a spirit of equality and partnership.
- To promote active collaboration and mutual assistance on matters of common interest in the economic, social, technical and scientific fields.
- To provide assistance to each other in the form of training and research facilities in the educational, professional and technical spheres.
- To cooperate more effectively in joint efforts that are supportive of and complementary to national development plans of Member States which result in tangible benefits to the people in raising their living standards, including generating employment and improving transportation and communication infrastructure.
- To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes.
- To cooperate in projects that can be dealt with most productively on a sub-regional basis and make best use of available synergies among BIMSTEC member countries.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

Association of Southeast Asian Nations or ASEAN is an organisation formed by the governments of Malaysia, Indonesia, the Philippines, Thailand, and Singapore in 1967 to promote economic growth, peace, security, social progress and cultural development in the Southeast Asian region.

Membership

10 States — Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. 1 Observer – Papua New Guinea.

ASEAN Regional Forum (ARF) Membership

27 States – Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples' Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea,

Philippines, Russian Federation, Singapore, Sri Lanka, Thailand, Timor Leste, United States, and Vietnam.

Objectives of ASEAN:

i. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours.

ii. To promote regional peace and stability through abiding respect for justice and the rule of law.

iii. To encourage active collaboration and mutual assistance on matters of common interest in Economic, Social, Cultural, Technical, Scientific and Administrative fields.

iv. To provide assistance to each other in terms of training and research facilities in the educational, professional, technical and administrative areas.

v. To work together for a greater utilization of agriculture and industries in order to expand the trade both locally and internationally.

vi. To study the problems of international community trade, the improvement of their transportation and communications facilities and the raising of the living standards of the nations.

vii. To promote Southeast Asian studies.

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QUESTION BANKS – UNIT – 3

S.No	PART - A	CO	Blooms Level
1	Define Export Finance	CO3	L 1
2	Write about ECGC	CO3	L 2
3	Define Export pricing	CO3	L 2
4	Briefly explain the different methods of Pricing	CO3	L 1
5	State the commercial invoice	CO3	L 1
6	Define bill of Lading	CO3	L 2
7	Enumerate the Functions of BIMSTEC	CO3	L 2
8	List the objectives of ASEAN	CO3	L 1
9	Write a short note on South Asian Free Trade Area (SAFTA)	CO3	L 1
10	Describe NAFTA	CO3	L 2

S.No	PART - B	CO	Blooms Level
1	Discuss in detail about Export Finance regarding pre and post shipment procedures	CO3	L 5
2	Examine the role of commercial banks on Export finance in India?	CO3	L 4
3	Evaluate the role of EXIM bank on Export finance in India?	CO3	L 6
4	Assess the role of various government established organizations for Export Promotions in India	CO3	L 4
5	Discuss the factors determining export pricing in international market and various pricing strategies in international trade	CO3	L 6
6	Critically asses the role of ASEAN on growth of International business in Asian region	CO3	L 6
7	Discuss in details the types of Regional Trading Agreement and its importance on global business	CO3	L 4
8	Write an essay about European Union and its contribution on development of global business	CO3	L 5
9	Analyse the role of NAFTA and SAFTA on international trade?	CO3	L 5

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SCHOOL OF MANAGEMENT STUDIES

UNIT – IV – International Trade – SBAA1602

SYLLABUS: UNIT 4 : INTERNATIONALISATION:

Multinational Corporations (MNCs) – Stages in International of a firm – Emergence, definition, characteristics & classification of MNCs – merits & demerits of MNCs – Regulation of MNCs – MNCs and International Business.

INTERNATIONALIZATION

International business is the process of carrying on business activities beyond national boundaries. It refers to any business activity which involves the transfer of resources, goods, services, knowledge, skills or information across national boundaries. These activities may pertain to the production of physical goods or to the provision of services such as banking, finance, insurance, education, construction etc. The activities that comprise international business are referred to as international transactions and mainly take the form of international trade and international investment. Firms engaged in international business activities however big or small are called international firms or multinational/transnational enterprises (MNE/TNE).

The scenario of international business is categorized into five stages as discussed below.

Stages of Internationalization

- Domestic company
- international company
- Multinational company
- Global company
- Transnational company

1. Domestic Company: Domestic company limits its operations, mission and vision to the national political boundaries. This company focuses its view in the domestic market opportunities, domestic supplier, domestic financial companies, domestic customers etc. These companies analyse the national environment of the country. These companies analyse the national environment of the country, formulate the strategies to exploit the opportunities offered by the environment.

2. International Corporation: Some of the domestic companies, which grow beyond their production or domestic marketing capacities, think of internationalizing their operations. These companies believe that the practices adopted in domestic business, the people and products of domestic business are superior to those of other countries.

These companies select the strategy of locating a branch in the foreign markets and extend the same domestic operations into foreign markets. In other words, these companies extend the domestic product, domestic price, promotion and other business practices to the foreign markets. Thus, the international company extends the domestic country marketing mix and business model and practices to foreign countries.

3. Multinational Corporations: Large corporations having investment and business in a number of countries, known by various names such as Multinational Corporations, international Corporations and Global Corporations (of firms, companies or enterprises) have become a very powerful driving force in the world's economy.

As ILO Report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred for convenience as the 'home country') while the enterprise carries out operations in a number of other countries as well ('host countries'). Obviously, what is meant is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment.

4. Global Corporations: Global Corporations produces in home country or in a single country and focuses on marketing these products globally or produces the products globally and focuses on marketing these products domestically. For example, Harley Davidson designs and produces super heavy weight motorcycles in the USA and markets in the global market. Designs and produces drugs in India and markets globally. Thus, Harley Davidson and Dr. Reddy's Lab are examples of global marketing focus. Gap procures products in the global countries and markets the products through its retail organization in the USA. Thus, Gap is an example for global sourcing company.

Global Corporations implement parent's company strategies wherever they operate, rather than formulating strategies separately for each market. Global Corporations develop the knowledge in various countries, but its units do not share such knowledge across globe. As such the overseas units retain the knowledge developed.

5. Transnational Corporations: A Transnational Corporation product, markets, invests and operates across the world. It is an integrated global enterprise that links global resources with global markets at profit. There is no pure transnational corporation. However, most of the transnational companies satisfy many of the characteristics of a global corporation. They are more or less borderless and they do not consider a particular country as their base.

INTERNATIONAL ORIENTATIONS

- Ethnocentrism (home country orientation)
- Polycentricism (host country orientation)
- Regiocentrism (regional orientation)
- Geocentrism (World orientation)

Table 1: Orientation of the Firm (EPRG)

Basic	**Ethnocentric**	**Polycentric**	**Regiocentric**	**Geocentric**
Culture	Home country	Host country	Regional	Global
Technology	Mass production	Batch Production	Flexible manufacturing	Flexible manufacturing
Marketing	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standardize within region, but not across regions	Global product, with local variations
Finance	Repatriation of profits to home country	Retention of profits in host country	Redistribution within regions	Redistribution globally
Personnel practice	People of home country developed	People of local nationality for	Regional people developed for	Best people everywhere in

	for key positions everywhere in the world	key positions in their own country	key positions anywhere in the region	the world developed for key positions everywhere in the world.

In general, the desirability of a particular international orientation- E, P, R or G tends to depend on several factors, such as the size of the firm, the experience gained in given market, the size of the potential market, and type of the product and its cultural dependency.

MULTINATIONAL CORPORATION (MNC)

A multinational corporation (MNC) is a company that operates in its home country, as well as in other countries around the world. It maintains a central office located in one country, which coordinates the management of all its other offices, such as administrative branches or factories.

As ILO Report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred for convenience as the 'home country') while the enterprise carries out operations in a number of other countries as well ('host countries'). Obviously, what is meant is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by hunting technology are not multinational enterprises."

Multinational Corporation responds to the specific needs of the different country markets regarding product, price and promotion. Thus, MNC operates in more than one country, but operates like a domestic company of the country concerned.

Characteristics of a Multinational Corporation

1. Very high assets and turnover: To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

2. Network of branches: Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control: In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth: Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology: When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills: Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising: One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products: Because they use capital-intensive technology, they are able to produce top-of-the-line products.

Classification of MNCs

1. Colonial Companies: Colonial companies are those companies which are established to procure raw materials for the parental office at native country. They monopolies the purchasing of raw materials. They have rights to operate in different countries. East India Company's name can be cited in this respect.

2. Resource Based Companies: It is the second category of multinationals. These companies purchase raw resources from several countries. They do not believe in exploitation and purchasing of mineral resources. Many developed and developing countries have propagated such types of companies.

3. Public Utility Companies: The public utility companies are established to help the people of the country. The companies enjoy the position of natural monopoly. The multinational in public utility concerns do not remain longer because of nationalism.

4. Manufacturing Companies: The manufacturing companies are engaged in several manufacturing processes. They produce qualitative and quantitative goods in a huge quantity. They invest adequate capital in foreign countries to get higher rate of return. Whenever multinationals or MNCs are referred they indicate to manufacturing companies.

5. Service Institutions: They know the service technology and provide suitable and sufficient services to the people of the countries where they are established. Banking, Insurance, Hotels, Airways, etc., are the several examples of such companies.

6. Licensing: The multinationals grant licenses to some domestic companies to use their trademarks and technical know-how. The license is granted to exploit potential market in the host countries who pay license fees annually to the multinationals to use their know-how for a fixed period. The license fee may be in lump sum to purchase the know-how.

7. Turnkey Project: Turnkey project is taken up by the multinationals to complete a specific job within a fixed period. The contract for a turnkey project is made on open tender or on the basis of cost plus fee for the services. There may be limit on the total cost. If the multinational exceeds the cost, it has to bear the excess cost.

STRATEGIC APPROACH TO MULTINATIONALS

To run a new and potentially profitable project, a good understanding of multinational strategies is necessary. **The three broad categories of multinationals and their associated strategies are explained below**

A. Innovation Based Multinationals:

Companies such as IBM, Philips and Sony create barriers to entry for others, by continually introducing new products and differentiating existing ones. Both domestically and international companies in this category spend large amounts on R&D and have a high ratio of technical to factory personnel. Their products are typically designed to fill a need perceived locally that often exists abroad as well.

B. The Mature Multinationals:

The primary approach in such companies is the presence of economies of scale. It exists whenever there is an increase in the scale of production, marketing and distribution costs could be increased in order to retain the existing position or more aggressive.

The existence of economics of scale means there are inherent costs advantages of being large. The more significant these economies of scale are, the greater will be the costs disadvantage faced by a new entrant in the same field in a given market.

(i) Reduction in Promotion Costs:

Some companies like Coca-Cola and Proctor and Gamble take advantage of the facts that potential entrants are wary of the high costs involved in advertising and marketing a new product. Such firms are able to exploit the premium associated with their strong brand names. MNCs can use single campaign and visual aspects in all the countries simultaneously with different languages like Nestle’s Nescafe.

(ii) Cost Advantage through Multiple Activities:

Other companies take advantage of economics of scope. Economies of scope exists whenever the some investment can support multi-profitable activities, which are less expensive.

Examples abound of the cost advantages of producing and selling multiple products related to common technology, production facilities and distribution network. For example, Honda has increased its investment in small engine technology in the automobile, motorcycle, marine engine, and generator business.

C. The Senescent Multinationals:

There are some product lines where the competitive advantage is very fast.

The strategies followed in such cases are given below:

1. One possibility is to enter new markets where little competition currently exists. For example Crown Cork & Seal, the Philadelphia-based maker of bottle tops and cans, reacted to the slowing of growth and heightened competition in business in the United States by expanding overseas, its set up subsidiaries in such countries as Thailand, Malaysia, and Peru, estimating correctly that in these developing and urbanizing societies, people would eventually switch from home grown produce to food in cans and drinks in bottles.

2. Another strategy often followed when senescence sets in is to use the firm's global scanning capability to seek out lower cost production sites. Costs can then be minimized by integration of the firm's manufacturing facilities worldwide. Many electronics and textile firm in the United States (US) shifted their production facilities to Asian locations such as Taiwan and Hong-Kong to take advantage of the lower labour costs.

EXAMPLES OF MNCS

Table 2: Top 10 Largest Companies by Market Capitalization

Rank	Company	Country	Sector	($ Bil.)
1	Apple	U.S.	Technology	1,971
2	Saudi Aramco	Saudi Arabia	Energy	1,956
3	Amazon	U.S.	Consumer Services	1,592
4	Microsoft	U.S.	Technology	1,546
5	Alphabet	U.S.	Technology	1,116
6	Alibaba	China	Consumer Services	863
7	Facebook	U.S.	Technology	795
8	Tencent	China	Technology	724
9	Berkshire Hathaway	U.S.	Financial	496
10	Taiwan Semiconductor	Taiwan	Semiconductors	405

Note: As of November 3, 2020

Table 3: Top 10 of the Fortune Global 500*

Rank	Company	Country	Revenues ($ Mil.)	Profits ($ Mil.)	Profits (% Change)
1	Walmart	U.S.	523,960	14,880	123.1
2	Sinopec Group	China	407,010	6,793	16.2
3	State Grid	China	383,910	7,970	-2.5
4	China National Petroleum	China	379,130	4,443	95.7
5	Royal Dutch Shell	Netherlands	352,110	15,840	-32.2
6	Saudi Aramco	Saudi Arabia	329,780	88,211	-20.5
7	Volkswagen	Germany	282,760	15,540	8.5
8	BP	United Kingdom	282,620	4,030	-57.1
9	Amazon	U.S.	280,520	11,590	15.0
10	Toyota Motor	Japan	275,290	19,096	12.4
***Fiscal year ended on or before March 31, 2020.**					

Table 4: Top 10 of the Forbes Global 2000*

Rank	Company	Country	Revenues ($ Bil.)	Profits ($ Bil.)	Assets ($ Bil.)	Market Value ($ Bil.)
1	ICBC (Industrial and Commercial Bank of China)	China	177	45	4,323	242
2	China Construction Bank	China	162	39	3,822	203
3	JPMorgan Chase	U.S.	143	30	3,139	292
4	Berkshire Hathaway	U.S.	255	81	818	455
5	Agricultural Bank of China	China	149	31	3,698	147
6	Saudi Aramco	Saudi Arabia	330	88	398	1,685
7	Ping An Insurance Group	China	155	19	1,219	187
8	Bank of America	U.S.	112	24	2,620	209
9	Apple	U.S.	268	57	320	1,286
10	Bank of China	China	135	27	3,387	113
***Data as of early April 30, 2020.**						

Table 5: Top 10 Indian companies in fortune 500

Rank	TOP 10 COMPANIES	REVENUE (cr)
1	Reliance Industries	615,854.00
2	Indian Oil Corporation	493,932.99
3	Oil & Natural Gas Corporation	405,243.31
4	State Bank of India	368,010.65
5	Bharat Petroleum Corporation	288,974.97
6	Tata Motors	261,875.55
7	Rajesh Exports	195,607.23
8	Tata Consultancy Services	161,541.00
9	ICICI Bank	149,786.10
10	Larsen & Toubro	147,820.13

Note: Data as of early April 30, 2020

GROWTH OF MNCS

As the world economy is opening up with a fall in regulatory barriers to foreign investment, better transport and communications, freer capital movements, etc., international companies are finding it easier to invest where they choose to cheaply, and with less risk.

Moreover, the developing countries no longer consider the presence of MNCs to be synonymous with a loss of their sovereignty. It is now realized that MNCs are merely a part of a much wider force that is integrating the world economy.

Over the years, foreign direct investment by MNCs in the developing countries has been steadily on the rise, from as low as 19% of total flows in 1990, to 30% in 1994.

Whether this trend will last or not will depend chiefly on the liberalization policies of the governments of the developing countries, who are responsible for allowing entry to the MNC’s into their home economies, and who can re-impose the barriers if they so wish.

Liberalization as regards foreign investment would last as long as the governments of these developing countries believe that it is beneficial for them.

However, the biggest danger lies in the excessive expectations of the liberalizing governments, as many of them see foreign investment as a short-cut to prosperity, capital and technology transfer, and skill enhancement. MNCs do bring in these assets to an extent, but these alone cannot make up for all the short-comings of the host economy.

Reasons for Growth of MNCs

1. Non-Transferable Knowledge: It is often possible for an MNC to sell its knowledge in the form of patent rights and to licence foreign producer. This relieves the MNC of the need to make foreign direct investment.

2. Protecting Reputations: Normally, products, develop a good or bad name, which transcends international boundaries. It would be very difficult for an MNC to protect in reputation if a foreign licensee does an inferior job. Therefore, MNCs prefer to invest in a country rather than licensing and transfer expertise, to ensure the maintenance of their good name.

3. Strategic FDI: The strategic motive for making investments has been advocated as another reason for the growth of MNCs. MNCs enter foreign markets to protect their market share when this is being threatened by the potential entry of indigenous firms or multinationals from other countries.

4. Product Innovation: MNCs, by virtue of their widespread customers tastes and preferences. Further, the MNCs with their strong R&D departments invent new products and develop the existing products. Developing countries suffer from limitations in this regard. Therefore, they invite MNCs to their countries.

5. Protecting Secrecy: MNCs prefer direct investment, rather than granting a license to a foreign company if protecting the secrecy of the product is important.

6. Product Life cycle Hypothesis: It has been argued that opportunities for further gains at home eventually dry up. To maintain the growth of profits, a corporation must venture abroad where markets are not so well penetrated and where there is perhaps less competition. This hypothesis perfectly explains the growth of American MNCs in other countries where they can fully exploit all the stages of the life cycle of a product. A prime example would be Gillette, which has revolutionized the shaving systems industry.

7. Avoiding Tariffs and Quotas: MNCs prefer to invest directly in a country in order to avoid import tariffs and quotas that the firm may have to face if it produces the goods at home and ship them. For example, a number of foreign automobile and truck producers opened plants in the US to avoid restrictions on-selling foreign made cars. Automobile giants like Fiat, Volkswagen, Honda and Mazda are entering different countries not with the products but with technology and money.

Merits of MNCs

1. Economic Development: The developing countries need both foreign capital and technology to make use of available resources for economic and industrial growth. MNCs can provide the required financial, technical and other resources to needy countries in exchange for economic gains.

2. Technology GAP: MNCs are the instruments of transfer of technology to the host country. Technology is necessary to bring down cost of production and produce quality goods on a large scale. The services of MNCs can be of great help to bridge the technological cap between developed and developing countries

3. Industrial Growth: **MNCs** are dynamic and offer growth opportunities for domestic industries. **MNCs** assist local producers to enter the global markets through their well established international network of production and marketing. And there by ensure industrial growth.

4. Marketing Opportunities: **MNCs** have access to many markets in different countries. They have the necessary skills and expertise to market products at international level. For example, an Indian Company can enter into Joint Venture with a foreign company to sell its product in the international market.

5. Work Culture: **MNCs** introduces a work culture of excellence, professionalism and fairness in deals. The sole objective of Multinational is profit Maximation. To achieve this, the Multinationals use various strategies like product innovation, technology up gradation, professional management etc.

6. Export Promotion: **MNCs** assist developing countries in earnings foreign exchange. This can be done by promoting and developing export oriented and import substitute industries.

7. Proper Use of Idle Resources: Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

8. Improvement in Balance of Payment Position:

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

9. Improvement in Standard of Living: By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

10. Research and Development: The resources and experience of **MNCs** in the field of research enables the host country to establish efficient research and development system. It is a fact that many **MNCs** are now shifting their research units to countries like India to avail of monetary incentives and cheap labour.

Demerits of MNCs

1. Problem of Technology: Technology developed by MNCs from developed countries does not fully fit in the needs of developing countries. This is because, such technology is mostly capital intensive.

2. Political Interference: The MNCs from developed countries are criticised for their interference in the political affairs of developing nations. Through their financial and other resources, they influence the decision-making process of the governments of developing nations.

3. Self-Interest: MNCs work towards their own self-interest rather than working for the development of host country. They are more interested in making profits at any cost.

4. Outflow of foreign Exchange: The working of MNC is a burden on the limited resources of developing countries. They charge high price in the form of commission and royalty paid by local subsidiary to its parent company. This leads to outflow of foreign exchange.

5. Exploitation: MNCs are criticised for exploiting the consumers and companies in the host country. MNCs are financially very strong and adopt aggressive marketing strategies to sell their products, adopt all means to eliminate competition and create monopoly in the market.

6. Investment: MNCs prefer to invest in areas of low risk and high profitability. Issues like social welfare, national priority do not find any place on the agenda of MNCs.

7. Artificial Demand: MNCs are criticised on the ground that they create artificial and unwarranted demand by making extensive use of the advertising and sales promotion techniques.

8. Danger for Domestic Industries: MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

9. Danger to Independence: Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

10. No Benefit to Poor People: MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

MNCs in India

Most of the MNCs in India had originally entered the Indian market during the colonial era. During the post-independence era, the actual number of MNCs; who entered was small. The entry was generally made through collaboration with Indian big business. At the end of 1990, there were 469 foreign companies in India. In addition, there are many Indian companies with foreign equity participation. Several Indian outfits of MNCs like Ponds, Johnson and Johnson, Lipton, Brooke-Bond, Colgate-Palmolive etc., are tin low technology consumer goods sector. Hindustan Lever, while popular in low tech consumer sector, has diversified into a high technology and export oriented sectors. Table 8 presents India's top seven MNCs among the World's 500 largest MNCs in 2015.

Role of MNCs in India

1. Profit Maximisation: Most of the private companies including MNCs have profit maximization as the most important objective. However, MNCs are expected to operate fairly and behave like a corporate citizen.

2. International Network of Marketing: India expects the MNCs to increase their exports and earn foreign exchange for India. But most of the MNCs transfer the foreign exchange to their parent country, just in the name of imports from their home country.

3. Diversification Policy: India expects the MNCs to diversify their activities into the untapped areas and the priority areas like core industry and infrastructure industry. But majority of the MNCs diversify into the more profitable areas. Eg: Indian Tobacco Company ventured into hotel industry.

4. Concentration in Consumer Goods: Most of the MNCs entered Indian consumer market like HLL due to the high profitability rather than capital goods market which is less profitable.

5. Techniques to achieve Public Acceptability: MNCs adopt a number of techniques to get the acceptability of the people of the country wherever they operate. For example, products of Lipton Unilever Company are more acceptable to most of the Indians. Most of the MNCs try to project themselves as it they were completely identified with the Indian culture and Indian economic policies. They also claim that they have acquired Indian nationality. It is criticized that MNCs in India use all these techniques to improve their business.

6. Existence of modern and sophisticated technology: As stated earlier, maximization of global profits is one of the major objectives of MNCs. MNCs develop modern and sophisticated technology in order to produce the products of high quality and lowest cost of production. They bring the technology to the developing world, but they do not provide the latest technology to the domestic companies of the Third World.

7. Business, but not social justice: MNCs are in business but not in social service. MNCs allocate their investments according to market demand in order to maximize their profits. Wide gap between the rich and poor has been one of the characteristics of India since long back. Therefore, a section of the Indian economy enjoy higher standard of living. MNCs in India have been concentrating only on this section in designing the product, pricing and services. MNCs normally do not produce the products to cater to the needs of poor section. They leave the poor section to the local business. Thus, the more profitable business is grabbed by MNCs and they left the less profitable business to the local markets.

8. Unconcern towards social responsibilities and business ethics: It is also criticized that MNCs try to maximize their profits and do not think of discharging their responsibilities towards Indian society. Further, it is criticized that MNCs exploit the Indian natural resources indiscriminately, export the products from India to other countries and transfer the proceeds of sales to their home countries. In addition, it is criticized that MNCs price the products exclusively based on business principles like supply and demand for products rather than the social considerations.

9. Cultural Erosion: Indian culture with regard to dressing patterns, eating habits, building and maintaining the relations, etc., are quite distinct from the rest of the world. But, it is widely criticized that the MNCs activities with regard to type of the products (mainly cigarettes, liquor, beverages like coke etc.,), advertisements and the like, erode the Indian culture.

10. Unconcern for environmental pollution and ecological balance: It is widely criticized that MNCs in India did not invest in environmental polluting controlling equipments as they normally do in their home country. This in turn resulted in environmental pollution in a number of instances in the country. Bhopal gas tragedy an also failure in paying due compensation to the victims is an example.

Regulation of MNCs

The LDCs feel that MNCs can transfer a package of development inputs such as capital, advanced technology, management etc. and stimulate the process of their development. That is why several tax and other incentives are offered to them to extend their operations. But the exploitation, fear of interference in decision-making and their undesirable activities create serious misgivings about them.

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

Common Guidelines of MNC's Activities

(i) The investments from MNCs should be for specified periods.

(ii) The collaborations should be sought with the MNCs only in selective areas.

(iii) The host countries should adopt a multi-tax system so that the MNCs should not be able to evade taxes through transfer pricing or other methods.

(iv) The MNCs should help the host countries in the promotion of exports and the development of import-substitution industries.

(v) There should be clear cut specification about the transfer of technology. The MNCs should be required to specify annual expenditure on research and training.

(vi) After a certain limit, there should be check on the repatriation of capital and remittance of profits by them to the country of origin.

(vii) There should not be a perpetual threat of nationalisation. However, if they are found to be engaged in activities detrimental to the economic and political interests of the host countries, these should be nationalised.

New Industrial Policy 1991 and Multinational Corporations:

The New Industrial Policy 1991 removed the restrictions of entry to MNCs through various concessions.

At present MNCs in India can

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

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

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

iv. Disinvest equity at market rates on stock exchanges.

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

vi. Deal in immovable properties in India.

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

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QUESTION BANKS – UNIT – 4

S.No	PART - A	CO	Blooms Level
1	Define Internationalization	CO4	L 1
2	Enumerate the Global Corporation	CO4	L 2
3	Brief the concept of Domestic Company	CO4	L 2
4	Describe the concept of transnational corporations	CO4	L 1
5	List the characteristics of MNCs	CO4	L 1
6	Write a short note on growth of MNCs in India	CO4	L 2
7	List the merits of MNCs	CO4	L 1
8	List the demerits of MNCs	CO4	L 1
9	Write a short note on strategic approach on multinationals	CO4	L 2

S.No	PART - B	CO	Blooms Level
1	Elaborate the characteristics and classification of multinational corporations?	CO4	L 5
2	Discuss in details about Multinational Corporations (MNCs) and assess the different stages in MNCs	CO4	L 4
3	Critically examine the different strategies followed for Multinationals?	CO4	L 6
4	Analyse the historical background of MNCs and explain various reasons for rapid growth of MNCs	CO4	L 5
5	Examine the merits and demerits of MNCs in India?	CO4	L 5
6	Critically examine different stages of Internationalization	CO4	L 6
7	Write an essay on International Orientations and Its growth?	CO4	L 5
8	Explain in details about the New Industrial Policy 1991 and Multinational Corporations	CO4	L 5

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SCHOOL OF MANAGEMENT STUDIES

UNIT – V – International Trade – SBAA1602

SYLLABUS: UNIT 5 : EXPORT PROCEDURE

Export Procedure and documentation – export order execution, Project Preparation – Quality control and shipment inspection – packaging – freight forwarders – Cargo insurance – customs clearances – documentation procedure and clearing export bills, import procedure – import licensing – Replenishment license – Advance import license – Pass book scheme – import of capital goods.

INTRODUCTION TO EXPORT MANAGEMENT

Export management means conducting the export activity in an orderly, efficient and profitable manner. Since the heart of each business is marketing, export management can be termed as export marketing management.

However export marketing management is more difficult and complicated as compared to domestic marketing due to several factors such as, three faced competition, varied regulations of different countries, language, etc. Export management involves the study of foreign markets, requirements, of foreign buyers, potential marketing opportunities and using and them tactfully for large-scale exporting.

Export management is basically planning, organizing, coordinating and controlling all activities relating to export of goods and services to other counties. It involves various activities such as production of exportable good, collection of orders from foreign buyers and their execution, publicity in abroad, adoption of sales promotion techniques, price fixation and looking after various procedures and formalities relating to exporting of goods.

NATURE /FEATURES OF EXPORT MANAGEMENT

1. Large scale operations: Export management involves large scale marketing and production operations of goods and services. Because of large scale business operation the firm gets the benefit of economics of scale and increase profit margin. Import, of other counties also prefer in placing large orders. Exporters get advantage of reduce cost and quoting competitive prices in the increase market.

2. Systematic Process: It is a systematic process became the export manager undertakes various marketing activities such as marketing research, product design, branding, packaging, pricing, promotion etc. All these aspects require collection of data, analysis of data, then in perpetration of data in order to take systematic export marketing decisions.

3. Three faced Competition: Foreign trade market is highly competitive in nature. The competition is three dimensional i.e.

I. Competition from Indian exporters

II. Competition from local producers of Importing country.

III. Competition from exporter of other nations

4. Trade Barriers: Export trade is subject to trade barriers tariff and nontariff barriers. The trade barriers are the restrictions on free movement of goods between countries. Normally countries impose trade barriers in order to restrict import. The export marketing manager must have a good knowledge of trade barriers imposed by importing counties.

5. Domination of MNC: Multinational Corporation has huge investment and conduct business operation all over the world. Major share of foreign trade is captured by MNCs, and TNCs, (Transnational corporations). Therefore they dominate in export management activities of the world. Due to large scale business they get the benefit of economies of scale.

6. Domination of Development counties: Most of the MNCs belong to industrially developed countries. Such countries like USA, Japan, Germany etc. produce and sell good quality of goods at low cost on massive scale with the help of advanced technology. In this way rich and developed countries always dominate in international business activities.

7. Foreign Exchange Regulation: Export trade is subject to foreign exchange regulations imposed by countries. These foreign exchange regulations relate to payment and collection of export proceeds. In addition, export marketing is subject to other rules and regulations relating to health and safety, environment protection, etc. All such regulation affect free movement of good among the countries.

8. Documentation formalities: Export marketing is subject to various documentation formalities. Exporters require various documents to submit them to various authorities including customs, port trust, etc. The documents include Bill of lading, Commercial consular invoice, Shipping bill, Certificate of origin etc.

a) Shipping Bill

b) Consular Invoice

c) Certificate of Origin etc.

9. Marketing Mix: Export marketing requires the right marketing mix for the target market, i.e. exporting the right product at the night price, at the right place and with the right promotion, the exporter can adopt different marketing mixes from different export markets, so as to maximize exports and earn higher retunes.

10. International Marketing Research: Knowing more about customers, dealers, and competitors is a must not only in the domestic markets but also in the export markets. Marketing research is a must in export business due to various factors, such as diversities on social, economic, and political environments of distant markets.

11.Advance Technology: Export marketing is highly competitive. An exporter should be able to sell quality articles at competitive price. Use of advanced computer – oriented technology is a must for making the goods globally competitive. World markets are dominated by developed countries due to intensive use of computer technology.

12.Globalise or perish: Foreign trade is the need of each country. Because some important goods a country has to import like technology and goods which are not available in domestic market to export to get foreign exchange, otherwise it will perish economically.

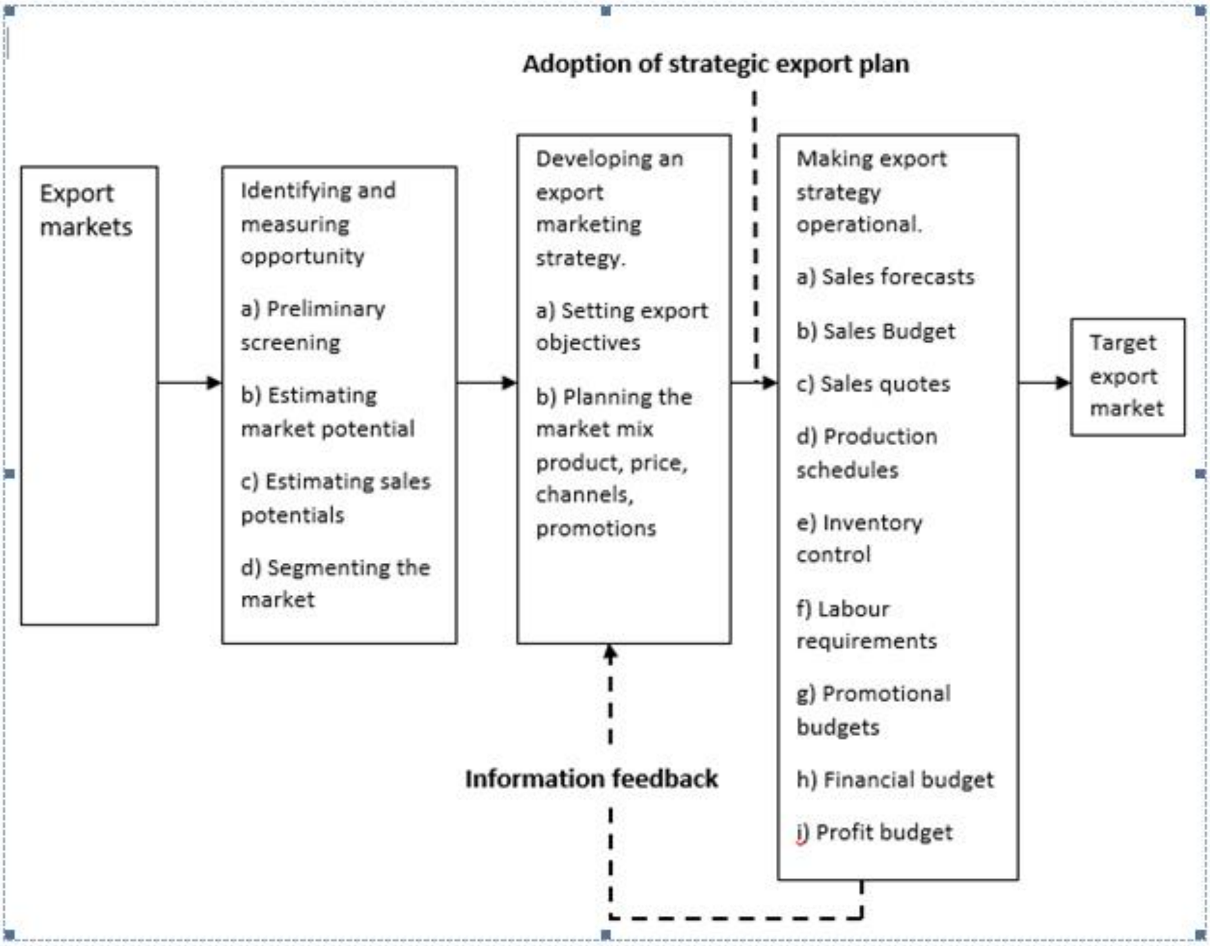
13.Diverse customs and Traditions: The export markets differ in languages, customs and traditions. The exporter may not be able to cope up with these diversities. Therefore, he has to be selective, he should be deal in only such markets where he can easily handle or overcome such differences or diversities.

14.High Amount of Risk: Export business is profitable than domestic business. But it is more risky also. Such as cancellation of order, non collection of document, non payment, transport risk, foreign regulation risk etc. these risk can be reduced by taking various insurance cover form ECGC and insurance agents. Risk can be spread also by exporting goods to many countries, so that loss in one market is compensated by the project other market.

15. Sensitive and Flexible Character: An exporter has to identify the specific requirement or foreign buyers and design the goods accordingly, but sometimes because of technological development new design of good may be supplied by other exporters due to which demand for this goods may go down. Therefore exporter has to offer continuous support and loyalty.

Fig. 1: Export Marketing Planning Process:

Figure: Export marketing planning process:



IMPORTANCE OF EXPORT MANAGEMENT

1. Export Obligation: It means the firm which intends to import capital goods at concessional rates has to export the goods, under EPCG scheme. Thus the firm can fulfill its export obligation. In India, units operating in the SEZ are expected to honour export obligation against special concession offered to them. Therefore every business unit has to export first in order to import goods.

2. Increase Production Capacity: For every business unit increase production is necessary, in order to meet domestic demand and export order. Exports are possible when surplus production is available after meeting domestic demand.

3. Organizational Efficiency: Export management enables a firm to improve its organizational efficiency. E.g. firms have to emphasize on training and development of employees. This helps to improve knowledge, attitudes, skills and social behaviors. Therefore, the over all efficiency of the organisation improves due to training, research and other much activities which are encouraged by export management.

4. Higher Profits: Export management enables a business unit to export quality goods at higher prices and there by raise the profit margin.

5. Reputation and Goodwill: Exports bring reputation to the export firm in international market as well as in the domestic market. It is assumed that export firms. Produce quality goods which help to develop goodwill. e.g. some of the world famous firms include- □ Microsoft for computer and Nike for Sports. □ Sony for Electronics etc.

6. Economies of Scale: Because of increase in export there will be large scale production and distribution. This will result in-

I. Economies of large scale production like discount in bulk purchase of material and reduce cost.

II. Economies of large scale distribution such as freight concession on bulk shipment of goods.

7. Technological Up gradation: Continuous research and development activities lead technological development and improvement in other organizational activities which help in improvement in quality standards which is beneficial to the form and customers both.

8. Imports are liberalized: Business organisations exporting on a large scale collect huge foreign exchange which can be utilised for the import of new technology machinery and component. This also raises their competitive capacity.

9. spreading of Marketing Risk: A firm engaged in domestic as well as export marketing activities can spread its marketing risk. The loss in domestic market can be compensated by the profit, earned in export market and vice versa.

10.Government Incentives: Exporter gets various assistances and incentives for export promotion. These are Duty Drawback, Octroi exemption, Excise duty exemption, Income tax exemption, liberal finance etc. These incentives make export marketing attractive and profitable.

PROBLEMS/ISSUES IN EXPORT MANAGEMENT

1. **Payment Terms:** In exports, a very common occurrence is the difference in the payment method when it comes to international trading. Constant assistance is needed when dealing with countries whose fiscal system is different from your own country. Navigating the different currencies and warding off potential monetary losses is a nightmare! One that’s a little too familiar to most exporters. The exchange rates are changing every day and the hour of the transaction determines whether you save on each deal or end up spending more.

2. **Different Legal Norms:** Laws seem ever-changing! Every day, a new law is being passed or is getting amended. To be a successful exporter, it is important to be abreast with the legal norms of the country in which you are operating and to ensure that your business complies with them. Some regulations might end up delaying the export-import process and create financial implications. Few countries have a complex bureaucratic system that dictates certain trade licenses and permits to be mandatory if operating in that country. Also, there is the additional headache of renewing these regularly and keeping up with the ever changing legalities.

3. **Export Documentation errors:** Export documentation is a highly exhaustive process that can make or break your business. All the manual work done by employees is bound to generate errors as the work involves intricate attention to detail. Even a single error can

cause huge monetary loss leading to a disastrous situation. But it would be wrong to pin the responsibility to them as the work in itself is complicated and nearly impossible to achieve error free documents by solely depending on manual work. Incorrect documents can slow down the shipment and delay payments. It can land you in a soup with compliance regulations. Incorrect documentation could lead to denial of export privileges, and some violations can also mean legal trouble.

4. **Risk and Uncertainty:** Foreign trade services involve great risk moving from a national to an international destination as there are a number of uncertain factors like fluctuating exchange rates, cultural, legal and linguistic barriers, among others. The uncertainty of the trade makes exporters jittery and wary of stepping into the unknown.

5. **Lack of Information:** The entire exporting process has a lot of logistics to take care of and it might become difficult to manage the documentation, legal norms, permissions and keep it all updated. Lack of information about goods and services can derail the entire process.

EXPORT DOCUMENTS

Export documents are more or less common globally, because this is a global business and therefore standardization of documents is god for trading partners. However, documents slightly differ depending upon the mode of export, by ship, by land or by post. These are dealt now from the Indian perspective.

DOCUMENTS COMMONLY NEEDED FOR EXPORT BY SHIP

Certain documentation takes place while exporting. Special documents may be required depending on the type of product or destination. Certain export products may require a quality control inspection certificate from the designated Inspection Agency. Some food and pharmaceutical product may require a health or sanitary certificate for export. The following documents are commonly used in exporting, but specific requirements vary by destination and product. Shipper's Export Declaration; Shipping Bill/ Bill of Export; Commercial invoice; Certificate of Origin; Bill of Lading; Temporary Import Certificate / ATA CARNET; Insurance certificate; Export Packing List; Import License; Consular Invoice; Inspection Certification; Dock Receipt and Warehouse Receipt; Destination Control Statement.

I. Shipper's Export Declaration: The Shipper's Export Declaration is the most common of all export documents. It can be electronically filed.

II. Shipping Bill/ Bill of Export: Shipping Bill/ Bill of Export is the main document required by the Customs Authority for allowing shipment. Usually the Shipping Bill is of four types and the major distinction lies with regard to the goods being subject to certain conditions which are: Export duty/ cess; Free of duty/ cess; Entitlement of duty drawback; Entitlement of credit of duty under DEPB Scheme; Re-export of imported goods.

Documents required for the processing of the Shipping Bill:

a. GR forms (in duplicate) for shipment to all the countries.

b. Four copies of the packing list mentioning the contents, quantity, gross and net weight of each package.

c. Four copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total f.o.b./ c.i.f. value, correct & full description of goods etc.

d. Contract, L/C, Purchase Order of the overseas buyer.

e. AR4 (both original and duplicate) and invoice.

f. Inspection/ Examination Certificate.

Formats of Shipping Bill:

a. White Shipping Bill in triplicate for export of duty free of goods.

b. Green Shipping Bill in quadruplicate for the export of goods which are under claim for duty drawback.

c. Yellow Shipping Bill in triplicate for the export of dutiable goods.

d. Blue Shipping Bill in 7 copies for exports under the DEPB scheme.

III Commercial invoice: A bill for the goods from the seller to the buyer. These invoices are often used by governments to determine the true value of goods when assessing customs duties. Governments that use the commercial invoice to control imports will often specify its form, content, number of copies, language to be used, and other characteristics.

IV Certificate of Origin: The Certificate of Origin is only required by some countries. In many cases, a statement of origin printed on company letterhead will suffice. Special certificates are needed for countries with which the Free Trade Agreements are entered.

V Bill of Lading: Bill of Lading is a contract between the owner of the goods and the carrier (as with domestic shipments). For vessels, there are two types: a straight bill of lading which is non-negotiable and a negotiable or shipper's order bill of lading. The latter can be bought, sold, or traded while the goods are in transit. The customer usually needs an original as proof of ownership to take possession of the goods

VI Temporary Import Certificate / ATA CARNET: An ATA Carnet (also known as, "Merchandise Passport") is a document that facilitates the temporary importation of products into foreign countries by eliminating tariffs and value-added taxes (VAT) or the posting of a security deposit normally required at the time of importation.

VII Insurance certificate: Insurance certificate is used to assure the consignee that insurance will cover the loss of or damage to the cargo during transit. These can be obtained from your freight forwarder.

VIII Export Packing List: Export Packing List is considerably more detailed and informative than a standard domestic packing list. It itemizes the material in each individual package and indicates the type of package, such as a box, crate, drum or carton. Both commercial stationers and freight forwarders carry packing list forms.

IX Import License: Import licenses are the responsibility of the importer. Including a copy with the rest of your documentation, however, can sometimes help avoid problems with customs in the destination country.

X Consular Invoice: Consular Invoice is required in some countries, it describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment. If required, copies are available from the destination country's Embassy or Consulate in the country.

XI Air Way Bills: Air freight shipments are handled by air waybills, which can never be made in negotiable form.

XII Inspection Certification: Inspection Certification is required by some purchasers and countries in order to attest to the specifications of the goods shipped. This is usually performed by a third party and often obtained from independent testing organizations.

XIII Dock Receipt and Warehouse Receipt: Dock Receipt and Warehouse Receipt is used to transfer accountability when the export item is moved by the domestic carrier to the port of embarkation and left with the ship line for export.

XIV Destination Control Statement: Destination Control Statement appears on the commercial invoice, and ocean or air waybill of lading to notify the carrier and all foreign parties that the item can be exported only to certain destinations.

IMPORT DOCUMENTS

An importer shall submit to customs authorities import documents before imported goods are removed from storage at the transporter, placed in a bonded warehouse or removed from a bonded warehouse or a free zone for disposal domestically; the documents shall be submitted to customs no later than 3 months from the date of arrival of the vessel which transported the goods to the country.

Import documents shall be submitted to the director of customs in the customs district where the goods are unloaded from the vessel, unless the goods are transported undeclared to another customs district and arrangements are made for customs treatment there.

DOCUMENTS REQUIRED FOR IMPORT CUSTOMS CLEARANCE IN INDIA

1. Bill of Entry: Bill of entry is one of the major import documents for import customs clearance. Bill of Entry is the legal document to be filed by CHA (Customs House Agent) or Importer duly signed. Bill of Entry is one of the indicators of 'total outward remittance of country' regulated by Reserve Bank and Customs department. Bill of entry must be filed within thirty days of arrival of goods at a customs location.

2. Commercial Invoice: Invoice is the prime document in any business transactions. Invoice is one of the documents required for import customs clearance for value appraisal by concerned customs official. The Commercial invoice shall contain the following information:

- Name and address of the seller (consignor),
- Name and address of the buyer (consignee)
- Place and date of issue,
- When the sale took place,
- Number of pieces, type of packing, weight, marks and numbers,
- The goods contained in a consignment, type, make and quantity (number, weight or measurements, as the case may be),

3. Bill of Lading / Airway bill: Bill of lading or a transport document issued in connection with the transport of the goods; however when there is submitted a bill covering freight charges or a notice from the transporter to the consignee concerning a consignment of goods, and these documents contain the same information as specified in regular bills of lading, a bill of lading need not be submitted unless specially requested.

4. Import License: Import license may be required as one of the documents for import customs clearance procedures and formalities under specific products. This license may be mandatory for importing specific goods as per guide lines provided by government. Import of such specific products may have been being regulated by government time to time. So government insist an import license as one of the documents required for import customs clearance to bring those materials from foreign countries.

5. Insurance certificate: Insurance certificate is one of the documents required for import customs clearance procedures. Insurance certificate is a supporting document against importer's declaration on terms of delivery. Insurance certificate under import shipment helps customs authorities to verify, whether selling price includes insurance or not. This is required to find assessable value which determines import duty amount.

6. Purchase order/Letter of Credit: A purchase order reflects almost all terms and conditions of sale contract which enables the customs official to confirm on value assessment. If an import consignment is under letter of credit basis, the importer can submit a copy of Letter of Credit along with the documents for import clearance.

7. Technical write up, literature etc. for specific goods if any: Technical write up, literature of imported goods or any other similar documents may be required as one of the documents for import clearance under some specific goods. For example, if a machinery is imported, a technical write up or literature explaining it's function can be attached along with importing documents. This document helps customs official to derive exact market value of such imported machinery in turn helps for value assessment.

8. Industrial License if any: An industrial license copy may be required under specific goods importing. If Importer claims any import benefit as per guidelines of government, such Industrial License can be produced to avail the benefit. In such case, Industrial license copy can be submitted with customs authorities as one of the import clearance documents.

9. RCMC. Registration cum Membership Certificate if any: For the purpose of availing import duty exemption from government agencies under specific goods, production of RCMC with customs authorities is one of the requirements for import clearance. In such cases importer needs to submit Registration Cum Membership Certificate along with import customs clearance documents.

10. Test report if any: The customs officials may not be able to identify the quality of goods imported. In order to assess the value of such goods, customs official may draw sample of such imported goods and arranges to send for testing to government authorized laboratories. The concerned customs officer can complete appraisement of such goods only after obtaining such test report. So test report is one of the documents under import customs clearance and formalities under some of specific goods.

11. DEEC/DEPB /ECGC or any other documents for duty benefits: If importer avails any duty exemptions against imported goods under different schemes like DEEC (Duty Exemption Entitlement Certificate) /DEPB (Duty Entitlement Pass Book Scheme) /ECGC (Export Credit Guarantee Corporation Scheme) etc., such license is produced along with other import clearance documents.

12. GATT/DGFT declaration: As per the guidelines of Government of India, every importer needs to file GATT The General Agreement on Tariffs and Trade) declaration and DGFT (Directorate General of Foreign Trade) declaration along with other import customs clearance documents with customs. GATT declaration has to be filed by Importer as per the terms of General Agreement on Tariff and Trade.

EXPORT PROCEDURES

There are legal and operational procedures involved. Legal procedures are a bit cumbersome. The operational procedures are regarding one's preparedness to reach global markets with one's production, marketing and other business oriented operational skills.

LEGAL PROCEDURES:

Obtaining Import-Export Code Number, License / certificate / permission for export of restricted items, Export of items reserved for SSIs by non-SSIs, Furnishing of export returns in non-physical form, etc. are some important legal procedures to be followed.

STEP 1. Obtaining Import-Export Code Number and RCMC: Obtaining Import-Export code number is the first legal step involved in exporting. This is to be obtained from the Director General Foreign Trade (DGFT).

Application for IEC Number: Application for grant of IEC number shall be made by Registered/Head Office of the applicant to the Regional Authority under whose jurisdiction, the Registered office of company and Head office in case of others, falls in the 'Aayaat Niryaat Form' and shall be accompanied by documents prescribed therein.

IEC Format and Statements: The Regional Authority concerned shall issue an IEC number in the format.. A copy of such IEC number shall be endorsed to the concerned banker (as per details given in the IEC application form). A consolidated statement of IEC numbers issued by Regional Authority shall be sent to the offices of the Exchange Control Department of the RBI.

Validity of IEC Number. An IEC number allotted to an applicant shall be valid for all branches/divisions/units/factories as indicated in the format of IEC. Where an IEC Number is lost or misplaced, the issuing authority may consider requests for grant of a duplicate copy of IEC number, if accompanied by an affidavit.

Obtaining RCMC: An exporter desiring to obtain a **Registration-cum-Membership Certificate (RCMC)** shall declare his main line of business in the application, which shall be made to the Export Promotion Council (EPC) relating to that line of business. However, a status holder has the option to obtain RCMC from Federation of Indian Exporters Organization (FIEO). Notwithstanding anything stated above, exporters of Drugs & Pharmaceuticals shall obtain RCMC from Pharmexcil only. Further, exporters of minor forest produce and their value added products shall obtain RCMC from Shellac Export Promotion Council. The service exporters (except software service exporters) shall be required to obtain RCMC from FIEO. Prospective/potential exporters may also, on application, register and become an associate member of an export promotion council. The exporter shall furnish quarterly returns/ details of his exports of different commodities to the concerned registering authority. This will be in addition to any other returns as may be prescribed by the registering authority. However, status holders shall also send quarterly returns to FIEO in the format specified by FIEO.

STEP 2. License/certificate/permission for export of restricted items: An application for grant of a license/certificate/permission for import or export of items mentioned as restricted in ITC (HS) may be made in the form relevant and to the specified Regional authorities. An Inter-Ministerial Working Group in DGFT shall consider applications for export of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) as per specified guidelines and case by case.

EXIM Facilitation Committee: Restricted item license/certificate/permission may be granted by the Director General of Foreign Trade or any other Regional Authority authorized by him in this behalf. The DGFT/Regional Authority may take the assistance and advice of a Facilitation Committee. The Facilitation Committee will consist of representatives of Technical Authorities and Departments/ Ministries concerned.

STEP 3. Identity Cards: To facilitate collection of license/ certificate/ Authorization/permissions and other documents from DGFT Head Quarters and Regional Authorities, identity cards may be issued to the proprietor/ partners/ directors and the authorized employees(not more than three), of the importers and exporters. However in case of limited companies, the Head of the Regional Office may approve the allotment of more than three identity cards per company.

STEP 4. Export of items reserved for SSIs by non-SSIs and Free of cost exports: Export of items reserved for SSIs by non-SSIs: Units other than small scale industrial units (SSIs) are permitted to expand or create new capacities in respect of items reserved for the small scale sector, subject to the condition that they obtain an Industrial license under the Industries (Development and Regulation),Act, 1951. It is a condition of such license that the manufacturer shall undertake export obligation as may be specified by the Ministry of Industry and the licensee is required to furnish a Legal Undertaking to the Directorate General of Foreign Trade in this behalf. The Directorate General of Foreign Trade shall monitor the export obligation.

STEP 5. Export Payment Realization: Advance Payment: In case, payment is received in advance and export/ deemed exports takes place subsequently, the application for a license/certificate/ Authorization/ permission shall be filed within specific period following the month during which the exports/deemed exports are made, unless otherwise specified.

Payment through ECGC cover: In cases where the export has been completed but the payment has not been realized from the buyer, such exports shall be taken into account for the purpose of benefits under the ECGC Policy provided the payment has been realized by the Indian exporter through ECGC cover.

Payment through General Insurance Cover: In cases where exports have been made and payment realized through the General Insurance Cover on account of transit loss or other circumstances, the amount of the insurance cover paid would be treated as payment realized on account of exports under the various export promotion schemes.

Exporter in direct negotiation: In cases where the exporter directly negotiates the document (not through the authorized dealer) with the permission of the RBI, he is required to submit the following documents for availing of the benefits under the export promotion schemes:

a) Permission from RBI allowing direct negotiation of documents (however this is not required for status holders who have been granted a general permission),

b) Copy of the Foreign Inward Remittance Certificate(FIRC) as per Form 10-H of the Income Tax department in lieu of the BRC and

c) Statement giving details of the shipping bills/ invoice against which the FIRC was issued.

STEP 6. Quality Certification: It has been a constant endeavour to promote quality standards in the export product / units manufacturing the export product. One of the salient features incorporated in the Foreign Trade Policy for the promotion of quality standards is the grant of Star Export House status on achievement of a lower threshold limit for units having ISO- 9000 (series), ISO-14000 (Series) or HACCP certification or WHOGMP or SEI CMM level-2 & above status/certification.

STEP 7. Export by post and exports by samples: Export by post: In case of export by post, the exporter shall submit the following documents in lieu of documents prescribed for export by sea/air.

a) Bank Certificate of Export and Realization as prescribed

b) Relevant postal receipt.

c) Invoice duly attested by the Customs.

Exports by sample: Exports of bona-fide trade and technical samples of freely exportable item shall be allowed without any limit.

STEP 8. Accounts: The star export status holder shall maintain true and proper accounts of its exports and imports based on which such recognition has been granted and the exports and imports made during the validity period of such recognition certificate. The record shall be maintained for a minimum period of three years from the expiry of the validity of such certificate. These accounts shall be made available for inspection to the regional authority or any authority nominated by the Director General of Foreign Trade.

STEP 9. Furnishing of e-export returns & Electronic Data Interchange (EDI):

Furnishing of export returns in non-physical form, that is electronic form, is allowed now. All the export returns made in non- physical form by using communication links including high speed data communication links, internet, telephone line or any other channel which do not involve the Customs authorities has to be compulsorily reported on quarterly basis to the Electronic and Software Export Promotion Council in the prescribed format. Electronic Data Interchange (EDI) facility is extended to all exporters.

The facility of electronic filing of applications shall be available to all exporters. Under this scheme, an exporter would be able to file his application on the DGFT website at http://

dgft.gov.in. The application will then be processed in accordance with the prevalent rules and regulations. The applicant will have to visit the concerned office to hand-over the hard copy of the application along with the requisite documents including the application fee. The authorization/license shall be issued on receipt of the hard copies of the documents as mentioned above after due scrutiny as prescribed. Authorization /license issued using DGFT Electronic Application System shall be transmitted electronically to the Customs through EDI Mode. This shall also obviate the need for verification of authorizations /licenses before allowing clearance.

CARGO INSURANCE

Cargo insurance is used to insure cargos that are carried by all type of transport used to carry cargo in abroad. You can insure cargos for one-time transportation, i.e. insure the exact cargo which would be carried from a described place during a determined period of time, or You can sign long-term insurance contracts, i.e. insuring all cargo being transported during the contract term. The cargo can be insured against all damage, destruction or other losses, except listed cases that don‘t fall under the insurance policy and except some other individually chosen risks: fire, transport accident, ship drowning, etc.

IMPORT LICENSING

An import license is a document issued by a national government authorizing the importation of certain goods into its territory. Import licenses are considered to be non-tariff barriers to trade when used as a way to discriminate against another country's goods in order to protect a domestic industry from foreign competition.

Each license specifies the volume of imports allowed, and the total volume allowed should not exceed the quota. Licenses can be sold to importing companies at a competitive price, or simply a fee. However, it is argued that this allocation methods provides incentives for political lobbying and bribery. Government may put certain restrictions on what is imported as well as the amount of imported goods and services. For example, if a business wishes to import agricultural products such as vegetables, then the government may be concerned about the impact of such importations of the local market and thus impose a restriction.

REPLENISHMENT LICENSE

An exporter can obtain a Replenishment License for duty free imports of consumables, equal to 1% of FOB (Free on Board) value of exports of the preceding year. He/ She has to produce a Chartered Accountant's Certificate, indicating the export performance during the preceding licensing year. This license will be issued against the surrender of REP (Import Replenishment Scheme) license with a balance validity period of minimum three months, issued under Chapter-8. This license shall be non-transferable and subject to actual user condition. This Replenishment License shall be valid for duty free imports of consumables as notified by the customs.

A Replenishment License for imports of plain/studded jewelry items equal to 2.5% of the FOB value of exports of preceding year may be issued on production of Chartered Accountant's Certificate indicating the export performance. These imports shall be on payment of applicable duty.

ADVANCE IMPORT LICENSE

An advance license is granted for the import of inputs without payment of basic customs duty. Such licenses shall be issued in accordance with the policy and procedure in force on the date of issue of the license and shall be subject to the fulfillment of a time-bound export obligation, and value addition as maybe specified. Advance licenses maybe either value based or quantity based.

As per the latest amendments to the EXIM Policy, the facility of Back to Back Inland Letter of Credit has been introduced, to enable an Advance License holder to source his inputs from domestic suppliers.

PASS BOOK SCHEME

DEPB (Duty Entitlement Pass Book) is an export incentive scheme of Indian Government provided to Exporters in India. Duty Entitlement Pass Book Scheme in short DEPB is an export incentive scheme. Notified on 1/4/1997, the DEPB Scheme consisted of (a) Post export DEPB and (b) Pre-export DEPB. The pre-export DEPB scheme was abolished w.e.f. 1/4/2000. Under the post-export DEPB, which is issued after exports, the exporter is given a duty entitlement Pass Book Scheme at a pre-determined credit on the FOB value. The DEPB rates allow import of any items except the items which are otherwise restricted for imports.

Items such as Gold Nibs, Gold Pen, Gold watches etc. though covered under the generic description of writing instruments, components of writing instruments and watches are thus not eligible for benefit under the DEPB scheme. The DEPB Rates are applied on the basis of FOB value or value cap whichever is lower. For example, if the FOB value is Rs.700/- per piece, and the value cap is Rs.500/- per piece, the DEPB rate shall be applied on Rs.500/-. The DEPB rate and the value cap shall be applicable as existing on the date of exports as defined in paragraph 15.15 of Handbook (Vol.1).

DEPB Scheme is issued only on post-export basis and pre/export DEPB Scheme has been discontinued. The provisions of DEPB Scheme are mentioned in Para 4.3 and 4.3.1 to 4.3.5 of the Foreign Trade Policy or Exim Policy. One significant change in the new DEPB Scheme is that in terms of Para 4.3.5 of the Exim Policy even excise duty paid in cash on inputs used in the manufacture of export product shall be eligible for brand rate of duty drawback as per rules framed by Department of Revenue which was not mentioned in the earlier DEPB Scheme.

IMPORT OF CAPITAL GOODS

A capital good is a durable good (one that does not quickly wear out) that is used in the production of goods or services. Capital goods are one of the three types of producer goods, the other two being land and labor, which are also known collectively as primary factors of production. This classification originated during the classical economic period and has remained the dominant method for classification.

Capital goods are acquired by a society by saving wealth which can be invested in the means of production. In terms of economics one can consider capital goods to be tangible. They are used to produce other goods or services during a certain period of time. Machinery, tools, buildings, computers, or other kind of equipment that is involved in production of other things for sale represent the term of a Capital good. The owners of the Capital good can be individuals, households, corporations or governments. Any material that is used in production of other goods also is considered to be capital good.

Many definitions and descriptions of capital goods production have been proposed in the literature. Capital goods are generally considered as one-of-a-kind, capital intensive products that consist of many components. They are often used as manufacturing systems or services themselves.

QUESTION BANKS – UNIT - 5

S.No	PART - A	CO	Blooms Level
1	State the concept of Export management?	CO5	L 1
2	Enumerate Export documents?	CO5	L 2
3	Illustrate the concept of import document?	CO5	L 2
4	List the Documents required for the processing of the Shipping Bill	CO5	L 1
5	Write a short note on Advance import laicense	CO5	L 1
6	State the Pass book scheme	CO5	L 2
7	Brief the concept of capital goods	CO5	L 2
8	Explain the concept of capital goods	CO5	L 1
9	Define Cargo Insurance	CO5	L 1
10	List the documents needed for import	CO5	L 2

S.No	PART - B	CO	Blooms Level
1	Write an essay on the major Nature or features of Export Management in India	CO5	L 5
2	Elaborate the importance of Export Management and major Issues in Export Management in India	CO5	L 4
3	Critically examine the Documents commonly needed for Export in India?	CO5	L 6
4	Assess the various steps involved in Legal procedures of Export in India?	CO5	L 4
5	Critically evaluate the Documents commonly needed for Import in India?	CO5	L 6
6	Write an essay about the procedure for obtaining import license in India?	CO5	L 6
7	Defend the necessity of replenishment license for importing goods and services as part of international business?	CO5	L 4

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