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SCHOOL OF MANAGEMENT STUDIES

UNIT 1 – INTERNATIONAL TRADE – SBAX1021

SYLLABUS: UNIT - I

INTRODUCTION TO INTERNATIONAL TRADE: International Trade- Importance Of International Trade- Theories Of Foreign Trade- Theories Of Adam Smith, Ricardo, Haberier's Hechsher-Ohlin.

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.

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 were 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.

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SCHOOL OF MANAGEMENT STUDIES

UNIT 2 – INTERNATIONAL TRADE – SBAX1021

SYLLABUS: UNIT 2: BALANCE OF TRADE AND BALANCE OF PAYMENTS
Balance of Trade, Balance of Payment – Concepts – Causes of Disequilibrium, Disequilibrium – Fixed and Floating Exchange Rates – Dollar Marketing (An over View).

FOREIGN EXCHANGE

Foreign Exchange (forex or FX) is the trading of one currency for another. For example, one can swap the U.S. dollar for the euro. Foreign exchange transactions can take place on the foreign exchange market, also known as the Forex Market.

Table 1: MOST TRADED CURRENCIES BY VALUE IN 2020

Rank	Currency	ISO 4217 code (symbol)	% of daily trades (bought or sold) (April 2019)
1	United States dollar	USD (US$)	88.3%
2	Euro	EUR (€)	32.3%
3	Japanese yen	JPY (¥)	16.8%
4	Pound sterling	GBP (£)	12.8%
5	Australian dollar	AUD (A$)	6.8%
6	Canadian dollar	CAD (C$)	5.0%
7	Swiss franc	CHF (CHF)	5.0%
8	Renminbi	CNY (元)	4.3%
9	Hong Kong dollar	HKD (HK$)	3.5%
10	New Zealand dollar	NZD (NZ$)	2.1%
11	Swedish krona	SEK (kr)	2.0%
12	South Korean won	KRW (₩)	2.0%
13	Singapore dollar	SGD (S$)	1.8%
14	Norwegian krone	NOK (kr)	1.8%
15	Mexican peso	MXN ($)	1.7%
16	Indian rupee	INR (⍰)	1.7%
17	Russian ruble	RUB (⍰)	1.1%
18	South African rand	ZAR (R)	1.1%
19	Turkish lira	TRY (″)	1.1%
20	Brazilian real	BRL (R$)	1.1%

Methods of Foreign Payment

1. Bill of exchange: A bill of exchange is a non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.

2. Banker draft: A **banker's draft** also called a **bank cheque**, **bank draft** is a cheque provided to a customer of a bank or acquired from a bank for remittance purposes that is drawn by the bank and drawn on another bank or payable through or at a bank.

3. Telegraphic transfer: A telegraphic transfer (TT) is an electronic method of transferring funds. Telegraphic Transfers are used primarily for overseas wire transactions.

FOREIGN EXCHANGE MARKET

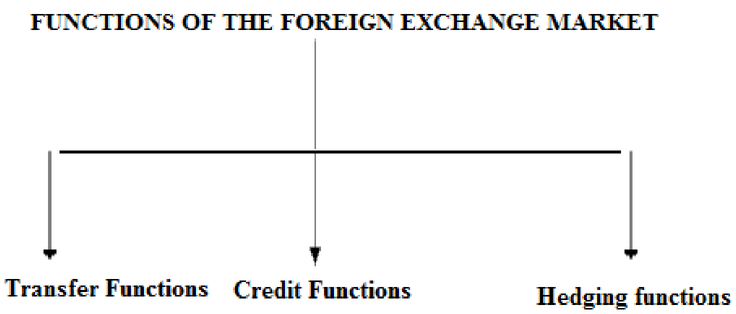
Foreign exchange market is the market in which foreign currencies are bought and sold. The buyers and sellers include individuals, firms, foreign exchange brokers, commercial banks and the central bank.

Like any other market, foreign exchange market is a system, not a place. The transactions in this market are not confined to only one or few foreign currencies. In fact, there are a large number of foreign currencies which are traded, converted and exchanged in the foreign exchange market.

Functions of Foreign Exchange Market

Foreign exchange market performs the following three functions

Fig 1: Functions of Foreign Exchange Market



1. Transfer Function: It transfers purchasing power between the countries involved in the transaction. This function is performed through credit instruments like bills of foreign exchange, bank drafts and telephonic transfers.

2. Credit Function: It provides credit for foreign trade. Bills of exchange, with maturity period of three months, are generally used for international payments. Credit is required for this period in order to enable the importer to take possession of goods, sell them and obtain money to pay off the bill.

3. Hedging Function: When exporters and importers enter into an agreement to sell and buy goods on some future date at the current prices and exchange rate, it is called hedging. The purpose of hedging is to avoid losses that might be caused due to exchange rate variations in the future.

Kinds of Foreign Exchange Markets:

Foreign exchange markets are classified on the basis of whether the foreign exchange transactions are spot or forward accordingly, there are two kinds of foreign exchange markets

(i) Spot Market: Spot market refers to the market in which the receipts and payments are made immediately. Generally, a time of two business days is permitted to settle the transaction. Spot market is of daily nature and deals only in spot transactions of foreign exchange (not in future transactions). The rate of exchange, which prevails in the spot market, is termed as spot exchange rate or current rate of exchange.

(ii) Forward Market: Forward market refers to the market in which sale and purchase of foreign currency is settled on a specified future date at a rate agreed upon today. The exchange rate quoted in forward transactions is known as the forward exchange rate. Generally, most of the international transactions are signed on one date and completed on a later date. Forward exchange rate becomes useful for both the parties involved in the transaction.

FLUCTUATIONS IN THE RATE OF EXCHANGE

Currency fluctuations are a natural outcome of the floating exchange rate system, which is the norm for most major economies. Numerous fundamental and technical factors influence the exchange rate of one currency compared to another. These include relative supply and demand of the two currencies, economic performance, an outlook for inflation, interest rate differentials, capital flows, technical support and resistance levels, and so on. As these factors are generally in a state of perpetual flux, currency values fluctuate from one moment to the next.

CAUSES FOR FLUCTUATIONS

1. Changes in demand and supply of foreign currencies: As the demand and supply conditions keep on changing the rate of exchange will not be stable.

2. Trade and commercial influence: Any change in import or export of a country is bound to change the rate of exchange which will affect the supply and demand conditions or exchange market.

3. Stock exchange influence: As several types of stock and securities are bought and sold in stock exchange. As the result, demand for foreign currencies will change , causing instability in exchange rates.

4. Banking Influence: When central bank of the country changes its bank rate, it will have its influence in the rate of exchange of currencies.

5. Political Conditions: Declaration of war, news of defeat or victory, change of government in the general election, influence stock exchanges will influence the rate of exchange.

BALANCE OF TRADE Vs BALANCE OF PAYMENTS

Balance of Trade and Balance of Payments are two different concepts in the subject of international trade.

Balance of Trade (BOT)

Balance of Trade (BOT) refers to the total value of a country's exports of commodities and total value of imports of commodities. Only export and import of commodities are included in the statement of Balance of Trade of a country. Movements of goods (export and imports of commodities) are also known as ‘visible trade’, because the movement of commodities between countries can be seen by eyes and felt by hands and can be verified physically by custom authorities of a country.

Favourable BOT

When the total value of commodity exports of a country exceeds the total value of commodity imports of that country, it is said that the country has a ‘favourable’ balance of trade.

Unfavourable BOT

If total value of commodity exports of a country is less than the total value of commodity imports of that country, that country is said to have an ‘unfavourable’ balance of trade.

Balance of Payments (BOP)

The balance of payments (henceforth BOP) is a systematic record of the receipts and payments from and to other countries arising out of all economic transactions during the course of a year.

In the words of C. P. Kindleberger : **“The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting and the residents of the foreign countries during a given period of time.”** Here by ‘residents’ we mean individuals, firms and government.

When a payment is received from a foreign country, it is a credit transaction while a payment to a foreign country is a debit transaction. The principal items shown on the credit side are exports of goods and services, transfer receipts in the form of gift etc., from foreigners, borrowing from abroad, foreign direct investment and official sale of reserve assets including gold to foreign countries and international agencies.

The principal items on the **debit side** include imports of goods and services, transfer payments to foreigners, lending to foreign countries, investments by residents in foreign countries and official purchase of reserve assets or gold from foreign countries and international agencies.

Balance of Payment (BOP) Account Chart

Credit (Receipts) – Debit **(Payments)** = Balance **[Deficit (-) , Surplus (+)]**

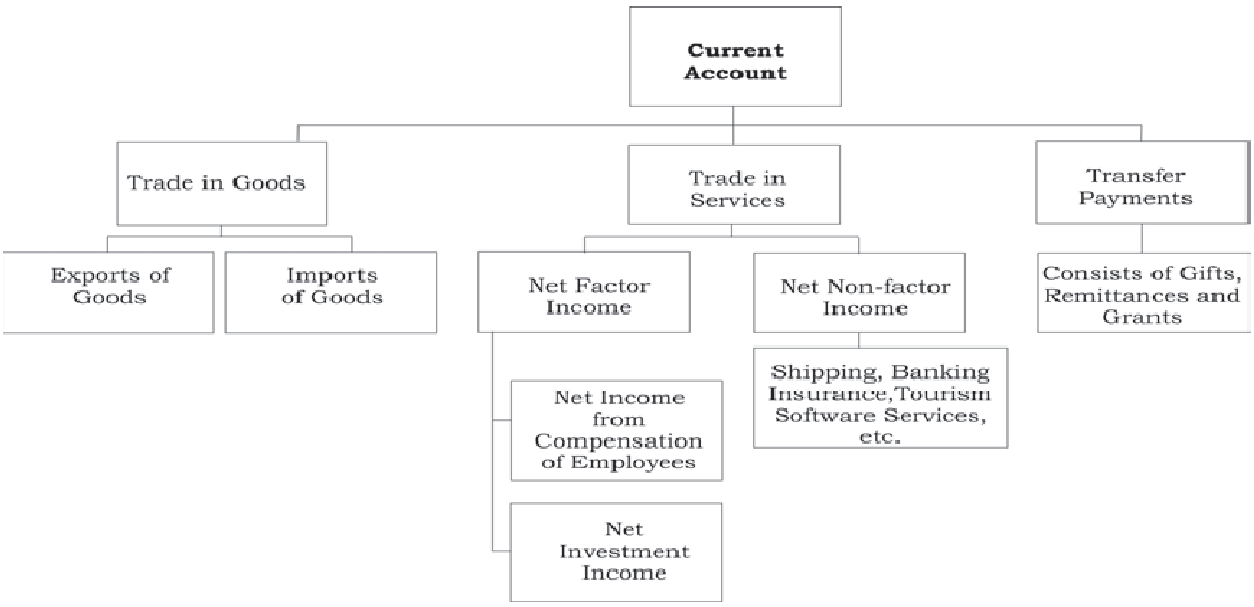
Components of BOPs

The credit and debit items are shown vertically in the BOP account of a country. Horizontally, they are divided into three categories, i.e. a) The current account, b) The capital account and c) The official settlements account or official reserve assets account.

a) The Current Account:

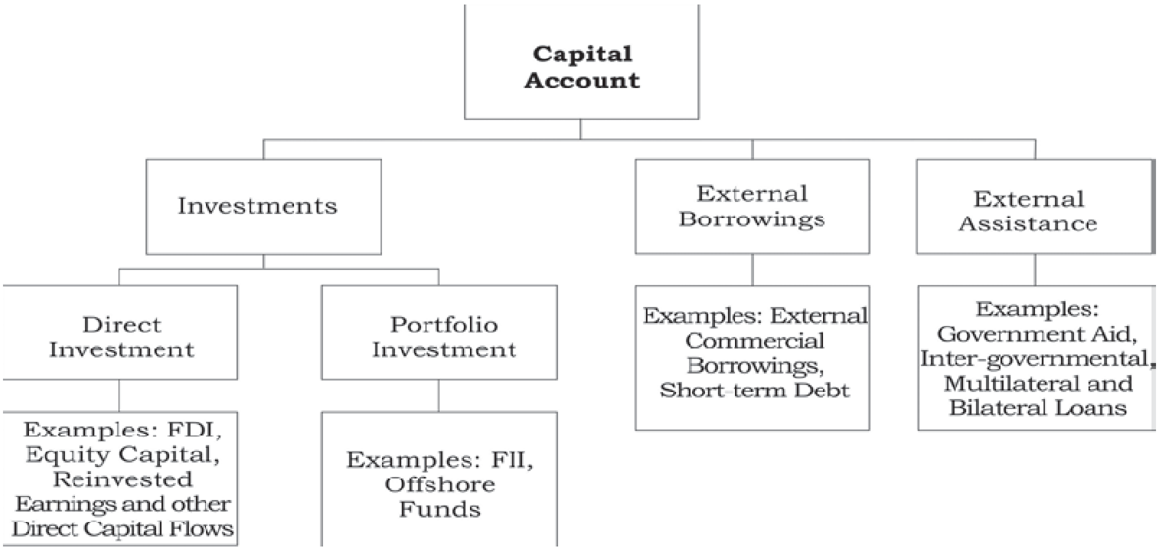
It includes all international trade transactions of goods and services, international service transactions (i.e. tourism, transportation and royalty fees) and international unilateral transfers (i.e. gifts and foreign aid).

Fig. 2: Components of Current Account



b) The Capital Account: Financial transactions consisting of direct investment and purchases of interest- bearing financial instruments, non- interest bearing demand deposits and gold fall under the capital account.

Fig. 3: Components of Capital Account



c) The Official Reserve Assets Account: Official reserve transactions consist of movements of international reserves by governments and official agencies to accommodate imbalances arising from the current and capital accounts. The official reserve assets of a country include its gold stock, holdings of its convertible foreign currencies and Special Drawing Rights (SDRs) and its net position in the International Monetary Fund (IMF).

Balance of Payments Disequilibrium

The BoP is said to be balanced when the receipts (R) and payments (P) are just equal, i.e,

R / P =1.

Favourable BoP

When receipts exceed payments, the BoP is said to be favourable. That is,

R / P > 1

Unfavourable BOP

When receipts are less than payments, the BoP is said to be unfavourable or adverse.That is

R / P < 1

TYPES BOP DISEQUILIBRIUM

i. Cyclical Disequilibrium: It occurs on account of trade cycles. Depending upon the different phases of trade cycles like prosperity and depression, demand and other forces vary, causing changes in the terms of trade as well as growth of trade and accordingly a surplus or deficit will result in the balance of payments.

ii. Structural Disequilibrium: It emerges on account of structural changes occurring in some sectors of the economy at home or abroad which may alter the demand or supply relations of exports or imports or both. Suppose the foreign demand for India's jute products declines because of some substitutes, then the resources employed by India in the production of jute goods will have to be shifted to some other commodities of export.

iii. Short-run Disequilibrium or Temporary Disequilibrium: A short-run disequilibrium in a country's balance of payments will be a temporary one, 'lasting for a short period, which may occur once in a while. When a country borrows or lends internationally, it will have short-run disequilibrium in its balance of payments, as these loans are usually for a short period or even if they are for a long duration, they are repayable later on; hence the position will be automatically corrected and poses no serious problem.

iv. Long-run Disequilibrium or Secular Disequilibrium: The long-term disequilibrium thus refers to a deep- rooted, persistent deficit or surplus in the balance of payments of a country. It is secular disequilibrium emerging on account of the chronologically accumulated short-term disequilibria — deficits or surpluses.

V. Technological Disequilibrium: Technological disequilibrium in the balance of payments is caused by various technological changes. Technological changes involve inventions or innovations of new goods or new techniques of production. These technological changes affect the demand for goods and productive factors which in turn influence the various items in the balance of payments.

Causes of disequilibrium in BOP

(i) Economic Factors

(a) Imbalance between exports and imports,

(b) Large scale development expenditure which causes large imports,

(c) High domestic prices which lead to imports,

(d) Cyclical fluctuations (like recession or depression) in general business activity, (e) New sources of supply and new substitutes.

(ii) Political Factors: Experience shows that political instability and disturbances cause large capital outflows and hinder Inflows of foreign capital.

(iii) Social Factors: (a) Changes in fashions, tastes and preferences of the people bring disequilibrium in BOP by influencing imports and exports; (b) High population growth in poor countries adversely affects their BOP because it increases the needs of the countries for imports and decreases their capacity to export.

Measures to Correct BOP Disequilibrium

(i) Export promotion: Exports should be encouraged by granting various bounties to manufacturers and exporters. At the same time, imports should be discouraged by undertaking import substitution and imposing reasonable tariffs.

(ii) Import: Restrictions and Import Substitution are other measures of correcting disequilibrium.

(iii) Reducing inflation: Inflation (continuous rise in prices) discourages exports and encourages imports. Therefore, government should check inflation and lower the prices in the country.

(iv) Exchange control: Government should control foreign exchange by ordering all exporters to surrender their foreign exchange to the central bank and then ration out among licensed importers.

(v) Devaluation of domestic currency: It means fall in the external (exchange) value of domestic currency in terms of a unit of foreign exchange which makes domestic goods cheaper for the foreigners. Devaluation is done by a government order when a country has adopted a fixed exchange rate system. Care should be taken that devaluation should not cause rise in internal price level.

(vi) Depreciation: Like devaluation, depreciation leads to fall in external purchasing power of home currency. Depreciation occurs in a free market system wherein demand for foreign exchange far exceeds the supply of foreign exchange in foreign exchange market of a country.

Uses of Balance of Payment

- BOP of a country reveals its financial and economic status.
- BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.
- BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyze and understand the economic dealings of a country with other countries.
- By studying its BOP statement and its components closely, one would be able to identify trends that may be beneficial or harmful to the economy of the county and thus, then take appropriate measures.

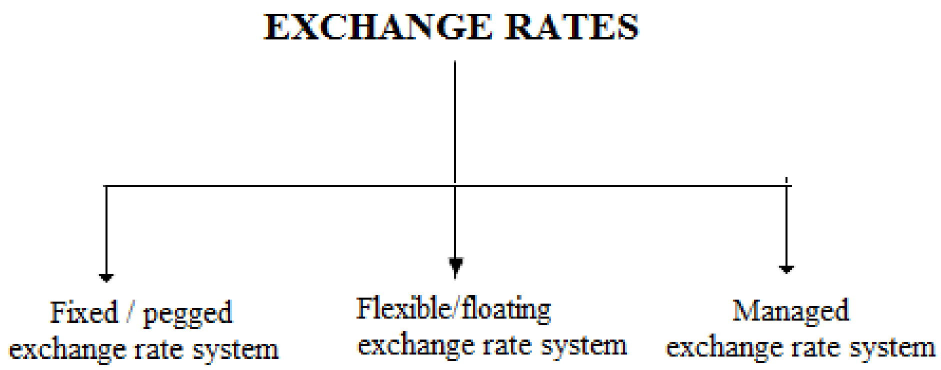
FIXED/ FLOATING EXCHANGE RATES

Exchange Rate: An Exchange rate at which one currency can be exchanged for another. It is the value of another country's currency compared to that of their own.

Exchange rate connects the price system of two countries since this (special) price shows the relationship between all domestic prices and all foreign prices.

Any change in the exchange rate between rupee and dollar will cause a change in the prices of all American goods for Indians and the prices of all Indian goods for Americans. In the process, equilibrium in BOP accounts will be restored.

Fig. 4: Exchange Rate



(A) Fixed Exchange Rate: A fixed exchange rate is an exchange rate that does not fluctuate or that changes within a pre-deter- mined rate at infrequent intervals. Government or the central monetary authority intervenes in the foreign exchange market so that exchange rates are kept fixed at a stable rate. The rate at which the currency is fixed is called par value. This par value is allowed to move in a narrow range or 'band' of ± 1 per cent.

If the sum of current and capital account is negative, there occurs an excess supply of domestic currency in world markets. The government then intervenes using official foreign exchange reserves to purchase domestic currency.

(B) Flexible Exchange Rate: Under the flexible or floating exchange rate, the exchange rate is allowed to vary to international foreign exchange market influences. Thus, government does not intervene. Rather, it is the market forces that determine the exchange rate. In fact, automatic variations in exchange rates consequent upon a change in market forces are the essence of freely fluctuating exchange rates.

A deficit in the BOP account means an excess supply of the domestic currency in the world markets. As price declines, imbalances are removed. In other words, excess supply of domestic currency will automatically cause a fall in the exchange rate and BOP balance will be restored.

(C) Managed Exchange Rate: Under the managed exchange rate, floating exchange rates are ‘managed’ partially. That is to say, exchange rates are determined in the main by market forces, but central bank intervenes to stabilise fluctuations in exchange rates so as to bring ‘orderly’ conditions in the market or to maintain the desired exchange rate values.

FIXED EXCHANGE RATE SYSTEM: ADVANTAGES AND DISADVANTAGES

Advantages:

(i) Elimination of Uncertainty and Risk: The necessary condition for an orderly and steady growth of trade demands stability in exchange rate. Any undue fluctuations in exchange rate cause problems to the plans and programmes of both exporters and imports.

(ii) Speculation Deterred: As exchange rate remains unchanged for a fairly long period of time, people expect that such rate would not change in the immediate future. This then eliminates speculation in the foreign exchange market.

Further, as stability in the exchange rate over longish period eliminates the threat of speculation, it discourages the flight of capital. In a world of free fluctuating exchange rate, the danger of the flight of capital is rather high as this kind of exchange rate induces people to speculate. As exchange rates remain fixed, traders have a sense of confidence that international payments can be made safely without the danger of losses.

(iii) Prevention of Depreciation of Currency: In poor developing countries, one experiences BOP difficulties of a permanent type. Under the circumstances, any frequent changes in exchange rate will tend to aggravate the BOP crisis, like continuous depreciation of home currency in terms of currencies of other countries. In other words, unstable exchange rates result in depreciation of currencies. This can be prevented by the stable exchange rate.

(iv) Adoption of Responsible Macroeconomic Policies: Stable exchange rate system prevents government from adopting irresponsible macro- economic policies like devaluation of currencies. Above all, under the fixed exchange rate system, deflationary policies can even be pursued to tide over the BOP deficit, even without bringing any change in domestic policies.

(v) Attraction of Foreign Investment: Exchange rate stability may encourage foreigners to perk their investible funds in a country. If the exchange rate changes rather frequently, it will deter them to invest in a country. Of course, such foreign investment having multiplier effect leads to higher economic growth.

(vi) Anti-inflationary: Fixed exchange rate system is anti-inflationary in character. If exchange rate is allowed to decline, import goods tend to become dearer. High cost import goods then fuels inflation. Such a situation can be prevented by making the exchange rate fixed.

Disadvantages:

(i) Speculation Encouraged: In fact, uncertainty and, hence, speculative activities, tend to get a boost even under the fixed exchange rate system. Under a fixed rate system, if a country faces huge BOP deficit then the possibility of speculation gets brightened. If the speculators can guess that such BOP deficit will persist in the days ahead and the authority may go for a cut in foreign exchange rate then these people will be more enthusiastic to sell domestic currencies in the foreign exchange market.

If such sale of home currencies continues for a longer period, the central bank will then be forced to reduce exchange rate, instead of keeping it at the old fixed rate. Under the circums-tance, speculators go on buying home currencies where exchange rates have been reduced. This will make these people to earn profit. The Bretton Woods System of the IMF collapsed in 1971 because of such speculation made with the US dollars.

(ii) Adequacy of Foreign Exchange Reserves: For the effectiveness of a stable exchange rate, the necessary condition is the adequacy of holding, foreign exchange reserves. Poor developing countries find it difficult to maintain an adequate volume of foreign exchange reserves. Speculators then anticipate currency devaluation in advances if BOP needs to be corrected. Before 1970, fixed exchange rate, in fact, prevailed because of low volume of global trade and, hence, low volume of foreign exchange reserves.

(iii) Internal Objectives of Growth and Full Employment Sacrificed: When countries experience large and persistent deficits or 'fundamental disequilibrium' in BOP, they are down with the foreign exchange reserves. Countries then opt for devaluation of their currencies and take some internal measures to reduce their deficits.

(iv) International Competitive Environment Bypassed: The continuous changes in international competitive environment do not get reflected under the fixed exchange rate system. Thus, to make the home product more competitive in the foreign market, what is required is the change in domestic economic policies so that the country's export products get larger foothold in the foreign market. In other words, the fixed exchange rate system fails to gloss over the international competitive environment.

Advantage of Floating Exchange Rates:

1. Automatic Stabilisation: Any disequilibrium in the balance of payments would be automatically corrected by a change in the exchange rate. For example, if a country suffers from a deficit in the balance of payments then, other things being equal, the country's currency should depreciate.

This would make the country's exports cheaper, thus increasing demand, while at the same time making imports expensive and decreasing demand. The balance of payments equilibrium would therefore be restored. On the contrary, a balance of payments surplus would be automatically eliminated through a change in the exchange rate.

2. Freeing Internal Policy: Under the floating exchange rate system the balance of payments deficit of a country can be rectified by changing the external price of the currency. On the country if a fixed exchange rate policy is adopted, then reducing a deficit could involve a general deflationary policy for the whole economy, resulting in unpleasant consequences such as unemployment and idle capacity.

Thus, a floating exchange rate allows a government to pursue internal policy objectives such as full employment growth in the absence of demand-pull inflation without external constraints (such as debt burden or shortage of foreign exchange).

3. Absence of Crisis: The periods of fixed exchange rates were frequently characterised by crisis as too much pressure was put on central bank to devalue or revalue the country's currency. However, the central bank that devalued a currency by giving out too much of it would soon either stop or run out of it.

4. Management: J. E. Meade has pointed out that under the floating exchange rates system national governments enjoy considerable discretion. To be more specific, governments are free to manipulate the external value of their currency to their own advantage.

5. Flexibility: Changes in world trade since the first oil crisis of 1973 have caused great changes in the values of currencies. How these could have been dealt with under a system of fixed exchange rate is not yet clear.

6. Avoiding Inflation: John Beardshaw has argued that, "A floating exchange rate helps to insulate a country from inflation elsewhere. In the first place, if a country were on a fixed exchange rate then it would 'import' inflation by way of higher import prices. Secondly, a country with a payments surplus and a fixed exchange rate would tend to 'import' inflation from deficit countries."

7. Lower Reserves: Finally, floating exchange rates should mean that three is hardly any need to maintain large reserves to develop the economy. These reserves can therefore be fruitfully used to import capital goods and other items in order to promote faster economic growth.

Disadvantages of Floating Exchange Rates:

1. Uncertainty: The very fact that currencies change in value from day to day introduces a large element of uncertainty into trade. A seller may not be quite sure of how much money he will receive when he sells goods abroad. Some of this uncertainty may be reduced by companies buying currency ahead in forward exchange contracts.

2. Lack of Investment: The uncertainty introduced by floating exchange rates may discourage direct foreign investment (i.e., investment by multinational companies).

3. Speculation: The day-to-day fluctuations in exchange rates may encourage speculative movements of 'hot money' from country to country, thereby cause more and mooring exchange rate fluctuations.

4. Lack of Discipline: The need to maintain an exchange rate imposes a discipline upon the national economy. It is quite possible that with a floating exchange rate such short-run problems as domestic inflation may be ignored until they have created crisis situations.

Major central banks within world economy today

i. US Federal Reserve Bank (USD)
ii. European Central Bank (EUR)
iii. Bank of England (GBP)
iv. Bank of Japan (JPY)
v. Swiss National Bank (CHF)
vi. Bank of Canada (CAD)
vii. Reserve bank of Australia (AUD)
viii. Reserve bank of New Zealand (NZD)

DOLLAR MARKETING (AN OVERVIEW)

Prior to US dollar, Pound sterling was the currency preferred for international trade. US became the largest economy and in 1948 world's advanced economies met in Bretton Woods conference and decided to peg all foreign currencies to the USD. Earlier the major currencies were backed by GOLD. (That means anybody surrendering their currency will get equal value of gold) . At the time of Bretton woods conference, US had the maximum gold and at that time USD was backed by gold. So it became easy for all countries whose currencies were not backed by gold to peg their currencies to USD which is backed by gold.

In 1970, USD also backed out of redeeming its currency for the value of gold. By that time, USD has become virtually in an unassailable position.

Main features of the US dollar

1. **The US dollar is generally negatively correlated with gold:** Historically, the US dollar price and gold prices have had almost perfectly negative correlations. This means that when the price of gold goes up, the value of the dollar goes down and vice versa, which is mainly due to the fact that gold is measured or valued in dollars.
2. **Several emerging markets have established an exchange rate parity between their currency and the US dollar:** This measure was adopted with the idea that the governments of these countries accept that the dollar becomes their reserve currency by offering to buy or sell any amount of their local currency at the established exchange rate.
3. **Markets tend to pay close attention to interest rate spreads between US Treasuries and foreign bonds:** It is a good indicator of potential fluctuations in currency prices. The US market is one of the largest in the world and investors are very sensitive to changes in US asset returns.
4. **The Dollar Index:** Professional forex traders closely follow the behavior of the Dollar Index (USDX) as an indicator of the overall strength or weakness of this currency.
5. **Foreign exchange transactions in the United States are influenced by the stock and bond markets:** There is a strong correlation between a country's currency and its equity and fixed-income markets, which is clearly the case in the United States.

Eurodollars are Time deposits denominated in U.S dollar at banks outside the united states, and thus are not under the jurisdiction of the Federal reserve. Consequently, such deposits are subject to much less regulation than similar deposits within the U.S.. The term was originally coined for U.S. dollars in European banks, but it expanded over the years to its present definition—a U.S. dollar-denominated deposit in Tokyo or Beijing would be likewise deemed a Eurodollar deposit. There is no connection with the euro currency or the euro zone.

By December 1985 the Euro currency market was estimated by Morgan Guaranty bank to have a net size of 1,668B, of which 75% are likely Euro dollar. However, since the markets are not responsible to any government agency its growth is hard to estimate. The Eurodollar market is by a wide margin the largest source of global finance. In 1997, nearly 90% of all international loans were made this way.

Futures contracts

The Eurodollar futures contract refers to the financial Future contract is based upon these deposits, traded at the Chicago Mercantile Exchange(CME). More specifically, Euro Dollar futures contracts are derivatives on the interest rate paid on those deposits. Eurodollars are cash settled futures contract whose price moves in response to the interest rate offered on US Dollar denominated deposits held in European banks. Eurodollar futures are a way for companies and banks to lock in an interest rate today, for money it intends to borrow or lend in the future. Each CME Eurodollar futures contract has a notional or "face value" of $1,000,000, though the leverage used in futures allows one contract to be traded with a margin of about one thousand dollars.

CME Eurodollar futures prices are determined by the market’s forecast of the 3-month USD LIBOR interest rate expected to prevail on the settlement date.. A price of 95.00 implies an interest rate of 100.00 - 95.00, or 5%. The settlement price of a contract is defined to be 100.00 minus the official British Bankers Association fixing of 3-month LIBOR on the day the contract is settled.

A single Eurodollar future is similar to a forward rate agreement to borrow or lend US$1,000,000 for three months starting on the contract settlement date. Buying the contract is equivalent to lending money, and selling the contract short is equivalent to borrowing money.

OTHER FEATURES OF DOLLAR MARKET:

40 quarterly expirations and 4 serial expirations are listed in the Eurodollar contract. This means that on 1 January 2011, the exchange will list 40 quarterly expirations (March, June, September, December for 2011 through 2020), the exchange will also list another four serial (monthly) expirations (January, February, April, May 2011). This extends tradeable contracts over ten years, which provides an excellent picture of the shape of the yield curve. The frontmonth contracts are among the most liquid futures contracts in the world, with liquidity decreasing for the further out contracts. Total open interest for all contracts is typically over 10 million.

The CME Eurodollar futures contract is used to hedge interest rate swaps. There is an arbitrage relationship between the interest rate swap market, the forward rate agreement market and the Eurodollar contract. CME Eurodollar futures can be traded by implementing a spread strategy among multiple contracts to take advantage of movements in the forward curve for future pricing of interest rates.

In United states market Eurodollars are a popular option for what are known as "sweeps". Until 21 July 2011, banks were not allowed to pay interest on corporate checking accounts. To accommodate larger businesses, banks may automatically transfer, or sweep, funds from a corporation's checking account into an overnight investment option to effectively earn interest on those funds. Banks usually allow these funds to be swept either into money market mutual funds, or alternately they may be used for bank funding by transferring to an offshore branch of a bank.

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SCHOOL OF MANAGEMENT STUDIES

UNIT 3 – INTERNATIONAL TRADE – SBAX1021

SYLLABUS - UNIT: 3

EXPORT MANAGEMENT: Meaning – Export Procedure and Documents – Export Finance – Export Promotion – Export Pricing.

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.

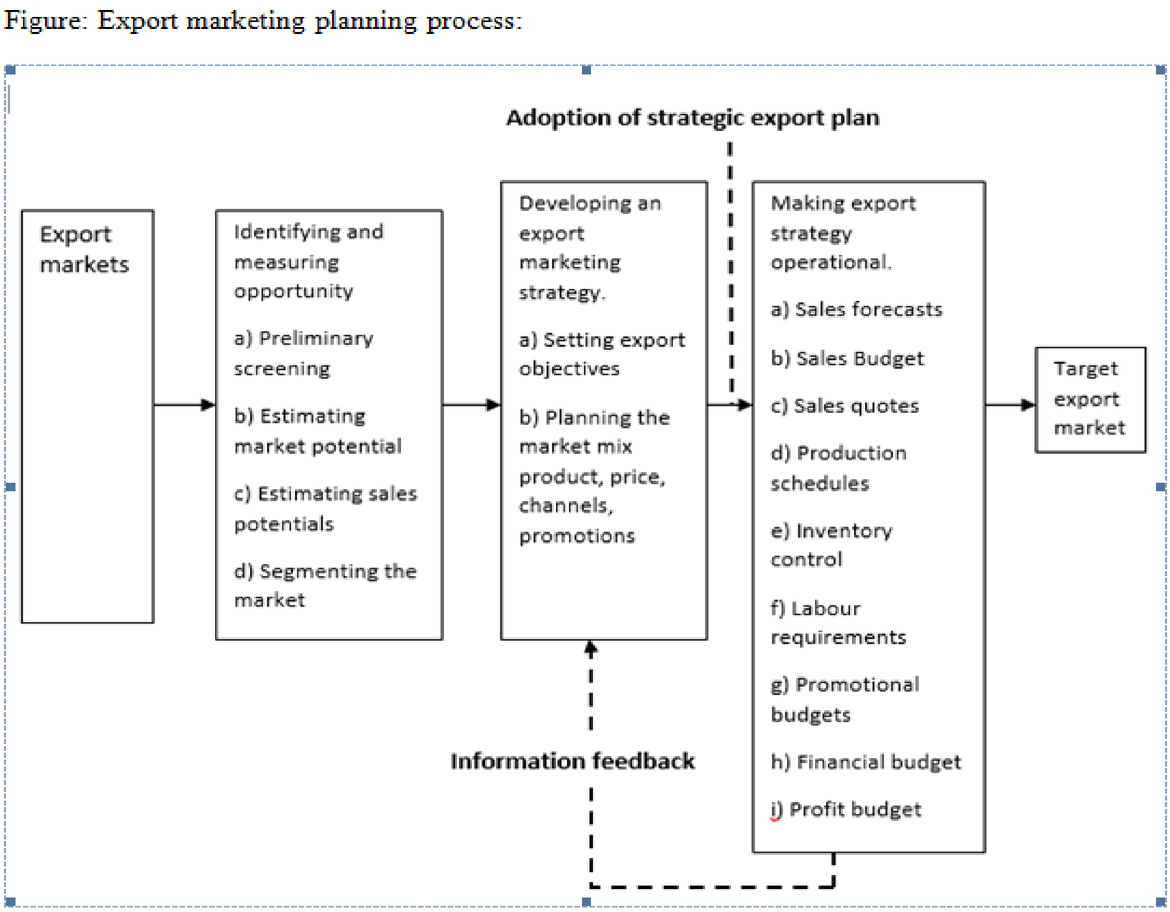
12.Globalise or perish: Foreign trade is the need of each country. Because some important goods a country has to import like technology and goods which are not available in domestic market to export to get foreign exchange, otherwise it will perish economically.

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:



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.

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 Organisation (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 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.

EXPORT PRICE QUOTATIONS [EXPORT TERMS]

1. Ex Works: Packing cost paid by the exporter and other expenses and transit risk are borne by the importer.

2. Free alongside ship price[F.A.S]: Till the goods are boarded on the ship the expenses will be borne by the exporter.

3. Free on Board Price [F.O.B]: All the expenses and port charges loading, unloading charges are borne by the exporter.

4. Cost and Freight Pricing[C& F]: F.O.B + Ocean freight will be taken up by the exporter

5. Franco Price: Includes cost up to the importers guddown in foreign country are paid by the exporter.

6 Exship Price: All cost till the goods reach the importers port will be taken up by the exporter.

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UNIT 4 – INTERNATIONAL TRADE – SBAX1021

SYLLABUS - UNIT: 4

INTERNATIONAL ORGANISATIONS:

Meaning and its functions – IMF, IDA, IBRD, ADB, UNCTAD, UNIDO.

INSTITUTIONAL SUPPORT FOR INTERNATIONAL BUSINESS

Table 1: List of International Organizations

S. No.	Name of the Organization	Place	Est.. year	Members
1	United Nations Organization (UNO)	New York, USA	1945	193
2	World Bank	Washington, USA	1944	189
3	International Monitory Fund (IMF)	Washington, USA	1945	189
4	International Labour Organization (ILO)	Geneva, Switzerland	1919	187
5	United Nations Conference on Trade and Development (UNCTAD)	Geneva, Switzerland	1964	195
6	World Intellectual Property Organization and Development (WIPOD)	Geneva, Switzerland	1967	193
7	United Nations Industrial Development Organization (UNIDO)	Vienna, Austria	1966	170
8	Asian Development Bank	Manila, Philippines	1966	68
9	World Trade Organization (WTO)	Geneva, Switzerland	1995	164
10	Food and Agriculture Organization (FPO)	Rome, Italy	1945	197

HISTORY OF INTERNATIONAL ORGANIZATIONS

During First World War [1918 – 1939]

- There was monetary confusions and gold standards are replaced by fixed exchange rate system[1914]
- Every country wanted to increase export decrease imports which raised commercial rivalry among nations.

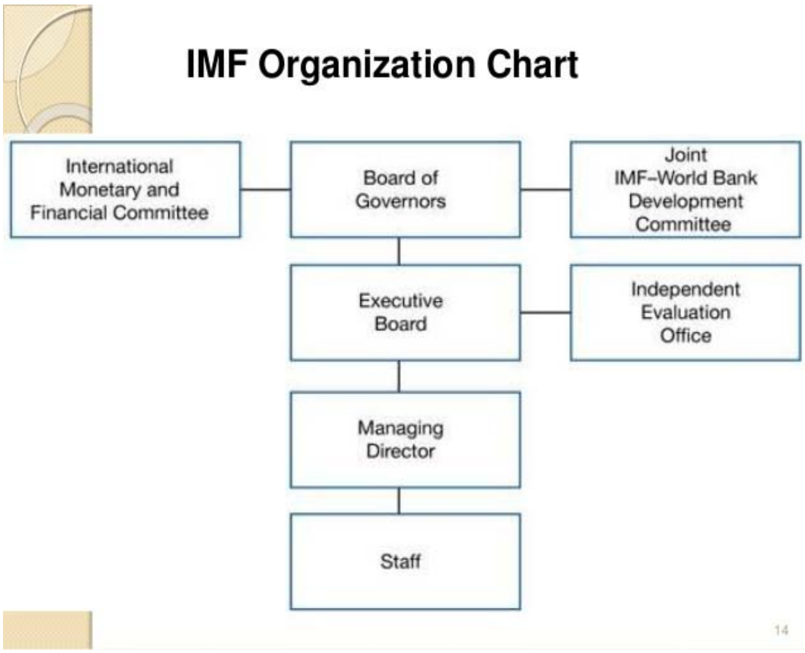
During Second World War [1939_ 1945]

- Several countries felt the importance of economic and monetary cooperation among countries.
- Stabilization of fund was suggested by DEXTER AND WHITE,USA which was popularly called as, “DEXTER – WHITE PLAN.”
- IMF was set up DEC, 1945 with the membership of 30 countries and commenced its operation from 1.3.1947.
- International Monetary Fund and setting up International bank for Reconstruction and Development [IBRD]. It was popularly called as ,”WORLD BANK”
- Member countries subscribe its quota in the fund by paying 25% in gold and 75% in their own currency.
- Members have the right to purchase other countries currencies with their own currency and now the gold is discontinued and 25% is replaced by SDR[special drawings Rights].
- Current President : Kristalina Georgieva

Main purpose or objectives of IMF

- To establish international monetary co-operation amongst its members.
- To ensure foreign exchange rates stability and maintain orderly exchange arrangement among its members.
- Making the resources of the fund temporarily available for its members
- Facilitate the expansion and balanced growth of international trade
- Shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members
- Assist in establishing a multilateral system of payments in respect of current transactions between members.

Fig 1: Organization structure of IMF



MAJOR FUNCTIONS OF IMF

1. Exchange Stability: The first important function of IMF is to maintain exchange stability and thereby to discourage any fluctuations in the rate of exchange. It ensures such stability by making necessary arrangements like—enforcing declaration of par value of currency of all members in terms of gold or US dollar, enforcing devaluation criteria, up to 10 per cent or more by more information or by taking permission from IMF respectively, forbidding members to go in for multiple exchange rates and also to buy or sell gold at prices other than declared par value.

2. Eliminating BOP Disequilibrium: IMF is helping the member countries in eliminating or minimizing the short-period equilibrium of balance of payments either by selling or lending foreign currencies to the members. It also helps its members towards removing the long period disequilibrium in their balance of payments.

3. Determination of Par Value: IMF enforces the system of determination of par values of the currencies of the members countries. As per the Original Articles of Agreement of the IMF every member country must declare the par value of its currency in terms of gold or US dollars.

4. Stabilize Economies: The IMF has an important function to advise the member countries on various economic and monetary matters and thereby to help stabilize their economies.

5. Credit Facilities: IMF is maintaining various borrowing and credit facilities so as to help the member countries in correcting disequilibrium in their balance of payments. These credit facilities include-basic credit facility, extended fund facility for a period of 3 years, compensatory financing facility, supplementary financing facility, special oil facility, trust fund, structural adjustment facility etc. The Fund also charges interest from the borrowing countries on their credit.

6. Maintaining Balance Between Demand and Supply of Currencies: IMF is also entrusted with important function to maintain balance between demand and supply of various currencies. Accordingly the IMF can declare a currency as scarce currency which is in great demand and can increase its supply by borrowing it from the country concerned or by purchasing the same currency in exchange of gold.

7. Maintaining liquidity of resources: The next important function of the IMF is to maintain the liquidity of its resources. The member countries can borrow from the IMF by surrendering their currencies in exchange.

8. Monitoring the monetary and fiscal policies: The IMF has a function of monitoring the fiscal and monetary policies of its member nations. This is done to determine the impact of the policies on the economy and other nations as well. Also, it is used for various other analysis purposes as well.

9. Serve as the bank of Central Banks: The IMF is known as the bank of the Central banks of the member countries. It collects the resources of the Central banks similar to the country's central bank.

10. Impart training and other technical services: The IMF provides training to the representatives of the member nations and staff. The training which the IMF provides is to the senior officers of the finance departments and central banks of the countries.

ASSISTANCE PROVIDED BY IMF

1. Reserve Tranches: If a member country draws 25% of its quota ,it is said that it has utilized its gold tranche or reserve tranche IMF have no objection over it.

2. Credit Tranches: Drawing more than 25% of reserve is called credit tranche. A country is allowed to take 4 credit tranche and used for disequilibrium of Balance Of Payment, and should be repaid within 3 years with service charges.

3. Compensatory Financing: Reserve tranche + 100% of quota is drawn and can be utilized to produce primary goods, fluctuation in receipts for export.

4. Buffer Stock Financing [BSFF].1969: Drawing is 30% of quota of the respective country. Repayment can be made in 3.25 to 5 years.

5. Extended Facility [EFF] 1974: 140% of quota for a period of 3 years to 10 years for the Balance of Payment difficulties with structural imbalance.

6. Supplementary Financing Facility [SFF]: Temporary assistance for low income developing member country, credit facility is for a longer period than by regular arrangement.

7. Oil Facility Scheme.1975: Funds were borrowed by IMF from surplus countries and advanced to the deficit countries which are seriously affected for the members facing Balance of Payment due to oil prices.

8. Special Drawing Rights (SDR) 1969: SDR created to supplement its member countries' office reservers

WORLD BANK

- World Bank was established in 1945
- Head quarters at Washington, USA
- Current Membership is 189 countries

World Bank Group of Institutions

I. International Bank for Reconstruction and Development (IBRD)

II. International Development Association (IDA)

III. International Finance Corporation (IFC)

IV. Multilateral Investment Guarantee Agency (MIGA)

V. International Centre for Settlement of Investment Disputes (ICSID)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

- WORLD Bank is also known as The International Bank for Reconstruction and Development (IBRD).
- The Second World War damages the economies of the world. So in 1945 it was realized to concentrate on the reconstruction of that war damaged economies.
- The IBRD was established in Dec. 1945 with the IMF on the basis of recommendations of the Bretton woods conference that is reason why IMF and World Bank are called Bretton woods twin.
- It Head quarters at Washington, USA
- IBRD started working in June 1946.
- As on April 2019; the World Bank of 189 members.
- Current President : David Malpass

Objectives of IBRD

- Rendering assistance in reconstruction and development of countries and investment of capital for productive purposes.
- Establishment of projects in backward areas to increase employment and increase in income.
- Developing the economic infrastructure through power, transport, communication and irrigation sector.
- Promoting foreign direct investment.
- Development programme are supported(e.g.: forest development, port, housing, sewage etc.,]
- Promotion of balanced growth of global trade.
- Increasing national income and standard of living.

Fig. 2: Organizational Structure of IBRD

Functions of IBRD

- It helps the war-devastated countries by granting them loans for reconstruction.
- It provides the financial resources to help the poor countries for increase their economic growth, reducing poverty and a better standard of living.
- Also, it helps the underdeveloped countries by granting development loans.
- It also provides loans to various governments for irrigation, agriculture, water supply, health, education, etc.
- It promotes foreign investments to other organizations by guaranteeing the loans.
- IBRD provides economic, monetary, and technical advice to the member countries for any of their projects.
- Thus, it encourages the development of industries in underdeveloped countries by introducing the various economic reforms.

Major Area of Support by IBRD

- Basic Education and Health services
- Safety needs
- Infrastructure Development
- Environment Protection
- Private sector development
- Governance and Investment
- Technical Assistance

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

- Established in Nov 1960
- Head quarters : Washington, USA
- Current Membership: 173
- IDA is one of the largest sources of assistance for the world's 75 poorest countries, 39 of which are in Africa
- IDA is called as "SOFT LOAN WINDOW" of the world bank
- It provides loan only for the governments
- Ten years grace period and fifty years maturity & no interest, only a nominal annual rate of 3.4% on the amounts withdrawn and outstanding is charged to meet the administrative expenses.

Objectives of IDA

- Financial Assistance to less developed countries
- To promote economics development and standard of living
- Increasing productivity particularly by providing finance to meet their important development requirements
- Concentrate upon the poorest countries primarily those with a per-capita GNP of less than 520 dollars

Capital Structure of IDA

The IDA has mobilized its capital from the subscription of member countries and supplementary resources. The initial subscription of the member countries was-1,000 million US dollars. From the point of view of subscription and voting power, the member countries of the IDA fall into two categories: ***Part 1 member countries*** and **Part II member countries**.

- **Part I countries pay their entire quota of subscription in freely convertible currencies or gold** out of which IDA can extend loans to less developed countries. Some important part I countries are the USA, the UK, France, Netherlands, Federal Republic of Germany, Canada, Australia, Sweden, Japan, etc.
- **Part II member countries consist of less developed countries** India, China, Pakistan, Brazil, Argentina and Indonesia. They were required to pay only 10% of their subscription quota in terms of gold and freely convertible currencies and the remaining 90% in their local currencies. The IDA cannot use these resources to lend without the consent of that member country whose currency is required for lending. Supplementary resources can be mobilized from Part 1 countries to lend loans on a large scale.

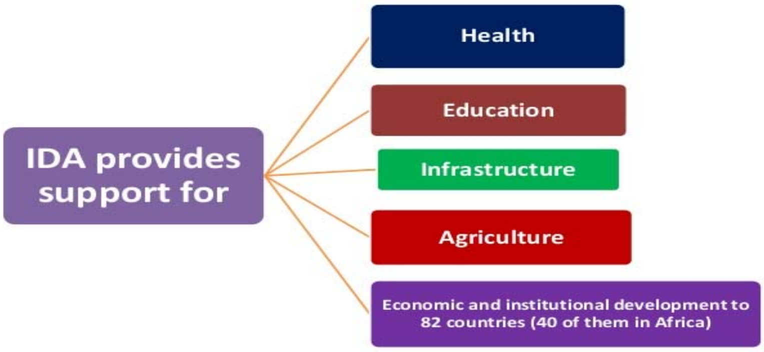
Criteria for Availing Loan in IDA

- Poverty Test
- Performance Test
- Project Test

Eligibility for IDA support

- A country is relatively poverty
- Non access to private capital markets
- Policy performance

Fig. 3: Major Area of Support



Membership of IDA

Any member country of the World Bank can become a member of IDA, provided that a country is ready to subscribe at the rate of 5% of existing world banks subscription quota.

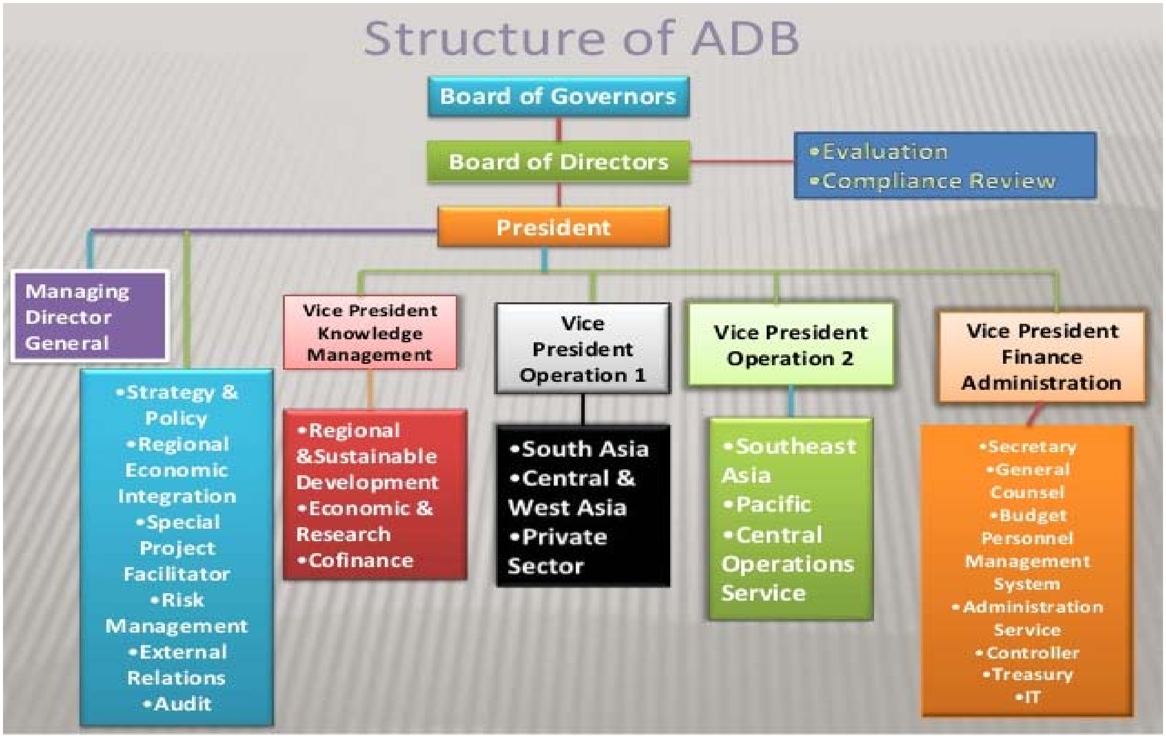
ASIAN DEVELOPMENT BANK

- Asian Development Bank (ADB) was created by Economic Commission for Asia and Far east (ECAFE) in 1963
- Established on 19 Dec, 1966
- Head quarters : Manila, Philippines
- Current President : Masatsugu Asakawa (from 17 January 2020)
- Membership: 68 (Regional members : 49 from Asia and Pacific region and Non-Regional members: 19)
- The company also maintains 31 field offices around the world to promote social and economic development in Asia.
- The ADB was modeled closely on the World Bank, and has a similar weighted voting system where votes are distributed in proportion with members' capital subscriptions.

Objectives of Asian Development Bank

- To help the member countries in countering poverty
- To help the countries to go towards economic growth
- To support human development
- To preserving and protecting the environment
- To continue working towards empowering women and improving their status in society

Fig. 4: Organization Structure of Asian Development Bank



Functions of the Asian Development Bank

1. Economic and Social Advancement: These benefits include providing loan and investment at a concessional rate. One of the functions of the ADB is to provide loans and equity investments for the economic and social upgrade of developing member countries.

2. Technical Assistance: One of the functions of the Asian Development Bank is to provide technical assistance for the preparation and implementation of development projects and advisory services.

3. Investment Promotion: Firstly, the Asian Development Bank provides a lot of services to the member countries in the form of investments. At the same time, they also provide some specific sort of investment facilities for development purposes.

4. Support in Policies and Plans: Plans and policies play an important role in any country. One of the main functions of the ADB is to provide help to the member countries in framing policies and plans at the international level.

Area of work of ADB

- Agriculture and Food security
- Climate change & Disaster Risk Management
- Education
- Energy
- Environment
- Finance sector Development
- Gender and Development
- Governance and Public management
- Health
- Water
- Urban development
- Social Development and Poverty eradication
- Public and Private Partnership

Products of ADB

1. **Public Sector (Sovereign) Financing:** ADB offers a range of financial products that help developing member countries (DMCs) build economic growth and social development. These tools include loans, technical assistance, and grants.
2. **Private Sector (Non-sovereign) Financing:** ADB focuses on projects that help promote private investments in the region that will have significant development impact and will lead to accelerated, sustainable, and inclusive growth.
3. **Co-financing Partnership:** Building strong partnerships with diverse institutions.
4. **Results-Based Lending (RBL) for Programs:** Results-based lending (RBL) is a performance-based form of financing, where disbursements are linked to the achievement of results rather than to upfront expenditures, as is the case with traditional investment lending.
5. **Trade and Supply Chain Finance Program (TSCFP):** ADB's Trade and Supply Chain Finance Program provides guarantees and loans to partner banks in support of international trade.
6. **Funds and Resources: (Asian Development Fund and ASEAN Infrastructure Fund)** ADB funds activities in various sectors through loans and grants, financed from ordinary capital resources as well as special and trust funds.

Membership of ADB

- Members of ECAFE
- Associate members of ECAFE.
- Members of United Nations or any of specialized agencies
- Admission generally one by acceptance of 2 third of members of Board of Governors.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

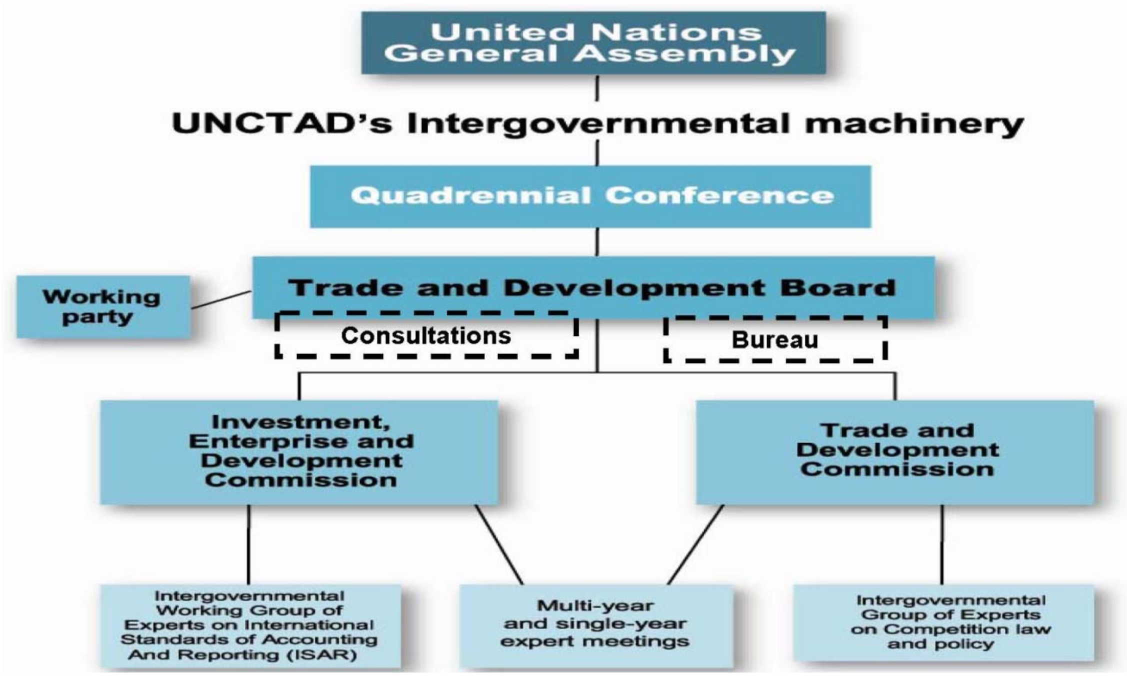
- Established in 1964
- Head Quarters : Geneva, Switzerland
- Current membership: 194

- 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. 5: Organization Structure of UNCTAD



Areas of work of UNCTAD

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

Table 2: 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

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

- UNIDO is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability
- Established in January 1967
- Head quarters: Vienna, Austria
- Current Membership: 170 countries

Primary Objectives of UNIDO

- Poverty reduction through productive activities
- Trade and Capacity-Building
- Energy and Environment

Major activities of UNIDO

i. **Operational Activities:** These includes direct technical assistance to industries and inplant training programme.

ii. **Research:** It conducts feasibility studies on the requirement and potential industry in developing countries particularly on Export oriented industries

iii. **Coordination:** It include mostly the organization and sponsoring of inter-regional and international meetings, seminars and symposia.

Organization Structure of UNIDO

I. Policy making organs

a) General conference (GC)

b) Industrial Development Board (IDB)

c) Programme and Budget Committee (PBC)

II. UNIDO Secretariat

a) Director General (DG)

b) Deputy Director General (DDG)

III. Divisions

a) Program Development and Technical Cooperation Division (PTC)

b) Industrial Policy, External Relations and Field Representation Division (PRF)

c) Programme Support an General Management Division

Main Focus Area of UNIDO

- Creating shared prosperity
- Advancing Economics competitiveness
- Safeguarding the Environment
- Strengthening knowledge and Institutions
- Gross-cutting services

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SYLLABUS – UNIT – 5

WTO AND TRADE LIBERALISATION

Liberalization of Trade in Manufacturing and in Agricultural Trade – TRIPS, TRIMS - Indian Patent Law.

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

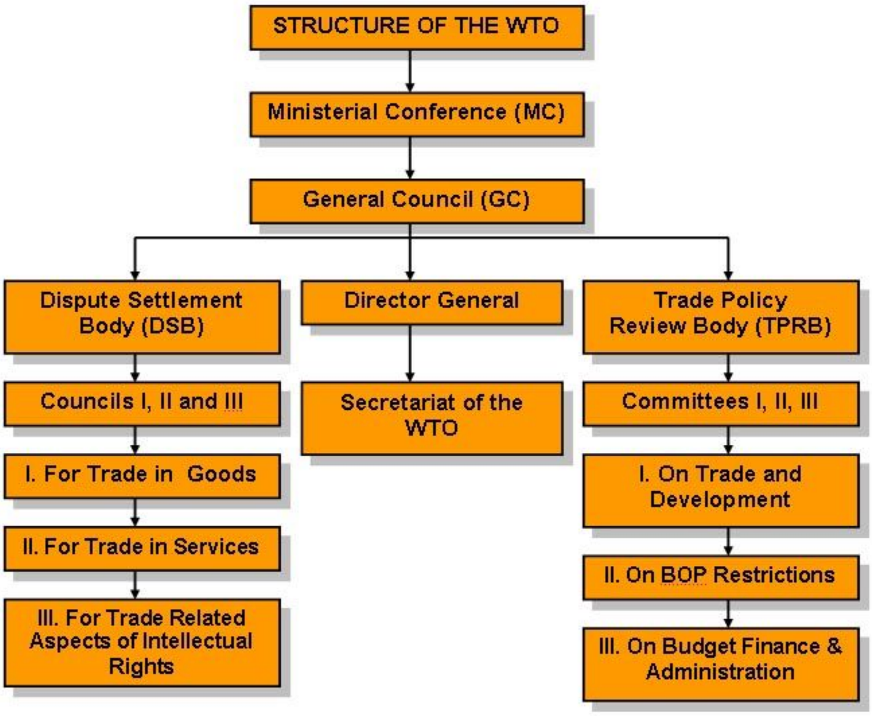
Table 2: Difference between GATT and WTO

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

- To improve the standard of living of people of the member countries in incomes, employment, production and trade expansions, utilisation of world resources.
- To ensure full employment and broad increase in effective demand
- To enlarge production and trade of goods
- To increase the trade of services
- To ensure optimum utilization of world resources
- To protect the environment
- 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.

TRADE RELATED INVESTMENT MEASURES [TRIMS]

TRIMS refer to certain conditions or restrictions imposed by a government in respect of foreign investment in the country in order to give adequate provisions for the home industry to develop and increase export trade.

To encourage foreign investment in their countries and would make certain conditions and restrictions like % of foreign equity, utilization of local materials in manufactures, export of finished goods to foreign countries to earn foreign exchange.

Almost all countries including INDIA use TRIMS

Trade-Related Investment Measures is the name of one of the four principal legal agreements of the World Trade Organization (WTO), trade treaty. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets. The TRIMs Agreement prohibits certain measures that violate the national treatment and quantitative restrictions requirements of the General Agreement on Tariffs and Trade (GATT).

India's Notified TRIMs

As per the provisions of Article. 5.1 of the TRIMs Agreement India had notified three trade related investment measures as inconsistent with the provisions of the Agreement:

1. Local content (mixing) requirements in the production of News Print,

2. Local content requirement in the production of Rifampicin (a medicine) and Penicillin – G, and

3. Dividend balancing requirement in the case of investment in 22 categories of consumer goods.

INTELLECTUAL PROPERTY

Intellectual property is the product or creation g the mid. It different from other properties in term that it is “intangible”.

Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.

INTELLECTUAL PROPERTY RIGHT (IPR)

IPR is the body of law developed to protect the creative people who have disclosed their invention for the benefit of mankind. This protects their invention from being copied or imitated without their consent.

According to World Trade Organization, “Intellectual property rights are the rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation for a certain period of time”.

Kinds of Intellectual Property

1. Inventions

2. Literary works

3. Artistic work

4. Symbols

5. Names

6. Images

7. Designs

Types of intellectual property

a) Patent: A patent is an exclusive right granted for an invention. Generally speaking, a patent provides the patent owner with the right to decide how - or whether - the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document.

b) Trade mark: A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when artisans used to put their signature or "mark" on their products.

c) Industrial design: An industrial design constitutes the ornamental or aesthetic aspect of an article. A design may consist of three-dimensional features, such as the shape or surface of an article, or of two-dimensional features, such as patterns, lines or color.

d) Trade Secrets: Trade secrets are IP rights on confidential information which may be sold or licensed. The unauthorized acquisition, use or disclosure of such secret information in a manner contrary to honest commercial practices by others is regarded as an unfair practice and a violation of the trade secret protection.

e) Copy rights: Copyright is a legal term used to describe the rights that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

f) Geographical indications: Geographical indications and appellations of origin are signs used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to that place of origin. Most commonly, a geographical indication includes the name of the place of origin of the goods.

INTELLECTUAL PROPERTY ACT IN INDIA

Broadly, the following acts deal with the protection of intellectual property:

- Trade Marks Act, 1999
- The Patents Act, 1970 (as amended in 2005)
- The Copyright Act, 1957
- The Designs Act, 2000
- The Geographical Indications of Goods (Registration and Protection) Act, 1999
- The Semiconductor Integrated Circuits Layout Design Act, 2000
- The Protection of Plant Varieties and Farmers' Right Act, 2001
- The Information Technology Act, 2000

PATENT – MEANING

A patent is a grant from the government which confers on the guarantee for a limited period of time the exclusive privilege of making, selling and using the invention for which a patent has been granted.

According to the U.S. Patent and Trademark Office, a patent can be granted to any person who: *Invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent, subject to the conditions and requirements of the law*.

Purpose of Patent:

To enjoy the exclusive rights over the invention

The patent is to ensure commercial return to the inventor for the time and money spend in generating a new products

Objectives of patent

i. It encourages research

ii. Induces an inventor to disclose his inventions instead of keeping them as secret

iii. Provides inducement for capital investment encouraging technological development

iv. It encourages establishment of new industries

What can be patented

i) The invention must fall into one of the fine statutory classes

- a) Process
- b) Machines
- c) Manufactures
- d) Compositions of matter

ii) The invention must be "useful"

iii) The invention must be "Novel"

iv) The invention must be "Non-Obvious"

TYPES OF PATENTS

1. Utility Patents: This type of patent covers processes, compositions of matter, machines, and manufactures that are new and useful. A utility patent can also be obtained for new and useful improvements to existing processes, compositions of matter, machines, and manufactures. Processes refer to any acts or methods of doing something. Compositions of matter are basically chemical compositions, which can include a mixture of ingredients or new chemical compounds. Machines include things that are generally defined as a machine, such as a computer, while manufactures are defined as goods that are manufactured or made.

2. Design Patents: In terms of obtaining a design patent, a design is defined as the "surface ornamentation" of an object, which can include the shape or configuration of an object. In order to obtain this type of patent protection, the design must be inseparable from the object. While the object and its design must be inseparable, a design patent with only protect the object's appearance. In order to protect the functional or structural features of an object, a person must also file for a utility patent.

3. Plant Patents: A plant patent can be obtained to protect new and distinctive plants. A few requirements to obtain this type of patent are that the plant is not a tuber propagated plant (i.e. an Irish potato), the plant is not found in an uncultivated state, and the plant can be asexually reproduced. Asexual reproduction means that instead of being reproduced with seed, the plant is reproduced by grafting or cutting the plant. Plant patents require asexual reproduction because it's proof that the patent applicant can reproduce the plant.

INDIAN PATENT ACT

The Patents Act 1970, along with the Patents Rules 1972, came into force on 20th April 1972, replacing the Indian Patents and Designs Act 1911. The Patents Act was largely based on the recommendations of the Ayyangar Committee Report headed by Justice N. Rajagopala Ayyangar. One of the recommendations was the allowance of only process patents with regard to inventions relating to drugs, medicines, food and chemicals.

The patent system in India is governed by the Patents Act, 1970 (No.39 of 1970) as amended by the Patents (Amendment) Act, 2005 and the Patents Rules, 2003. The Patent Rules are regularly amended in consonance with the changing environment, most recent being in 2016.

The term of every patent granted is 20 years from the date of filing of application. However, for application filed under national phase under Patent Cooperation Treaty (PCT), the term of patent will be 20 years from the international filing date accorded under PCT.

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