

INTRODUCTION TO EXPORT MARKETING – I (Meaning and importance of Exports)

Unit Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Definitions of Export Marketing
- 1.3 Features of Export Marketing
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- 1.6 Motivations for Export Marketing
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- 1.8 Summary
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1.0 OBJECTIVES

The main purpose of this chapter is –

- To provide you with an overview of export marketing.
- To understand the meaning of export marketing
- To explain the features of export marketing
- To know the importance of export marketing at national level and firm level.
- To distinguish between domestic marketing and export marketing.
- To elaborate the motivations for export marketing.
- To find out the present problems / Difficulties faced by Indian exporters.

1.1 INTRODUCTION

Export marketing means exporting goods to other countries of the world. It involves lengthy procedure and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export

marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

Export marketing has wider economic significance as it offers various advantages to the national economy. It promotes economic / business / industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits. Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger.

1.2 DEFINITIONS OF EXPORT MARKETING

1) According to B. S. Rathor

“Export marketing includes the management of marketing activities for products which cross the national boundaries of a country”.

2) “Export marketing means marketing of goods and services beyond the national boundaries”.

1.3 FEATURES OF EXPORT MARKETING

The main important features of export marketing are as follows.

1) Systematic Process –

Export marketing is a systematic process of developing and distributing goods and services in overseas markets. The export marketing manager needs to undertake various marketing activities, such as marketing research, product design, branding, packaging, pricing, promotion etc. To undertake the various marketing activities, the export marketing manager should collect the right information from the right source; analyze it properly and then take systematic export marketing decisions.

2) Large Scale Operations –

Normally, export marketing is undertaken on a large scale. Emphasis is placed on large orders in order to obtain economies in large scale production and distribution of goods. The economies of large scale help the exporter to quote competitive prices in the overseas markets. Exporting goods in small quantities is costly due to heavy transport cost and other formalities.

3) Dominance of Multinational Corporations –

Export marketing is dominated by MNCs, from USA, Europe and Japan. They are in a position to develop world wide contacts through their network and conduct business operations efficiently and economically. They produce quality goods at low cost and also on massive scale.

4) Customer Focus –

The focus of export marketing is on the customer. The exporter needs to identify customers' needs and wants and accordingly design and develop products to generate and enhance customer satisfaction. The focus on customer will not only bring in higher sales in the overseas markets, but it will also improve and enhance goodwill of the firm.

5) Trade barriers –

Export marketing is not free like internal marketing. There are various trade barriers because of the protective policies of different countries. Tariff and non-tariff barriers are used by countries for restricting import. The export marketing manager must have a good knowledge of trade barriers imposed by importing countries.

6) Trading Blocs –

Export trade is also affected by trading blocs, certain nations form trading bloc for their mutual benefit and economic development. The non-members face problems in trading with the members of a trading bloc due to common external barriers. Indian exporters should have a good knowledge of important trading blocs such as NAFTA, European Union and ASEAN.

7) Three – faced competition –

In export markets, exporters have to face three-faced competition, i.e., competition from the three angles – from the other suppliers of the exporter's country, from the local producers of importing country and from the exporters of competing nations.

8) Documentation –

Export marketing is subject to various documentation formalities. Exporters require various documents to submit them to

various authorities such as customs, port trust etc. The documents include – Shipping Bill, Consular Invoice, Certificate of Origin etc.

9) Foreign exchange regulations –

Export trade is subject to foreign exchange regulations imposed by different countries. These regulations relate to payments and collection of export proceeds. Such restrictions affect free movement of goods among the countries of the world.

10) Marketing – mix

Export marketing requires the right marketing mix for the target markets, i.e. exporting the right product, at the right price, at the right place and with the right promotion. The exporter can adopt different marketing – mixes for different export markets, so as to maximize exports and earn higher returns.

11) International marketing Research –

Export marketing requires the support of marketing research in the form of market survey, product survey, product research and development as it is highly competitive. Various challenges, identification of needs and wants of foreign buyer in export marketing can be dealt with through international marketing research.

12) Spreading of Risks –

Export marketing helps to spread risks of business. Normally export firms sell in a number of overseas markets. If they are affected by risks (losses) in one market, they may be able to spread business risks due to good return from some other markets.

13) Reputation –

Export marketing brings name and goodwill to the export firm. Also, the country of its origin the gets reputation. The reputation enables the export firm to command good sales in the domestic market as well as export market.

1.4 IMPORTANCE OF EXPORT MARKETING

Exports are important for all countries whether developed or underdeveloped. The need / importance / advantages of export marketing can be explained from the viewpoint of a country and that of business organization.

1.4.1 Need / Importance / Advantages of Export Marketing at the National Level:

1) Earning foreign exchange –

Exports bring valuable foreign exchange to the exporting country, which is mainly required to pay for import of capital goods,

raw materials, spares and components as well as importing advance technical knowledge.

2) International Relations –

Almost all countries of the world want to prosper in a peaceful environment. One way to maintain political and cultural ties with other countries is through international trade.

3) Balance of payment –

Large – scale exports solve balance of payments problem and enable countries to have favourable balance of payment position. The deficit in the balance of trade and balance of payments can be removed through large-scale exports.

4) Reputation in the world –

A country which is foremost in the field of exports, commands a lot of respect, goodwill and reputation from other countries. For example, Japan commands international reputation due to its high quality products in the export markets.

5) Employment Opportunities –

Export trade calls for more production. More production opens the doors for more employment. Opportunities, not only in export sector but also in allied sector like banking, insurance etc.

6) Promoting economic development –

Exports are needed for promoting economic and industrial development. The business grows rapidly if it has access to international markets. Large-scale exports bring rapid economic development of a nation.

7) Optimum Utilization of Resources –

There can be optimum use of resources. For example, the supply of oil and petroleum products in Gulf countries is in excess of home demand. So the excess production is exported, thereby making optimum use of available resources.

8) Spread Effect –

Because of the export industry, other sectors also expand such as banking, transport, insurance etc. and at the same time number of ancillary industries comes into existence to support the export sector.

9) Higher standard of Living –

Export trade calls for more productions, which in turn increase employment opportunities. More employment means more purchasing power, as a result of which people can enjoy new and better goods, which in turn improves standard of living of the people.

1.4.2 Need / Importance / Advantages of export marketing at Business / Firm / Enterprise Level

1) Reputation –

An organization which undertakes exports can bring fame to its name not only in the export markets, but also in the home market. For example, firms like Phillips, HLL, Glaxo, Sony, coca cola, Pepsi, enjoy international reputation.

2) Optimum Production –

A company can export its excess production after meeting domestic demand. Thus, the production can be carried on up to the optimum production capacity. This will result in economies of large scale production.

3) Spreading of Risk –

A firm engaged in domestic as well as export marketing can spread its marketing risk in two parts. The loss in one part (i.e. in one area of marketing) can be compensated by the profit earned in the other part / area.

4) Export obligation –

Some export organization are given certain concessions and facilities only when they accept certain export obligations. Large-scale exports are needed to honour such export obligations in India, units operating in the SEZs / FTZs are expected to honour such export obligations against special concessions offered to them.

5) Improvement in organizational efficiency

Research, training and the experience in dealing with foreign markets, enable the exporters to improve the overall organizational efficiency.

6) Improvement in product standards

An export firm has to maintain and improve standards in quality in order to meet international standards. As a result, the consumers in the home market as well as in the international market can enjoy better quality of goods.

7) Liberal Imports

Organizations exporting on a large-scale collect more foreign exchange which can be utilized for liberal import of new technology, machinery and components. This raises the competitive capacity of export organizations.

8) Financial and non-Financial benefits

In India, exporters can avail of a number of facilities from the government. For example, exporters can get DBK, tax exemption

etc. They also can get assistance from export promotion organizations such as EPCs IIP, etc.

9) Higher profits –

Exports enable a business enterprise to earn higher prices for goods. If the exporters offer quality products, they can charge higher prices than those charged in the home market and thereby raise the profit margin.

Check your progress

1. Define Export Marketing.
2. “Export is important for all the countries whether developed or underdeveloped.” Explain.

1.5 DIFFERENCE BETWEEN DOMESTIC MARKETING AND EXPORT MARKETING.

Domestic / Home marketing	Export / International marketing
<p>1) Meaning – Domestic marketing is restricted to political boundaries of a country. It involves buying and selling activities within one country only</p>	<p>International marketing covers all countries for marketing purpose. It involves buying and selling activities at the global level.</p>
<p>2) Nature – Domestic marketing is easy and simple due to several reasons such as uniform currency system, limited trade restrictions, uniform trade practices and short distances for transport of goods.</p>	<p>International marketing is difficult and complicated due to reasons such as use of different currencies, trade restrictions long distances and absence of uniform trade practices.</p>
<p>3) Trading Blocs – Absence of trading blocs and tariff and non-tariff barriers provide ample scope for expansion in domestic marketing activities.</p>	<p>Trading blocs and tariff and non-tariff barriers exist in international marketing and they restrict free trade among the countries of the world.</p>

<p>4) Licensing and procedures It is free from licensing and lengthy procedures and formalities. This brings simple in trading operation</p>	<p>It involves licensing, permissions and lengthy procedures. This makes marketing operations complicated, time-consuming and difficult.</p>
<p>5) environmental changes Changes in the economic, political or social environment create limited effects on domestic marketing</p>	<p>Changes in the economic, political or social environment create far-reaching effects on international marketing scenario</p>
<p>6) Risk in trade The risk involves is limited due to limited area of operations, political stability and uniform rules and laws</p>	<p>The risk involves is heavy due to vast area of operations, highly sensitive nature of markets and political factors.</p>
<p>7) Competition – It is not highly competitive. The scope for competition is restricted due to uniform business environment</p>	<p>It is highly competitive as different countries involved are in different stages of economic and industrial growth.</p>
<p>8) Government Interference – Least interference in the domestic marketing activities.</p>	<p>Maximum interference is observed in international marketing activities.</p>
<p>9) Division – It has no division as it is one integrated marketing activity.</p>	<p>It has two broad divisions. Foreign marketing and multinational marketing.</p>
<p>10) Quantities involved – Domestic marketing activities are conducted in small quantities with limited profit potentials.</p>	<p>International marketing activities are always in large quantities and profit potentials are also more.</p>
<p>11) Incentives In home marketing, special concessions, facilities and incentives are normally not offered to traders and manufacturers.</p>	<p>In export marketing, special incentives, facilities and concessions are offered to manufacturers of export oriented goods and exporters.</p>

12) Agencies Involved – Agencies involved in home marketing include wholesalers, retailers and other trading organizations.	Agencies in export marketing include manufacturer – exporters, merchant exporters, export houses and trading houses.
13) Method of payment – In domestic marketing payment is through cash or cheque	Payment in international marketing is through letter of credit and documentary bills of exchange.
14) Use of currency It involves the use of one currency. For example Rupee in India.	It involves the use of multiple currencies particularly US \$.

1.6 MOTIVATIONS FOR EXPORT MARKETING

Companies have to take several decisions to participate in export marketing. There are some basic economic reasons which influence a company decision regarding participation in export business. Such reasons can be treated as motivators for export marketing. These motivational factors for export marketing are as follows.

a) Rate of profit –

The rate of profit in export business is normally higher as compared to rate of profit in domestic marketing. The unit value realization of export products normally increases. Such progressive improvement in the unit value of realization is one reason which acts as a motivator for exporting.

b) Sales and production stability –

Export marketing may enable a firm to maintain sales and production stability. For example, in the case of seasonal products, exporting may help to achieve sales stability, because the seasons may be opposite in certain export markets. For example woolen clothing.

c) Inadequate domestic demand –

The level of domestic demand may be insufficient for utilizing the available production capacity, i.e. at the optimum level. Here, the company enters in export marketing so that the available production capacity will be utilized fully for meeting domestic demand and demand from abroad. This is one motivational factor for export marketing.

d) Economic growth –

Growth is another major reason for internationalization. The growth potential of many foreign markets is a very strong attraction for foreign companies. Several developing countries, like China, and India, have been growing at a much faster rate than the developed countries. Many multinational companies are eager to establish their foothold in such countries, considering future potential.

e) Reducing business risks –

Geographical diversification facilitates distribution of business risks among different export markets. Even the risks in internal marketing can be reduced by undertaking export marketing. A diversified business spreads business risks among different markets.

f) Information and media Revolution –

There has been tremendous growth in the field of information and media. For example, internet facility has given a big boost to a global trade. Now, business firms can conduct global operations with much investment in setting up elaborate offices. Business activities in other countries can be conducted through information network.

g) Strategic vision –

Some firms have a strategic vision to enter in export markets. The business strategy of such firms includes systematic international growth. Therefore, the stimulus for export marketing comes from desire to grow and expand, need to become more competitive.

h) Accepting social responsibility –

Export promotion is a collective responsibility of all social groups including business enterprises. Some large enterprises accept this social obligation and participate in export marketing. Here, social responsibility acts as a motivation for export marketing.

i) Government policies –

Government policies and Regulations may also encourage the companies for international marketing. Some companies export and invest in foreign countries to avail economic incentives, and benefits provided by the government. Also some companies internationalize due to government's emphasis on import development and foreign investment. In India, certain companies export in order to fulfill their export obligation.

j) W. T. O.

Due to WTO, member nations have reduced a number of restrictions on foreign investment, and trade in goods and services. For example, the custom duties have been reduced world wide.

This has motivated business firms to enter in the global markets to a greater extent.

k) Benefit of bulk selling –

Export business is normally in bulk quantity. Export orders are much larger as compared to orders in domestic marketing. Export business is undertaken in order to take the benefits of selling in bulk i.e. in large quantities. It helps to earn foreign exchange in large.

In brief, export marketing offers many benefits to exporting organization. Such benefits encourage companies to participate in export marketing. The benefits also act as motivators for export marketing.

1.7 PRESENT PROBLEMS / DIFFICULTIES FACED BY INDIAN EXPORTERS

At present, Indian exporters face a number of problems / difficulties. The problem demotivates the business firms to enter into foreign markets. These problem / difficulties are as follows.

a) Recession in world market

The world market, faced recession in 2008 and in the first half of 2009. The recession was triggered due to sub-prime crisis of USA in September 2007. Due to recession, the demand for several Indian items such as Gems and Jewellery, Textiles and Clothing and other items were badly hit. During recession, exporters get low orders from overseas markets, and they have to quote lower prices. Therefore, exporter gets low profits or suffers from losses.

b) Technological differences

The developed countries are equipped with sophisticated technologies capable of transforming raw materials into finished goods on a large scale. Less developed countries, on the other hand, lack technical knowledge and latest equipments. And therefore they have to use their old and outdated technologies. It leads to the lopsided development in the international market.

c) Reduction in export Incentives –

Over the years, the Govt. of India has reduced export incentives such as reduction in DBK rates, withdrawal of income tax benefits for majority of exporters, etc. The reduction in export incentives demotivates exporters to export in the overseas markets.

d) Several competitions in global marketing –

Export marketing is highly competitive. This competition relates to price, quality, production cost and sales promotion techniques used. Indian exporters face three-faced competition while exporting. This includes competition from domestic exporters, local producers where the goods are being exported and finally from producers of competing countries at global level. Such competition is one special problem to the exporters.

e) Problem of product standards –

Developed countries insist on high product standards from developing countries like India. The products from developing countries like India are subject to product tests in the importing countries. At times, the importing countries do not allow imports of certain items like fruits, textiles and other items on the grounds of excessive toxic content. Therefore Indian exporters lose markets especially in developed countries.

f) Fluctuations in Exchange Rate –

Every country has its own currency which is different from international currencies. The dominant international currencies are US dollar or Sterling Pound. From the point of view of Indian exporters we are interested to realize the payment in international currency. Foreign exchange earned by the operators is converted into Indian rupees and paid to the exporters in Indian currency; this exposes the exporters to the dangers of fluctuation in foreign exchange rates.

g) Problems of Sea Pirates Attacks –

A major risk faced by international trade is attack by pirates in the Gulf of Aden. More than half of India's merchandise trade passes through the piracy infested Gulf of Aden. New exporters and importers are facing problem, because of increased pirate attacks as they find it difficult to get insurance cover.

h) Problem of subsidies by Developed countries –

The developed countries like USA provide huge subsidies to their exporters. For example, in case of agriculture exporters, USA, UK and other provide huge subsidies to their exporters. Therefore, the exporters of developing countries like India find it difficult to face competition in the world markets.

i) Problem in preparing Documents –

Export involves a large number of documents. The exporter will have to arrange export documents required in his country and also all the documents as mentioned in the documentary letter of credit. In India, there are as many as 25 documents (16 commercial and a regulatory documents) to be filled in.

j) Government restrictions and foreign exchange regulations –

The Government restrictions compel the exporters to follow certain rules and regulations in the form of licenses, quotas, and customs formalities. Due to such restrictions, new problems develop before the exporters. Even trade restrictions in foreign countries create problems before exporters. Indian exporters face this difficulty of government restrictions and foreign exchange regulations even when trade policy is now made substantially liberal.

k) High risk and Uncertainties –

Export marketing is subject to high risks and uncertainties. The risks may be both political and commercial. Political risks involve government instability, war, civil disturbances, etc. The commercial risks involve insolvency of the buyer, protracted default on the part of the buyer dispute on quality and so on.

l) Competition from China

India is facing stiff competition from China in the world markets, especially in the OECD markets. As a result, India's share of export of OECD markets has declined from 53% of total exports in 2000-01 to about 38% in 2007-08. Some of the Indian exporters have lost their overseas contracts due to cheap Chinese goods and supplies. This is the major problem of exporters.

1.8 SUMMARY

Marketing is defined as using all of the resources of the organisation to satisfy customer needs for a profit. The difference between export marketing and domestic marketing is simply that it takes place across national borders. This means that the exporters have to face with barriers to trade, such as differing languages, politics, laws, governments and cultures. They may need to account for getting the product half-way across the globe to distant markets and pay the import duties imposed on these products by the importing country. They will also need to deal with the logistical and documentation problems surrounding exports. These are just some of the problems you will face.

Export marketing also involves preparing an offering that will entice the foreign buyer and customer. This offering comprises a product that is offered at a certain price and that is made available or distributed to the foreign customer. At the same time, the offering is communicated or promoted to the buyer using certain communication or promotion channels. These elements the product, price, distribution (place) and promotion are called the marketing mix.

1.9 QUESTIONS FOR SELF-ASSESSMENT

- a) Explain the meaning and features of export marketing.
- b) Discuss the importance of export marketing at the national level.
- c) Enumerate the importance of export marketing at the firm level.
- d) Distinguish between Domestic marketing and export marketing.
- e) Explain motivations for export marketing
- f) Explain the problems of Indian exporters in promoting exports.
- g) Explain the following concepts in about 30 words.
 - 1. Export Marketing



2

INTRODUCTION TO EXPORT MARKETING - II (Trends in world trade and India's exports)

Unit Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Trends in world trade

- 2.3 Sunrise export
- 2.4 Review of services export
- 2.5 Composition of India's export since 2000
- 2.6 Direction of India's export since 2000
- 2.7 Reasons for India's poor share in world trade
- 2.8 Summary
- 2.9 Questions for self-assessment

2.0 OBJECTIVES

After studying this chapter the students may be able to-

- Understand the trends in world trade.
- Know about the sunrise export
- Review of services export
- Explain the composition of India's export since 2000
- Explain the direction of India's exports since 2000
- Describe the basic reasons for India's poor share in world trade

2.1 INTRODUCTION

World trade means trade between different countries of the world. It is also called as international trade. Such trade is carried on between developed, developing and less developed countries. World trade is expected to be free and fair to all participating countries. However, world trade is dominated by developed and rich countries and the poor and developing countries are exploited.

The benefits of world trade are not shared equally by participating countries.

2.2 TRENDS IN WORLD TRADE

International inter-dependence is the base of world trade. There are various trade restrictions on world trade. They include tariff and non-tariff barriers. In spite of such restrictions world trade is increasing in volume during the period 1995-2006. This is visible from the trends in world trade noted below.

The world exports of goods and services doubled between 1995 and 2006 to reach over US \$ 14 trillion in 2006.

The years 2008 and 2009 were tumultuous ones for world trade. The sub-prime crisis of USA in 2007 led to the global

financial crisis in September 2008. The financial crisis resulted in full blown global recession which resulted in considerable fall in world trade. World trade volume grew by only 2.8% in 2008 as compared to 7.3% in 2007. The world trade growth tumbled down month after month from September 2008 on worlds. While the fall seems to have been stalled with the recovery in the later part of 2009, but the world trade continues to vulnerable given the nature of recovery and the EU crisis.

World Trade Estimates

(a) IMF Estimates

The world recession in 2008-09 had deep impact on world trade. The global trade of about 16 US \$ trillion in 2008 collapsed. In the first half of 2009 . The world trade was 5.8 US \$ trillion compared to 8.2 US \$ trillion in the corresponding first half of 2008. According to IMF, growth of world output and trade volume of goods and services fell to - 0.8% and – 12.3% respectively in 2009.

The crisis seems largely to have petered out in the second half downtrend. The IMF projects a better than expected growth in the trade volume of 5.8% for 2010 and 6.3% for 2011. Consequently, world out put growth is estimated to increase to 3.9% in 2020 and 4.3% in 2011.

Trade in growth in trade volumes (percent change)

	2008	2009	Projections	
			2010	2011
World trade volume (goods & services)	2.8	-12.3	5.8	6.3
Import				
• Advanced economies	0.5	-12.2	5.5	6.3
• Emerging & developing economies	8.9	-13.5	6.5	7.7
Export				
• Advanced economies	1.8	-12.1	5.9	5.6
• Emerging & developing economies	4.4	-11.7	5.4	7.8

Source :- IMF (world economic outlook) jan, 2010

(b) WTO Estimates

In march 2009, WTO estimated a decline of 9% global trade for 2009, the largest in over 60 years.

(c) World Bank Estimates

The world bank estimates world real GDP growth to fall by 2.2% and world trade volume to fall by 14.4% in 2009. As per world bank, the dollar value of world trade plummeted by 31% between August 2008 and its low point in March 2009. Examination of the month wise export and imports for the world, India and some major trading partners of India from 2008 onwards indicate a recovery in trade with export growth becoming positive in November 2009 over November 2008.

The following table indicates export growth and import growth of some of the leading countries between November 2008 and November 2009 (percent)

	Export growth	Import growth
INDIA	18.2	-02.6
CHINA	-01.2	26.7
EU	11.4	05.2
USA	-02.4	-03.8
Japan	01.5	-09.9
Hong-Kong	01.3	06.5
SINGAPORE	13.3	04.4

Source :- Economic survey 2009-10

The above table indicates that there is recovery in export and import growth of some of the countries. The export and import growth has become less negative in the countries mentioned above for example the export growth of India has increased by 18.2% and the import growth has become less negative by -2.6% between Nov.2008 and Nov.2009

2.3 SUNRISE EXPORTS

Exports of the country can be classified on different considerations. For example, India's exports are classified into principal exports are classified as primary products, manufactured goods, ores and minerals and mineral fuels and lubricants. The term sunrise exports are also used in relation to India's exports.

Sunrise products are those products, which Indian exporters have lately begun to export in the overseas markets, and such products have a growing demand in the world markets. Some of the sunrise products are as follows.

- Horticulture products, Such as fruits and vegetables

- Green technology products such as wind turbines, electric cars, etc.
- Dairy products
- Value added marine products
- Processed fruits and vegetable products
- Value added meat products, etc.

Let us, now consider few details of sunrise exports

(a) Export of services

India has recently emerged as a major player in global services trade. The services include travel, transport, communication, insurance, software, and business services. The export growth rate of all services increased from 24.1% in 2000-01 to 32.1% in 2006-07. This sector is acting as an engine of growth. It is making rapid progress in exports.

(b) Readymade garments

The exports of cotton apparel readymade garments have made significant improvement on recent years. These exports were just Rs.9 crores in 1970-71 and rose to Rs.38215 crores in 2007-08. This indicates growing importance of sunrise export item.

(c) Handicrafts

At present, the single largest item of exports is handicrafts. During 2007-08, handicrafts exported were of the order of Rs.80992 crores out of which gems and jewellery accounted for Rs.79142 crores. Export of handicrafts was only of Rs.70 crores in 1970-71.

(d) Engineering goods

This category includes iron and steel, electronic goods and computer software. Even up to 1980-81, exports of this group were only of Rs.827 crores. The exports started picking up by 1990-91. During 2007-08, exports have shot up to Rs.1,47,845 crores accounting for 23.1% of total exports.

There are some more export items which can be classified as sunrise exports. Along with the diversification of exports, the sunrise export items will increase and their contribution in India's total exports will become more and more significant.

2.4 REVIEW OF SERVICES EXPORT

India is one of the leading exporters of services in the world. At present, India ranks 9th in the world for overall services exports. Currently, India ranks 2nd in the world for computer and information services exports. The trend towards globalization has resulted in

steady growth of trade in services. Probably the fastest growing sector of world trade is trade in services. Services include travel and entertainment, education, business services such as engineering, accounting and legal services. Following table given clear idea about the India's export of services.

India's export of services

Services Group	Percentage Share	
	2000-01	2008-09
(a) software services	39.0	45.5
(b) business services	02.1	16.2
(c) transportation	12.6	11.1
(d) travel	21.5	10.7
(e) financial services	02.1	03.9
(f) communication services	07.0	02.1
(g) insurance	01.7	01.4
(i) other services	14.0	09.1
Total (pre cent)	100.0	100.0
Total (vaule) US \$ billion	16.3	101.7

Source:- economic survey 2009-10

(a) Software Services

India ranks 2nd in the world for software services . Growth of software services exports has been reasonably good since 2000-01. The share of software services exports has increased by 6.5% points between 2000-01 and 2008-09. In 2008-09 software services generated foreign exchange worth 46.3 US \$ billion.

(b) Business Services

At present, business services occupies the second position in India's services exports. Between 2000-01 and 2008-09, business services exports have increased by 7.7 times. In 2008-09, it contributed about 16.5 US \$ billion worth of foreign exchange in India.

(c) Transportation

Transportation services export is directly linked with export of merchandise. It's share has declined by 1.5% between 2000-01 and 2008-09. The fall in transportation exports is a reflection of the fall in merchandise trade. In 2008-09, it contributed about 11.3 US \$ billion worth of foreign exchange.

(d) Travel

The share of travel services has declined considerably since 2000-02. The fall in travel services is a reflection of the decline in tourist arrivals in India. This fall is mainly on account of terrorist

activities in India. In 2008-09, it contributed about 10-9 US \$ billion worth of foreign exchange.

(e) Financial Services

The share of financial services in the services exports of India has increased by 1.8% between 2000-01 and 2008-09. In 2008-09, it contributed about 4 billion US \$ in India.

(f) Communication Services

This group has shown considerable decline in its share in the services exports. It lost about 5% share in the total services exports between 2000-01 and 2008-09. In 2008-09, it contributed about 2 US \$ billion worth of foreign exchange in India.

(g) Insurance Services

The insurance services have shown a decline in the share of services exports of India. However, in the first half of 2009-10, all services items have shown a negative growth except insurance services.

(h) Other Services

This group has shown considerable decline in its share in the services exports. It lost about 4.9% share in the total services exports between 2000-01 and 2008-09.

conclusion-

In brief services exports are expected to grow in the second half of 2009-10 but at a slower pace, with pick up in the global and India's merchandise exports, transportation services exports are expected to increase. Software services export is also expected to grow in the second half of 2009-10, with an overall growth of 5% in 2009-10. Travel receipts are also expected to increase in the second half of 2009-10.

2.5 COMPOSITION OF INDIA'S EXPORTS SINCE-2000

By composition, we mean the commodities exports which are exported from the country to the rest of the world and the commodities which are imported from abroad. India's share in the world export trade has moved up from 0.7% in 2000 to 1.2% in 2009. In 2009, India's export share in world trade is very low as compared to other developing countries like China 9.1%, South Korea 2.9%, Hong-Kong 2.5%, and Singapore 2.1%.

The following table shows composition of India's merchandise exports during 2000-01 and 2008-09.

India's merchandise exports (percent)

Product	2001-01	2008-09
(a) Agriculture items	14.0	09.1
(b) Ores & minerals	02.0	04.2
(c) Manufactured items	79.0	66.4
(d) Fuel & lubricants	04.3	14.9
(e) Other	00.7	05.4
Total (percentage)	100.0	100.0
Total US \$ billion	44.6	185.3

Source: - economic survey, 2009-10.

The above table points out that the composition of India's merchandise exports are explained in brief as follows-

(a) Agricultural and Allied Products

This includes tea, coffee, tobacco, spices, sugar, raw cotton, fruits, vegetable and pulse. The share of exports of agriculture and allied products has declined from 14.0% in 2000-01 to about 9.1 % in 2008-09.

(b) Ores and Minerals

This includes manganese ore, mica and iron ore. The export of ores and minerals was 2% of total exports in 2000-01 and increased to 4.2% in 2008-09. A major share of ores and minerals exports comes from the export of iron ore.

(c) Manufactured Items

This includes textiles, ready-made garments, leather and footwear, engineering goods, chemicals, and so on. The share of manufactured goods in total export earnings was about 79% in 2000-01 and reduced to 66.4% in 2008-09.

(d) Mineral Fuels and Lubricants

There has been an improvement in the export of mineral fuels and lubricants both in terms of value and in terms of percentage. In percentage terms, its share has increased from 4.3% in 2000-01 to 14.9% in 2008-09.

The first category of exports includes traditional items while the other categories include non-traditional items of exports. After 2000, positive changes are noticed in the composition of India's foreign trade. Exports now cover wide range of items from agricultural, industrial, services and other sectors.

The importance of non-traditional items is increasing while the importance of traditional items is declining. New items like ready made garments, sports goods, engraving goods, gems and jewellery and marine products are being exported on a large scale from India.

Projects exports have also made significant progress in recent years. Electronic hardware and software exports have increased in a significant way. This suggests that there is diversification on the composition of India's export trade.

Check Your Progress

1. Define the terms:
 - a. Sunrise products
 - b. Services
 - c. Engineering goods
 - d. Composition of export
2. "Indian is one of the leading exporters of services in the world." Explain.

2.6 DIRECTION OF INDIA'S EXPORTS SINCE 2000

By direction of export trade, we mean the countries to which we export goods and services. India has trading relations with large number of countries. The process of trade liberalization and world trade dynamics have brought out major shifts in the directional pattern of India's foreign trade. For the purpose of direction of exports, the countries to which India exports are broadly divided into five groups that is –

- Organization for economic co-operation and development (OECD) comprising of USA, Canada, European Union, Australia and Japan.
- Organization of Petroleum Exporting Countries (OPEC) which includes Kuwait, Iran, Iraq, Saudi Arabia, UAE and others.
- Eastern Europe which includes Russia, Georgia and others.
- Developing countries of Asia, Africa, Latin America and Caribbean
- Other countries which do not fall in the above four groups

Direction of India's exports (in percentage)

Group	2000-01	2007-08
OECD	52.7	38.4

OPEC	10.9	16.3
E. Europe	03.0	02.1
Russia	02.0	00.6
Developing countries	29.2	42.6
Others	04.2	00.4
Total (parentage)	100.0	100.0
Total US \$ Billion	44.6	163.1

Source: - RBI handbook of statistic on Indian Economy 2007-08

From the above table it gives proper direction of India's exports. These one explained as follows-

(a) Exports to OECD Countries

The share of total export earnings to OECD countries has slightly declined over the years. In 2000-01, the share of total export earning from OECD countries was about 52.7%. However, the share of total export earning from OECD countries has come down to about 38.4% in 2007-08.

The share of some of the important OECD countries in India's export trade is stated as follows

USA	2000-01	21%	2007-08	12.6%
UK	2000-01	5.2%	2007-08	4.1%
Germany	2000-01	4.3%	2007-08	3.1%
Japan	2000-01	4.1%	2007-08	2.4%

(b) OPEC Countries

The share of total export earning from OPEC countries has increased. In 2000-01 it was about 10.9%. It has increased to 16.3% in 2007-08. The share of export to UAE has increased from 5.8% in 2000-01 to 9.6% in 2007-08.

(c) Eastern Europe

Over the years, the exports to Eastern Europe have declined mainly due to the disintegration of USSR. In 2001-01, the total export earning from this group was 3%. It came down to 2% in 2007-08. The main country in this group is Russia. Its share in India's export trade has come down from 2% in 2000-01 to 0.6% in 2007-08.

(d) Developing Countries

India's exports to developing countries have increased over the years. It has increased from nearly 29% in 2000-01 to 42.6% in 2007-08. Among the developing countries, the major contribution

comes from china. China's share in India's exports has increased from 1.9% in 2001-01 to 6.6% in 2007-08.

2.7 REASONS FOR INDIA'S POOR SHARE IN WORLD TRADE

India's export performance is poor over the years, since independence, India's share of the world export trade has been very low. At present India's share of the world export trade is 1%. The share of export of other developing countries of Asia, namely China, South Korea, Malaysia, Singapore and Thailand is much more than of India.

There are several reasons for poor performance of India's export trade. The reasons or causes can be broadly divided into two groups as shown below.

Reasons/causes of India's poor share in world trade

Exporter- related Causes/reasons

- Poor quality
- High prices
- Inadequate promotion
- Poor follow-up of sale
- Poor negotiation skills

General causes/reasons

- Poor infrastructure
- Presence of good domestic market
- Documentation and formalities
- Negative attitude of overseas Buyers
- Problem of trading blocs

I) Exporter –Related causes/reasons

(1) Poor quality

One of the main reasons for poor performance of India's export trade is due to the poor quality of products. A good number of Indian exporters, especially, the small-scale exporters do not give much importance to quality control. Due to problems in quality, the Indian exporters do not get orders from foreign buyers. There are also cases, where Indian goods are rejected and sent back to India by foreign buyers.

(2) High prices

The price of Indian goods is higher as compared to other Asian countries. The price of Indian exports is high due to higher value of Indian rupee vis-a vis the value of some of the other Asian countries such as Malaysia, Thailand, Philippines etc., some of the Indian exporters quote higher prices in order to make higher profits

per unit sold. The price of Indian goods is also affected by high transaction costs, and documentation formalities.

(3) Inadequate promotion

Promotion is vital for export marketing. However, a good number of Indian exporters do not give much importance to promotion. Apart from advertising, and sales promotion, Indian exporters must participate in trade fairs and exhibitions. But in reality, a good number of Indian exporters are not professional in advertising and sales promotion. They also do not take part in trade fairs and exhibitions, and if they do so, they lack professional approach in handling the visitors at the trade fairs and exhibitions.

(4) Poor Follow-up of Sales

There is after poor follow-up of sales. The Indian exporters do not bother to find out the reactions of the buyers after the sale. They are also ineffective in providing after-sale-service. As a result, there is poor performance of India's export trade.

(5) Poor Negotiation Skills

Indian exporters, especially the small exporters lack negotiation skills. Due to poor negotiation skills, they fail to convince and induce the foreign buyers to place orders. The lack of negotiation skills is mainly due to poor training in marketing and negotiation skills.

II) General Causes/Reasons

(1) Poor Infrastructure

The infrastructure required for export of goods is poor. Due to poor infrastructure facilities, Indian exporters find it difficult to get orders, and also to deliver the goods at the night time. The poor infrastructure facilities like poor port-handling facilities, inadequate warehousing facilities, poor transport facilities etc.,

(2) Presence of Good Domestic Market

In India, there is a good domestic market sellers find a ready market for their goods within the country. Therefore, they do not take pains to get orders from overseas markets. However, from the long term point of view, Indian marketers should look beyond domestic markets, and enter in the export markets.

(3) Documentation and Formalities

In India, there are number of documentation and other formalities. Due to the various formalities, some of the marketers do not enter the export field. Therefore, there is a need to simplify and reduce formalities and documentation work on the part of government authorities.

(4) Negative Attitude of Overseas Buyers

Some of the overseas buyers, especially from developed nations have a negative attitude towards Indian goods. They are of the opinion that Indian goods are of inferior quality, and that the Indian exporters provide poor service after sales. Therefore, there is a need to correct this negative attitude through affective promotion and good marketing practices.

(5) Problem of Trading Blocs

Indian exporters are affected due to the presence of trading blocs. There are some powerful trading blocs in the world such as NAFTA, European union and ASEAN. The trading blocs reduce or eliminate trade barriers on member nations, where as, they impose the trade barriers on non-members. Since India is not a member of the powerful trading blocs, Indian exporters do face problems to export goods to the member countries of the trading blocs.

2.8 SUMMARY

Though we are still not out of the crisis, there is a greater degree of confidence, particularly in countries with strong fundamentals like India and china which have weathered the crisis with great dexterity and spearheaded the recovery.

India's chief exports include computer software, agricultural products (cashews, coffee), cotton textiles and clothing (ready-made garments, cotton yarn and textiles), gems and jewellery, cut diamonds, handicrafts, iron ore, jute products, leather goods, shrimp, tea, and tobacco. The country also exports industrial goods, such as appliances, electronic products, transport equipment, light machinery as well as chemical and engineering products. India imports rough diamonds, cuts them, and exports the finished gems. Services exports includes transportation services, Software services, Travel receipts which are expected to grow in the second half of 2009-10.

The macro economic reform policies were introduced by the Government of India in the industrial, commercial and financial sectors. The trade policy reforms aimed at creating an environment for achieving a quick quantum jump in exports. Major changes were effected in the Exim Policy to serve this purpose. Commodity-specific as well as country-specific liberalization measures were resorted to promote further exports. The commerce ministry and the associated organizations were re-oriented to bring about a totally exporter-friendly climate. India, with 16% of the world's population, would have had to increase its imports and exports by 32 times to just reach the world's 'average'. India remained poor - its people had to survive on less than a dollar a day.

2.9 QUESTIONS FOR SELF-ASSESSMENT

- (a) Explain briefly the trends in world trade?
- (b) What do you mean by sunrise exports? Give brief details of India's sunrise exports ?
- (c) Explain growing importance of services export in world trade?
- (d) Explain composition of India's export since 2000?
- (e) Explain the direction of India's export since 2000?
- (f) Describe the reason for India's poor share in world trade?

**3****INTERNATIONAL MARKETING - I****Unit Structure**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Definitions of International Marketing
- 3.3 Features of International Marketing
- 3.4 Importance of International Marketing
- 3.5 Trade Barriers
- 3.6 World Trade Organization
- 3.7 Uruguay Round
- 3.8 Objectives of WTO
- 3.9 Functions of WTO
- 3.10 Implications of WTO Agreements
- 3.11 Summary
- 3.12 Questions for Self-Assessment

3.0 OBJECTIVES

The main vision of this chapter is to:

- Define international marketing
- Explain the features and importance of international marketing
- Understand Trade Barriers
- Know about WTO and its objectives, functions and implications

3.1 INTRODUCTIONS

International marketing is the marketing activity carried on across national boundaries. It is the marketing activities involved between countries. It always crosses the boundaries of the country. In brief, marketing activities beyond the boundaries of the country are termed as international marketing. International/global trade, inter-regional trade, world trade and export marketing are some terms which are to some extent identical with the term international marketing. Export marketing is one major area/aspect of international marketing as export marketing deals with exports while international marketing is broader in scope and deals with imports and exports.

3.2 DEFINITIONS OF INTERNATIONAL MARKETING

1. According to Hess and Eateorq

International marketing is “the performance of business activities that direct the flow of goods and services to consumer or users in more than one nation.”

2. According to Subhash c. Jain

“The term international marketing refers to exchanges across national boundaries for satisfaction of human needs and wants.”

3.3 FEATURES OF INTERNATIONAL MARKETING

1. There are large scale operations.
2. There is dominance of multinational corporations.
3. It is subject to tariff and non-tariff barriers.
4. There is presence of Trading blocs.
5. It is subject to foreign exchange regulations.
6. There is stiff competition.
7. It is regulated by international forums such as WTO.

8. There is a need for international marketing research.

(For explanation refer features of export marketing)

3.4 IMPORTANCE OF INTERNATIONAL MARKETING

The importance benefits of international marketing are explained as follows:

1. Lowers prices

International marketing enables companies to specialize in those goods and services in which they are more competent. By specialization, international marketing lowers the prices of goods and services. The comparative cost benefits enjoyed by firms due to specialization are partly passed on to the consumers.

2. Increases the real income and national well being

International marketing ensures that each country specializes in the production of those commodities, which it is best suited to produce, export its surplus produce and import those commodities which it can obtain cheaper from abroad. In doing so, it increases the real income and national well being of all the participating countries.

3. Furthers technological development

By specialization, it lowers the prices of goods and services all over the world. Consequently it stimulates their consumption and demand for more and better goods, which causes further specialization and technological developments.

4. Provides higher standard of living

International marketing provides better life and welfare to people in different countries. It provides goods which can not be produced in the home country. This raises the standard of living of the people and social welfare.

5. Reduces dangers of monopolistic exploitation

By ensuring free competition, international marketing reduces the dangers of monopolistic exploitation of consumers by the home producers; exploitation of one country by another country is also difficult since there are numerous suppliers in international markets.

6. Ensures optimum use of resources

International marketing enables to make optimum utilization of resources. Countries having surplus resources or production can export to other markets.

7. Builds cultural relations

International marketing changes the quality of life of people. It not only exchanges goods and services among nations but also it develops closer social and cultural relations between different nations.

8. Bridges the technological gap

It makes possible to transfer technology and other assistance from the developed nations to the developing ones and as such, it narrows the gap between the developed and developing countries.

9. Bring international co-operation and world peace

International marketing brings countries closer due to trade relations. Because of interdependence of countries, cordial relations are maintained and this ensures world peace.

10. Brings about rapid industrialization

Most of all, international marketing brings about a rapid growth and development not only of the developing nations but also that of developed ones. While the developed nations provide aid, capital goods and technology to the developing nations, which in turn supplies raw materials and labour to the developed nations.

3.5 TRADE BARRIERS

Free and fair international trade is an ideal situation as free trade is beneficial to all participating countries. However, various types of barriers/restrictions are imposed by different countries on international marketing activities. Such imposed or artificial restrictions on import and exports are called Trade barriers which are unfair and harmful to the growth of free trade among the nations. The trade barriers can be broadly divided into two broad groups.

- Tariff Barriers.
- Non-Tariff barriers.

3.5.1 TARIFF BARRIERS

Tariffs refer to a customs duty or a tax on products that move across borders. The most important tariff barrier is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its export. However, governments rarely impose tariff on export, because countries want to sell as much as possible to other countries. The main important tariff barriers are as follows:

1. Specific duty

Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight of measurement of a commodity, is levied as tariff it is known as specific duty.

For example, Rs. 5.00 per meter of cloth or Rs. 5.00 on each T.V. set or Washing machine imported, such duty is collected at the time of entry of goods.

2. Ad-valorem duty

Ad-valorem duties are imposed at a fixed percentage on the value of a commodity imported. Here, value of the commodity imported is taken as a base for the calculation of duty. Invoice is used as a base for this purpose. This duty is imposed on the goods whose value cannot be easily determined e.g. work of art, rare manuscript, antiques, etc.

3. Compound duty

It is a combination of the specific duty and Ad-valorem duty on single product. For example, there can be a combined duty when 10% of value (ad-valorem) and Rs. 1/- on every meter of cloth charged as duty. Thus, in this case, both duties are charged together.

4. Sliding scale duty/Seasonal duties

The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors. These are also called as seasonal duties.

5. Countervailing duty

It is imposed on certain imports where products are subsidized by exporting governments. As a result of government subsidy, imports become cheaper than domestic goods. To nullify the effect of subsidy this duty is imposed in addition to normal duties.

6. Revenue tariff

A tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly, on luxury goods which demanded from the rich is inelastic.

7. Anti-dumping duty

At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.

8. Protective tariff

In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

9. Single column tariff

Under single column tariff system, the tariff rates are fixed for various commodities and the same rates are made applicable to imports from all countries. These rates are uniform for all countries as discrimination is not made as regards the rates of duty.

10. Double column tariff

Under double column tariff system, two rates of duty on all or on some commodities are fixed. The lower rate is made applicable to a friendly country or to a country with bilateral trade agreement. The higher rate is made applicable to all other countries with which trade agreements are not made.

11. Triple column tariff

Under triple column tariff, three different rates of duty are fixed. These are- (a) general rate (b) international rate and (c) preferential rate. The first two rates are similar to lower and higher rates while the preferential rate is substantially lower than the general rates and is applicable to friendly countries.

3.5.2 NON-TARIFF BARRIERS

A non-tariff barrier is any barrier other than a tariff that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods but only the quantity of imports.

Some of the important non-tariff barriers are as follows-

1. Quota System

Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period. The quota system can be divided into the following categories.

- (a) **Tariff/Customs Quota:** - A tariff quota combines the features of the tariff as well as the quota. Here, the imports of a commodity up to a specifically volume are allowed duty free or at a special low rate duty. Imports in excess of this limit are subject to a higher rate of duty.
- (b) **Unilateral Quota:** - The total import quantity is fixed without prior consultations with the exporting countries.
- (c) **Bilateral Quota:-** In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.
- (d) **Mixing Quota :-** Under the mixing quota, the producers are obliged to utilized domestic raw materials up to a certain proportion in the manufacturing of a finished product.

2. Prior Import Deposits

Some countries insist that importers should deposit even up to 100% of their imports value in advance with a specified authority, normally their central bank. Only after such deposits, the importers are given a green signal to import the goods.

3. Foreign Exchange Regulations

The importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from Exchange Control Authorities prior to the concluding of contract with the supplier.

4. Consular Formalities

Some countries impose strict rules regarding consular documents necessary for importing goods. They include import certificates, Certificate of origin and certified consular invoice. Penalties are provided for non-compliance of such documentation formalities.

5. State Trading

State trading is useful for restricting imports from abroad as final decision about import are always taken by the government. State trading acts are one non-tariff barrier.

6. Export Obligation

Countries, like India, impose compulsory export obligation on certain importers. This is done to restrict imports. Those companies, who do not fulfill export obligation (to compensate for imports) have to pay a fine or penalty.

7. Preferential Arrangements

Some nations form trading groups are preferential arrangements in respect of trade amongst themselves. Imports

from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.

8. Other Non-tariff Barriers

There are a number of other non-tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes etc.

Check Your Progress

1. Define the terms:
 - a. Tariff
 - b. Trade Barriers
 - c. Revenue Tariff
 - d. Anti-dumping duty
 - e. Specific Duty
2. "Free and Fair International Trade is an ideal situation." Discuss.

3.6 WORLD TRADE ORGANISATION (WTO)

The world trade organization (WTO) started functioning from 1st January 1995. WTO is the result of Uruguay Round of negotiations. WTO is the successor to the General Agreement on Tariffs and Trade (GATT). GATT has ceased to exist as a separate institution and has become part of the WTO.

WTO has larger membership than GATT. India is one of the founder members of WTO.

From GATT to WTO

1947- 23 countries including India signed GATT agreement. GATT was created to regulate and liberalise world trade by reducing tariff barriers.

1948 – GATT came into force to liberalise world trade.

1949 – Second Round was held at Annecy in France. Discussions were held to reduce tariff on number of goods. About 5000 tariff concessions on various products were agreed upon.

1950 – Third Round was held at Torquay (England). About 8700 Tariff concessions were agreed.

1956 – Fourth Round was held at Geneva. Tariff reduction at this round was worth 2.5 US \$ Billion.

1960 – The Fifth Round called Dillon Round was held at Geneva.

It was held in two phase. Phase I- to create a single schedule of concessions for the EC based on its common external tariffs. Phase II- for general round of tariff negotiations.

1964 – The Sixth Round, called Kennedy Round was held at Geneva. Tariff reductions and anti-dumping measures were discussed. The round took 3 years to complete.

1973 – The Seventh Round, called the Tokyo Round was launched at Tokyo and concluded at Geneva. It took six years to conclude. Negotiations were held to reduce tariffs as well as non-tariff barriers on goods.

1987 –The Eighth Round, called the Uruguay Round was Launched at Uruguay and concluded at Geneva after 8 years. Negotiations took place on various matters:-

1. Tariff and non-tariff measures.
2. Trade in services.
3. Trips agreement.
4. Trims agreement.
5. Trade in textiles.
6. Trade in agriculture.
7. Creation of WTO, etc.

The WTO came into existence, which is more of a permanent institution with its headquarters at Geneva.

The following table provides a 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
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3.7 URUGUAY ROUND

The Uruguay round was launched at Uruguay in 1986. It was the last round as far as GATT was concerned because at the end of this round, it was decided by the participating countries to replace GATT by WTO from 1st January 1995.

The main highlight of Uruguay Round are-

1. Trade in services-

For the first time in the history of GATT, trade in services like banking, insurance, travel etc. has been brought under multilateral agreement. The inclusion of services in the agreement reflects the growing importance of services in the world economy. The GATTs agreement introduces a number of general obligations in the services.

2. Anti-dumping measures-

The developed countries have increasingly resorted to anti-dumping measures. The Uruguay round seeks to introduce new rules relating to dumping, which would benefit the developing nations.

3. TRIPs-

At the Uruguay round, the TRIPs agreement was signed. The TRIPs agreement provides protection of intellectual property rights including patents, trade marks, copyrights, etc. This agreement is expected to boost research and development and investment in property rights.

4. Agreement on Agriculture-

The agreement on agriculture was signed. The main objectives to increase market access to agriculture items in member nations. The member nations have to change or remove their non-tariff barriers like quotas on agriculture items.

5. TRIMs-

At the Uruguay round, the TRIMs agreement was signed. The TRIMs agreement introduces a number of measures by member countries to treat foreign investments on par with domestic investments and also removal of QRs on imports. Certain measures that discriminate against foreign investments were to be withdrawn by member nations, such as dividend balancing requirements.

6. Agreement on Textiles and Clothing-

The MFA (Multi-Fiber agreement) was in force since 1973. Under MFA the developed countries (France, USA, Canada, Japan England etc.) that were importing textiles and clothing from developing nations were imposing quotas. At the Uruguay round, it was decided to withdraw MFA within a period of 10 years (by 01-01-2005). MFA has been withdrawn, which would benefit the textile exporting countries including India.

3.8 OBJECTIVES OF WTO

WTO desires to achieve the objectives as decided by GATT. These are as follow-

1. Free trade i.e. trade without discrimination
2. Growth of less developed countries.
3. Protection and preservation of environment.
4. Optimum utilization of available world's resources.
5. Raising living standard of citizens of member countries.
6. Settlement of trade disputes among member countries through consultation and dispute settlement procedures.
7. Generating employment opportunities at global.
8. Enlargement of production and trade.

3.9 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 and 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.

3.10 IMPLICATIONS OF WTO AGREEMENTS

Participation in WTO has implications on foreign trade and development of developed as well as developing nations. Although the ultimate goal of WTO is to free world trade in the interest of all nations of the world. Yet in reality the WTO agreements have benefited the developed nations more as compared to developing ones. This is because; the developed countries of Europe and America have powerful influence on the WTO agreements.

The impact of WTO on developing countries is explained as follows-

3.10.1 Negative Impact-**1. Impact of TRIPS-**

The TRIPS agreement of WTO favours the developed countries as compared to the developing countries. Under the TRIPS agreement protection is given to intellectual property rights such as patents, trade marks, layout designs, etc. The TRIPS agreement favours the developed nations as they hold a large number of patents.

The agreement on TRIPS extends to agriculture through the patenting of plant varieties. This may have serious implications for

developing countries agriculture including India. Patenting of plant varieties may transfer all gains in the hands of MNCs which will be in a position to develop almost all new varieties with the help of their huge financial resources and expertise.

The agreement on TRIPs also extends to micro-organisms as well. Research in micro-organisms is closely linked with the development of agriculture, pharmaceuticals and industrial biotechnology. Patenting of micro-organisms will again benefit large MNCs as they already have patents in several areas and will acquire more at a much faster rate.

2. Impact of TRIMS-

Agreement on TRIMs requires the treatment of foreign investment on par with domestic investment. Due to TRIMs agreement, developing countries including India have withdrawn a number of measures that restricts foreign investment. This agreement also favours the developed nations. Due to huge financial and technological resources at their disposal, the MNCs from developed countries would play a dominant role in developing countries. Besides foreign firms are free to remit profits, dividends, and royalties to the parent company, thereby causing foreign exchange drain on developing nations.

3. Impact of GATS-

The Uruguay round included trade in services under WTO. Under the GATs agreement, the member nations have to open up the services sector for foreign companies. The developing countries including India have opened up the services sector in respect of banking, insurance, communication, telecom, transport, etc. to foreign firms. The domestic firms of developing countries may find it difficult to compete with giant foreign firms due to lack of resources and professional skills.

4. Impact of reduction of tariffs-

As per the WTO agreement, the developing countries have to reduce the tariff barriers. As on result of this, the developing countries have resorted to reduce tariff years in a phased manner. For example, India has reduced the peak customs duty on non-agricultural goods to 10% . As the protection to domestic industry gradually disappears, the firms in developing nations have to face increasing competition from foreign goods.

5. Impact on small sector-

WTO does not discriminate industries on the basis of size. Small sector has to compete with large sector. Therefore, as per WTO agreement, India has agreed to withdraw reservation of items of small scale sector in a phased manner since 2000. By February 2008, India has withdrawn reservation for small sector of over 700 items. Only 35 items are reserved for small scale sector as on 5th Feb., 2008.

Due to dereservation, the small units have to compete with large industries and also from cheaper imports. As a result, several small firms have become weak or sick during the past couple of years.

6. Impact on agriculture-

The developing countries India and China are among the largest producers of agricultural items like vegetables, fruits, food grains, etc. However, the agricultural productivity is low as compared to other countries. Due to low productivity, the farmers from developing countries stand to lose in the world markets. The WTO agreement on agriculture has only in theory favoured the developing countries, but in practice, its implication have seriously affected agricultural exports to world markets, as the developed countries provide lot of subsidies to their farmers.

3.10.2 Positive Implications

The positive impact of WTO on developing countries can be viewed from the following aspects.

1. Growth in merchandise exports-

The exports of developing countries like India, China, Brazil, etc. have increased since the setting up of WTO. The increase in exports of developing countries is due to reduction in trade barriers – Tariff and Non Tariff. For example, India's merchandise exports have increased by 4 times since 1995 as shown below.

India's merchandise exports in 1995 35 US \$ billion and 2006-07 it is 126 US \$ billion.

2. Growth in services exports-

The WTO has also introduced an agreement on services called GATS. Under this agreement, the member nations have to liberalise the services sector. Certain developing countries like India would benefit from such an agreement. For example India's services exports have increased from about 5 billion US \$ in 1995 to 76 billion US \$ in 2006-07. The software services accounted for about 40% of the services exports of India.

3. Foreign Investment

As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by member nations of WTO including developing countries. Therefore, the developing countries like Brazil, India, China etc, have been benefited by way of foreign direct investment as well as by euro equities and portfolio investment. In 2006-07 foreign investment in India was 15.5 US \$ billion, out of which FDI was 8.5 US \$ billion.

4. Textiles and clothing-

It is estimated that the textiles sector would be one of the major beneficiaries of the impact of Uruguay Round. At the Uruguay Round, it was agreed upon by member countries to phase out most favourable area. Under most favourable area, the developed countries used to import quotas on textile exporting countries. Now it would benefit the developing countries including India by way of increase in export of textiles and clothing.

Therefore, it can be concluded that the WTO has created both a positive and negative impact on developing countries. It is expected that the developing countries like Brazil, India China, South-Korea, would greatly benefit from WTO agreements in the coming years, provided they make efforts to improve efficiency and international competitiveness.

3.11 SUMMARY

Free and fair international trade is an ideal situation as free trade is beneficial to all participating countries. The trade barriers can be broadly divided into two broad groups.

1. Tariff Barriers.
2. Non-Tariff barriers.

Tariffs refer to a customs duty or a tax on products that move across borders. Tariff Barriers includes Specific duty, Ad-valorem duties, Sliding scale duty, Countervailing duty, Revenue tariff, Anti-dumping duty, Protective tariff, Single column tariff, Double column tariff, Triple column tariff etc.

A non-tariff barrier is any barrier other than a tariff that raises an obstacle to free flow of goods in overseas markets. Some of the important non-tariff barriers are Quota System, Prior Import Deposit, Foreign Exchange Regulation, Consular Formalities and Export Obligation etc are the main non-tariff barriers.

The world trade organization (WTO) started functioning from 1st January 1995. WTO is the result of Uruguay Round of negotiations. Administration of agreement, Implementation of

reduction of trade barriers, Examination of Members' Trade Policies, Collection of foreign trade information, Settlement of disputes, Consultancy services, Forum for negotiation, Assistance of IMF and IBRD etc are the main functions of WTO.

3.12 QUESTIONS FOR SELF-ASSESSMENT

1. What is international marketing & explain the importance of international marketing?
2. Discuss the various tariff barriers on international trade?
3. What are the various non-tariff barriers on international trade?
4. Evaluate briefly the various trade barriers?
5. Explain the features of international marketing?
6. What are the main objective and functions of WTO? Discuss?
7. Explain the implication of WTO on international marketing with reference to its major agreements?
8. Discuss the positive and negative impact of WTO and developing nations?
9. Define the terms within 30 words:
 - a. International Marketing
 - b. Specific Duty
 - c. Ad- Valorem Duty
 - d. Compound Duty
 - e. Countervailing Duty
 - f. Protective Duty
 - g. Quota System



Unit Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Types of Economic Integration
- 4.3 Objectives of Economic integration
- 4.4 Trading Blocs
- 4.5 European Union (EU)
- 4.6 North American Free Trade Agreement (NAFTA)
- 4.7 Association of South-East Asian Nations (ASEAN)
- 4.8 South Asian Association for Regional Co-operation
- 4.9 Implication of Trading Blocs
- 4.10 Global System of Trade Preferences (GSTP)
- 4.11 Principles of Guidelines of GSTP
- 4.12 Summary
- 4.13 Questions for Self-assessment

4.0 OBJECTIVES

The main purpose of this chapter is to:

- Describe major regional economic groupings
- Explain the types and objectives of economic integration
- Know in detail about the trading blocs- (EU, NAFTA ASEAN, SAARC)
- Understand the implications of trade blocs for international marketing
- Identity the global system of trade preferences and its principles or guidelines

4.1 INTRODUCTION

Economic integration is a group countries which join together for enhancing trade and development. The member countries try to encourage trade within the group by removing or reducing tariff and non-tariff barriers. They may discriminate against non-members by collectively imposing common external barriers.

4.2 TYPES OF ECONOMIC INTEGRATION

The economic integration varies from lowest degree of integration i.e. Preferential Trade Arrangement to highest degree of integration i.e. Economic Union. The various types of economic integration are as follows.

1. Preferential Trade Arrangement

It is the lowest form of integration. The members of the group impose lower trade barriers on member nations. However, the members individually impose trade barriers on non-members. An example of this type of integration is SAPTA that was signed by seven countries of south Asia including India in 1995.

Features

The main features are as follows:

- (a) The member nations reduce trade barriers on member nations
- (b) The member nations individually impose trade barriers on non members.
- (c) There are restrictions on movement of labour and capital within the group
- (d) The member nations do not adopt common economic policies

2. Free Trade Area

In this case, the member nations remove all trade barriers amongst them. But each nation retains or imposes its own barriers on trade with non-members. Examples of types of integration include SAFTA, NAFTA etc,

Features

The main features of Free Trade Area are as follows:

- (a) The member nations remove trade barriers on member nations.
- (b) The member nations individually impose trade barriers on non-members.
- (c) There are restrictions on movement of labour and capital within the group
- (d) The members do not adopt common economic policies

3. Customs Union

It is similar to Free Trade Area. It removes all trade barriers on member nations. In addition, it imposes common external barriers on non-members. The best example is that of European Economic Community (EEC) that came into existence in 1957 by signing Treaty of Rome by six countries- France, Italy, Germany, Belgium, Netherlands and Luxemburg.

Features:

The main features are as follows:

- (a) Removal of all trade barriers amongst member nations.
- (b) Collective bargaining with non-members.

- (c) Common external barriers on non-members.
- (d) Members restrict the movement of labour and capital within the region.

4. Common Market

It is a higher degree of economic integration. It treats the entire market of all member nations as one market. The best example is that of European Common Market (ECM). The EEC got converted into ECM in 1993.

Features:

This type of integration involves.

- (a) Removal of all trade barriers amongst member nations
- (b) Common external barriers on non-members
- (c) Removal of restrictions of movement of labour and capital among member nations
- (d) Collective bargaining with non-members

5. Economic Union

It is the highest degree of economic integration. Example of this type of integration is the European Union that came into existence in 1995. The ECM got converted in to EU. Benelux is another example that was formed after World War II by 3 countries Belgium, Netherlands and Luxemburg.

Features

The main features of economic union are on follow

- (a) Removal of all trade barriers on trade amongst member nations
- (b) Free movement of labour and capital among member nations
- (c) Common economic polices such as monetary policies and fiscal policies, agriculture policies etc,
- (d) Common external barriers on non-members etc

4.3 OBJECTIVES OF ECONOMIC INTEGRATION

The main objectives of economic integration of trading blocs are as follows.

1. To reduce or if possible to eliminate trade barriers among member nations.

2. To promote free transfer of labour, capital and other factors of production.
3. To maintain better cultural, social and political ties with each other.
4. To assist member nations in any possible way with special reference to international trade.
5. To promote growth of the region through mass production and marketing of goods.
6. To bargain collectively with the non-members by means of their collective strength.
7. To impose common external tariff and non –tariff barriers on non-members.
8. To generate competition among firms of the member countries.
9. To increase consumer welfare in the region.
10. To generate higher employment in the region.

4.4 TRADING BLOCS

A trading bloc is a group of countries, which is formed for the purpose of economic, social and cultural developments in the region. Some of the prominent trading blocs include European Union, NAFTA, ASEAN, SAARC etc.

The main objective of trading blocs' are-

- To reduce or if possible to eliminate trade barriers among member nations.
- To promote free transfer of labour, capital and other factors of production.
- To maintain better cultural, social and political ties with each other.
- To assist member nations in any possible way with special reference to international trade.
- To promote growth of the region through mass production and marketing of goods.
- To bargain collectively with the non-members by means of their collective strength.
- To impose common external tariff and non-tariff barriers on non-members.

4.5 EUROPEAN UNION (EU)

4.5.1 Introduction

This was originally established as European Common Market by the treaty of Rome in 1957, and came into operation in 1959. The founder members of the community were France, West Germany, Italy, Belgium, Netherlands and Luxembourg. In 1973 UK joined the community. Today it is known as EU, and comprises Belgium, Denmark, France, Greece, Ireland, Italy, Netherlands, Portugal, Spain United Kingdom, Germany, Luxembourg, Finland, Austria and Sweden.

The association has advanced to the extent of removing most trade barriers and allowing free movement of persons and goods within the union. They have also established a European Parliament for which member are selected from each country on proportionate basis, and are given powers to legislate may issues which are them ratified by the governments.

They have a common currency which is the Euro.

4.5.2 Objectives of EU

The main objectives of European Unions are as follows-

- To eliminate trade barriers on member nations.
- To assist member nations during the times of emergencies.
- To develop cultural and social relations.
- To promote free transfer of labour and capital among member nations.
- To bargain collectively with the non-members by means of collective strength.
- To impose common external barriers on non-members.

4.5.3 Policies of European Union:

There are number of policies adopted by European Union. These policies are as follows-

1. Common Agriculture Policy-

The main aims of this policy is improving the agricultural production and to improve the position of the EU formers. It also aims to make available food products at reasonable rates. It allows free movement of food products among member nations.

2. Common Fisheries Policy-

It provides equal access to fishing areas to all nationals of EU. It adopts common market standards for marine products.

3. Common Transport Policy-

It aims at integration of transport facilities of the entire community. It monitors organization and control of transport system within the community.

4. Fiscal Policy-

It aims at unification of tax rates, and other fiscal matters. It monitors common value added tax on products in the member states.

5. Industrial Policy-

It facilitates research and development among member nations. It aims at improving international competitiveness of industries of EU member states.

6. Competition Policy-

It prohibits agreements which lead to prevention, or restriction of competition within the EU. It aims to promote competition within the EU by restricting anti-competitive practices.

CHECK YOUR PROGRESS:

1. Explain the following terms briefly:
 - a. Economic Integration
 - b. Preferential Trade Arrangement
 - c. Free Trade Area
 - d. Customs Union
 - e. Common Market
 - f. Economic Union
 - g. Trading Blocs

2. Fill in the blanks:
 - a. Some of the prominent trading blocs include European Union are-----.
 - b. European Economic Community (EEC) got converted into --- -----in 1993.
 - c. European Union has a common currency which is -----
 - d. The best example of Customs Union is ----- ----- came into existence in 1957.
 - e. Today European Common Market is known as-----.
 - f. Best example of Preferential Trade Arrangement is -----

4.6 NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

The North American Free Trade Agreement (NAFTA) is the most powerful trade bloc in the world. The members of the bloc are USA, Canada and Mexico. This bloc came into operation in 1994. The NAFTA is basically a trade and investment agreement with a view to reduce barriers on the flow of goods, services and people among the three countries. The agreement covers only goods and services manufactured/produced in North America or if imported goods and services that meet certain local content requirements, the nationality of ownership does not matter, as long as such local content requirements are met.

NAFTA has a total population of 360 millions. Its formation is an attempt to gain comparative advantage against the enlarged European Union and to out pace the EEA.

This trade agreement is quite comprehensive and covers many areas such as tariff reduction, free movement of professionals among the member countries, financial and direct investment matters and consumer safety. There are “side agreements” relating to protection of labour and protection of the natural environment. The NAFTA treaty envisages elimination of all trade and investment restrictions among the member countries over a period of 15 years.

Objectives of NAFTA:

The main objectives of NAFTA are as follows

- To eliminate trade barriers on trade and facilitate movement of Goods and services.
- To develop cultural and social relations.
- To remove restrictions on transfer of technology to member nations.
- To negotiate collectively with non-members on certain foreign Trade matters.
- To promote fair competition in FTA.
- To provide protection and enforcement of intellectual property rights.
- To develop industries in Mexico in order to create employment and to reduce migration from Mexico to USA.
- To assist Mexico in earning additional foreign exchange to meet foreign debt burden measures undertaken by NAFTA.

1. Residents of NAFTA nations can invest freely in other NAFTA countries.
2. Protection of Intellectual Property Rights of the members countries.
3. Free movement of labour from one country to another.
4. Pollution control along the USA- Mexico border.
5. Standardization of product standards in member countries.

4.7 ASSOCIATION OF SOUTH EAST ASIAN NATIONS (ASEAN)

The ASEAN was established on 8th Aug. 1967 in Bangkok by five original member nations that include Malaysia, Indonesia, Philippines, Thailand and Singapore. At present there are 10 members who also include Brunei, Cambodia, Laos, Myanmar and Vietnam.

ASEAN original purpose was to preserve peace among its member nations and to respond to the communist threat in the region from china. During the first nine years of its existence, ASEAN's primary focus was political.

The economic co-operation began at the first ASEAN Summit in Bali in 1976, when the declaration of ASEAN Accord was signed. The ASEAN countries agreed to co-operate in the supply and purchase of basic commodities, the establishment of preferential trading arrangements, and the stabilization of prices in the region and promotion of export earnings from production of regional commodities.

The ASEAN countries formed the ASEAN Free Trade Area (AFTA) in September 1994. The AFTA initially set to function for 10 years in order to develop inter ASEAN trade.

Objectives of ASEAN

The main objectives of ASEAN are as follows-

1. To accelerate economic growth, social progress and cultural development of member countries.
2. To promote active collaboration and mutual assistance in matters of common interest.
3. To maintain close co-operation with the existing international and regional organization with similar aims.
4. To ensure the stability of the south East Asian region.

4.8 SOUTH ASIAN ASSOCIATION FOR REGIONAL CO- OPERATION (SAARC)

Seven nations in the Indian subcontinent region have joined hands to form the South Asian Association for Regional Co-operation (SAARC) in 1985. The SAARC members include India, Pakistan, Srilanka, Bangladesh, Nepal, Bhutan and Maldives. Its headquarter has been established at Kathmandu. A conference of heads of the countries is held every year but conferences were generally delayed for the one reason or the other.

Among the SAARC countries, concessional tariff rates have been introduced for 226 trade items. These concessional rates range between 10% to 100 %. India gave this concession to 106 items, which is the highest among all SAARC countries. Similarly, other member countries also gave concessional rates.

To explore trade possibilities among SAARC nations, first SAARC trade fair was held at Pragati Maidan in New Delhi on January 9-14, 1996. The theme of the fair was co-operation for growth. SAARC nations displayed their various products and also their export capacities in this fair.

Objectives of SAARC

The main objectives of SAARC are as follows

1. To promote welfare of the people of the region and to improve the quality of life
2. To accelerate economic growth in the region through regional co-operation
3. To accelerate social progress and cultural development
4. To promote and strengthen collective self-reliance among the member nations
5. To contribute to mutual trust, understanding and appreciation of each others problems
6. To strengthen co-operation with other developing countries
7. To strengthen co-operation amongst member nations at international forums (such as WTO) on matters of common interests
8. To co-operate with international and regional organizations with similar objectives

4.9 IMPLICATION OF TRADING BLOCS

Trade blocs and free international trade do not go together. In fact, trade blocs are against the growth of free

global/international trade. They adversely affect the process of trade liberalization at the global level. However, trade blocs are also useful for integration of economies of member countries. EU is one popular and successful trade blocs which has brought the integration of economies of member countries. All member countries are getting benefits from this trade bloc. In brief trade blocs have positive and negative aspect. It is a mixed blessing. Let us, now briefly note the implication of trade blocs.

4.9.1 Positive Implications

1. Trade Creation

Economists argue that economic integration leads to trade creation. This is because, a trading bloc may remove tariff on member nations. As a result, a high cost producing country of the bloc can import goods from low cost producing member nation. Due to formation of a free trade area, there is proper allocation of resources, and the nations can take advantage of comparative cost. Due to the comparative cost advantage, trade creation takes place.

2. Competition

The formation of a trading bloc leads to intense competition between firms of the entire bloc. Due to intense competition, the efficiency of the firms improves. This leads to reduction in prices and improvement in quality.

3. Economies of large scale

Due to economic integration, there can be economies of large scale production and distribution. Firms in the region will try to specialize in those goods and services which they are more capable of producing. This leads to large scale production and distribution, which in turn brings economies of large scale. The economies of large scale are partly passed on to the consumers in form of lower prices.

4. Economic growth

The formation of a trading bloc can increase economic growth of the region. Due to reduction of trade barriers, firms in the region would be in a position to produce goods at a lower price. This would increase demand, which in turn would lead to large scale production. The increase in production of goods and services may lead to economic growth in the region.

5. Employment

Due to large scale production and distribution of goods, the employment also increases. There can be direct and indirect effect on employment. The direct effect is in the industries producing goods and services. The indirect effect is due to the increase in

employment in the supporting industries such as ancillary units, banking, insurance etc.

6. Technological development

Due to economic integration, there can be improvements in technology. As the firms grow, they would go for higher technological developments. A part of the increased profits can be utilized for research and development for the purpose of improving technology that will help to reduce prices, and improve quality.

7. Investment

There can be higher investment. The member nations may reduce or remove restrictions on investment. Therefore, there can be an increase in intra regional investments, which in turn would increase the economic development of the region. Also, the region would be in a position to attract more investment from other countries due to its growth potential.

8. Social and cultural relations

Due to integration, there can be betterment of social and cultural relations in the region. The member countries can improve their relations with each other through the exchange and social programmes. This will indirectly help for the peace and prosperity of the region.

9. Better utilization of resources

The economic integration would help to make better utilization of resources. Due to the growth of the region, there would be optimum use of physical resources, human resources and financial resources.

The optimum use of resources would in turn lead to higher efficiency and productivity of the various firms in the region.

10. Consumer welfare

A trading bloc facilitates consumer welfare in the region. Due to economic growth, the employment opportunities increase, which in turn increase purchasing power, and the people can enjoy higher standard of living. Also, due to trading bloc, the consumers may have to pay lower prices, and at the same time enjoy higher quality products.

4.9.2 NEGATIVE IMPLICATIONS

The trading blocs can negatively affect the non-members countries. This is due to the following:

1. Common external barriers

The member countries of the trading bloc may impose common external barriers on non-members. The common external barriers may be in the form of tariff and non-tariff barriers. Due to such external barriers, the non-members stand at a disadvantage and as such their trade with trading member countries gets affected to a certain extent.

2. Collective bargaining by member nations

The members of the trading bloc collectively bargain with non-members in respect of trade related matters. Due to their collective bargaining power, the non-member nations stand at a disadvantage.

4.10 GLOBAL SYSTEM OF TRADE PREFERENCES (GSTP)

The agreement on GSTP among developing countries was signed on 13th April, 1988 at Belgrade. It was signed by 48 developing countries including India those were the members of group 77.

Objectives of GSTP:

The main objectives of Global System of Trade Preferences are as follows:

- (a) To promote and sustain mutual trade. For example products originating from India are eligible for preferential tariff treatment upon import in participant countries.
- (b) To develop economic co-operation among developing countries (member of group 77) through exchange of trade concessions.

The GSTP establishes a frame work for the exchange of trade concessions among the members of group 77. The coverage of GSTP extends in the area of tariff, Para-tariff, non-tariff measures, direct trade measures and sectoral arrangements.

1. Tariff concessions or measures, tariffs means custom duties stated in the national tariff schedules of the participant member.
2. Para-tariff concessions, para-tariff means border charges and fees other than tariff which are solely imposed on imports.
3. Non-tariff measures, non-tariffs mean any measure or regulation such as quotas that restrict mostly imports.
4. Direct trade measures, which mean measures conducive to promote mutual trade of members such as long and medium term contracts containing import and supply commitments in

respect of specific products, state trading operations, government and public procurement etc.

5. Sectoral agreements, which means agreements amongst participants regarding the removal or reduction of tariff, non-tariff, and para-tariff barriers as well as other trade promotion measures for specified products.

4.11 PRINCIPLES OR GUIDELINES OF GSTP

The GSTP framework is based on the following :

Principles or guidelines

1. The GSTP shall be reserved for the exclusive participation of developing countries that are members of groups 77.
2. The benefits of GSTP shall accrue to the developing countries members of the group 77, who are participants in the GSTP agreement.
3. The GSTP shall be based and applied on the principle of mutuality of advantages in such a way to benefit equitably all participants, (taking into account their respective levels of economic and industrial development, the pattern of their external trade and trade policies and systems.)
4. The GSTP shall be negotiated step by step, improved and extended in successive stages, with periodic reviews.
5. The GSTP shall not replace, but supplement and reinforce, present and future sub-regional, regional and inter-regional economic groupings of developing countries of group 77.
6. The special needs of the least developed countries shall be clearly recognized and concrete preferential measures in favour of these countries should be agreed upon, the LDCs will not be required to make concessions on a reciprocal basis.
7. The GSTP shall include all products, manufactures and commodities in their raw, semi-processed and processed forms.
8. Inter-governmental sub-regional, regional and inter-regional groupings for economic co-operation among developing countries that are members of the group 77 may participate, fully as such, if and when they consider it desirable, in any or all phases of the work of the GSTP.

4.12 SUMMARY

Economic integration is a group countries which join together for enhancing trade and development. The various types of Economic integration are Preferential Trade Arrangement, Free Trade Area, Custom Unions, Common Market and Economic Union.

A trading bloc is a group of countries, which is formed for the purpose of economic, social and cultural developments in the region. EU, NAFTA, ASEAN, SAARC are some of the main Trading Blocs.

Trade blocs are against the growth of free international trade. However, trade blocs are also useful for integration of economies of member countries. Trade Creation, Large scale production and distribution, Economic growth, Employment, Technological development, Higher investment, Betterment of Social and Cultural relations, Better utilization of resources, Consumer welfare these are the positive points of implication of trade blocs.

4.13 QUESTIONS FOR SELF-ASSESSMENT

1. What are the different types of regional economic groups?
2. "Trading blocs are harmful for the growth of world trade."
Discuss.
3. Explain the implications of trading blocs on international marketing?
4. "Trade Blocs and free International Trade do not go together."
Explain.
5. Write short notes on-
 - (a) EU
 - (b) NAFTA
 - (c) ASEAN
 - (d) SAARC
 - (e) GSTP
6. Give full forms of and explain the terms briefly.
 - (a) EU
 - (b) NAFTA
 - (c) ASEAN
 - (d) SAARC
 - (e) GSTP



PRELIMINARIES FOR SATRTING EXPORT BUSINESS- I

Unit Structure

- 5.0 Objectives
- 5.1 Introduction of overseas market research
- 5.2 Meaning of marketing research
- 5.3 Identifying foreign market
- 5.4 Factor influencing selection of foreign markets
- 5.5 Product planning strategies for exports
- 5.6 Steps in new product development process
- 5.7 International product life cycle
- 5.8 Methods of entry in foreign markets
- 5.9 Direct exporting
- 5.10 Indirect exporting
- 5.11 Distinguish between direct exporting and indirect exporting
- 5.12 Summery
- 5.13 Question for self-assessment

5.0 OBJECTIVES

The main vision of this chapter is to:

- Know about overseas market research
- Understand the meaning, need and importance of marketing research
- Identifying foreign markets and what are the factors influencing selection of foreign market
- Explain product planning strategies for exports
- Evaluate steps in new product development process
- Understand international product life cycle
- Discuss methods of entry in foreign markets
- Understanding merits and demerits of direct and indirect exporting
- Distinguish between direct exporting and indirect exporting

5.1 INTRODUCTION TO OVERSEAS MARKET RESEARCH

Overseas market research is a must for successful and profitable export marketing. This is the most promising way of making company's marketing operations sensitive to the changing requirements of international markets. Published data on different aspects of global marketing are now available easily for the conduct of overseas market research. Field research is required when published data are not available as per the need of the research project. The popularity of overseas market research is fast growing along with the globalization of business.

Preliminaries for export business are related to different aspects of export management such as products, markets, buyers, marketing channels and the methods of exporting. Deciding preliminaries for export business is similar to broad decision to be taken while constructing a very big tower of 15 to 20 floors. Actual construction work will be as per the preliminary decision taken. Similarly, export marketing activities of a firm will be conducted as per the preliminaries decided. The decision on preliminaries for starting export business is important as fault decisions may lead to difficulties while conducting export business.

5.2 MARKETING RESEARCH

5.2.1 DEFINITION

- (a) According to Donald s. Tull and Del. I. Howkins
"Marketing research is a formalized means of obtaining information to be used in making marketing decisions."
- (b) According to the American marketing association
Marketing research refers to the systematic gathering, recording and analysis of data about problems relating to the marketing of goods and services.

5.2.2 NEED AND INPORTANCE OF MARKETING RESEARCH

The objective of marketing research is to facilitate decision making in a number of marketing areas. In international marketing. Market research is needed for taking decisions on the following:

(a) Consumer needs and wants-

One of the main objectives of marketing research is to identify consumer needs and wants. Accordingly, the company can manufacture and deliver the goods to the consumers to meet their satisfaction. A company which has already launched its products will try to find out as to what extent the company's products has satisfied the needs and wants of its consumers.

(b) Promotional campaigns-

Promotional campaigns are needed in overseas market for large scale marketing of the product. Details of such campaigns can be finalized with the help of market research.

(c) Competitive advantage-

Marketing research is conducted to find out the strength of the competitors. An attempt is made to find out why some consumers prefer competitors brands, the special features that appeal to them. Accordingly, the company may incorporate and improve on such features in its products to gain competitive advantage.

(d) Appropriate pricing decisions-

Appropriate pricing decisions in overseas marketing are possible through detailed study of overseas market in regard to market competition, consumer psychology, Product demand, substitutes available and so on.

(e) Effectiveness of channels of distribution-

Marketing research also conducted to find out the effectiveness of the present and potential channels of distribution. The existing channels may be studied in light of channel objectives. If the present channels are not cost effective and are not in a position to deliver the goods effectively, then the company may select alternative channels.

(f) Determine the positioning of the product-

Market research is needed in order to determine the positioning of the product, taking into consideration the socio-cultural factor of overseas market.

(g) Packaging design-

Marketing research may be conducted to design better and appropriate packaging for the consumers. Different customers may prefer the package design differently. Through packaging design research a company may identify the right design required by its target customers.

(h) Forecasting sales-

Marketing research can be conducted to judge whether there would be demand for a new product in the market. Also, the demand for existing products can be forecasted. Accordingly, sales programmes can be designed.

5.3 IDENTIFYING FOREIGN MARKETS

Selectivity is the key to success in all spheres of life including export marketing. An exporter may wish to deal in all kind

of products and to sell them anywhere in the world. However, it is not possible for him to do so due to the wide expanse and demand variations in different markets of the world. Therefore, an exporter has to select proper products and proper markets in order to operate at the international level.

The market selection process is as follows:

(a) Determine export marketing objectives

The exporter must first determine export marketing objectives in terms of product development, profit, sales, share of market etc; both from short term and long term point of view. The objectives are set taking into account the financial and managerial resources of the firm.

(b) Collection of information

The exporter must collect relevant information from the overseas markets. The information may be in respect of demand for the product, competition, nature of consumers, political situation, import regulations, infrastructure facilities etc.

(c) Analysis of information

The exporter has to analyze the collected information in respect of overseas markets. Such analysis is required to shortlist the overseas markets. For example, the exporter has to analyze the likes and dislikes of the buyers, the purchasing power, buying pattern etc,

(d) Short listing of markets

A detailed investigation of the markets will help the exporter to short list the countries which may be considered for export purpose. The main objective of short listing is to arrive at a list of few countries which are likely to influence the selection decision.

(e) Detailed investigation

The exporter may conduct a detailed analysis of certain markets. He may collect necessary information in respect of various factors such as the nature of the customers, the nature and degree of competition, the present and potential demand for the product, the trade policies of the government and so on. The information can be collected from primary sources as well as from secondary sources.

(f) Evaluation and selection of markets

The company has to eliminate countries where trade or investment barriers prohibit probable market entry. These barriers would include Tariffs, Quotas, Foreign Exchange Regulations etc,. The exporter may select only those countries or markets, which would provide a good rate of return for its investment.

(g) Entry in overseas markets

The exporter then makes necessary arrangements to enter in the overseas markets. He may appoint the required sales people, and intermediaries. He should complete all other formalities regarding the entry in overseas markets. He would then produce the goods as per the requirements of overseas buyers.

(h) Follow-up

The exporter should undertake a review of the performance in the overseas markets. Such review would enable the exporter to know which markets are performing well, and which one are not. He would then find out the reasons for the same, and if there are problem, he would try to resolve such problems, or exit from such markets that do not provide good potential.

5.4 FACTORS INFLUENCING SELECTION OF FOREIGN MARKETS

The exporter must consider certain factors to select the appropriate foreign markets. The factors that influence the selection of foreign markets include the following:

(a) Competition

The exporter must consider the degree of competition in the overseas markets. Nowadays, due to globalization, there is high degree of competition in the overseas markets. In the ultimate analysis the price factor is very important. The selling price as related to competition and quality is a very important factor. It is not only the existing competition but the potential new competition has also to be assessed properly.

(b) Demand

One has to determine the demand of the product in the foreign market. Based on the present demand and the suppliers already there, whether one more competitors would be able to get a reasonable market share is the crucial point to be decided. The perceived durability how long will be the demand persists, and whether there are any patent laws or public laws of the country present or imminent has also to be looked in to.

(c) Import Regulations

The exporter must consider the import regulations including custom formalities while considering the selection of overseas markets. If there are too many formalities and regulations, the exporter may avoid such markets. This is because; lot of money, effort and time is wasted in following the formalities and regulations in the importing country.

(d) Size of the Market

Selection of a product also depends on the markets which have been identified for sales abroad. All products may not have equally good markets everywhere; therefore, selection of the product depends upon the market requirements. It is always better to concentrate on one or two markets as least to start with. One should study the target markets closely, with regard to market requirements in terms of product specification continuity of demand, change in fashion, credit requirement etc.,.

(e) Distribution Network

There is need for efficient distribution network in the overseas markets. The distribution network includes agents and dealers and other agencies that support the distribution such as transportation services, banking facilities, insurance services, warehousing facilities etc, markets that offer good distribution network reduces the burden on the exporter and therefore, the exporter may select such markets for exporting.

(f) After-Sale-Service

If the product selected for export is such that it requires servicing after sales, then the exporter should see to it that he can avail such facilities to the overseas buyers. It is not always easy and within one's means to open servicing centers abroad. At the same time, it is difficult to find a distributor or agent having servicing facilities. If it is not possible for the exporters to provide such servicing facilities then the exporter should not venture to export such products.

(g) Higher Productivity

An export firm can benefit from the economies of large scale operations. Higher productivity is a must in the competitive market. Export firms spend a lot on research and development in order to absorb the increased production. As the domestic markets have limited capacity the exports become unavailable.

(h) Social Responsibility

Some business houses are committed to exports. They have build up their image in domestic as well as in overseas markets. They take up export activity to meet social responsibility of strengthening foreign exchange reserve of the nation.

(i) Political Stability

Exporters need to look into the political stability factor before selection of overseas markets. Exporters may ignore those markets, where there is lot of political instability. Due to political instability, there is change of governments or the government may find it difficult to adopt stable foreign trade policies. This creates

risks and uncertainties for the exporters. Exporters may select those markets, where there good degree of political stability.

(j) Reducing Business Risk

A diversified business helps the export firm in spreading the risk in several export markets. When a firm is selling its product in a number of markets, a downward trend in a market may be counter balanced by a rise in sales in the overseas markets.

(k) Location

The exporters may consider the location factor in selection of overseas markets. Normally distant location markets need to be avoided as there are high transportation, and delays in deliveries, and other problems.

5.5 PRODUCT PLANNING STRATEGIES OF EXPORTS

Product planning involves a number of product related decisions such as product design, product-mix, branding, pricing etc,. Therefore, the exporter has to adopt various product planning strategies such as-

(a) PRODUCT DESIGN STRATEGIES

Exporters have the following options in respect of product design strategies.

(i) Product Innovation Strategy-

Under this strategy, the exporter develops a new product in response to the demand prevailing in overseas markets. Low cost items for developing countries and high cost items for developed countries may be developed for example readymade garments to take advantage of fashion in different countries.

(ii) Product Adaptation Strategy-

Under this strategy, both the product and the message are changed to increase the adaptability of the product. This helps to meet the specific needs of the foreign buyers. Products like office machines, health goods, and electrical goods require this strategy. It is a costly strategy. It is generally used to serve large size markets.

(iii) Product Standardization Strategy-

Under this strategy, the exporter sells the same product all over the world with "One product, One message-worldwide". For example Coca-cola, Sony etc. The exporters use this strategy when their product is too well known and enjoys global reputation. It is an economical strategy. This is because it does not require any

modification. Moreover, it enjoys the economies of large-scale production and marketing.

(b) PRICING STRATEGIES

As far as pricing strategies are concerned, an exporter may adopt any of the following strategies:

(i) Skimming Pricing-

Where high price is charged when the product is launched in the market as in the case of innovative products.

(ii) Differential Pricing-

Where different price are charged in different markets depending upon market and competitive conditions.

(iv) Standard pricing-

Where the same price is charged in all the global markets, which is quite rare.

(c) DISTRIBUTION STRATEGIES

Distribution channel includes a set of marketing institution participating in the marketing activities involved in the movement of flow of goods or services from the primary producer to the ultimate consumer. In international marketing, two categories of marketing channels are involved i.e. -

(i) Direct Exporting-

Direct exporting is a method of exporting goods directly to the foreign buyers by the manufacturer himself

(ii) Indirect exporting-

Where the manufacturer exports through intermediaries such as Star Export Houses or Merchant Exporters .

(d) PROMOTION STRATEGIES

The exporter also needs to adopt suitable promotion strategies-

(i) Standard Promotion Strategy

Where the same promotion-mix is used in all the global markets and with the same promotional theme.

(ii) Differential Promotion Strategy

Where different promotion-mix is used depending upon market and competitive situation and with different promotion theme.

(e) After-Sale-Service Strategy

After-sale-service is plays very important role in the case of durables, office equipment and machinery. The exporter needs to adopt proper after-sale-service strategy. Exporters may have a tie-up with after-sale-service agencies in overseas markets. They may also depute their own service staff in important markets.

(f) Product Positioning Strategy

The exporter should develop effective product positioning strategy. The exporter may position the brand to create a distinct image by adopting positioning by features, price, use, benefits etc.

(g) Product Line Strategy

The exporter should decide whether to concentrate on one product or deal with product line. It is a group of related products. For example, a food items products line may include milk powers, health drinks, fruits etc.

5.6 STEPS IN NEW PRODUCT DEVELOPMENT PROCESS

Exporters need to be competitive in the overseas markets. To be competitive, exporters may develop a new product for the export markets.

The following are the steps in new product development process:

(a) Idea Generation

The beginning of successful product is a creative idea. For the generation of new idea, it is necessary to gather information about the unfulfilled needs of the consumer, their attitude and the qualities that a product should possess. New idea may come form brainstorming technique, normal group technique, inviting suggestions from customers, obtaining feedback from dealers.

(b) Analyzing the Ideas

The export marketing manager and his team may analyse the new product ideas. Analysis of benefits, costs must be conducted. The benefit analysis must be conducted in terms of sales, profits, market share etc. costs analysis must be conducted in terms of production and distribution costs.

(c) Short-listing of Ideas

A detailed investigation of the marks will help the exporter to short list the countries which may be considered for export purpose. The main objective of short listing is to arrive at a list of few countries which are likely to influence the selection decision.

(d) Investigation

The exporter may conduct a detailed analysis of certain markets. He may collect necessary information in respect of various factors, such as the nature of the customers, the nature and degree of competition, the present and potential demand for the product and the trade policies of the Government and so on. The information can be collected from primary sources as well as from secondary sources.

(e) Selection of Best Idea

The export manager may select the best idea after detailed investigation. He may select that idea which would provide maximum possible benefits at minimum possible costs. The new product idea must be such that would provide maximum value to the customers and at the same time generate higher return to the exporter.

(f) Product Development

The export manager must make arrangement for product development. He has to organize necessary resources i.e. physical, capital and manpower. He must also give necessary directions to the production team to design and develop the product that can meet customer's expectations.

(g) Test Marketing

In this step of product development, market testing of the new product is under taken. The purpose is to understand its possible success in actual marketing. It is necessary to measure the consumer reaction to the product before large scale production of new product. Market testing includes product quality, features, packaging, price etc. Market testing enables the firm to improve the product and increase the customer acceptance.

(h) Commercialization

If the test marketing results are positive, the manager may go ahead with the production and marketing on a larger scale. The product will be launched in a large market area. The manager may undertake appropriate promotion-mix which includes publicity, advertising, sales promotion, trade fairs participation etc.

(i) Review of Product Performance

The most important step in the product development is the review of actual market performance of the product. It is a type of post introduction step. The exporter has to analyse actual market performance of the product. This includes acceptance of the product, market demand and sales position and so on. Here, the exporter can collect information data from consumer, retailer and dealer and so on. If the performance is not satisfactory he has to take prompt remedial measures.

(j) Changes in Marketing Mix

On the basis of product performance review, the export marketing manager may have to make certain changes in the marketing-mix. Marketing mix changes may be required in respect of product's design features, product pricing, promotion mix and product's distribution.

CHECK YOUR PROGRESS:

1. "Selectivity is the key to success in all spheres of life including export marketing". Discuss.
2. Explain the following terms briefly:
 - a. Product Innovation strategy
 - b. Product Adaptation strategy
 - c. Skimming pricing
 - d. Differential pricing
 - e. After-sale-service strategy
3. Explain the following steps in new product development process:
 - a. Idea generation
 - b. Investigation
 - c. Test marketing
 - d. Review of product performance

5.7 INTERNATIONAL PRODUCT LIFE CYCLE

Every product has its life cycle. It is similar to a life cycle of a human being. It starts with birth and ends with death. Similarly, every product has a life cycle which starts when the product is introduced in the market, growth, maturity and decline. These are the stages in the domestic product life cycle. Similar to this, a product which is being sold in an overseas market has its product life cycle called international product life cycle. This life cycle has different stages and each stage has its features.

The theory of international product life cycle (IPLC) is applicable to consumer products, synthetic fabrics and electronic equipment i.e. those products which have long lives in terms of the time span from innovation to eventual high consumer demand.

Following are the stages of product life cycle:

(a) Introduction Stage

The product first takes birth or entry in the market. At this stage, sales pick up slowly and to ensure the survival or to enhance the sales, it is very much necessary to develop brand awareness.

Brand awareness and brand loyalty can be developed through advertising and sales promotion technique. This stage involves low sales, high promotional expenditure, loss or negligible profits, higher margin to dealers etc.

(b) Growth Stage

In the growth stage the product is poised for growth. This stage involves rapid growth in sales, rise in profits, repeat purchases and brand loyalty, increased competition, introduction of more models or variations, intensive promotional efforts etc.

(c) Maturity Stage

In the maturity stage, the product is well settled in the market along with the competitors. This stage involves stagnation of sales, decline in profits, intense competition, retentive advertising to remind the customers etc.

(d) Decline Stage

In the decline stage, sales decline due to the entry of new and improved products or due to change in consumer preferences of habits. This stage involves entry of substitutes, decline in sales, decline in profits at a rapid pace, minimum promotional effort, withdrawal or modification in product, repositioning of product etc.

At international product life cycle the stages are:

- (a) Local Innovation
- (b) Overseas Innovation
- (c) Maturity
- (d) Worldwide imitation
- (e) Reversal

In export marketing the concept of international product life cycle (IPLC) is something different from domestic marketing product life cycle. Domestic product life cycle is quite easy to understand but IPLC is comparatively difficult to understand. But it is cleared by understanding the stages which are stated above .

5.8 METHODS OF ENTRY IN FOREIGN MARKETS.

There are several methods of entry in foreign markets which an international marketer can opt for. Some of the important methods are as follows:

(a) Direct Exporting

Direct exporting means exporting the products by the manufacturer himself i.e. without using the services of middlemen like merchant exporters, Export houses etc. A manufacturer

exporter can undertake direct exporting of his products in the target market through his export department or division.

(b) Indirect Exporting

Indirect exporting is an alternative to direct exporting which may not be possible in the case of all exporters. In indirect exporting, the exporting firm will prefer to export to the target market through marketing middlemen such as merchant exporter, export houses, trading houses or through co-operative or government agencies.

(c) Joint Venture

A business firm may enter into a joint venture with foreign firms as the main strategy for entry in foreign markets. Joint ventures have several advantages over other strategies. The firm can easily adapt to cultural variations in foreign markets with the help of its overseas partner. Also, the foreign partner may have well established distribution network. In other words, there would be less risks and need for less investment due to the support of foreign partner.

(d) Franchising Strategy

Franchising is a form of licensing in which a parent company the franchiser permits another independent entity (franchisee) the right to do business in a prescribed manner. This right can take the form of selling the franchiser's products, using its name, production and marketing techniques or general business approach.

(e) One Country Production Base

A firm may maintain one country production base. Preferably in the domestic market, due to various locational advantages such as low cost labour, or availability of cheap materials. However, the distribution could be done in several world markets. For distribution, the firm may use either company owned distribution channels, or foreign controlled distribution channels.

(f) Licensing

Under international licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use its assets such as Patents, Trademarks. Copyrights, Technology, Technical know-how, marketing skills or some other specific skills. The monetary benefit to the licensor is the royalty or fees, which the licensee pays.

(g) Contract Manufacturing

Under contract manufacturing, a company contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product. This is a common practice in the international business.

(h) Acquisitions

It involves purchasing another company already operating in a foreign country market where the firm wants to enter. Synergetic benefits can result if the firm acquires a unit with strong goodwill and a good distribution network. Research indicates that a wholly owned subsidiary is more successful in international markets as compared to joint ventures. However, proper information must be obtained before acquiring a foreign firm.

(i) Turnkey Contracts

In case of turnkey contracts, a foreign company plans and constructs a project and hands it over to the government or a domestic private company for execution. Such practice is common in oil, steel, cement and fertilizer sectors.

(j) Green-Field Development

Firms may go green field development project. It involves setting up manufacturing plant and distribution system in other countries. It allows a firm more freedom in designing the plant, selecting its own workforce and choosing right suppliers and dealers. This strategy has been followed by many firms such as Honda, Toyota and Nissan etc.

5.9 DIRECT EXPORTING

Basically there are two methods of exporting -

- (A) Direct Exporting
- (B) Indirect Exporting

In direct exporting, the export is undertaken directly by the manufacturer. The manufacturing firm makes its own arrangement to export its products either within the existing sales network or by creating a separate export department or division. This type of exporters is known as manufacturer exporters.

5.9.1 ADVANTAGES OF DIRECT EXPORTING

Following are the advantages of direct exporting:

(a) Good will

Due to direct contact with consumers the firm can establish close relationship with the consumers and create goodwill /reputation in the market.

(b) Optimum Production Capacity

A manufacturer selling in domestic as well as overseas markets can utilize his production capacity fully as wide market

area is available. Excess production can be exported through special measures.

(c) Spreading of Risks

The direct exporter can spread business risks by exporting to several overseas markets. If he sells only in domestic market, there may be business risks due to recession, or other reasons.

(d) Export Obligation

At times, the manufacturer may have to fulfill export obligation due to import of machinery under the Export Production Capital Goods (EPCG) scheme. The manufacturer exporter can fulfill export obligation by direct exports.

(e) Direct Control

Direct exporters can exercise a direct control over export packaging, pricing, advertising, promotion, after sales services and other marketing activities.

(f) Export Incentives

The direct exporter can claim a number of incentives such as duty drawback, exemption from income tax, exemption from sales tax, refund of excise duty etc.

(g) First-Hand Information

Direct exporters get first hand information about the needs and requirements of foreign markets and there by can satisfy them effectively.

(h) Higher Price

Direct exporters can charge higher prices in comparison to competitors as they are well aware of the market conditions and can fulfill the requirements of consumers effectively.

5.9.2 DISADVANTAGES OF DIRECT EXPORTING

Following are the disadvantages of direct exporting:

(a) High Degree of Risk

Direct exporters are prone to more risks as they shoulder the twin responsibilities of manufacturing as well as marketing. They are also subject to the risks of domestic as well as overseas markets.

(b) More Investment

The exporter needs more capital investment suitable organization structure, more marketing efforts and effective supervision and control as the entire responsibility marketing is shared by the exporter himself.

(c) Lacks Specialization

Since a direct exporter looks after numerous activities of production, distribution, marketing, he can't do justice to any one of them, creating chaotic situation in the organization.

(d) High Overhead

A manufacturer exporter has to bear the production overheads as well as marketing overheads as he is engaged in production and exporting.

(e) Unsuitable to Small Firm

Small firms may find it difficult to export directly on their own. They may depend more on the merchant exporters or co-operative marketing.

(f) Less Economies of Distribution

The direct exporter may not be able to reap economies of large scales in respect of distribution. The merchant exporter can however, enjoy such economies, as he can combine several shipments together.

5.10 INDIRECT EXPORTING

The manufacturer does not directly export to foreign buyers. The manufacturer exports through intermediaries such as merchant exporters, export houses, all forms of trading houses, export consortia etc.

5.10.1 Advantages of Indirect Exporting:

The following are the advantages of indirect exporting

(a) Less Risks

Indirect exporters are prone to comparatively less risks as the risk of marketing gets transferred to export market intermediaries. At the same time, these intermediaries are specialized in their own field.

(b) Less Investment

Since indirect exporters concentrate only on manufacturing or assembling of goods, they require a lesser amount of capital than the direct exporters.

(c) Specialization

A manufacturer specializes on production activities due to indirect exporting. He concentrates his attention on production

activities only he is relieved from the botheration of marketing exporting.

(d) Suitable to Small Firms

The indirect method of exporting is more suitable to small firms. This is because small firms face a number of problems in negotiating and selling their products in the international markets. They can export their products through intermediaries or marketing co-operatives.

(e) Availability of improved inputs

Indirect exporters can import raw materials, components, spare parts, etc. for export production through intermediaries such as export houses, trading houses etc,

(f) Technical Guidance

The manufacturer can obtain technical guidance for the manufacture of products from the export houses through whom he exports.

(g) After-Sale-Service

The export houses through their overseas offices may provide after-sale-service, which is beyond the scope of small scale manufacturer.

(h) Less Overhead

The indirect exporter has to share overheads relating to production activities only as he is not concerned with marketing. An indirect exporter will have less burden of overheads as compared to direct exporter.

5.10.2 Disadvantages of Indirect Exporting

The following are the disadvantages of indirect exporting

(a) Lower Price

In case of indirect exports, there are many intermediaries. Hence, the total revenue gets distributed among various intermediaries and the exporter can't charge a high price.

(b) No Export Incentives

The exporting firm may not get the benefits of various incentives and facilities provided since he is not involved directly in the promotion of exports.

(c) Excessive Dependence

Due to lack of direct contact with foreign consumers, indirect exporters are totally dependent on market intermediaries for the information about foreign markets and receipt of export proceeds.

(d) Second Hand Information

The manufacturer may not get first hand information of the export markets. Some time, the intermediaries may not provide necessary information on time.

(e) Lack of Control

Indirect exporters can't exercise a direct control over marketing decisions such as packaging, pricing, advertising, sales promotion and after-sales service due to their dependence on market intermediaries.

(f) Lower Sales

The manufacturer may not be able to get more sales through the intermediaries. This is because the intermediaries may promote the sales of a particular manufacturer only.

5.11 DISTINGUISH BETWEEN DIRECT EXPORTING AND INDIRECT EXPORTING

Direct Exporting	Indirect Exporting
a) Meaning	
Export marketing is undertaken directly by the manufacturer.	The manufacturer exporter, exports the goods through intermediaries.
b) Market Information	
A manufacturer exporter gets first hand market information for his business as he operates directly in export marketing	In indirect exporting, the manufacturer gets information from intermediaries. Such information may be inadequate, unreliable and supplied late.
c) Control	
The exporting firm exercises complete control on export pricing. Packaging and so son.	The exporting firm has limited control on pricing etc. as marketing is given to the marketing middlemen
(d) Reputation	

The direct exporter can earn goodwill in international market.

The manufacturer may not earn reputation in overseas markets. The intermediaries get the reputation.

(e) Risks	
Direct exporters assume more risks as they look after both the production and marketing activities.	Indirect exporters assume fewer risks, as they are simply concerned with manufacturing or producing of goods.
(f) Investment	
It requires more investment as the exporting firm has to look after manufacturing and exporting.	It requires less investment as the exporting firm is concerned only with the manufacturing activity.
(g) Incentives	
Direct exporters can claim a number incentives such as rebate on income tax, duty drawback etc.	Indirect exporters can't avail these benefits unless the export documents are transferred in their name.
(h) Overheads	
The manufacturer/exporter has to bear production and distribution overheads.	The manufacturer has to bear only production overheads.
(i) Price	
Exports can fetch high prices if sold directly by manufacturer.	Exports may fetch lower price due to intermediaries margin.
(j) Specialization	
It requires concentration on both marketing and production aspects and as such lacks specialization.	In indirect marketing, the manufacturer can specialize in manufacturing aspects.
(k) Suitability	
This strategy is suitable for the large business houses having huge financial and physical resources.	This strategy is suitable for small businessmen as they may find it difficult to export directly.

5.12 SUMMARY

Preliminaries for starting Export business includes overseas market research, Identifying proper foreign market, proper production to export, proper method to entry in foreign market, proper method for exporting etc.

Export marketing needs marketing research for knowing the consumers needs and wants, details about promotional campaigns, taking competitive advantages, taking appropriate pricing decision, selecting effective channel of distribution, taking proper packaging decision, forecasting sales etc.

Foreign market selection process includes: Determining export marketing objectives, collection of relevant information, analysis of the collected information, Short listing of markets, Detailed analysis of certain markets, Evaluation and selection of markets, making necessary arrangements to enter in the overseas markets, Undertaking a review of the performance in the overseas markets etc.

Certain factors influence n selection of Foreign Market. These factors are: Competition, Demand, Import Regulations, Size of Market, Distribution network, After-sale- services, Higher productivity, Social responsibility, Political stability, Location etc.

Product planning means decisions related to product it means product planning strategies. Various product planning strategies are: Product design strategies, Pricing Strategies, Distribution strategies, Promotion Strategies, After-sale services strategies, Product positioning strategies, product line strategy etc.

New product development is a scientific process. This process includes the steps like: Idea generation, Analyzing the ideas, Short- listing the ideas, Investigation, Selection of best idea, Product development, Test marketing, Commercialization, Review of Product performance, Changes in Marketing mix etc.

There are various methods to enter in the overseas market exporter have to select proper method. Some of the important methods are: Direct exporting, Indirect exporting, Joint venture, Franchising strategy, One country production base, Licensing, Contract manufacturing, Acquisition, Turnkey contracts, Green-Field development etc.

Direct and indirect exporting are the basic methods of exporting.

5.13 QUESTIONS FOR SELF-ASSESSMENT

1. Explain the need and importance of overseas market research?
2. Evaluate the procedure to conduct overseas market research?
3. Discuss the procedure in identifying foreign markets?
4. Enumerate the product planning strategies for exports?

5. What are the steps in new product development process?
6. What are the steps in product life cycle?
7. Explain briefly the methods of exporting?
8. What are the advantages and disadvantages of direct exporting?
9. Discuss the merits and demerits of indirect exporting?
10. Distinguish between direct exporting and indirect exporting?
11. Briefly explain the following terms:
 - a. Product life cycle
 - b. Direct Export
 - c. Indirect exporting
 - d. Franchising strategy
 - e. Green-field development project



6

PRELIMINARIES FOR STARTING EXPORT BUSINESS - II

Unit Structure

- 6.0 Objectives
- 6.1 Introduction of channels of distribution in export markets
- 6.2 Types of channels of distribution in export markets
- 6.3 Need and importance of warehousing
- 6.4 Necessity of warehousing in export marketing
- 6.5 Tools/elements of product promotion in export markets.
- 6.6 Importance of product promotion in export markets
- 6.7 Summery

6.8 Questions of self-assessment

6.9 Case study

6.0 OBJECTIVES

After studying the unit the student will be able:

- To know the introduction part of channels of distribution in export markets.
- To understand meaning and types of channels of distribution in export markets.
- To elaborate the needs, importance and necessity of warehousing in export marketing.
- To explain the different tools/elements and importance of product promotion in export markets.
- To understand and solve the cases.

6.1 INTRODUCTION

Production and distribution are two closely related activities. Goods produced need to be distributed to consumer quickly and efficiently. The function of distribution involves the critical process of ensuring that products of the firm reach the proper location for sale at the proper time and in proper quantity. Distribution is the route that goods take between production and final consumer. Channels are the routes taken by goods on their journey from producer to consumers.

6.2 CHANNELS OF DISTRIBUTION IN EXPORT MARKETS

6.2.1 MEANING

Channels of distribution are the marketing intermediaries through whom the product reaches to the final user or consumer.

6.2.2 TYPES OF CHANNELS OF DISTRIBUTION

(a) Canalizing Agencies

In export market goods are sent through the canalizing agencies. Canalized items are exported through canalizing agencies.

(b) Export Consortia

Indian exporter generally used this channel for exporting goods of small manufacturer. It means small exporters can jointly export through export consortia.

(c) Merchant Exporters

In this channel of distribution, they obtain orders from overseas markets. Assemble the goods, and then export.

(d) Export houses/trading Houses

They are similar to merchant exporters. To become export house or trading house or star trading house or super star trading house certain criteria must be fulfilled. These are the important intermediaries who help to export goods from one country to another.

(e) Overseas Sales Agents

The exporter can appoint overseas agents to distribute, market his goods. This is one of the important channels of distribution at overseas market.

(f) Direct Exporting Channel

The exporter can also undertake direct exporting in the overseas markets. The direct exporting can be done through Sales Representatives and E-commerce or Online business.

(g) Indirect Exporting Channel

Indirect channel is used in exporting when a manufacturer markets his product through another firm which acts as the manufacturers' sales intermediary/middleman. At the overseas marketing level used number of intermediaries such as export broker, export agent/sales representative of the manufacturer, export management company, purchase/buying agent, export distributor and so on.

6.3 NEED AND IMPORTANCE OF WAREHOUSING

Warehousing is an important element of physical distribution. Warehousing creates time utility. It fills the gap between the time of production till the time of consumption or delivery in the market.

The following are the need and importance of warehousing.

(a) Supply of Seasonal Goods

Warehousing is needed as it is useful for the supply of seasonal goods to the consumers throughout the year. The seasonal goods are preserved properly due to scientific warehousing facilities. The agricultural production is seasonal but the demand is through out the year. This regular and continuous demand is satisfied through warehousing of such commodities. Thus, warehousing creates time utility. Warehousing is important as it facilitates regular supply of seasonal goods to consumers.

(b) Seasonal Demand

Certain goods are required only during a particular period of the year. However, production is carried out throughout the year so as to meet heavy season demand effectively. Here, warehousing plays an important role. It is because of warehousing that the goods produced during off season are preserved properly and supplied to the consumers during the required season in a fresh and attractive manner.

(c) Large Scale Production

Warehousing is needed as production is now conducted on a large scale and that too in the anticipation of demand. There is time gap between production and consumption. Goods may be used by the consumers even one year after the actual production. During this period goods must be preserved properly. Warehousing is useful for keeping the goods intact during this interval.

(d) Perishable commodities

Warehousing is needed in order to bring reasonable safety to perishable commodities like eggs, fruits, flowers, medicines and so on. Such commodities are preserved properly and are made available to consumers at any time due to cold storage facilities.

(e) Speculation

Firms may maintain a large inventory of items, whose prices are highly volatile. Firms may speculate that prices may go up in the near future. Therefore, they may stock the products in warehouses to earn higher profits by selling them at a later date.

(f) Product conditioning

Some items need to be stored to attain the required level of quality. For example, ripening of fruits like mangoes is carried out under controlled temperature conditions after they are plucked from the trees. Such products may require appropriate warehousing.

(g) Price Stability

Warehousing plays an important role in bringing reasonable price stability in the case of consumer goods. Due to warehousing facilities, it is possible to bring proper balance between demand and supply of goods. It is this balance between the demand and supply that brings price stability. Warehousing is useful for timely deliveries of goods and the rush orders are also executed properly.

(h) Delivery Schedules

Proper stocking of finished goods helps a firm to adhere to the delivery schedule in the market. Due to stocking of adequate items, the firms can deliver them in the market as per the delivery schedule. This helps to generate corporate image and customer satisfaction.

6.4 NECESSITY OF WAREHOUSING IN EXPORT MARKETING

Warehousing is necessary and useful in export marketing. It is one important infrastructure facility required for large scale exporting. Warehousing facilities are required for manufacturing goods for export purpose.

Warehousing in export marketing becomes a necessity for the following reasons:

(a) Huge Quantities

Export transactions are conducted in huge quantities. Naturally, such goods need to be stored in a proper manner before transportation. For this, warehousing facilities are necessary particularly at the port towns.

(b) Just-In-Time supplies

In several developed countries like Japan, USA etc., firms require, just-in-time supplies, such as auto components or parts. For example, Honda motors sign just-in-time supply contracts with its vendors. Therefore, the supplier need to have warehouses in the overseas markets to supply the components or parts on time to the foreign firms.

(c) After-Sale—Service Requirement

In the case of engineering goods, exporters need to provide timely and efficient after-sale-service. Therefore, the exporters need to maintain a good stock of part or components in the overseas markets. Some times, exporters may have to replace quickly the entire product. Therefore, there is a need for warehousing of parts, components and the finished items.

(d) Export Procedure

Export procedure is lengthy. Here, pre-shipment inspection is necessary. In addition, customs formalities are required to be completed at the port town. Thereafter, goods are loaded in the ship for onward transportation. These steps in the export procedure are time consuming. During this period warehousing of export items is needed.

(e) Risk in Export Market

Export marketing is risky. Risk relates to safety and security of goods. The importer may not make payment, if the quality of imported goods is inferior or if the goods are damaged during transportation. This may lead to trade dispute and delay in securing payment from the importer. All such situations can be avoided if satisfactory warehousing facilities are available to the exporters.

(f) Tariff Quota Regulations

Export countries may impose tariff quota regulations. Under tariff quota, certain quantity is allowed to be imported at low or no custom duty. Beyond that quantity higher duty is imposed. Overseas suppliers need to produce the goods well in advance, and therefore, there is a need for warehousing for such products.

CHECK YOUR PROGRESS:

1. Define the following terms:
 - a. Channels of distribution
 - b. Canalizing agencies
 - c. Export consortia
 - d. Merchant exporters
 - e. Export houses
 - f. Overseas sales agents
 - g. Direct exporting channels
 - h. Indirect exporting channels
 - i. Warehousing
2. Enlist the points showing the necessity of warehousing in Export marketing.
3. Explain the following points of tools of production promotion:
 - a. Advertising
 - b. Personal selling
 - c. Public relations
 - d. Direct mailing
 - e. Publicity
 - f. Internet

6.5 TOOLS/ELEMENTS OF PRODUCT PROMOTION IN EXPORT MARKETS

The following are the tools/elements of product promotion in export markets.

(a) Advertising

Advertising is one popular and extensively used tool of product promotion in domestic and foreign markets. Advertising as a promotion strategy is used in every country of the world irrespective of its economic, political or social development. A manufacturer advertises his products/goods in overseas market to make the target buyers aware of the attributes of the product so that they may be induced to purchase it.

(b) Sales Promotion

Sales promotion includes activities that seek to directly induce, or indirectly serve as incentives to motivate, a desired response on the part of target customers, and intermediaries. The various sales promotion techniques include free samples,

consumer contests, money-refund offers, free gifts, quantity discount and installment selling.

(c) Personal Selling

Personal selling is face to face communication with one or more prospective buyers/users and influencing the buyer with the aim of motivating the prospect toward a purchase decision.

It is one of the four tools of marketing communication. The other tools are public relations and publicity, sales promotion and advertising. Arrange of top executives meetings with the top executives of a potential buying company. In foreign markets personal selling is possible in trade fairs and exhibitions and also at stores level.

(d) Public Relations

Modern firms are concerned about the effects of their actions on the public. The firm should understand concerns of the public and communicate to them its goals and interests, otherwise, they may misinterpret, distort or be openly hostile to the firms actions. The firm needs to communicate to correct erroneous impressions of the company in the minds of general public, to maintain goodwill, and explain the firm's goals and interests.

(e) Direct mailing

Direct mailing is the sending of sales literature through mail to select or perspective customers. Advertising is costly in overseas markets. For industrial products, such advertising in national newspapers, T.V., and commercial radio is not required. One of the most cost efficient methods of product promotion in foreign markets is the direct mailing method. This method is selective and also personal in nature.

(f) Publicity

Publicity is news carried in the mass media about a firm and its products, policies, personnel, or actions. A newspaper or a magazine publishing an article on the company about its products or activities is publicity. It can be either favourable reporting or an unfavourable reporting in the media.

(g) Packaging

An attractively designed packaging can influence or induce the prospects to buy the product. A well designed packaging can communicate the type and quality of the product. Packaging often has attention attracting value.

(h) Sales Promotion

Sales promotion technique communicates with the audience through a variety of non-personal media to supplement advertising.

Sales promotion technique is used extensively in domestic and overseas markets. In sales promotion, various vehicles like free samples, gifts, coupons and contests are used for the information of buyers.

(i) Trade Fairs and Exhibitions

Participation in trade fairs and exhibitions is one more method of approaching large number of foreign buyers easily, quickly and economically. Here, the exporter attracts customers to his product or products. Trade fair acts as valuable marketing communication tool for exporters from developing countries.

(j) Internet

Now a day, internet can be used to communicate export marketing information. Internet can be referred as electronic yellow pages. The exporter can provide information of the product on the internet. Importers can get the information on the internet and contact the exporter.

6.6 IMPORTANCE OF PRODUCT PROMOTION IN EXPORT MARKETS

The following are the importance of product promotion in export markets.

(a) Product Awareness

It makes the potential customers aware of the product. It brings to the knowledge of the potential customers regarding the availability of new and better goods and services. The export marketer can communicate such information through various means of communication i.e. advertising, publicity, personal selling, trade fairs and exhibition and so on.

(b) Persuasion

The exporter should make proper use of selling points in the communicating message in order to persuade consumer to buy the product. He can also make effective use of unique selling proposition. While drafting the communication message. Hence, to inform and persuade the prospective buyers to buy the product.

(c) Reputation

Effective communication can bring in good name to the exporter's brands and also to the firm. People from different countries become familiar with the name and brands of the company. Effective communication can also improve the name of the country.

(d) Education

An effective communication programme educates the prospective consumers about the different uses of the communicate product, its advantages over other substitutes, contents of the product, availability of a product, technical aspect of the product etc,. It can also be used to warn consumers of imitation of brands, duplicate and face products etc.

(e) Developing Brand Loyalty

Marketers need to communicate with consumers to use their brands to discourage brand switching. This requires the firm to remind the customers that the brand is still available, inform consumers about the modifications in the product, if any. The marketer also needs to communicate the fact that the brand benefits are superior to those of the competitors.

(f) Informing Intermediaries

An effective communication can also be used to inform intermediaries about the range of products produces by the firm, terms and conditions of the sale and delivery, incentives offered, etc. and to persuade them to stock and sell the company's products in overseas market.

(g) Expansion of market

Effective communication helps to stimulate more and more demand from the audience or prospects. The exporter can also enter into other market areas or countries. This helps to boost up large scale production and marketing.

(h) Goodwill

An effective communication programme can be used as a tool for the promotion of the image not only of the product and the company but also of the country as a whole in the overseas markets. Good quality products and timely services can go a long way in enhancing the goodwill. This helps in increasing the market share for the product.

(i) Inducing Product Trials

A lot of communication is needed to induce people to try products. The main motive of such communication is to motivate rather than to inform. For securing action, the firm may resort to sales promotion techniques such as provision of samples, free gifts, discounts, contests and so on.

(j) Overcoming Negative Attitudes

Generally, foreign buyers have some apprehension about the quality of the products originating from developing countries.

Effective and positive communication can help to change the negative attitude of the consumers towards the product.

(k) Economic Growth of the Nations

Effective communication helps to expand consumer markets. It enables large scale production and distribution. New and better varieties of goods enter the market scene. The consumers are often receptive of responsive to the new products. This helps the economic development of the exporting nations.

6.7 SUMMARY

Production and distribution both are very closely related activities. For distribution channels are necessary. Channel is a route of distribution. There are different types of channels of distribution like: Canalizing agencies, Export consortia, Merchant exporters, EXPORT houses, overseas sales agents, direct exporting channels, Indirect exporting channels etc.

For physical distribution of goods Ware housing is an important element. The points showing the importance of it are: for the supply of seasonal goods, to meet heavy season demand effectively, large Scale Production, to bring reasonable safety to perishable commodities, speculation, to attain the required level of quality, price stability, firm to adhere to the delivery schedule.

Several tools for product promotion can be used by the manufacturer these are: advertising, sales promotion, personal selling, public relation, direct mailing, publicity, packaging, sales promotion, trade fairs and exhibitions, internet etc.

Product promotion is very much needed in overseas market as it provides: product awareness, persuasion, reputation, education, develops brand loyalty, expansion of market, inducing product trials, overcoming negative attitudes, economic growth of the nation.

6.8 QUESTIONS FOR SELF-ASSESSMENT

- (a) What are the different types of channels of distribution in export markets?
- (b) Explain the need and importance of warehousing?
- (c) Explain the necessity of warehousing in export marketing?
- (d) What are the tools/elements of product promotion in export markets?
- (e) Discuss the importance of product promotion in export markets?

6.9 CASE STUDY

The case study method was first developed in 1871 by Christopher Langdell at the Harvard Law School to make the students to learn for themselves by independent thinking and by analyzing problems or situations. A supporting objectives in to make the students to develop skills in using their knowledge .

A case is a description about a problem or situation. The problem or situation may be real or hypothetical. A case sets forth, in a factual manner, the events and organizational circumstances surrounding a particular managerial situation. The essence of the students role in the case analysis is to diagnose and understand the situation described in the case and them to recommend appropriate solution or a action plan.

Case Study Process

- Get an overview of the case
- Read the case thoroughly
- Analysis and Evaluation
- Recommendation

Benefits from Case Study

- Learn by doing
- Increase ability ask right questions
- Identify and understand underlying problems
- Expose students to wide range of industries, organisation, functions and responsibility
- Strengthens students grasp of management theory
- Learn to take decision based on insufficient information
- Learn to deal with different view point

(A) Case Study

Beauty looks is a Delhi based partnership business dealing in making and marketing of artificial jewellery. The two partners are Kunal Gaurav and Nikhil Upadhaya. It was comfortable business with steady women customers who buy for themselves and others too. One of their regular clients is one Mrs. Meghna Lamba who visits the showroom twice a year and makes bulk purchases. Mrs. Lamba is resident of Bonn, Germany, she buys for her friends and acquaintances and sells at a higher price. Kunal and Gaurav review the purchases made by Mrs. Meghna Lamba and think of exploring the possibility of entering into export market. Diversification of business may sound lucrative but overseas markets are full of uncertainties and risks. They decide to depute their marketing

manager Praful Rane to proceed to Bonn and collect relevant information about German market and adjoining feasible markets.

Questions & Solution

(a) Why overseas market is considered lucrative?

Ans:- Over seas market is always considered lucrative because it enables the exporter to earn the invoable foreign and also obtain various incentives offered by out government. Export business is as diversification which helps domestic business men to expand the size of the business. Exporters can process abroad for the export promotion tours and also can take advantage of easy imports against export performance. Exporters earn higher profits and can also spread marketing risks.

(b) In your opinion, what relevant informations should Praful Rane collect to facilitate entey into overseas market?

Ans:- Praful Rane must proceed to Germany to collect relevant informations to facilitate his employers to decide about entry into export markets. In my opinion Rane should collect information based on primary data. For this purpose he must prepare questionnaire and carefully select sample size. As he is likely to face language problem he must take help from a local rofessional who will assist him in getting correct replies. I fell Rane should divide information collection. Under the following heads:-

- (i) market information
- (ii) product information
- (iii) distribution information
- (iv) price information
- (v) promotion information

(B) Case Study

Lifeline has been manufacturing and marketing waterpumps for qgricultural use for the past four decades. It's family owned business with the second generation at the helms of affairs. Its current chairman Ashish Garde is considered a progressive businessman. He reviewed his business and thought they were doing reasonably well in the domestic market. There has been regular orders from the rural areas. Slowly they have captured the market in Western India and are now venturing into the southern market. Mr. Garde is not content with the domestic business. He always visualized entering into the export markets, so far as oversea market is concerned he considers himself a novice. in order to win over his situation, he thought of taking help from a consultant. He was formally introduced to international consultants who agreed to collect basic data.

Questions

- (a) Why Ashish Garde had attraction for overseas business?
- (b) How should international consultants advise Ashish Garde to explore foreign markets?

(C) Case Study

Hindustan Ayurveda Ltd. is a Nagpur based pharmaceutical company which has made its strong presence felt in the domestic market with its limited brands of ayurvedic preparations in healthcare business. It claims to market its products without any side effects which have become its selling point. One of its new products is Dio-care which is a combination of fenugreek, cinnamon and bittergrud and is found significantly useful to control blood sugar in diabetes patients. This brand is considered an important innovation in the treatment of diabetes. Its sale has caught up in a big way in the domestic market. In the meeting of board of directors they toyed with the idea to explore global market for their innovative product. The directors felt the company is financially strong, has effective marketing department, a well equipped R&D department with programme outlook of management and supportive government policy, now is the right time to diversify into overseas market. The director also expressed their apprehension that export market is most unpredictable and uncertain. At the end of the deliberation they decided to go ahead and venture into export markets.

Questions

- (a) Give your opinion about the possibility of success of Dio-care in overseas markets.
- (b) Identity the steps involved to explore export markets for an innovative product Dio-care in health care business

(D) Case Study

From 2000 to 2005 Toyota, world renowned Japanese car sold more in America than in Japan. Toyota performed only responsibly well in Europe. Looking into encouraging sales in America, Toyota gave serious thought how to continue its more than satisfactory performance. If Toyota wanted to increase its sales it must change its strategy to “Americanization of Toyota” The challenge before Toyota management was not to lose sight of what made it click initially and that was “a devotion to quality and customer satisfaction”. Toyota opened its subsidiaries in US but there were regular clash between Japanese bosses and American subsidiaries. Mostly disputes related to cultural differences. For example Japanese bosses opposed introduction of full size pick up.

After screening the parking lots packed with full size pick ups, the conflict was solved and Toyota Tundra was born. Toyota faced another challenge. The average age of an American driving Toyota was 45. In fact, its ad campaigns were directed towards Generation and younger market. Now Toyota had to cater to two distinct segments of the market one for the middle aged buyers and the other for the young crowd. Americans are known to use cars for shorter duration. Toyota must decide to follow a product strategy where regular innovations take place.

Questions

- (a) What is Americanization of Toyota & give example?
- (b) Why was there clash between parent company and subsidiaries & what was Toyota's selling point?

(E) Case Study

India has been the home of Ayurveda, but until the early nineties people preferred allopathy. The reason behind this preference was the feeling that allopathy gives quick relief and also it has a cure for practically everything. During this course very little was done to market ayurvedic medicines in India. Obviously, the market got restricted.

Himalaya drugs has been a key player in the ayurvedic medicines in India. But its products never caught the fancy of India consumers, mainly due to lack of information and other marketing deficiencies. The company, along with the brand name, did specify that the medicines are "proprietary ayurvedic medicine". The information was often overlooked by the consumers and the market remained restricted. Also no serious efforts were made to promote the brands.

In order to change things in its favour and to cash in on the so called "Ayurved fever" the company changed its strategy. Instead of naming its products independently, the company used a brand name viz. "Ayurvedic concepts" and started advertising the same. This immediately caught the fancy of the customers and the market started expanding one very important aspect stressed by the company was that their medicines have no side effects.

Question

- (a) What should the company do to maintain its position in the market?
- (b) Suggest any two strategies for a successful entry into the global market?



7

EXPORT MARKETING AND PROMOTIONAL ORGANISATION-I

Unit Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Types of export marketing organisation
- 7.3 Export promotion organisation
- 7.4 Export promotion Council
- 7.5 Commodity Boards
- 7.6 Marine products export development authority
- 7.7 Agricultural and processed food product export development authority
- 7.8 Federation of Indian export organisations
- 7.9 Indian institute of foreign trade
- 7.10 National council for trade information
- 7.11 Indian trade promotion organisation
- 7.12 Export inspection council
- 7.13 Summary
- 7.14 Questions for self-assessment

7.0 OBJECTIVES

- After studying this chapter the students will be able to –
- Know the meaning of export marketing organisation
 - Understand the various types of export marketing organisation
 - Elaborate export promotion organisation
 - Understand the various functions and activities of export promotion council, commodity board, marine products export

development authority, agricultural & processed food product export development authority, federation of Indian export organizations, Indian institute of foreign trade, national council for trade information, Indian trade promotion organisation, export inspection council.

7.1 INTRODUCTION

Export marketing organizations are specialized agencies concerned with export trade. They look after the export of Indian goods and services. These organisation explore foreign markets and arrange to send goods to foreign buyers as per the orders received collected. They also maintain necessary facilities and export staff to manage export marketing activities efficiently. Export organizations conduct export trade transactions on their own. They have export department or export division for export marketing operations.

7.2 TYPES OF EXPORT MARKETING ORGANISATIONS (EMOs)

In India, different types of export marketing organisation are operating. These are as follows

(a) Manufacturer Exporter

The manufacturer exporter is the direct exporter. The manufacturer obtains the orders from the overseas markets, manufactures the goods and then exports. The main advantages are reputation in the domestic as well as overseas markets, optimum use of resources, spreading of risks of domestic market, and export obligation fulfillment.

(b) Merchant Exporter

Merchant exporters are those traders who do not manufacturer goods by themselves but they arrange the required goods and services from local manufacturer and sell directly to the foreign buyers. Normally such exporters have very good arrangement with several manufacturers who produce goods as per the requirements of the merchant exporters. However, if any dispute arises as to the quality of products in foreign markets, the merchant exporter alone is responsible.

(c) Canalising Agencies

Canalizing agencies are concerned with production, distribution and marketing of goods and services. The main canalizing agency is the State Trading Corporation of India which was established on May 18, 1956 to organize and undertake exports from India of all such goods which the corporation determines from time to time and also organize and undertake purchase and sales of goods and services.

(d) State Corporations

In some states of India such as Bihar, U.P. and Gujarat, state government, have set up corporations to look after exports of small scale sector. This is because, small sector units find it difficult

to negotiate with overseas buyers, and also to undertake various export formalities. Therefore, the small units supply the goods to state corporations, which look after export activities.

(e) Export Consortium

Manufacturers, especially in the small sector can organize themselves into a co-operative organisation for export purpose, which is called as export consortium. The export consortium enable individual exporters to take the advantage of joint marketing efforts, such as joint negotiation with overseas buyers, joint marketing research, joint shipment etc.

(f) Export Houses

Export houses were introduced by the government of India in the year 1960 with the objective of promoting export by providing assistance for building marketing infrastructure and expertise required for export promotion. To qualify for export house, the exporter must have aggregate export performance during the four years of Rs. 20 Crore.

(g) Star Trading Houses

The government of Indian has recognized a new class of trading house called 'star trading house' to facilitate global marketing activities in the export-import policy. 1990-93 exporters having exports during the preceding three licensing years of Rs. 500 Crores FOB shall qualify the exporter for the recognition as a star trading status.

(h) Trading House

Manufacturer exporters, merchant exporters, EOUs, units in SEZs and others can apply for trading house status. In April, 2007, the government replaced the concept of three star export house by trading house. To qualify for trading house, the exporter must have total export performance (FOB) during the four years of Rs. 500 Crore.

(i) Premier Trading Houses

Manufacturer exporters, merchant exporters, EOUs units in SEZ and others can apply for premier trading house status. In April, 2007, the government replaced the concept of five star export houses by premier trading house. To qualify the premier trading house, the exporter must have aggregate export performance (FOB) during the four years of Rs. 10,000 Crore.

7.3 EXPORT PROMOTION ORGANISATIONS

7.3.1 MEANING

Export marketing is a highly specialized activity requiring continuous organizational support at different stages from choosing or selection of products, identification of overseas markets and customers, selling techniques and channelisation of incentives, assistances and facilities granted against exports.

7.3.2 FEATURES OF EXPORT PROMOTION ORGANISATION:

(a) Basically Service Organisations

Export promotion organizations are basically service organisation and are connected with export promotion activities and not with trading activities.

(b) Create Favourable Image of India's Export Potentials

Export promotion organizations create awareness about India's export potential, favourable impression about India's industrial development and finally create favourable image of India in foreign countries.

(c) Easy Availability of Services to Exporters

The services of export promotion organizations are available easily and economically to all exporters as they are established basically for the benefit of exporting community.

(d) Government Initiative in Formation

The government of India took initiative in establishing export promotion organisation in order to develop institutional infrastructure for export. Government provides financial support to them

(e) Provide Non-Financial Services

Export promotion organizations do not provide direct financial services to exporters. They issue certificates, etc. Useful to obtain bank finance and benefit of government incentives facilities.

Many export promotion organizations have been developed. The various export promotion organisation are classified into the following groups.

7.4 EXPORT PROMOTION COUNCIL

7.4.1 MEANING

Export Promotion Councils are non-profit organizations registered under the companies act or the society's Registration Act, as the case may be. They are supported by the financial assistance from the Central Government. It has been made clear by the new EXIM policy that the support given to the EOCS by the government, monetary or otherwise, would depend upon effective discharge of the functions assigned to them. Democratization of the membership of the EPCs, Democratic elections of office bearers of the EPCs being held regularly, and timely audit of the account of the EPCs.

At present, there are 24+3 EPCs operating in India. The various EPCs are as follows-

Apparels EPC, Basic Chemicals, Pharmaceuticals and Cotton Textiles EPC, Carpet EPC, Cashew EPC, Engineering EPC, Gems and Jewellery EPC, Handloom EPC, Indian Silk EPC, Council for Leather Export, Plastics and Linoleum EPC, Synthetic and Rayon textiles EPC, Sports Goods EPC, Shellac EPC, Wool and woollens EPC, Electronic and computer software EPC, Handicrafts EPC, the power loom development and EPC, Export

Promotion Council for EOUs and SEZ units, Project Export Promotion Council of India, Pharmaceutical export promotion council, Jute manufacturers development council, Wool industry EPC.

There are three other organizations considered as EPC- Agricultural and Processed Food Product Export Development Authority, Federation of India Export Organisation and the Marine Products Export Development Authority.

7.4.2 FUNCTIONS/ROLE OF EXPORT PROMOTION COUNCILS

The following are the functions of export promotion councils

(a) Issue of Certificate of Origin

Certain countries demand certificate of origin from the exports. In India EPC, can issue certificate of origin to the exporter certifying the origin of goods.

(b) Collection of Information

It collect valuable information on overseas import, import regulations, about competitors, market potential and other development in foreign trade.

(c) Supplying of Information

It provides information on latest developments in the field of exports trade. It may relate to various aspects of foreign trade. Such information is vital to the exporters to promote their sale, abroad.

(d) Organising Seminar

It organizes seminars, workshops, meeting and conferences on various aspects of foreign trade. Exporters are invited to take part in such seminars and workshops.

(e) Trade Fairs and Exhibitions

It may also assist the concerned authorities in organizing trade fairs and exhibitions in India and abroad, It may also assist the exporters to take part in such trade fairs and exhibitions. It may also arrange buyer-seller meets, so as to promote Indian exports.

(f) Recommendation to Government

It appraises or advises the government authorities on current export problems and suggest measures for export growth. It also advises the government in framing proper EXIM policies from time-to-time.

(g) Sending Trade Delegations

To make arrangements for sending trade delegation and study teams to countries for promoting the export of specific products and to circulate the reports of such visits abroad among member exporters. In addition, to invite trade delegations from abroad.

(h) Professional Advice

It may provide professional advice to exporters in areas such as, technology up gradation, quality and design improvement, standards and specification, product development, innovation etc.

(i) Exploration of Overseas Markets

It may assist the exporter in exportation of overseas markets and identify items having export potentials.

(j) Developing Export Consciousness

This organisation makes all the possible efforts to develop export consciousness in out country.

7.5 COMMODITY BOARDS**7.5.1 MEANING**

Along with export promotion councils commodity boards have been established by the government of India for many commodities with high export potential. These boards are supplementary to EPCs and function on the same lines. The CBs are for promoting exports of specific commodities particularly the traditional commodities including tea, coffee, etc. The commodity boards look after the export promotion of primary and traditional items of exports while the EPCs look after the export promotion of non-traditional items.

7.5.2 FUNCTIONS OF COMMODITY BOARD

The functions and activities of commodity boards are similar to that of EPCs

- (a) Issue of certificate origin
- (b) Collection of information
- (c) Supplying of information
- (d) Organising seminars
- (e) Trade fairs and exhibitions
- (f) Recommendation to government
- (g) Sending trade delegation\
- (h) Professional advice
- (i) Exploration of overseas markets
- (j) Developing export consciousness

(For explanation of the points please refer functions of EPCs)

7.6 MARINE PRODUCTS EXPORT DEVELOPMENT AUTHORITY (MPEDA)

Marine Products Export Development Authority (MPEDA) was constituted in the year 1972 by replacing the Marine Products Exports Promotion Council under the Marine Products Export Development Authority Act 1972. The headquarter of MPEDA is

located at Kochi in Kerala. The authority operates two overseas trade promotion offices, one at Tokyo (Japan) and the other at New York (USA). The role envisaged for the MPEDA under the statute is comprehensive, which covers organisation, co-ordination, regulation and growth of the export of marine products with special reference to the quality, processing packaging, storage, transport, shipment marketing extension and trading in various aspects of the industry.

7.6.1 FUNCTIONS OF MPEDA

The broad functions of the authority involve regulatory functions, promotion and publicity, development and training and advice to the Central Government on matters connected with marine products and their exports

- (a) The authority encourages Indian export marketing organizations to take active interest in the export of marine product.
- (b) The authority directly participates in international fairs and also through ITPO in several other fairs. This gives publicity to wide range sea food available in India for exports.
- (c) MPEDA undertakes the mandatory registration of fishing vessels, processing plants, storage premises, conveyances and exporters and the voluntary registration of export under the registered exporters' policy.
- (d) The authority looks after the catching processing and exporting marine production including dry fish, frozen prawns, lobsters, canned fish, and fish oil and so on. It also takes keen interest in the development of off shore and deep sea fishing and also in the promotion of exports of marine products.
- (e) MPEDA gives advice to the central government on marine products and their exports. It also fixes standards and specifications for the purpose of exports of marine products.
- (f) MPEDA provides training facilities in marine products and their exports. MPEDA also provides useful services to foreign buyers.
- (g) The authority promote sea food exports by liaisoning with Indian exporters and overseas importers.
- (h) The authority promotes the image of Indian sea products in overseas markets through publicity campaigns.

CHECK YOUR PROGRESS:

1. Define the following terms:
 - a. Manufacturer exporter
 - b. Merchant exporter

- c. Canalising agencies
 - d. Export consortium
 - e. Export houses
 - f. Star Trading Houses
 - g. Export promotion organization
 - h. Commodity board
2. Fill in the blanks:
- a. The headquarter of MPEDA is located at ----- in Kerala.
 - b. The authority of MPEDA operates two overseas trade promotion offices, one at----- and the other at -----.
 - c. The -----look after the export promotion of primary and traditional items of exports.
 - d. There are -----EPCs operating in India.
 - e. Export houses were introduced by the government of India in the year -----.

7.7 AGRICULTURAL AND PROCESSED FOOD PRODUCTS EXPORT DEVELOPMENT AUTHORITY (APEDA)

7.7.1 MEANING

APEDA stands for the Agricultural and Processed Food Products Export Development Authority. Its registration office is located at New Delhi. APEDA is an autonomous organisation attached to the ministry of commerce of the government of India. The main function of APEDA is to build links between Indian producers and the global markets. It also arranges buyer-seller meets.

7.7.2 FUNCTION OF APFDA

The following are the functions/activities of APEDA

(a) Development of the agricultural and processed food industries

APFDA seeks to develop the industries related to the agricultural and processed food by providing such industries with the financial assistance, undertaking surveys and feasibility studies, participation in the equity capital through joint ventures and other relief and subsidy schemes.

(b) Quality Control and Up gradation

It carries out the inspection of various products under its purview, especially meat and meat products in slaughter house, processing plants, storage premises conveyances or other places where such products are kept or handled, for the purpose of ensuring the quality of such products.

(c) Collection and Dissemination of Information

It collects valuable information form the owners of factories or establishments engaged in the production, processing, packaging, marketing or export of commodities under its purview. It

collects information about foreign markets through studies, surveys, research, etc. and publishes them for the benefit of the exporters.

(d) Advisory Role

It provides recommendatory advisory and other support services to the trade and industry. It helps exporters by solving their problems, explaining the procedures, rules and regulation, etc. It also assists importers of Indian products in foreign countries through Indian missions abroad.

(e) Other Services of APEDA

- To register the exporters on payment of such fees as may be prescribed.
- To fix standards and specifications for the products under its purview for export.
- To set and improve the packing and packaging standards for the products under its purview.
- To assist the Indian exporters with marketing infrastructure for export of goods abroad.
- To promote production and development of products under its purview for export purpose.
- To develop manpower through training and development programmes in various aspects of the industries connected with these products
- To invite trade delegations from abroad and also organize the buyer-seller meets and other business interactions.
- To participate in the international trade fair and exhibitions in order to give a wide publicity to the Indian products.
- To distribute annual awards in order to encourage its members to perform better on the export front.

7.8 FEDERATION OF INDIAN EXPORT ORGANISATIONS (FIEO)

7.8.1 MEANING

Federation of Indian Export Organizations (FIEO) is an apex body of various export promotion organisations. It was set up in October 1965. It represents the Indian entrepreneurs' spirit of enterprise in the global market. It has kept pace with the country's evolving economic and trade policies and has provided the content, direction and thrust to India's expanding international trade. As the apex body of all Indian export promotion organisations, FIEO works as a partner of the government of India to promote Indian exports.

7.8.2 FUNCTIONS OF FEDERATION OF INDIAN EXPORT ORGANISATION

The following are the important functions of federation of Indian export organisation.

(a) International linkage

It has forged strong links with counterpart organizations in several countries as well as international agencies to enable direct communication and interaction between India and world businessmen.

It is registered with UNCTAD as a national non-government organisation, and has direct access to information and data origination form UN bodies and world agencies like the IMF, ADB, ESCAP, World Bank, FAO, UNIDO and others.

(b) Dissemination of Information

It has bilateral arrangements for exchange of information as well as for liaisoning with several overseas chambers of commerce and trade and industry associations.

(c) Liaisoning with Government

It sends representations on policy matters to Central and State (regional) governments. It helps in establishing contacts between the government and commercial bodies both in India and overseas.

(d) Market Development Assistance (MDA)

The ministry of commerce, government of India, through FIEO, reimburses certain percentage of the expenditure incurred by the recognized exporters, such as all types of export houses, on sales cum study tours, participation in exhibition and fairs abroad, advertisements in foreign media etc.

(e) Market Research and Development Department

The market research and development department offers the following services to the exporters community i.e. -

Arranging meeting with diplomats, incoming delegations and buying missions, inviting delegations, organizing trade fairs and exhibitions in India as well abroad opening foreign offices and warehouses, organizing seminars for promotion of international trade, opening new FIEO offices abroad.

(f) Publicity Department

The publicity department of FIEO performs the following functions-

Bringing out various special supplements in Indian and overseas dailies in order to project the selected finished products in India and abroad. Creating and telecasting episodes in NEPC channel to promote India's prominent brands in various countries covered by the channel. It has published directory of foreign buyers and dictionary of Indian exporters. It publisher a fortnightly magazine, "FIEO NEWS", to cover development in the field of international trade concerning India.

7.9 INDIAN INSTITUTE OF FOREIGN TRADE (IIFT)

7.9.1 MEANING

Indian institute of foreign trade was set up in 1963 by the government of India as an autonomous body registered under the societies registration act. It was set up with the prime objectives of professionalizing the country's foreign trade management and increase exports by developing human resource, generating, analyzing and disseminating data and conducting research.

7.9.2 FUNCTIONS OF INDIAN INSTITUTE OF FOREIGN TRADE

The following are the functions of Indian institute of foreign trade.

(a) Training

The IIFT has been recognized as centre of excellence for imparting training and education in international business. Its specialization in international business and a global outlook makes it unique among management schools in the country. It offers an inspiring learning environment, which transforms the bright young students into talented creative professionals.

(b) Collects Information

IIFT conducts market studies and surveys in overseas market. It tries to find out demand for Indian products in the overseas markets. It may also study consumer preferences and competition in overseas markets.

(c) Supplies Information

IIFT conducts market studies and surveys in the overseas markets. It tries to find out demand for Indian products in overseas market. It supplies this information to the exporters. The exporters can use such information while making their export marketing decisions.

(d) Organises Seminars and Workshops

IIFT organizes seminars and workshops in a number of export marketing areas, such as export pricing, export promotion, etc. Exporters can take advantage of such workshops and seminars by taking active part in them.

(e) Trade Delegations

IIFT sends delegates abroad to study overseas markets and also to interact with overseas importers. At the same time, it invites delegates from abroad, who can study Indian market conditions and can also interact with Indian exporters.

(f) Professional advice

IIFT provides professional advice to exporters in a number of areas such as export pricing, export procedures, promotion etc.

(g) Management Development programmes

Combining a unique blend of research and consultancy, IIFT has been a pacesetter in addressing to the needs of business executives by continuously alienating the focus of its management development programmes with the changing realities. As a result, its intensive short duration programmes have received the most enthusiastic response.

(h) Publishes Information

IIFT publishes information through its journals i.e. foreign trade review (quarterly) and foreign trade bulletin (monthly).

7.10 NATIONAL COUNCIL FOR TRADE INFORMATION (NCTI)

7.10.1 MEANING

National council for trade information (NCTI) is a joint venture of ITPO and national information centre. Its activities mainly relate to supply of trade, business and economic information. NCTI was established in October, 1994 to provide latest, trade business and economic information to help India and foreign enterprises in the promotion of trade from and to India. In this sense, it acts as an export promotion organisation.

The NCTI uses high speed NICNET national information highway for collection and dissemination of trade information. This network is connected to 200 networks in 160 countries.

7.10.2 FUNCTIONS OF NCTI

Following are the important functions/activities of NCTI.

- (a) To create databases at national and international levels for promotion of exports.
- (b) To collect information on various aspects of trade and commerce in different countries.
- (c) To disseminate information of countries and products to trade and industry.
- (d) To establish linkages with trade promotion bodies, regulatory bodies, chambers and associations among others.
- (e) To establish linkages with commercial wings of Indian missions abroad and foreign missions in India.
- (f) To publish papers, periodicals and other literature relating to trade and commerce.
- (g) To maintain liaison with trade and commercial bodies in different countries.
- (h) To organize training, seminars and conferences on matters relating to trade and commerce.
- (i) To create information base for all types of marketing intelligence on trade aspects.

7.11 INDIAN TRADE PROMOTION ORGANISATION (ITPO)

7.11.1 MEANING

Indian trade promotion organisation was set up by the Ministry of Commerce, Government of India, on 1st January, 1992 with its headquarters at New Delhi after the merger of Trade Development Authority (TDA) and Trade Fair Authority of India

(TFAI). It has five regional offices in India at Mumbai, Bangalore, Kolkata, Kanpur and Chennai and four in Germany, Japan, UAE and USA.

As a premier trade promotion agency of the government of India, the ITPO provides a broad spectrum of services to trade and industry so as to catalyse the growth of bilateral trade, particularly India's exports and technological up gradation and modernisation of different industry segments.

7.11.2 FUNCTION OF INDIAN TRADE PROMOTION ORGANISATION

The following are the functions or activities of Indian trade promotion organisation

(a) Organising Trade Fairs and Exhibitions

ITPO organizes trade fairs and exhibitions in India and abroad and to book stalls/space for Indian exporters to participate in overseas trade fair and exhibitions. ITPO acts as a publicity wing of government of India for organizing trade fair and exhibitions in India and abroad.

(b) Publicity

It gives publicity in connection with the organisation of trade fairs and exhibitions in India, so that foreign parties may visit India to visit in such trade fairs and exhibitions.

(c) Collections of Information

ITPO collects information of various trade fairs and exhibitions to be held abroad. The information is collected in respect of place or venue of exhibition, date and duration, products to be displayed, booking of space formalities, etc.

(d) Supply of Information

ITPO provides information to Indian parties regarding overseas trade fairs and exhibitions. Such information may be useful to Indian parties or exporters to take proper decisions in respect of participation in overseas trade fairs, and exhibitions.

(e) Delegations

Inviting trade delegations from abroad and sending Indian trade delegation abroad. ITPO book orders for Indian goods. In addition, to send Indian trade delegations abroad for market survey and for signing contracts for the supply for Indian goods.

(f) Booking of Space in Overseas Trade Fairs

ITPO books necessary space/stalls for Indian exporters. This enables Indian exporters to participate in overseas trade fairs and exhibitions.

(g) Consultancy Services

It provides consultancy services to Indian exporters to participate and display their product in trade fairs and exhibition in India and abroad.

(h) Seminars and Workshops

ITPO organizes seminars/workshops for giving information/guidance to exporters about fairs and exhibitions

arranged in India and abroad. ITPO has set up a trade information centre at its headquarters in New Delhi. It is considered as the best source of information on import and export trade.

7.12 EXPORT INSPECTION COUNCIL (EIC)

7.12.1 MEANING

The Exporter Inspection Council of India was set up by the government of India under section 3 of the export (quality control and inspection) act, 1963 to provide for the sound development of export trade through quality and pre-shipment inspection. Certain amendments were made in the act in July, 1984 in order to provide the power to search and seize commodities, initiate ad justification proceedings against erring manufacturers/exporters, cancellation or withholding of the certificate of inspection issued by the inspection agencies, etc.

The EIC is an apex body for controlling the activities of the quality and pre-shipment inspection of the commodities meant for export.

7.12.2 FUNCTIONS OF EXPORT INSPECTION COUNCIL

The following are the functions of EIC:

(a) Monitoring of quality control

The main function of EIC is to monitor quality control and pre-shipment inspection of export items. At present over 1000 items are subject to compulsory inspection before shipment of goods. EIC has set up five EIAs each at Mumbai, Cochin, Calcutta, Delhi and Chennai to conduct actual inspection of goods before shipment.

(b) Collection of Information

EIC collects information in respect of quality of products in the overseas markets of the competing nations. This information is supplied to the exporters.

(c) Pilot Test House

A Pilot Test House has been set up in Mumbai with necessary infrastructural facilities of testing the products to meet the requirements of the international standards. The test house has three major sectional laboratories i.e. chemical, electric and mechanical laboratory.

(d) Organises Seminars and Workshops

It conducts seminars and workshops in respect of improving quality standards of Indian products exporters can attend such seminars and workshops and take necessary guidance and assistance.

(e) Consultancy Services

It provides consultancy services to exporters to improve the quality.

(f) Recommendation to Government

EIC recommends to the governments to take appropriate measures for setting up of quality up gradation fund and other facilities to the exporters to improve the quality.

(g) Delegation Abroad

EIC sends delegations abroad to study quality control techniques and other developments in the area of quality control.

(h) GSP Certification

An important function of the EICs is to issue certificate of origin under the Generalized System of Preference (GSP) required for specified products exported to preference giving countries of Europe, America, Japan etc,

EIC undertakes quality development and export promotional activities by way of arranging training of various quality control techniques to the personal at all levels in the industry.

7.13 SUMMARY

Export marketing organizations are specialized agencies concerned with export trade. Manufacturer exporters, Merchant exporters, Canalising agencies, State corporations, Export consortium, Export houses, Star trading houses, Trading houses, Premier trading houses etc are the main EMOs.

EPCs are the export promotion organizations established for Issuing Certificate of origin, Collecting and supplying information, organizing seminars and trade fairs and exhibitions, sending trade delegations, providing professional advice, developing export consciousness. Commodity Boards are supplementary to EPCs.

MPEDA was introduced for organisation, co-ordination, regulation and growth of the export of marine products with special reference to the quality, processing packaging, storage, transport, shipment marketing extension and trading in various aspects of the industry.

The main function of APEDA is to build links between Indian producers and the global markets. It also arranges buyer-seller meets.

FIEO is an apex body of all Indian export promotion organizations and working as a partner of the government of India to promote Indian exports.

IIFT was set for professionalizing the country's foreign trade management and increasing exports by developing human resource, generating, analyzing and disseminating data and conducting research.

NCTI was established to provide latest, trade business and economic information to help India and foreign enterprises in the promotion of trade from and to India.

ITPO provides a broad spectrum of services to trade and industry so as to catalyse the growth of bilateral trade.

The Exporter Inspection Council of India was set up to provide for the sound development of export trade through quality and pre-shipment inspection.

7.14 QUESTIONS FOR SELF-ASSESSMENT

- (a) explain various export marketing organizations in India?
- (b) What are the features of export promotion organisation in India?
- (c) Discuss the functions of export promotion councils?
- (d) Write short notes on commodity boards?
- (e) Write in brief about MPEDA?
- (f) What are the functions of APEDA?
- (g) Discuss the activities of FIEO?
- (h) Explain the functions of ITFT?
- (i) Write a note on NCFIT?
- (j) What are the functions of ITPO?
- (K) Discuss the activities of EIC?



8

EXPORT MARKETING AND PROMOTINAL ORAGNISATION IN INDIA - II

Unit Structure

- 8.0 Objectives.
- 8.1 Indian institute of packaging (IIP) Mumbai.
- 8.2 Indian council of arbitration (ICA) New Delhi.
- 8.3 Directorate general of commercial intelligence and statistics (DGCI&S).

- 8.4 Directorate general of foreign trade.
- 8.5 Chambers of commerce.
- 8.6 Software technology parks (STP) scheme.
- 8.7 100% Export oriented units (EOUS).
- 8.8 Special economic zones.
- 8.9 Summary
- 8.10 Questions for self-assessment.

8.0 OBJECTIVES

After studying this chapter students will be able to –

- Understand the functions/activities/role of IIP, ICA, DGCI&S, DGFT, chambers of commerce, and STP.
- Know the benefits of 100% export oriented units.
- Explain special economic zones.
- Discuss the features of SEZ.
- Know the sales in DTA.
- Evaluate contribution of SEZs in India's exports.

8.1 INDIAN INSTITUTE OF PACKAGING (IIP) MUMBAI

8.1.1 MEANING

The Indian Institute of packaging was set up in Mumbai on 14th may, 1966 with an objective to giving guidance and training to Indian exporters, in regard to packaging techniques. It was set up by the government of India in collaboration with the industry for removing the deficiencies in the field of packages.

Indian institute of packing is a registered body under the Societies Registration Act, and undertakes research activities on raw materials for packaging industry. It keeps India in line with the international developments in packaging. It is a service organization.

8.1.2 FUNCTIONS OF IIP

The following are the important functions of Indian institute of packaging.

(a) Training Programme

It is primarily engaged in training programmes relating to packaging industry. This institute makes the trainees familiar with

packaging technology, packaging materials, and current trends in packaging in the world markets.

(b) Improvement in Quality of Packaging

IIP makes constant efforts to upgrade and improve the design and quality of packaging, so as to promote Indian products abroad. Undertake research on raw material used of the packaging industry and to bring improvement in the quality of packaging.

(c) Collection of Information

IIP collects information on latest trends in the packaging in respect of raw materials, design etc. To keep abreast of international developments in packaging and to collect information on new trends in packaging .

(d) Testing Facilities

It also undertakes testing of packaging materials and packages to ensure export quality.

(e) U N Certification

All dangerous goods packages need a UN certification mark before they can be dispatched IIP is the only authorized body in India to give this certification.

(f) Environmental Cell

The institute has an environment cell, which guides exporters as to what type of material can be used or incorporated in the packaging of their products so as to reduce environmental threats.

(g) Research and Development

It undertakes research and development programmes for creating and improving overall infrastructural facilities for achieving packaging improvement so as to prevent losses during transportation.

(h) Develops Packaging Consciousness

Export packaging is vital as it not only protects and preserves the product, but also promotes the product in international markets. Therefore, IIP develop consciousness of the need for good packaging among Indian exporters.

(i) Publications

It publishes two quarterly magazines, one devoted to the technological aspect of packaging and the other to techno-economic aspects of packaging.

8.2 INDIAN COUNCIL OF ARBITRATION (ICA) NEW DELHI

8.2.1 MEANING

Trade disputes can be settled quickly/peacefully through arbitration rather than through costly and lengthy legal procedure. The establishment of Indian council of arbitration (ICA) in April, 1965 (at New Delhi) is a step taken in this direction. The purpose of ICA is to promote arbitration as a means of settling commercial disputes and popularizes the concept of arbitration among traders particularly those engaged in international trade. The ICA is an apex body for the settlement of disputes in foreign trade.

The ICA is registered as a non profit service organization under the societies registration act. The council is a grantee institution of the department of commerce. The jurisdiction of the council can be invoked only if there is an arbitration clause in the contract or if both the parties agree to refer the disputed matter to the council. The conduct of arbitration proceeding is governed by the rules of arbitration prepared by the council.

8.2.2 ROLE OF INDIAN COUNCIL OF ABRITRATION

The following are the important role played by Indian council of arbitration.

(a) Regular Meetings and Training

The ICA arranges regular meetings of businessmen, representatives of EPCs, and chambers of commerce and discusses problems relating to the settlement of disputes and the conduct of arbitration.

(b) Publications

The council has published a book called guide to arbitration in India which explains the rules and procedures of commercial arbitration under Indian law. The council also publishes "I.C.A. Arbitration Quarterly".

(c) Peaceful Settlement of Commercial Disputes

The ICA is successful in solving large number of commercial disputes in a peaceful manner. The government has now decided to frame a comprehensive legalization an arbitration for India based on the united nations commission on international trade law (UNCDTRAL) model.

8.3 DIRECTORATE GENERAL OF COMMERCIAL INTELLIGENCE AND STATISTICS (DGCI&S)

8.3.1 MEANING

The DGCI&S is one of the oldest agencies in India. It was setup in 1862 at Kolkata. It is the nodal agency of government of India, which is responsible for collections, compilation and dissemination of trade statistics and various types of commercial information. The commercial information is required by policy makers, researchers, exporters, importers and others.

8.3.2 FUNCTIONS OF DGCI&S:

The following are the various functions of DGCI&S

(a) Publications

It brings out number of publications relating to foreign trade. Some of them are monthly statistics of foreign trade of India, foreign trade statistics of India. India trade journal, a weekly journal, directory of Indian exporters, directory of Indian importers.

(b) Data Capture

The daily trade returns (DTRs), forming the source document for foreign trade data, are received from major custom houses through VAST. The data from minor ports are received through e-mail or CDs. A monitoring-cum-feed back system has been in operation for improving the quality and coverage of data received from custom houses.

(c) Data Processing

The daily trade returns from custom houses and minor ports are passed through a series of coverage checking and cleaning operations at the EDP unit of DGCI&S. The data processing is done with the help of ORACLE based platform.

(d) Priced Information Service System (PISS)

Data are disseminated among private parties, EPCS, CBs, Foreign Embassies, etc. On payment basis under a special scheme called PISS. Under this scheme, the users are to pay Rs. 1/- per unit record of information.

(e) Quick Estimates

DGCI&S makes available quick estimates on aggregate data export and import, principal commodities. The quick estimates enable the government of India to assess India's foreign trade performance scenario in advance, as well as to study the impact of various trade policies.

(f) Resolves Commercial Disputes

The trade dispute reconciliation section of DGCI&S receives complaints and disputes relating to foreign trade for the purpose of

resolution. Generally, the disputes are referred to DGCI&S by Indian diplomatic missions abroad, RBI, export promotion councils chamber of commerce etc.

(g) Commercial Intelligence

Many exporters do not get necessary information regarding overseas buyers. Commercial intelligence branches of DGCI&S provide such information to exporters with names and addresses of foreign buyers. Country-wise and commodity-wise trade information indicating existing and potential Indian exporters to identify the overseas markets and to select the most suitable export items.

(h) Commercial Library

The commercial library attached to the office of DGCI&S is offering its services free of cost to general public since 1919. A vast number of users such as traders, manufacturers, government officials, students, researchers and others avail the services of this library. Special collection of the library includes documents published by United Nations, UNCTAD, WTO, World Bank, IMF, Overseas chambers of commerce, etc.

8.4 DIRECTORATE GENERAL OF FOREIGN TRADE (DGFT)

8.4.1 MEANING

This directorate relating to foreign trade is headed by the director general of foreign trade and is responsible for the execution of the foreign trade policy (FTI) announced by the government from time to time for the promotion of exports. In addition, the work relating to issue of licenses and monitoring of export obligations, etc. is also looked after by this organization directorate.

The directorate has its headquarters at New Delhi. In addition, there are 31 regional offices of the directorate in the field of information.

8.4.2 FUNCTIONS OF DGFT

The following are the functions of DGFT

(a) Implementation of foreign trade policy

DGFT is responsible for the implementation of foreign trade policy of India. The FTP is implemented by introducing various schemes and guide lines through its network of 32 regional offices spread across country.

(b) Granting of IEC number

DFGT grants importer-exporter code number to exporters and importers from India. It is the registration number, which enables Indian parties to deal in foreign trade. The IEC number is issued by the regional offices of DGFT.

(c) Regulates transit of goods

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

(d) Resolving of export related problems

DGFT or its regional offices attend to the problems and grievances of exporters. It co-ordinates with other departments to resolve all the trade and export related problems. For speedy redressal of genuine grievances of trade and industry relating to policy and procedures, grievance committees have been set up in the regional licensing offices.

(e) Interaction with trade and industry

DGFT has opened a chat window on its web site for interacting with the trade and industry. It provides replies to queries on foreign trade policy and procedures. The chat window is open from 3 p.m. to 5 p.m. on second Wednesday of every month.

(f) Co-ordination with other offices

DGFT works in close co-ordination with other related economic offices like customs dept, central excise, enforcement directorate, etc.

(g) Publications

DGFT is responsible for the publication of foreign trade policy and hand book of procedures, ITC (HS) classification of export-import items.

(h) Trade facilitator

DGFT also acts like a trade facilitator. It deals with the quality complaints of foreign buyers. Trade facilitation on the part of DGFT helps to promote Indian exports in the overseas markets.

CHECK YOUR PROGRESS:

1. Fill in the blanks:
 - a. Indian institute of packing is a registered body under the -
-----Act.
 - b. The Directorate General of Foreign Trade has its headquarters at -----.
 - c. The Directorate General of Foreign Trade has----- regional offices in the field of information.
 - d. The DGCI&S was setup in 1862 at -----.

- e. The ICA is an -----for the settlement of disputes in foreign trade.
2. Give full forms of:
- a. DGFT
 - b. DGCI&S
 - c. PISS
 - d. DTRs
 - e. IIP

8.5 CHAMBERS OF COMMERCE

8.5.1 MEANING

Chambers of commerce is voluntary non-profit making and democratic associations of traders, businessmen, professionals and industrialists. The scope of activities of the chambers of commerce is wider as compared to trade associations.

The Indian merchants' chambers and the Maharashtra chambers of commerce are the examples of chambers of commerce. In India, we have also Associated Chambers of Commerce. (ASSO CHAM)

8.5.2 FUNCTIONS/ROLE/ACTIVITIES OF CHAMBERS OF COMMERCE

The following are the various functions/role/activities of chambers of commerce in export promotion.

(a) Issue of certificate of origin

To issue certificate of origin to members and also to issue other certificates and documents required by the exporters for different purposes.

(b) Information on foreign markets

To collect, analyse and supply information about foreign markets, governments offered by the government and so on to the members through meetings seminars, workshops and official journal of the chamber. Library facility is also provided to members interested in exporting their goods abroad.

(c) Sending trade delegations

To send delegations of members to foreign countries for study and survey purpose and thereby to supply information to members about potential markets available abroad.

(d) Discussion on common problems

To provide a convenient platform to members to discuss the common problems arising out of export policies. Incentives and procedures introduced by the government from time-to-time.

(e) Recommendation to government

It provides recommendations to the government authorities to solve export problems and suggest measures for export growth. It may advise the government in framing proper export-import policies. It may recommend certain modifications in the existing government policies and programmes.

(f) Inviting trade delegations

It may invite trade delegations from abroad both at private level and at governmental level, such trade delegations are very important to promote export trade of India. Foreign delegations visit India and sign contracts with Indian exporters.

(g) Representation on problems of exports

To take specific problem cases of members i.e. exporters to appropriate government authorities for remedial measures .

(h) Exploration of overseas markets.

It may assist the exporter in exploration of overseas and identify items having export potential. It may also assist the exporters to open offices of branches abroad. It may guide the exporter in setting up of joint ventures abroad.

(i) Training in export management

To arrange short training courses in export management in order to provide education and guidance to members interested in export trade and international marketing.

8.6 SOFTWARE TECHNOLOGY PARKS (STP) SCHEME

8.6.1 MEANING

Under STP scheme, a software development unit can be set up for the purpose of development of software, data entry and conversion, data, processing, data analysis and control data management or call centre services for exports. Under EHTP scheme, a unit can be set up for the purpose of manufacture and development of electronics hardware, and software in an integrated manner for export. The policy provisions for STP, EHTP and BTP schemes are substantially the same as those applicable to the

general EOU scheme. Thus, the provisions of foreign trade policy regarding importability of goods, DTA sale, clearance of samples, sub-contracting, inter-unit transfer, repairs, re-conditioning and re-engineering, sale of unutilized material, de-bonding etc. are more or less same for STP/EHTP/BTP units as well as general EOUs. However, considering the special requirement of the software/hardware development sector, some specific provisions have been made for the STP/EHTP units in the foreign trade policy as well as in the customs notifications governing the scheme.

8.6.2 FUNCTIONS

- (a) An EHTP/STP/EOU units may export all goods and services subject to the fulfillment of conditions laid down in export import policy.
- (b) EHTIP/STP/EOU unit may export goods manufactured/software developed by it through a merchant exporter/status holder recognized under the EXIM policy.
- (c) These units may import without payment of duty all types of goods including capital goods as defined in the EXIM policy required by them for its activities. The goods can be imported which are required for the approved activity, including, capital goods, free of cost or on loan from clients.
- (d) These units may procure from DTA without payment of duty specified goods for creating a central facility for use. The central facility for software development can also be accessed by units in the DTA for export of software.
- (e) The import of second hand capital goods is also permitted without payment of duty.

8.7 100% EXPORT ORIENTED UNITS (EOUs)

8.7.1 MEANING

The export oriented units (EOUs) scheme, introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime but offers a wider option in location with reference to factors like source of raw materials, port, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

EOUS have been established with a view to generating additional production capacity for exports by capacity for exports by

providing an appropriate policy framework. Flexibility of operations and incentives.

8.7.2 BENEFITS/INCENTIVES GIVEN TO 100% EOUS

- (a) The EOUS are mainly concentrated in the engineering, chemicals, plastics, granites and food processing. Such units are permitted to import raw materials, spare parts, machinery, etc, without the payment of import duty. They can also procure indigenous capital goods, components and raw materials without payment of excise duty and in return must produce goods for exports for 10 years.
- (b) EOUS need not pay excise duty when they use domestic raw materials, etc, for the production which are to be exported.
- (c) 100% EOUS need not be located in the FTZS. They may be located at any place and may be of any size.
- (d) 100% EOUS are given special concessions such as five year tax holiday and two years gestation period before exporting.
- (e) EOUS export the entire or at least 75% their production and there by contribute in promoting exports.
- (f) Foreign equity up to 100% is permissible in the case of EOUS.

8.8 SPECIAL ECONOMIC ZONES (SEZ)

8.8.1 MEANING

The concept of special economic zones (SEZS) was suggested by the comer and industry minister late Mr. Murasoli Maran while introducing third revision to EXIM policy 1997-2002. The SEZs are in addition to EPZs and FTZs operating in India. A scheme for setting up SEZs in country to promote export was announced by the government in the Exim policy announced on 31st March, 2000. The SEZs intend to provide an internationally competitive and hassle free environment for export and are expected to give a further boost to the country's exports.

The idea of SEZS is borrowed from china where such zones are operation efficiently and are contributing nearly 40 percent of total exports. The government policy is for the creation of SEZS in all parts for export promotion. They are expected to provide an internationally competitive and hassle-free environment for exports.

The SEZ scheme is expected to give a further boost to country's exports. The state governments are expected to participate in export promotion by starting SEZs in their states. The SEZs can be set-up in the public, private joint sector or by state governments.

The government policy is to provide convenient infrastructure facilities and various incentives to such SEZs so as to make them key engines of export growth.

8.8.2 FEATURES OF SEZ

The following are the features of special economic zones.

(a) Domestic sales/purchases

Goods going into the SEZ area from DTA (Domestic Tariff Area) shall be traded as deemed exports and goods coming from the SEZ area into DTA shall be treated as if the goods are being imported.

(b) Export and import of goods

SEZ units may export goods and services including agro-products, partly processed jewellery, sub-assemblies and components. It may also export by products, rejects, waste-scrap arising out of the production process.

SEZ units import without payment of duty, all types of goods, including capital goods, whether second hand or new. The SEZ units can import goods free of cost or loan from clients.

(c) Net foreign exchange earning (NFE)

A SEZ unit shall be a positive net foreign exchange earner. NFE shall calculate cumulatively for a period of five years from the commencement of commercial production.

(d) Domestic tariff area (DTA) sales and supplies

Sales of SEZs from DTA are to be treated as exports. Sales to DTA from SEZ are to be exempted from special additional duty (SAD). This would make the sales to DTA from SEZ 4% cheaper than import. DTA sale by service/trading units shall be subject to achievement of positive NFE.

(e) Export through status holder

A SEZ unit may also export goods manufactured by it through a merchant exporter/status holder or any other EOU/EPZ/SEZ units.

(f) Inter-limit transfer

Transfer of manufactured goods or imported goods from one SEZ units to another EPZ/EOU/SEZ unit is allowed, but not counted towards export performance.

(g) Administration and setting up of SEZ

SEZ will be under the administrative control of development commissioner. A SEZ may be set up in the public, private or joint sector. The existing EPZS may also be converted into SEZ by the ministry of commerce and industry.

(h) Export proceeds

SEZ unit can bring back their export proceeds in 360 days as against normal period of 180 days and can retain 100% of the proceeds in the EEFC Account.

8.8.3 SALES IN DTA

DTA means Domestic Tariff Areas. This is the area in which normal taxes, duties etc. are collected from the producer of goods for internal/domestic marketing. However manufacturing units operating in the special economic zones or EOUS, EHTPS, STPS and BTPS are given concession in regard to taxes, customs duties in relation to goods import or goods purchased from domestic suppliers for the conduct of production mainly for exports. The purpose of giving such incentive concession is to make the prices of exportable items competitive so that exports will be promoted. In short, special incentives/concessions are given to units operating in SEZS, EOUS, STPS etc. in order to charge competitive prices abroad and thereby capture foreign markets. It acts as a motivating factor.

It may also be noted that this incentive is given only when goods are exported. However, if a part of production made in SEZ is sold in the DTA, the concerned manufacturer will have to pay all regular taxes and duties which are normally paid in the DTA. This point is made clear in the FTP statements issued from time to time. The following points will make this matter more clear.

8.8.4 INCENTIVES TO UNITS IN SEZS

The SEZ offers to entrepreneurs as attractive package of incentives and concessions, gradually introduced over a period of time.

(a) All imports into the zone such as capital goods, raw materials, packing materials, components, office equipment etc. have been placed under OGL system and such import are permitted duty free entry into the zone, subject to the terms of the project approval.

(b) Indigenous goods such as capital goods, raw materials and other production requirement can be procured from domestic tariff area (DTA) into the zone free of central excise duty.

(c) There is total waiver of the provision of the export trade control order with regard to the products manufactured and exported from the SEZ.

(d) Central excise is also exempted on the products manufactured within the zone for export purposes.

(e) A five year tax holiday is the most significant fiscal benefit to units.

(f) The import policy permits sales up to 25% of their annual production in the home market without requirement of import license but subject to payment of leviable customs duty. This is in addition to the facility otherwise, available to the units for sale in the DTA against valid import licensees subject to payment of customs and other duties.

(g) For attracting foreign investors equity participation even up to 100% is permitted in the industrial ventures promoted in SEZ.

(h) Repatriation of dividends and profits is freely permitted, subject to payment of taxes as applicable.

(i) For export promotion, units in SEZ are given a special facility of blanket permits.

(j) Units in SEZ can given a longer credit period of up to 360 days.

8.8.5 CONTRIBUTION OF SEZ IN INDIA'S EXPORT

In the near future, the SEZS scheme will prove to be an engine of growth attracting FDI and thus increase exports. The contribution of SEZS in the export growth is likely to be substantial in the years to come. The table given below shows exports from SEZS during 2006-07 and 2007-08.

Exports from special economic zones (SEZS)

	2006-07	2007-08	% change
	Rs. crores	Rs. crores	

Kandla	1,882	1,483	26.9
Seepz	11,265	12,048	-6.5
Noida	16,843	6,893	144.4
Madras	3,017	2,384	27.8
Cochin	4,471	803	456.8
Falta	1,026	999	2.7
Visakhapatnam	741	750	-1.2
Surat	12,294	5,197	136.6
Manikanchan	1,775	1,018	74.4
Jaipur	296	168	75.7
Indore	338	217	55.8
Total (including others)	66,638	34,615	92.5

Sources: - statistical outline of India, 2008-09, Tata Services Ltd. (table 113, P-99.)

By 18th Dec,2008, notified SEZ, were 274. During 2007-08 , the total exports from all 19 SEZS (govt & private together) were Rs. 66,638 crores indicating an increase of 92.5% over 2006-07. The government expects exports from SEZS to touch Rs. 125,950 crore during 2008-09, an increase of more than 89% over the last fiscal. The government sees SEZS as vehicles of industrialization and employment generation. By the end of Sep.2008, total 362,650 persons were employed by all SEZS and the total investment in all SEZS was Rs. 93,507 crores. In future, more SEZS, more investment and more jobs are possible. SEZA currently provide employment to more than 2.8 lakh people. Companies operating in these zones includes Nokia, Wipro and Mahindra and Mahindra. The government has granted 453 formal approvals for setting up of SEZS. New SEZS have come in states like Rajasthan, Gujarat, A.P., Punjab, U.P., Karnataka and Maharashtra. In brief, SEZS are proving to be key export engines and as vehicles of industrialization and employment generation.

8.9 SUMMARY

The Indian of packaging was set up with an objective to giving guidance and training to Indian exporters, in regard to packaging techniques.

Trade disputes can be settled quickly/peacefully through arbitration rather than through costly and lengthy legal procedure. The establishment of Indian council of arbitration (ICA) in April, 1965 (at New Delhi) is a step taken in this direction. The purpose of ICA is to promote arbitration as a means of settling commercial disputes and popularizes the concept of arbitration among traders particularly those engaged in international trade.

The DGCI&S is the nodal agency of government of India, which is responsible for collections, compilation and dissemination of trade statistics and various types of commercial information.

Directorate general of foreign trade is responsible for the execution of the foreign trade policy (FTI) announced by the government from time to time for the promotion of exports.

Under STP scheme, a software development unit can be set up for the purpose of development of software, data entry and conversion, data, processing, data analysis and control data management or call centre services for exports.

EOUs have been established with a view to generating additional production capacity for exports by capacity for exports by providing an appropriate policy framework.

The government policy is for the creation of SEZs in all parts for export promotion. They are expected to provide an internationally competitive and hassle-free environment for exports.

8.10 QUESTIONS FOR SELF-ASSESSMENT

- (a) Discuss the role of Indian Institute of packaging?
- (b) Write a detailed note on Indian council of arbitration?
- (c) Explain the activities of department of commercial intelligence and statistics?
- (d) Discuss the role of directors general of foreign trade?
- (e) Discuss the role of chambers of commerce in export promotions?
- (f) Write short notes software technology parks?
- (g) Write a note on export oriented units?

- (h) What are the features of SEZS?
- (i) Explain the incentives available to units in SEZ?
- (j) Write a note a contribution of SEZS in India's exports?



9

FOREIGN TRADE POLICY

Unit Structure

- 9.0 Objectives.
- 9.1 Meaning of EXIM POLICY
- 9.2 Main objectives
- 9.3 Highlights and Implication of FTP 2009-14
- 9.4 Special Focus Initiatives
- 9.5 Towns of excellence
- 9.6 Eligibility criteria for status holders EH/STH/TH/PTH/SEH
- 9.7 Privileges / Benefits /Facilities for status holders
- 9.8 Functions of EH/TH/STH/SSTH
- 9.9 Negative list of exports
- 9.10 Question for self-assessment

9.0 OBJECTIVES

After studying this chapter students will be able to –

- Understand the meaning and objectives of EXIM POLICY.
- Know highlights of FTP 2009-14
- Identify special focus initiatives

- Explain towns of export excellence
- Know eligibility criteria and privileges of status holders
- Elaborate important functions of EH/TH/STH/SSTH
- Findout negative list of exports

9.1 MEANING OF EXIM POLICY

EXIM policy means the policy relating to exports and imports. In other words, it is the policy relating to foreign trade/international marketing. Even policies relating to export promotion are covered within the scope of the EXIM policy. In India policy is formulated and announced by the ministry of commerce, Government of India. It contains policy and procedure relating to imports and exports. In India export policy resolution of 1970 is considered as an important land mark in the history of India's EXIM policy. On the basis of export policy resolution of 1970 the export import policy statements were announced regularly by the government since 1985. The policy statement announced by the government contains special schemes incentives and concessions offered to the exporter.

The government of India introduces the EXIM policy, normally for a period of five years. The EXIM policy provides a list of initiatives and procedural guidelines for exports and importers. In 2004, the government of India renamed the EXIM policy as Foreign Trade Policy.

9.2 MAIN OBJECTIVES OF INDIA'S FOREIGN TRADE POLICY

In general, the principal objectives of India's foreign trade policy are as follows.

1. To strengthen the base for export production for promoting exports.
2. To place special emphasis an exports to generate high net foreign exchange.
3. To simplify and streamline import-export procedures.
4. To facilitate technological up gradation of domestic production so as to make Indian goods globally competitive.
5. To reduce import through import substitution, encouragement to indigeneous production and there by to conserve foreign exchange for better purposes and use.

6. To act as an effective instrument of economic growth by giving thrust to employment generation, especially in semi-urban and rural areas.
7. To offer different types of export incentives, concessions and facilities so as to encourage manufacturers and exporters to take more initiative in export promotion. Exports are made attractive/profitable through such export incentives.
8. To import continuity and stability to foreign trade policy.
9. To encourage the attainment of high and internationally accepted standards of quality and there enhance the image of India's products abroad.
10. To establish the framework for globalization of India's foreign trade.

9.3 HIGHLIGHTS AND IMPLICATIONS OF [FTP 2009-14](#)

The main highlights of [FTP 2009-14](#) are as follows.

1. Focus Product and Focus Market Schemes

The [FTP 2009-14](#) announced higher financial support for focus product and focus market scheme.

(a) Focus Product

A large number of products from various sectors have been included for benefit under focus product scheme. These include engineering product, value added products of plastic, jute and sisal products, green technology products, project goods, vegetable, textiles and certain electronic items.

The incentive available under focus product scheme has been raised from 1.25% to 2% of FOB value of export.

Higher allocation under market development assistance and market access initiative schemes has been provided.

(b) Focus Market Scheme

Under this scheme 26 new markets have been added. These include 16 new markets in Latin America and 10 in Asia-Oceania.

The incentive available under focus market scheme has been raised from 2.5% to 3% of FOB.

2. Technological Up gradation

Indian firms are encouraged to adopt technological up gradation with a view to raise competitive capacity. Technological

up gradation will enable Indian industries to produce goods of internationally acceptable standards. Technological up gradation will improve quality of Indian goods, reduce the cost of production and will increase competitive strength in the global market.

3. EPCG Relaxations

To increase the life of existing plant and machinery, export obligation on import of spares, moulds etc. Under EPCG scheme has been reduced to 50% the normal specific export obligation.

Re-fixation of annual average export obligation for a particular financial year, in which there is decline in exports from the country, has been extended for the 5 years policy 2009-14.

The application and redemption forms under EPCG scheme have simplified.

4. Green Products from North East

Focus product scheme benefit has been extended for export of 'Green Products' and for some other export products originating from north eastern region.

5. Status Holders

To accelerate exports and encourage technological up gradation, additional duty credit scrips shall be given to status holder @ 1% of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with actual user condition. This facility shall be available for sectors of leather, textiles, jule, handicrafts, engineering units, plastics and basic chemicals, subject to certain exclusions.

Transferability of duty credit scrip being issued to status holders under (VKGUY) Vishesh Krishi Gram Udyog Yojana has been permitted. This is subject to the condition that transfer would be only to status holders and scrip would be utilized for the procurement of cold chain equipments only.

6. Marine Sector

Fisheries have been exempted from maintenance of overage annual export obligation under EPCG scheme. This is subject to the condition that fishing travelers, boats and ships and other similar items shall not be allowed to be imported under this provision. This would provide a fillip to the marine sector which has been affected by the current downturn in exports to recession in the world markets.

7. Gems and Jewellery Sector

India is becoming a major destination for diamonds and diamond jewellery because of customs duty and licensing duty

being removed on rough diamonds. Duties on exports of plain and non-sided jewellery put jewellery exports in a better position.

To promote export of gems & jewellery products the value limits of personal carriage have been increased from US \$ 2 million to US \$ 5 million and export promotion tours, has been also increased from US \$ 0.1 million to US \$ 1 million.

8. Agriculture Sector

Because of the government's initiative to boost agro exports through its EXIM policy, the position of this sector has improved. Multiple facilities and incentives have been given to help the sector diversify and expand. Export, quantitative and packaging restrictions have been removed to facilitate agro exports.

9. Leather Sector

Leather sector shall be allowed re-export of unsold imported new hides and skins and semi-finished leather from public bonded warehouses, subject to payment of 50% of the applicable export duty.

Enhancement of FPS role to 2% would also benefit the leather sector.

10. Tea Sector

Export of tea has been covered under VKGUY scheme benefits. Minimum value addition under advance authorization scheme for export of tea has been reduced from existing 100% to 50% . DTA sale units from the existing 30% to 50% .

11. Pharmaceutical Sector

Pharma sector extensively covered under market linked FPS for countries in Africa and Latin America and some countries in Oceania and Far East. Export obligation period for advance authorization issued with 6-APA as input has been increased from the existing 6 months to 36 months as is available for other products.

12. Handloom Sector

To simplify claims under FPS, requirement of handloom mark for availing benefits under FPS, has been removed.

13. Automobile Sector

Automobile industry, having their own research & development establishment would be allowed free import of reference fuels up to a maximum of 5 KL per annum, which are not manufactured in India.

9.4 SPECIAL FOCUS INITIATIVES

The foreign trade policy (FTP) 2004-09 has identified certain thrust sectors having prospects for export expansion and potential for employment generation. This sector includes agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear sectors.

The following are the sector specific policy initiative for the thrust sectors.

(a) Agriculture

Agriculture sector promote the export, the following are some of the initiatives in the FTP 2004-09.

A new scheme called Vishesh Krishi Gram Udyog Yojana (Special Agricultural Produce Scheme) has been introduced to increase the export of fruits, vegetables, flowers, minor forest produce and their value added products. Under this scheme, exports of these products are eligible for duty free credit entitlement for importing inputs and other goods.

Agriculture sector is eligible for duty free import of capital goods under 'EPCG' scheme and is permitted anywhere in the agriculture export zone (AEZ).

The agriculture sector is permitted to utilize funds from the assistance of states of infrastructure developments of exports.

Liberalization of import of seeds, bulbs, tubers and plating material. The export of plant portions derivatives and extracts to promote export of medicinal plants and herbal products.

(b) Handlooms and Handicrafts Sector

The following are the special focus initiatives for promoting the export of handlooms and handicrafts sector, under [FTP 2004-09](#).

Extension of facilities like enhancing duty free import of trimmings and embellishments for handlooms and handicrafts.

Exemption of samples from countervailing duty. Authorizing handicraft export promotion council to import trimmings, embellishments and samples for small manufactures.

Establishment of a new handicraft special economic zone.

(c) Gems and Jewellery Sector

To promote the exports of gems and jewellery sector, the following are the initiative under [FTP 2004-09](#).

Permission for duty free import of consumables for metals other gold and platinum up to 2% for FOB value of exports.

Duty free re-import entitlement for rejected jewellery allowed up to 2% FOB value of exports.

Increase in duty free import of commercial samples of jewellery to Rs. 1 lakh.

Permission to import gold of 18 carat and above under the replenishment scheme.

(d) Leather and Footwear Sector

To promote the export of leather and footwear sector, the following are the special focus initiative under [FTP 2004-09](#).

Duty free import of trimming and embellishments up to 3% and 5% of the FOB value of exports, for duty free import of specified items.

Reduction in the incidence of customs duties on the inputs and on plant and machinery.

Import of machinery and equipment for effluent treatment plants for leather industry exempted from customs duty.

Re-export of unsuitable imported materials has been permitted.

In brief it is to be noted that the threshold limit of designated 'Towns Of Export Excellence' has been reduced from Rs. 1,000 crores to Rs. 2.50 crores, in the all the above thrust sectors.

CHECK YOUR PROGRESS:

1. Fill in the blanks:
 - a. In 2004, the government of India renamed the EXIM policy as ---

 - b. Under Focus product scheme -----new markets have been added.
 - c. Export of tea has been covered under ----- scheme benefits.
2. Define the following terms:

- a. Focus products
- b. Focus product scheme
- c. EXIM policy

9.5 TOWNS OF EXCELLENCE

In August 2006, 11 towns in the country have emerged as dynamic industrial clusters contributing significantly to India's exports, industrial clusters are given recognition as 'Towns Of Excellence' in order to maximize their export potential. They were given the status of 'Town of Excellence,'

These 11 towns are as follows:

1. Tirupur, Tamil Nadu for hosiery.
2. Karur, Tamil Nadu for handlooms.
3. Madurai, Tamil Nadu for handlooms.
4. Ludhiana, Punjab for woolen knitwear.
5. Panipat, Tamil Nadu for woolen blankets.
6. Kanoor, Kerala for handlooms.
7. Alleppey, Kerala for coir products.
8. Aroor, Ezhupunna, Kodanthuruthu & Kuthiathodu, (AEKK), Kerala for seafood.
9. Kekhra. U.P. for handlooms.
10. Dewas, M.P. for pharmaceuticals.
11. Jodhpur, Rajasthan for handicrafts.

In the foreign trade policy (FTP) 2004-09, the govt. of India announced the threshold limit of designated 'Town of Export Excellence'. The limit has been reduced from Rs. 1000 crores to Rs. 2.50 crore for the thrust sectors such as agriculture, handlooms, handicrafts, gems and jewellery, leather goods and marine products.

The towns of excellence get the benefit of ASIDE scheme for developing infrastructure in the industrial clusters. The units in the towns of excellence also get the facility of common service and EPCG scheme. They also get the benefit for MAI scheme for creating focused technology services.

In the foreign trade policy 2009-14 about 7 towns of export excellence are announced by the government

1. Jaipur for handicrafts
2. Srinagar for handicrafts
3. Anantnag for handicrafts

4. Kanpur for leather products
5. Dewas for leather products
6. Ambur for leather products
7. Mailhabad for horticultural products

9.6 ELIGIBILITY CRITERIA FOR STATUS HOLDERS EH/STH/TH/PTH/SEH

The eligibility for the grant of export/trading house/star trading house/super star trading house certificate is determined on the basis of average FOB value of physical or services exports. In 2007, the government of India re-named the star export houses as export houses/trading houses.

The following export organisation are eligible to claim status of export houses/trading houses

- Merchant and manufacturer exporters
- Service providers
- Export oriented units
- Units located in SEZ, Agri export zones
- Units located in electronic hardware technology parks, software technology parks
- Units located in Bio technology parks

Exporters with the following FOB value of exports over a period of four years of physical exports are considercal for registration as export TH/STH/SSTH.

status	Performance criteria
	Rs. crore
Export House	20
Star Export House	100
Trading House	500
Star Trading House	2500
Premier Trading House	10,000

For calculation of export performance, the following points are to be noted.

1. Double weightage would be considered for grant of star export house status in the following cases.

- (a) Manufacture exporters in SSI/Tiny sector/cottage units.
- (b) Units registered with KUICS/KVIBS.

- (c) Units located in north eastern states, Sikkim and Jemmu & Kashmir.
- (d) Units exporting handloom/handicrafts/hand knotted or silk carpets.
- (e) Exporters exporting to counties in Latin America/CIS/Sub-Saharan Africa.
- (f) Units having ISO 9000 series/ISO 14000 series.

2. Exports made on re-export basis shall not be counted for the purpose of recognition.

3. Exports made by a subsidiary of a limited co. shall be counted towards export performance of the limited company, only if the limited company has a majority shareholding in the subsidiary company.

4. In case the recognition is claimed based up on the current year's export performance, same shall be considered only in case the exporters have export performance during any of the preceding three years as well.

9.7 PRIVILEGES/BENEFITS/FACILITIES FOR STATUS HOLDERS

The government has provided the following benefits for EH/TH/STH/SSTH.

1. Special Licences

As per the EXIM policy 2002-07, the status holders are eligible for license/certificate/permission and customs clearance for both imports and exports on self declaration basis.

2. Relaxation of Foreign Exchange Norms

These status holders are allowed to retain 100% of foreign exchange in exchange earner's foreign currency account. They can open foreign offices or oppoint foreign representatives without obtaining prior permission of the reserve Bank Of India, provided that the expense on such offices or representatives is met from the from the foreign currency account maintained by them.

3. Duty Free Entitlement

Duty free entitlement is available to status holders under the following criteria.

- (a) It shall be 10% of the incremental growth in exports provided the incremental growth is more than 25% in FOB value of exports.
- (b) However, there should be a minimum export turnover of 25 crores Rs. This duty free entitlement can be used for import of capital goods, office equipments etc.

4. Market Development Assistance (MDA)

The status holders can claim financial assistance under MDA scheme for developing export markets. This assistance can be any where between 25% to 60% of the actual expenses incurred depending up on the individual case concerned.

5. Relaxation in Collection Period

Normal period given by RBI for realizing export proceeds from buyers is 180 days. But in case of status holders, it is enhanced from 180 days to 360 days.

6. Exemption of Compulsory Negotiations

The status holders are exempted from compulsory negotiation of documents through banks. In other words, they can send the documents directly to the customers. However, remittances would continue to be received through banks only.

7. Priority Fixation of Norms

The status holders enjoy the benefit of fixation of input-output norms on priority.

8. Trade Delegations

The representatives of status holder are given preference by the Govt. while selecting members of trade delegations to visit foreign countries.

9. Participation in decision-making

The government considered the views of these organizations in formulating foreign trade policies. Especially, SSTHs are offered membership of top consultative bodies of the government.

10. Benefit of Training

Status holders are given preference in respect of selections of participants for training programmes organized in India as well as abroad. Such participation is sponsored by the Govt. of India.

11. Golden Status Certificate

Exporters who have attained EH/TH/STH/SSTH status for three terms or more and continue to export are eligible for golden status certificate which would enable them to enjoy the benefit of status certificate irrespective of their actual performance thereafter, as per the guidelines issued in this regard from time to time.

12. Exemption from Pre-shipment inspection

Such status holders are exempt from the requirement for compulsory pre-shipment inspection as provided under the export Act, 1963.

13. Legal Undertakings

The status holders are allowed to submit legal undertakings instead of bank guarantees at the time of customs of their import consignments under different schemes as given in the EXIM policy.

9.8 FUNCTIONS OF EH/TH/STH/SSTH

The EH/TH/STH/SSTH undertakes a number of functions to promote exports. The main functions are as follows.

1. Exports of SSI Items

The EH/TH/STH/SSTHs encourage exports of small scale industries and cottage industries. To assist SS units and SS & cottage industries in exporting their goods in foreign markets. For this, financial and technical assistance is provided.

2. Product Development

To supply information and assist manufacturers in the product research and development activities so as to produce attractive and agreeable goods to buyers from target markets abroad.

3. Introduction of New Product

To market the products of small manufacturers in foreign markets and to introduce their new/promising products in suitable markets abroad.

4. Supply of Inputs

To supply raw materials, machinery and other inputs to their manufacturer suppliers so as to enable them to produce quality products which command market abroad.

5. Product Research

The status holders undertake product research and development. To supply useful information to their manufacturer suppliers. Such information relates to needs and expectations of foreign buyers, market trends abroad, product requirements and so on.

6. Risks Bearing

To undertake marketing risk credit risk in export trade transactions.

7. Arrangements for Forwarding Goods

To look after packaging, transportation, documentation and other formalities relating to assembling packing and forwarding goods to foreign in markets .

8. Providing Information Suggestions

To provided information and suggestions to Govt. authorities as regards measures for export promotion, problems of exporters,

deficiencies in the EXIM policy of the Govt. and suggestions for making export incentives and concessions more purposeful.

9. Managing Export Trade Formalities

To procure goods for exporting, finding out buyers abroad,. Making arrangement for shipment and collection of payment from foreign buyers .

9.9 NEGATIVE LIST OF EXPORTS

Negative list of exports contains those export items which are either banned or can not be freely exported. The negative list of exports consists of these parts.

- I) Prohibited Items**
- II) Restricted Items**
- III) Canalised Items**

I) Prohibited Items

The prohibited items are banned from exporting. The latest list of prohibited items as on 1st January, 1996 contains 10 items. There are us follows.

- (a) All forms of wild animals
- (b) Exotic birds
- (c) All items of plants
- (d) Human selection
- (e) Tallow of and animal's origin
- (f) Fat of any animal's origin
- (g) Oils of any animal's origin
- (h) Chemicals
- (i) Sandal wood items
- (j) Red sanders wood in any form

II) Restricted Items

The restricted items are allowed to be exported only with special licencing by the DGFT. At present, there are 31 items. Some of restricted export items are as follows.

- (a) Beche-de-mer of sizes below 3 inches.
- (b) Cattle
- (c) Camel
- (d) Chemical fertilizer and micronutrient fertilizers

- (e) Fabrics/textile items with imprints of excerpts or verses of the Holy Quran
- (f) Deoiled groundnut cakes
- (g) Fresh and frozen silver prmfrets of weight less than 300 gms.
- (h) Fur of domestic animals, excluding lamb fur skin
- (i) Fodder, including wheat and rice shraw
- (j) Hides and skins as mentioned in the policy

III) Canalised Items

This list contains those items which are to be exported only through designated canalized agencies. At present there are five items which are canalized. They are as follows

Items	Canalised Agency
(a) Petroleum Products	Indian oil corporation ltd.
(b) Gum karaya	The tribal co-operative marketing federation of India ltd (TRIFED)
(c) Mica waste and scrap	MMTC and MITCO
(d) Mineral ores and scrap concentrates	Indian rare earths ltd, Kerala minerals & metals ltd. and MOIL
(e) Nigar seeds	NAFED, TRIFED and 2 others

9.10 QUESTIONS FOR SELF-ASSESSMENT

1. Explain the highlights and implications of [FTP 2009-14](#)?
2. Discuss the eligibility criteria for status holders?
3. Explain the benefits of status holders?
4. What are the functions of status holders? Explain it?
5. Write short notes on –
 - (a) Special focus initiatives
 - (b) Towns of excellence
 - (c) Negative list of exports



10

EXPORT PRICING

Unit Structure

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Factors determining export prices
- 10.3 Basic data required for export pricing decisions
- 10.4 Marginal cost pricing
- 10.5 Export pricing strategies
- 10.6 Skimming pricing strategy
- 10.7 Penetration pricing strategy
- 10.8 Break even analysis
- 10.9 Export pricing quotations
- 10.10 Simple problems on FOB price
- 10.11 Summary
- 10.12 Questions for self-Assessment

10.0 OBJECTIVES

After studying the unit the students will be able;

- To describe the factors that determining export price.
- To know basic data required for export pricing decisions.
- To understand marginal cost pricing and export pricing strategies.
- To identify the break even point.
- To explain the different types of quotations.

10.1 INTRODUCTION

Price means the expression of value of utility of a commodity in terms of money. Price is the technique of determining such acceptable price at which the seller is willing to sell and the buyer is willing to buy the product.

In any export market, pricing and profitability are closely related as profit margin depends on the price fixed. Price fixed should be most reasonable. Some people consider price as value for money while others associate it with quality. An exporter must take all such perceptions into consideration while deciding the price.

Export pricing is also closely related to export promotion, since high prices go against export promotion, profit margin will be low if price is low but the demand will be more.

10.2 FACTORS DETERMINING EXPORT PRICES

10.2.1 INTERNAL FACTORS

1) Costs –

Cost is the most important factor to be considered in the process of price determination, since cost constitutes a major part of the price. The export price should include direct cost like raw material cost and indirect cost like distribution cost.

2) Objectives of the firm –

Internationally, pricing must consider costs, nature of markets and at the same time, it must be consistent with the firm's world wide objectives, such as profit maximization, market share, for example, if the objectives of a firm is to increase return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

3) Product –

The product plays an important role in fixing price. If a product is of superior quality, then a firm may either adopt premium strategy or high value strategy. In premium pricing, the firm would charge high price for high quality, and in the case of high value pricing, the firm would charge moderate price for high quality.

4) Image of the firm –

The firms enjoying a good image in the market may charge a higher price, as compared to those firms which do not enjoy reputation in the market. This is because; consumers have trust and confidence in the firms enjoying name and reputation in the market.

5) Promotional Activities –

Pricing is related to promotional activities. If a firm undertakes heavy advertising and sales promotion, then price planning must ensure that these promotional costs will be recovered, at least in the long term. It is often observed that highly advertised or promoted brands command high price as compared to lowly promoted brands.

6) Product life cycle –

The stage of a products life cycle affects pricing. For example, when a firm introduces a product in a competitive market, then it may charge a lower price to attract the customers. During the growth stage, a firm may increase the price, especially in a low competition market.

The marketer may also consider the probable length of the product's life cycle. If the probable length of the product's life is expected to be long, then lower price may be charged, as compared to the products with shorter life span.

10.2.2 EXTERNAL FACTORS:**1) Competition –**

Pricing decisions also depend upon competition in the export market. It is difficult to have monopolistic conditions in the international market. In competitive market the exporters have no control over pricing decisions. Price of a product is influenced by the competitive forces of the market.

2) Demand –

The prices in every market are directly related to the demand for products. The demand may be elastic or inelastic. Pricing depends on the degree of elasticity of demand. Highly elastic demand for a product tends to keep its price low, because a slight change in the price may cause considerable change in demand for such a product. In contrast, products having relatively inelastic demand can be quoted at comparatively higher prices.

3) Consumers-

The types of consumers for whom marketing efforts are made play an important role in export pricing. A product for young people or fashion oriented goods will carry a high price. Further the composition of the consumers in terms of their income and paying capacity play an important role in export pricing.

4) Economic conditions –

The economic conditions prevailing in the market must be considered while fixing prices. During the times of recession when consumers have less money to spend, the marketers may reduce

the price to influence buying decision of the consumers. However, during economic boom, the marketers may change a higher price.

5) Channel of distribution –

The marketer must consider the number of channel intermediaries and their expectations. The longer the chain of intermediaries would increase the price of the goods.

6) Market Opportunities -

The marketer may consider the market opportunities for growth. If the market promises long term growth prospects, then the marketer may consider fixing lower prices.

10.3 BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS

The calculation of cost depends on the availability of reliable data connected with exportable products, external markets and other marketing information. The details of information required for export pricing vary from product to product, market to market and firm to firm. An export firm needs the following information for pricing and costing.

- 1) Product cost –
 - a) Material
 - b) Labour
 - c) Factor overhead
 - d) Administrative overhead

- 2) Cost of Distribution –
 - a) Selling cost
 - b) Packing cost
 - c) Transportation cost
 - d) Insurance cost

- 3) Cost Relating to Exports
 - a) Product modification
 - b) Cost of documents
 - c) Export packing and marketing
 - d) Loading at factory
 - e) Transport to dock or airport
 - f) Handling charges and fees at port or airport.

- 4) Cost Estimates –
 - a) FOB, C & F or CIF
 - b) Sea freight or air freight

- c) Unloading charges at destination
 - d) Airport handling charges or fees
 - e) Import duty and taxes
 - f) Clearing agent's fees
 - g) Transport to importer's warehouses
 - h) Importer's margin
 - i) Wholesaler's and retailer's margin
- 5) Regulation in exporting country
- a) Floor price
 - b) Duty drawback scheme
 - c) Import replenishment
 - d) Income Tax
 - e) Railway freight concession
- 6) Regulation in importing country
- a) Import duty
 - b) Quota restrictions
 - c) Sources of supply (foreign or domestic)
 - d) Substitute products.
 - e) Complimentary products
 - f) Terms of payment
- 7) Other Relevant Data
- a) Customer's attitude towards prices and quality
 - b) Inventory of finished goods
 - c) Political restrictions on trade
 - d) Air or ship services
 - e) Business policy
 - f) Sales in units and rupees
 - g) Trade agreement –bilateral or multilateral.

10.4 MARGINAL COST PRICING

10.4.1 MEANING

This suggests allocation of fixed cost over a period of time and not in the short run. The export price should be as minimum as possible to compete in the export market. Expenses incurred for its domestic operations should be taken out from total export price. Exporter should recover fixed cost even from domestic market if export market is more competitive. Only variable costs should be recovered from export market. The rational behind this is that fixed costs don't change according to volume, variable costs change by volume of production marginal cost therefore move around variable

costs. This suggests that export price should be equal to marginal cost, which can fully recover variable costs. Any excess price of marginal cost should be attributed to fixed cost and the excess there of the profit.

10.4.2 ADVANTAGES OF MARGINAL COST PRICING:

The following are the advantages of marginal cost pricing.

1. Price may be used as a weapon to penetrate into the overseas market.
2. This method may be used as an alternative to face competition effectively.
3. Fixed costs and sometimes, variable costs are realized from the home market.
4. By fixing reasonably lower price, consumers from developing countries, with limited income, can be better attracted.

10.4.3 DISADVANTAGES OF MARGINAL COST PRICING:

The following are the disadvantages of marginal cost pricing.

- 1) When a price is fixed at reasonably lowest for the overseas market by reducing marginal costs, it becomes difficult to increase the price at a later stage when the total costs of production are increased.
- 2) This method of pricing is not at all advisable to a producer who mainly concentrates to export marketing.
- 3) The industry where the proportion of variable costs are on higher side, cannot afford to the marginal cost pricing.
- 4) The industry in which raw materials constitutes a large proportion of the total costs, also cannot afford to such pricing.

Marginal cost approach is suitable in the large home market and where the goods are manufactured for mass consumption.

10.5 EXPORT PRICING STRATEGIES

Pricing strategy refers to the basic policy adopted in respect of pricing in a given market situation. There are several pricing strategies. The exporter may adopt a particular strategy at the time of launching the product in the overseas market. The exporter has to adopt pricing strategies during the lifetime of the product. The exporter should constantly review the pricing strategy adopted by

his firm. If required, the exporter may switch over from one strategy to another.

The following are some of the important pricing strategies.

1) Skimming pricing strategy –

A high premium price is charged when a product is launched in the market. This strategy aims at high profit margins in the early stages of product introduction. The skimming pricing strategy can be of two types i.e. –

a) Rapid skimming pricing –

When high prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow skimming pricing –

Where high prices are charged, and there is limited promotional effort to promote the product.

2) Penetration pricing strategy –

A strategy of charging low prices in the early stages of product introduction in the market is called “Penetration Pricing Strategy”.

The objective is to launch a new product at a lower price to capture as large a share of the market as possible within a short time.

This strategy can be of two types.

a) Rapid Penetration pricing strategy

Where low prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow Penetration pricing strategy

Where low price is charged, and there is limited promotional expenditure to promote the product.

3) Probe pricing strategy

The exporter may fix a higher price in the export market during the early stages of product introduction. This is done to find out or probe the reaction of the buyers towards the price. The prices are then adjusted accordingly. The exporter may follow this technique, especially, when sufficient information is not available in respect of competitors pricing, purchasing power of the buyers, and so on.

4) Follow the Leader Pricing Strategy

Under this strategy, several exporters may fix the price very close to the price charged by the leading competitor in the market.

5) Differential Trade margins pricing strategy

The exporter may adopt differential trade margins pricing strategy. He may allow various types of discounts or trade margins. The various discounts that can be offered includes, quantity discounts on bulk orders, seasonal discounts during off season to push up sales, cash discounts to encourage prompt payments, goodwill discounts, trade discounts etc. the price are accordingly adjusted depending upon the type of discount offered.

6) Standard export pricing strategy

In this case, an exporter may charge the same price in all the foreign markets, i.e. developed as well as developing countries. The pricing is based an average unit cost.

7) Differential pricing strategy

Under this strategy different prices are charged in different markets. There can be differential pricing between two or more overseas markets.

8) Market pricing strategy

If identical or homogeneous products are already exiting in the market, the standard approach is market pricing. This means, based on the competitor's prices, the final price is determined and production and marketing functions both are adjusted to the price.

9) Transfer pricing strategy

Transfer pricing refers to the pricing of goods or services among subsidiaries within a corporation. This strategy s adopted by a MNC (Multinational Corporation). The subsidiaries of a MNC trade among themselves or with the parent firm. It seems that any price charged by a subsidiary to another subsidiary or to the parent firm is acceptable as the sales are undertaken within the corporation.

10) Trial Pricing

In this case, a firm may launch a new product with low pricing, for a limited period of time. The purpose is to win customer acceptance first and make profits later. Often, trial pricing is seen as an alternative to giving away samples of a product in order to make people to have a trial of the product.

11. Flexible- Price Strategy

In this case, a firm offers the same product and quantities to different customers at different prices. For example, when a new product is introduced, a firm may sell it at a special price to its loyal customers. A retailer may offer special price to frequent shopper as compared to other customers, who do not buy frequently from that store. The special price is a reward for customer's loyalty.

CHECK YOUR PROGRESS:

1. Fill in the blanks:
 - a. Price means the expression of value of utility of a commodity in terms of -----.
 - b. High prices are charged and limited promotional effort are done to promote the product it is called as -----
 - c. When different prices are charged in different markets it is called as -----.
 - d. When low prices are charged, and the product is promoted with heavy promotional expenditure it is called as -----.
 - e. In Marginal costing only ----- should be recovered from export market.

2. Define the following terms:
 - a. Trial pricing
 - b. Transfer pricing
 - c. Follow the leader pricing
 - d. Flexible pricing
 - e. Penetration pricing

3. Enlist the Internal factors determining the price.

10.6 SKIMMING PRICING STRATEGY

10.6.1 MEANING

A high premium price is charged when a product is launched in the market.

This strategy is suitable to those products that offer important benefits to the target audience, and that the target audience does not mind paying higher price. Secondly, for skimming pricing to be successful, there should be little chance for competitors to enter the market in a short period of time. This is possible in the case of highly technical and complex products.

10.6.2 ADVANTAGES OF SKIMMING PRICING STRATEGY**1. Higher Profits**

Higher prices fetch higher revenue, such higher revenue or profits can provide enough funds for financing big projects of international level.

2. Developmental Expenses

Higher profits in the initial stages can cover large developmental expenditure such as that of testing laboratory expenses, distribution network etc.

3. Demand Assessment

Normally if enough demand exists, it is easier to quote a higher price initially, then slowly lower it down up to a certain limit and again shoot it up once the market is satisfactorily captured.

4. Suitability

Skimming prices are essential in case of certain products which may become out of date due to changes in fashion, technology, etc. If the seller charges low prices initially and wait for rise in price at a later date, then he may not get enough revenue because of declining demand.

5. No Blocking of Funds

High prices do bring income and as such funds are not blocked. The exporter can use such funds in production and marketing activities.

6. Feasible for Short Term

Such prices are useful when the exporter wants to stay in the market only for a short period of time and not interested in the long run business in export markets.

7. Prestige Status

Only the higher class of the society can afford to pay high prices and as such it brings prestige status to the users.

8. Reflection of High Quality

High prices often reflect high quality of the product many-a-times, customers psychologically feel that high prices mean high quality.

10.6.3 DISADVANTAGES OF SKIMMING PRICING STRATEGY

1) Slower Turnover

High prices may prevent quick sales and as such it may result into slow turnover.

2) Growing Competition

High profit margin may attract new competitors into the market resulting into severe competition and price-cutting practices.

3) Customer Dissatisfaction

High prices may create the problem of brand loyalty. Repeat orders may not easily flow on account of customer dissatisfaction towards high prices.

4) Uncertainty of High Profit in the Long Run

Initially, when the product is introduced the profits may be safeguarded but soon the prices have to be lowered, thereby adversely affecting the overall profitability of the firm. Hence the strategy may not be feasible in the long run.

5) Not Useful for Products of Daily Use

Skimming price strategy may be advantageous only in the case of producers' goods and not for consumer goods of daily use.

10.7 PENETRATION PRICING STRATEGY

10.7.1 MEANING

A strategy of charging low prices in the early stages of product introduction in the market is called "Penetration Pricing Strategy".

The objectives in to launch a new product at a lower price to capture as large a share of the market as possible within a short time .

This strategy is suitable to those newly introduced products, which can generate a large volume of business.

10.7.2 ADVANTAGES OF PENETRATION PRICING STRATEGY

1. Quick Sales

This strategy enables the exporter to capture the market by quick sales. This is because of low price, many consumers may be induced to buy the products.

2. Brand Loyalty

It is possible to develop a strong brand loyalty in the market. Low price coupled with good quality attract repeat purchases from customers.

3. Economies of Large Scale

The exporter can get the benefit of substantial economies of large scale production and distribution of goods.

4. Less Competition

Competitors may not be tempted to enter into the market because of low profit margin.

5. Brand Leadership

This strategy helps the exporter in becoming a brand leader in the market because of lower competition and higher sales.

6. Long Term Strategy

Penetration strategy is useful in the long run as prices can be gradually increased considering the degree of competition.

7. Suitability

It is suitable to those product where there is a possibility of repeat purchases or where the seller is assured of large and long term market.

8. No Blocking of Funds

There may be no blocking of funds due to quick sales which will result in over all high income to the exporter.

10.7.3 DISADVANTAGES OF PENETRATION PRICING STRATEGY

1. Development expenses

Penetration policy is not helpful in recovering the initial developmental expenditure such as that on advertising campaign.

2. Consumers Doubts

Consumers may doubt the quality of goods as prices are low, because lower prices are associated with the quality.

3. Disadvantageous in Long Run

Generally it is easier to reduce the price but difficult to raise it as there is risk of customers switching their loyalty over brands in the market.

4. Prestige Status

Buyers may not have feeling of status in buying a product purchased by the masses and whose price is also considerably low.

5. Blocking of Funds

Exporter's funds may get blocked if there are no quick sales despite low prices.

6. Price Resistance

When consumers get used to lower prices, they will resist any future increase in price by the exporter.

7. Problem of Obsolescence

When a product loses share in the market, the exporter is forced to quit the market. This situation may arise when the product becomes out dated.

10.8 BREAK-EVEN ANALYSIS

10.8.1 MEANING

It is a technique commonly used in costing to analyse the cost-volume-profit relationship. Break even technique is concerned with finding out that level or point at which the sales will break-even (no profit or no loss).

The point or the level at which the sales break even is called "break even point:". The break even point is that point at which the firm's total sales revenue is equal to the cost of goods sold. The BEP can also be called as "No Profit, No Loss Point" because at this point there is neither profit nor loss to the firm. In other words, it can be said that it is the first or the starting point towards profit. Anything that is sold over and above BEP level of output indicates profit to the firm.

An export firm will break even when the total export revenue (FOB price plus Incentives) is equal to the total cost of goods sold, break even analysis is useful to exporters i.e. To decide the minimum quantity of goods to be sold in the export markets, and to fix the export price so as to recover the cost of goods sold.

10.8.2 FORMULA TO CALCULATE B.E.P.

$$\text{BEP} = \frac{\text{FC}}{\text{SP} - \text{VC}} \text{ OR } \frac{\text{FC}}{\text{C}}$$

Where, SP = Selling Price
 VC = Variable Cost
 FC = Fixed Cost
 C = Contribution (i.e. profit)

For example-

Fixed cost = Rs. 3,00,000

Variable cost = Rs. 5 per unit

Selling price = Rs. 10 per unit

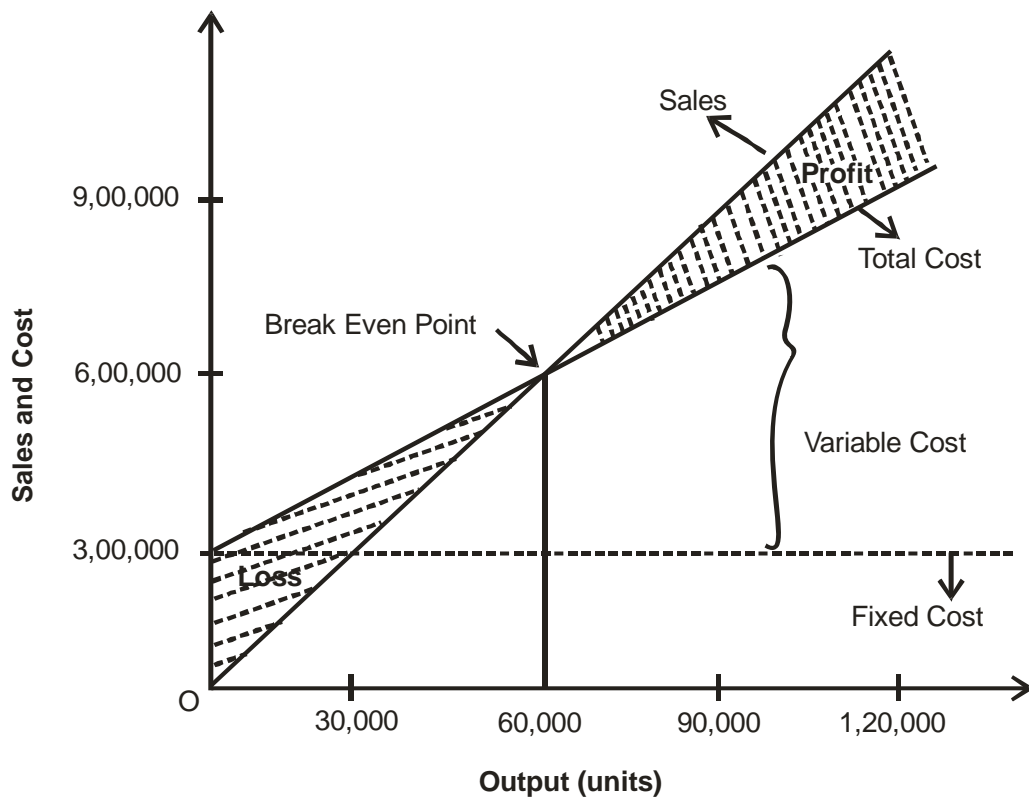
Production capacity – 1,50,000 units per year

Therefore

$$\text{BEP} = \frac{\text{FC}}{\text{SP} - \text{VC}}$$

$$\begin{aligned}
 &= \frac{3,00,000}{10-5} \\
 &= \frac{3,00,000}{5} \\
 &= 60,000 \text{ units}
 \end{aligned}$$

The break-even point can be illustrated in the following diagram



Thus, the firm will break even at 60,000 units. If the firm exports 40,000 units, it will not make any profit, but if it sells more than 60,000 units, it will make a profit.

10.9 EXPORT PRICING QUOTATIONS

10.9.1 MEANING

Quotation is an offer or proposal made by an exporter in reply to the enquiry from an importer. The quotation should clearly state the price and other terms and conditions. It may be in the form of a proforma invoice that gives a clear idea to the importer about the price to be paid by him in case the deal is struck. It also states

the terms of credit, delivery schedule, terms of payment and as to which party will bear the cost of freight, cost of insurance and in the absence of insurance, loss or damage to the goods in transit, if any

10.9.2 TYPES OF QUOTATIONS

The important types of quotations are as follows.

I) FOB (Free On Board) Quotation

Under FOB quotation, the seller quotes a price which includes all expenses incurred till the goods are actually loaded on board the ship. This means packing charges, local transport charges and dock dues are covered in the price quoted. Even the expected profit is included in the FOB price.

In short, FOB price can be summed up as follows

FOB price = cost of production + profit margin + expenses up to on board the ship - export incentives

Seller's obligations under FOB quotation

1. He has to load the goods on board the ship named by the buyer.
2. He has to obtain bill of lading from the shipping company and forward it to buyer to enable him to take delivery of goods.
3. He must inform the buyer certain details like the name of the ship and the possible date of delivery.
4. He has to arrange for the necessary space in the vessel.
5. He must inform the buyer without delay that the goods have been delivered on board the vessel of aircraft.

Buyer's Obligations under FOB Quotation.

1. He should inform the seller the name of the ship by which the goods are to be sent and also the expected date of delivery.
2. He has to bear the risk when goods are loaded on the ship.
3. He should make payment to the exporter as per the terms of contract.

Under FOB quotation the seller has no right of lien on goods and that of stoppage in transit, because the shipping company is deemed to be the agent of the buyer. As per the law, delivery to the buyer's agent is treated as delivery to the buyer himself.

II) C&F Quotation (Cost and Freight)

C&F means cost plus freight. The price quoted includes total cost of goods, packing, carriage, loading charges and the payment of freight up to the part of destination. The other expenses like cartage, unloading charges and expenses of carrying the goods from the part of delivery to the warehouse are to be borne by the importer. Insurance charges are also to be borne by the importer.

In short, C&F price can be summed up as-

$$\boxed{\text{C\&F price} = \text{F.O.B.} + \text{freight}}$$

Seller's obligations under C&F quotations.

In addition to the obligations mentioned under FOB quotation, the seller must pay freight charges to the shipping company the under takes to carry the goods form the part of shipment to the part of destination.

Buyer's obligations under C&F quotation.

1. He has to arrange and pay for insurance.
2. He has to pay clearing charges, import duties etc.
3. He has to make payment as per the commercial invoice.
4. He has to bear the loss or damage to the goods, if any, from the time and place at which the seller's obligations are over.

III) CIF (Cost Insurance and Freight) Quotation

CIF means cost, insuran and freight. It includes FOB price plus freight plus marine insurance up to the part of destination. In other words, CIF price includes cost of production and all other expenses till the goods reach the port of destination in the buyer's country. The unloading charges at the buyer's port, custom duties etc, are to be paid by the importer.

In short, CIF price can be summed up as-

$$\boxed{\text{CIF price} = \text{FOB price} + \text{Freight} + \text{Insurance}}$$

Seller's obligations under CIF quotation

In addition to the obligations mentioned under FOB quotation, the seller must pay for freight and insurance cover also.

Buyer's obligations under CIF quotation

1. He has to pay clearing charges, import duties etc.
2. He has make payment as per the commercial invoice.

10.10 SIMPLE PROBLEM ON FOB PRICE

1. Problem

Calculate the minimum FOB price which can be quoted by an exporter from the following details.

Ex-factory cost	Rs. 1,50,000
Packing cost	Rs. 3,000
Transport cost	Rs. 2,000

Profit contribution at 10% of FOB cost

Duty draw back at 5% of FOB price.

Solution

EX-factory cost	Rs. 1,50,000
Packing cost	Rs. 3,000
Transport cost	Rs. 2,000
FOB cost	1,55,000
Contribution towards profit 10%	15500
FOB Revenue	1,70,500

The amount of assistances will be considered as follows

Let minimum FOB price be Rs. x

Duty drawback at 5% of FOB price be = 0.05x

FOB price + Incentives = FOB cost + profit

$$x + 0.05x = 1,70,500$$

$$1.05x = 1,70,500$$

$$x = \frac{1,70,500}{1.05}$$

∴ minimum FOB is = Rs. 1,62,381

2. From the following data calculate the minimum FOB price which the exporter can quote

Ex-factory cost	Rs. 4,40,000
Expenses up to on board the ship	Rs. 40,000

Contribution towards profit 25% of FOB cost

Duty drawback 10% of FOB price

Solution

Ex-factory cost	Rs.4,40,000
-----------------	-------------

Expenses	Rs. 40,000
FOB cost	Rs.4,80,000
Contribution towards profit	Rs.1,20,000
FOB revenue	6,00,000

Now FOB price has to be lowered in proportion of assistances.

Let minimum FOB price be Rs. x

Duty drawback at 10% of FOB price be = 0.10 x

FOB price + DBK = FOB cost + profit

$$\begin{aligned} X + 0.10x &= 4,80,000 + 1,20,000 \\ 1.10x &= 6,00,000 \end{aligned}$$

$$x = \frac{6,00,000}{1.10}$$

$$= 5,45,454.54$$

∴ minimum FOB price which the exporter can quote is
= Rs. 5,45,455

3. Calculate minimum FOB price from the following particulars.

Ex-factory cost	Rs. 2,80,000
Packing cost	Rs. 5,000
Transport	Rs. 7,000
Contribution toward profit	Rs. 38,000

Duty drawback 10% of FOB price

Conversion rate 1\$ = 45

Solution

Ex-factory cost	Rs. 2,80,000
Packing cost	Rs. 5,000
Transport	Rs. 7,000
FOB cost	2,92,000
Contribution towards profit	38,000
FOB revenue	3,30,000

The amount of assistance will be considered as follows

Let minimum FOB price be Rs. x

Duty drawback at 10% of FOB price = Rs. 0.10

FOB price + DBK = FOB cost + profit

$$X + 0.10x = 2,92,000 + 38,000$$

$$1.10x = 3,30,000$$

$$x = \frac{3,00,000}{1.10}$$

$$X = 3,00,000$$

∴ minimum FOB price in \$ = 3,00,000/45
= \$.6,667

$$\frac{\text{FOB price}}{\text{Exchange rate}} = \frac{3,00,000}{45} = \$ 6,667$$

4. Problem

Calculate FOB price form the following particulars

Ex-factory cost	Rs. 22,000
Expenses up to board the ship	Rs. 2,000

Contribution towards profit 25% of FOB Cost/DBK 10% also calculate profit/loss if he accepts an offer of Rs. 28,000

Solution

Ex-factory cost	Rs. 22,000
Expenses up to board the ship	Rs. 2,000
FOB cost	Rs. 24,000
Add profit 25% on FOB cost	Rs. 6,000
FOB revenue	30,000

Let minimum price be Rs.x

DBK 10% of FOB price be 0.10x

FOB price + DBK = FOB cost + profit

$$X + 0.10x = 24,000 + 6,000$$

$$1.10x = 30,000$$

$$x = \frac{30,000}{1.10}$$

$$\therefore X = 27,272$$

Thus, minimum FOB price is Rs. 27,272

Check-

FOB price	Rs. 27,272
Drawback duty	Rs. 2,728
	Rs. 30,000

Calculation of profit/loss if an offer of Rs. 28,000 is accepted.

FOB price offer	Rs. 28,000
Drawback duty	Rs. 2,800
Total realization	Rs. 30,800

$$\begin{aligned} \text{Profit/loss} &= (\text{total realization}) - (\text{FOB cost}) \\ &= 30,800 - 24,000 \\ &= 6,800 \end{aligned}$$

Profit if an export offer of RS. 28,000 is acceptable = Rs. 6,800.

5. From the following data, calculate the FOB price .

Ex-factory cost	Rs. 28,000
Packing cost	Rs. 500
Transportation	Rs. 700
Contribution towards profit	Rs. 3,800

Duty drawback 10% FOB price
Conversion rate – 1 \$ = Rs. 45

Solution

Ex-factory cost	Rs. 28,000
Packing cost	Rs. 500
Transport cost	Rs. 700
FOB cost	Rs. 29,200
Contribution towards profit	Rs. 3,800
Fob revenue	Rs. 33,000

As the exporter is entitled for duty drawback, the minimum FOB price therefore has to be worked out as follows

Let minimum FOB price be Rs. x
Duty drawback at 10% of FOB price be = 0.10x

$$\begin{aligned} \text{FOB price} + \text{DBK} &= \text{FOB cost} + \text{profit} \\ X + 0.10x &= 29,200 + 3,800 \\ 1.10x &= 33,000 \end{aligned}$$

$$x = \frac{33,000}{1.10}$$

$$x = 30,000$$

$$x = 30,000$$

∴ minimum FOB price be Rx. 30,000

The amount of foreign exchange that can be earned if the

$$\text{Exchange rate is Rs. 45 per sterling} = \frac{\text{FOB price}}{\text{exchange rate}}$$

$$= \frac{30,000}{45} = 667$$

6. The following is the cost data of Hindustan expo ltd.

Ex-warehouse price	Rs. 15,000
Export packing expenses	Rs. 3,000
Transportation charges form to never docks	Rs. 1,000
Marine loading charges	Rs. 1,000

Profit contribution 10% FOB cost

Duty drawback 10%

Calculate minimum FOB price for the firm if 1\$ = Rs. 40

If marine freight is \$ 100, what is C&F price ?

Solution

Ex-warehouse price	Rs. 15,000
Export packing expenses	Rs. 3,000
Transport charges	Rs. 1,000
Marine loading charges	Rs. 1,000
FOB cost	Rs. 20,000
Profit contribute at 10% on FOB cost	Rs. 2,000
FOB revenue	Rs. 22,000

Calculation of minimum FOB price

Let minimum FOB price be Rs. x

DBK 10% of FOB price be = Rs. 0.10 x

FOB price + DBK = FOB cost + profit

$$X + 0.10x = 20,000 + 2,000$$

$$1.10x = 22,000$$

$$x = \frac{22,000}{1.10}$$

$$X = \text{Rs. } 20,000$$

i) minimum FOB price if 1\$ = R 40

$$= 20,000$$

$$= \$ 500$$

ii) $C\&F = FOB + \text{Freight}$

$$= \$ 600$$

10.11 SUMMARY

There are internal and external factors which determine the export price. Internal factors include cost, objectives of the firm, product, image of the firm, promotional activities, product life cycle etc. External factors include competition, demand, consumers, economic condition, channel of distribution, market opportunity etc.

While determining the cost some basic data has been required such as product cost, cost of distribution, export cost, cost estimates, regulations in export country and importing country etc.

Marginal cost pricing suggests that only variable costs should be recovered from export if the export is more competitive and the fixed costs can be recovered from the domestic market.

There are several export pricing strategies like Skimming strategy, Penetration strategy, Probe strategy, Follow the leader strategy, Differential trade margins strategy, Standard export strategy, Market strategy, Transfer strategy, Trial strategy, Flexible strategy.

Quotation is an offer or proposal made by an exporter in reply to the enquiry from an importer. Important types of quotation are FOB Quotation, C&F Quotation, CIF Quotation.

10.12 QUESTIONS FOR SELF-ASSESSMENT

1. Discuss the factors to be considered in export pricing?
2. What are the various items of cost included in export pricing?
Explain it ?
3. State the basic data required in export pricing?
4. Explain in brief the pricing strategies?
5. Write a short note on the FOB quotation?
6. Bring out the impact of incentives on pricing?
7. Write short notes on the following
 - a) Skimming pricing strategy

- b) Penetration pricing strategy
- c) Break even point analysis
- d) Marginal cost pricing



11

EXPORT FINANCE

Unit Structure

- 11.0 Objectives.
- 11.1 Introduction.
- 11.2 Meaning of export finance.
- 11.3 Pre-shipment Finance.
- 11.4 Post-shipment Finance.
- 11.5 Role of commercial banks.
- 11.6 Exim bank.
- 11.7 SIDBI.
- 11.8 ECGC.
- 11.9 Forfeiting scheme of EXIM bank.
- 11.10 Methods of payment/terms of payment.
- 11.11 Factors determining payment terms.
- 11.12 Letter of credit
- 11.13 Summary
- 11.14 Questions for self-assessment.

11.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the meaning and types of export finance.
- Explain the features of pre-shipment and post-shipment finance.
- Understand the role of commercial bank.

- Know about the EXIM bank, SIDBI, and ECGC and for forfeiting scheme of EXIM bank.
- Explain the method of payment and factors determining payment terms.
- Describe the letter of credit and its types, procedure and parties.

11.1 INTRODUCTION

Export finance broadly cover the study of the financial need and institutional framework to provide finance of export trade export credit institutions, foreign exchange implications, and the methods of securing payment of export proceed.

Exporter are provided with short term, medium term, and long term finance depending upon the type of goods to be exported and terms of payment offered to overseas buyers by the finance institutions.

11.2 MEANING OF EXPORT FINANCE

Exporter needs finance both at the pre-shipment stage and at the post shipment stage. The finance required to meet various expenses before shipment of goods is called as per-shipment finance or packing credit. The finance which is provided by banks after shipment of goods comes under post-shipment finance.

In India, financial institution like commercial banks SIDBI and EXIM bank are directly concerned with export financing. The reserve bank of India, is indirectly concerned with export financing, as it frames rules and regulations regarding terms and conditions of export finance to be followed by commercial banks and other financial institutions. The ECGC is also connected with export financing. It protects the exporters against risks of non-payment by the importer.

The exporter may require short, medium and long term finance. The short term finance is required to meet “Working Capital” needs. The working capital is used to meet regular and recurring needs of a business firm. The regular and recurring finance needs of a business firm refers to purchase of raw materials, payment of wages and salaries expenses like payment of rent, advertising etc.

The exporter may also require “Term Finance”. The term finance or term loans which is required for medium term and for long term .The term finance is required to finance fixed assets and long-term working capital needs.

11.3 PRE-SHIPMENT FINANCE

11.3.1 MEANING

Pre-shipment finance also popularly known as packing credit. It is an advance credit facility contained by an exporter from a bank or financial institution. The reserve bank of India defines it as “any loan to exporter for financing the purchase, processing, manufacturing or packing of goods’. Precisely, it is an interim advance provided by a bank for helping the exporter to purchase, process, and pack and ship the goods. Packing credit is working capital extended to an exporter.

11.3.2 FEATURES OF PRE-SHIPMENT FINANCE

The salient features of packing credit are as follows

1. Eligibility-

Packing credit is granted to those exporters who have export order or a letter of credit in their name from the foreign buyer.

An indirect exporter can also obtain packing credit if:

- a) He produces a letter from concerned export house or other concerned party stating that a portion of the export has been allotted in this favour.
- b) The export houses or other concerned party should also state that they don't wish to obtain packing credit for the same.

2. Purpose-

Packing credit is provided to the exporter to meet working capital requirements before shipment of goods such as payment of raw material, payment of wages etc.

3. Documentary Evidence-

Pre-shipment finance is granted against the evidence of irrevocable L/C confirmed order for export. The document of L/C confirmed order must be deposited with the lending institution.

4. Form of Finance-

Packing credit can be either in the form of funded or non-funded advance. Red Clause/Green clause L/Cs are the forms of

funded finance. Non-funded facilities include domestic L/Cs, back-to-back L/Cs and various guarantees.

5. Amount of Packing Credit-

The amount of packing credit depends on the amount of export order and credit rating of the exporters by the bank. The bank may also consider the export incentives receivable such as DBK, IPRS etc.

6. Period of Packing Credit-

It is normally granted for a period of 180 days. Further extension of 90 days is considered with the prior permission of RBI.

7. Rate of Interest-

Packing credit is provided at a concessional rate of interest. The difference in normal rate of interest and export finance rate of interest is reimbursed by RBI to banks.

8. Loan Agreement-

Before disbursement of loan, the banks require the exporter to execute a formal loan agreement.

9. Maintenance of Accounts-

As per RBI directives bank must maintain separate accounts in respect of each pre-shipment advance. However, running accounts are permitted in case of certain items produced in FTZs/EPZs and 100% EOUs.

10. Disbursement of loan-

Normally, pre-shipment finance advance not sanctioned in lump sum, but it is disbursed in a phased manner.

11. Monitoring The Use of Advance-

The bank advancing packing credit should monitor the use of pre-shipment finance by exporter i.e. whether the amount is used for export purpose or not penalty can be imposed for misuse.

12. Repayment-

The exporter is expected to liquidate or repay the amount of advance together with interest charge as soon as the export proceeds or incentives are realized.

11.4 POST-SHIPMENT OF FINANCE

11.4.1 MEANING

When an advance or a loan is needed by an Indian exporter after completing the process of shipment of goods, it is termed as "Post-shipment Finance". This finance is needed after making the shipment and before realization of payment from overseas buyers.

Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods.

11.4.2 FEATURES

The main features of post-shipment finances are as follows-

1. Eligibility-

This facility is available to the exporters who have actually shipped the goods or to an exporter in whose name the export documents are transferred.

2. Purpose-

Post-shipment finance provides working capital to the exporter from the date of shipment to the date of realization of export proceeds.

3. Documentary Evidence-

It is extended against the evidence of shipping documents indicating the compliance of actual shipment of goods or other necessary evidence in case of deemed and project exports.

4. Forms of Post-Shipment Finance-

Banks provide post-shipment finance under different forms such as discounting of export bills, advance against goods sent on consignment basis, advance against retention money etc.

5. Amount of Post-Shipment Credit-

The amount of post-shipment finance depends upon the working capital requirements of the exporter after shipment of goods.

6. Period of Post-Shipment Finance-

Short term loan is provided by commercial banks usually for 90 day. EXIM bank provide medium term finance for a period between 90 day and 5 years and long term loan provided by EXIM bank in case of export of capital goods and turnkey projects for a period between 5 years and 12 years.

7. Rate of Interest-

Post-shipment finance facility is granted at a concessional rate of interest, as compared to the rate of interest charged for domestic or local parties.

8. Loan Agreement-

The exporter is required to execute a formal loan agreement with the bank before the amount of loan is actually disbursed.

9. Maintenance of Accounts-

As per RBI directives, banks must maintain separate account in respect of each post-shipment advance. However, running accounts are permitted in case of units in SEZ/EPZ and 100% EOUs.

10. Disbursement of Loan Accounts-

Normally, post-shipment credit advances are not given in lump sums. It is disbursed in installments as and when required by the concerned exporter.

11. Monitoring the use of Advance-

The bank advancing post-shipment credit should monitor, the use of post-shipment credit by the exporter i.e. whether the amount is used for export purpose or not. Penalty can be imposed for misuse.

11.5 ROLE OF COMMERCIAL BANKS

The exporter is expected to repay the amount of loan to the bank as soon as he receives export proceeds. Generally, the lending bank itself realizes the export proceeds from the importer's banks.

Commercial banks provide a major part of export finance. They extend financial assistance both at pre-shipment as well as post-shipment levels to exporters not only on priority basis but also on liberal terms.

The directives of Reserve Bank of India under Exchange Control Regulation Act make it obligatory for payments of exports to be settled through the medium of a bank in India authorized to deal in foreign exchange. Commercial banks services are divided into

- (a) Fund Based Assistance (Financial Services)
- (b) Non-Fund Based Assistance (Non-Financial Assistance)

(a) FUND BASED ASSISTANCE

The commercial banks provide fund based activities at pre-shipment stage and post-shipment stage.

(i) Pre-Shipment Stage

The commercial banks provide finance on short terms basis for a normal period of 180 days at a very concessional rate of interest. The various forms of advance are cash packing credit loan, advance against hypothecation, advance against pledge etc.

(ii) Post-Shipment Stage

The commercial banks provide finance at the post-shipment stage normally for a period of 90 days at a concessional rate of interest. The various forms of post-shipment finance are negotiation of bills drawn under LC, purchase/discounting of bills, overdraft against bills under connection etc.

(b) NON-FUND BASED ASSISTANCE

(I) Banks Guarantees

Banks are authorized to issue guarantees and furnish bid bonds in favour of overseas buyers. The various guarantees issued by banks are-

- 1. Bid Bonds** – Banks issue bid bonds to enable exporters to participate and quote price in various global tenders.
- 2. Preference Guarantee** – It is required in case of export of capital goods and turnkey projects and construction contracts.
- 3. Advance Payment Guarantee** – The banks also issue advance payment guarantee to the overseas buyer who normally makes certain advance payment to the Indian exporter against a bank guarantee.
- 4. Guarantee for Payment of Retention Money** – Banks issue a guarantee for payment of retention money by the overseas party

who would release the retention money to the Indian party only after receiving guarantee from bank.

5. Guarantee for Foreign Currency Loans – It is sanctioned by financial institution abroad to Indian exporters who raise funds to finance their projects abroad.

(ii) Credit Rating of Importers

Banks undertake credit rating of importers on request from exporters. They collect important information about their credit worthiness and supply the same to the exporters.

(iii) Information about Foreign Exchange

Banks also provide information on the exchange rates of various countries.

(iv) Dollar Account

Commercial banks provide services to their clients by opening 25% dollar account. Under this account, an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India; these accounts help exporters to meet payment in foreign currencies.

(v) Invoicing in a Foreign Currency

Sometimes a buyer insists for invoicing in a foreign currency which is generally suitable to him. Banks provide necessary information on this matter, such as whether the said currency is marketable or not, if the contract is not for major currencies.

(vi) Confirmation of Letter of Credit

Banks also undertake the job of advising and confirming of L/C opened by importers.

(vii) Forward Exchange Contracts

Banks cover the risks of fluctuations in foreign exchange rates by fixing the rate in advance for future transactions. Such rates are known as forward exchange rates.

(viii) Currency for Invoicing Services

Banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their release.

11.6 EXPORT-IMPORT BANK OF INDIA (EXIM BANK)

11.6.1 MEANING

The EXIM bank of India is a public sector financial institution established on 1st January, 1982. It started operating from 1st march, 1982. It was established by an Act of Parliament, for the purpose of financing, facilitating and promoting foreign trade. It is also the principal financial institution for coordinating the working of institutions engaged in financing India's foreign trade.

This bank was mainly created for the purpose of financing medium and long term loans to exporters there by promoting the country's foreign trade.

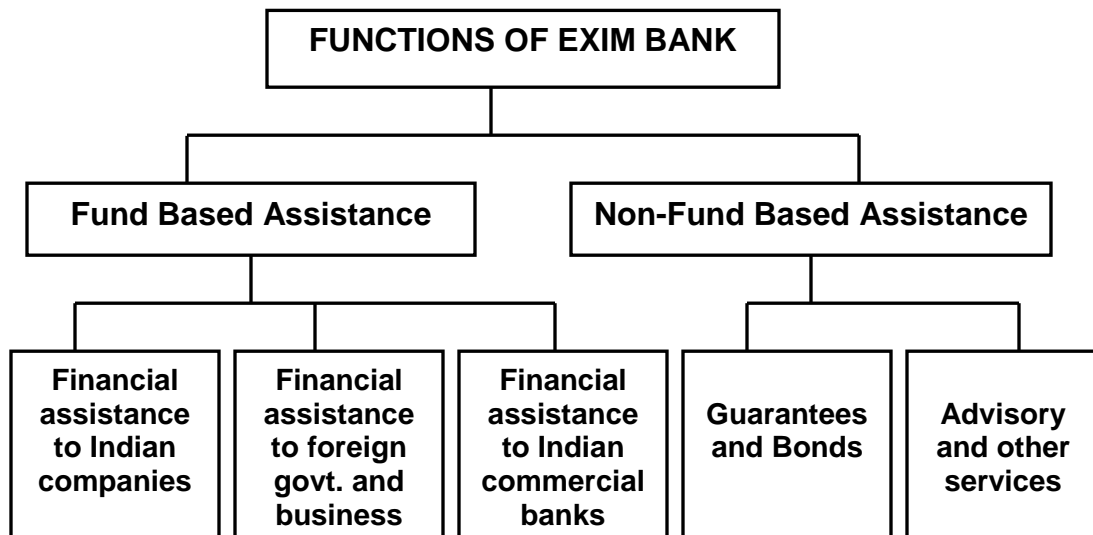
11.6.2 OBJECTIVES OF EXIM BANK

The main objectives and purposes of EXIM bank are as follows

1. Financing of export and imports of goods and services not only of India but also of third world countries.
2. Financing of joint ventures in foreign countries.
3. Financing of Indian manufactured goods, consultancy and technological services of deferred payment terms.
4. Financing R&D and techno-economic study.
5. Co-financing global and regional development agencies.

11.6.3 FUNCTIONS OF EXIM BANK

The assistances offered by EXIM bank to the exporters can be grouped under the following three categories.



i) FUND BASED ASSISTANCE

EXIM bank provides direct loans to exporters, refinance, overseas buyers' credit, foreign lines of credit, overseas investment finance and pre-shipment credit. EXIM bank re-discounts export bills, and extends re-lending facility to banks abroad. It renders technology and consultancy services.

EXIM bank provides term finance for export oriented units. It assists programme. It assists SSI who are exporting by its bill re discounting programme. It also has on 'agency credit line' with IFC. It refinances exports of computer software.

Fund based assistance is divided in to three broad groups. These are as follows.

1. Financial Assistance to Indian Companies

EXIM bank provides loans to Indian exporters in the following manner

- (a) Financial assistance on deferred payment terms.
- (b) Consultancy & Technology services.
- (c) Pre-shipment credit.
- (d) Facilities for export oriented units.
- (e) Facilities for deemed export.
- (f) Overseas investment financing.

2. Financial Assistance to Foreign Government and Business Firms

EXIM bank also provides loans to foreign governments, companies and financial institutions in the following ways.

- (a) Overseas buyers credit
- (b) Lines of credit to foreign governments.
- (c) Relending facility to banks overseas.

3. Financial Assistance to Indian Commercial Banks

EXIM bank provides loans to Indian commercial banks as shown below.

- (a) Export bills rediscounting
- (b) Refinance of export credit

ii) NON-FUND BASED ASSISTANCES

Non-fund based assistances provides cover assistance, retent on money, guarantees etc,

1. Guarantees and Bonds

EXIM bank provides non-fund based assistance in the form of guarantees in the nature of bid bonds, performance guarantee etc. These guarantees are provided together with commercial banks.

2. Advisory and Other Services

EXIM bank adviser Indian companies, in executing contract abroad, and on sources of overseas financing. It advises Indian exporters on global exchange control practices. EXIM bank offers financial and advisory services to Indian construction projects abroad; it advises small scale manufacturers on export markets and product areas. EXIM bank provides access to euro financing sources and global credit sources to Indian exporters. It assists the exporters under forfeiting scheme.

EXIM bank also provides advisory services relating to marketing research, merchant banking, foreign exchange, risk syndication, dissemination of information through publications.

CHECK YOUR PROGRESS:

1. Fill in the blanks:
 - a. Pre-shipment finance popularly known as -----.
 - b. EXIM Bank was established by an Act -----.
 - c. Post-shipment finance is provided to meet working capital requirements after -----.
 - d. Commercial banks services are divided into two categories as; -----and-----
2. Define the following terms:
 - a. Pre-shipment finance
 - b. Post-shipment finance
 - c. Fund Based Assistance
 - d. Non-Fund Based Assistance
3. Enlist the features of Pre-shipment finance.
4. Draw the chart showing functions of EXIM Bank.

11.7 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

11.7.1 MEANING

Small industries development bank of India (SIDBI) was established in April, 1990 under an act of parliament, the Small Industries Development Bank of India Act, 1989, as a wholly owned subsidiary of Industrial Development Bank of India, the premier development bank in the country.

11.7.2 OBJECTIVES

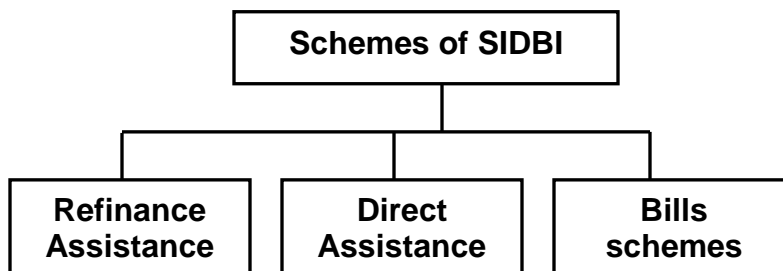
The main objectives of SIDBI are as follows

- (a) To serve as the principal financial institution for promotion, financing and development of small scale sector.
- (b) To coordinate the functions of the institutions engaged in promoting, financing of developing small scale sector.

11.7.3 FUNCTIONS

The main functions of SIDBI are as follows-

SIDBI provides various schemes for the promotion, finance and development of units in the small scale sector and in the tiny sector. The various schemes are broadly classified into three groups.



I) REFINANCE ASSISTANCE

1) Seed capital scheme

SFCS/SIDCS provide seed capital to promoters of SSI units. The SFC/SIDC can then obtain refinance from SIDBI. This scheme enables the entrepreneurs to meet promoter's contribution towards equity.

2) Equipment Refinance Scheme

SFVS/SIDCS provide equipment refinance to SSI units to purchase equipment for the purpose of expansion and modernization. The SFC/SIDC can then obtain refinance from SIDBI, if so required.

3) Tourism Related Finance Scheme

SFCS/SIDCS provide finance to entrepreneurs foresting up tourism related activities, such as development of amusement parks, cultural centers, restaurants, etc. The SFC/SIDC can then obtain refinance from SIDBI.

II) DIRECT ASSISTANCE

1) Project Finance Scheme

SIDBI provides direct finance to SSI units for setting up new projects. Preference is given to those units with export orientation, import substitution, hitech and those promoted by entrepreneurs with good track record.

The project cost should not be less than Rs. 75 lakh and the debt equity ratio not to exceed 2:1

2) ISO 9000 Scheme

SIDBI provides direct finance to obtain ISO 9000 certification. The objectives are to promote quality systems in SSI units, with a view to strengthen their marketing and export capabilities.

3) Equipment finance Scheme

SIDBI provides direct finance to SSI units for the purchase of equipment, required for the purpose of expansion and modernization.

III) BILLS SCHEMES

1) Direct Discounting Scheme (DDS)

SIDBI directly discounts bills regarding sale of equipments where period of bill is 5 years and minimum transaction is Rs. 1 lakh. The same scheme is applicable in sale of components where period of bill does not exceed 90 days.

2) Bills Rediscounting Scheme (BRS)

Under the scheme, SIDBI rediscounting the bills which were earlier discounted by commercial banks.

11.8 EXPOR CREDIT GUARANTEE CORPORATION OF INDIA LTD. (ECGC)

11.8.1 MEANING

In order to provide export credit and insurance support to Indian exporters, the GOI has set up the export risk insurance corporation (ERIC) in July, 1957. It is now known as ECGC of India Ltd.

ECGC is a company wholly owned by the GOI. It functions under the administrative control of the ministry of commerce and is managed by a board of directors representing government, banking, insurance, trade and industry.

11.8.2 OBJECTIVES

The main objectives of ECGC are as follows

1. ECGC is designed to protect exporters from the consequences of payment risks both political and commercial.
2. It helps exporters to expand their overseas business without fear of loss.
3. It enables exporters to get timely and liberal/bank finance.
4. It provides to banks financial guarantees to safe guard their interests.
5. It enables exporters and importers to take calculated risks in business.

11.8.3 FUNCTIONS

1. It helps exporters in obtaining financial assistance from commercial banks and other financial institutions on the strength of its policies and guarantee.
2. It helps in collecting and disseminating information regarding credit worthiness of overseas buyers.
3. It helps in developing and diversifying exports.
4. It insures the exporters against credit risks and guarantees payments.
5. It charges lower rates of premium to enable exporters to effectively compete in international markets.
6. It provides risk coverage against political and commercial risks.

7. It provides services which are not available from commercial insurance companies.

11.8.4 POLICIES ISSUED BY THE ECGC

ECGC issues various policies and guarantees which are as follows

1) Standard Policies

Standard policies issued to exporters to protect them against payment risks involved in exports on short term credit.

2) Specific Policies

Specific policies designed to protect Indian firms against payment risk involved in (a) Exports on deferred terms of payment (b) Services rendered to foreign parties, and (c) Construction works and turnkey projects undertaken abroad.

3) Financial Guarantees

Financial guarantees issued to banks in India to protect them from risks of loss involved in their extending financial support to exporters at pre-shipment and post-shipment stages.

4) Special Scheme

Special schemes such as transfer guarantee mean to protect banks which add confirmation to letters of credit opened by foreign banks, insurance cover for buyer's credit.

11.9 FORFEITING SCHEME OF EXIM BANK

11.9.1 MEANING

The word 'Forfeiting' is derived from the French word "Forfait" which means "Surrender of rights". It is the non-recourse discounting of export receivables. In a forfeiting transaction, the exporter surrenders, without recourse to him, his right to claim payment of goods delivered to the importer. This is in return for immediate cash payment from the forfeiter. As a result of this, an Indian exporter can convert credit sale unit cash sale.

11.9.2 ROLE OF EXIM BANK IN FORFEITING

The EXIM bank is authorized by the RBI since February, 1992, to facilitate export financing through forfeiting. The EXIM bank acts as intermediary between an Indian exporter and a

forfeiting agency abroad. Forfeiting is a mechanism of financing exports in the following ways.

- a) By discounting export receivables (bills)
- b) Exports evidenced by bills of exchange or promissory notes.
- c) 'Without recourse' to the exporter.
- d) Bills having medium to long term maturities.
- e) Discounting at fixed rate of discount.
- f) Financing up to 100% of the contract value.

11.9.3 BENEFITS OF FOREAITING SCHEME TO THE EXPORTER

1. The exporter can improve his liquidity position as the credit sales are converted into a cash transaction.
2. There are no chances of commercial risks as the exporter forfeits his right to receive payment without recourse to him, to the forfeiting agency. The exporter need not face the problem of political risks.
3. The exporter can obtain finance up to 100% of the export value.
4. Forfeiting does away with the export credit insurance.
5. Export is free from the burden of credit administration and collection problem of export proceeds.

11.9.4 PROCEDURE INVOLVED IN FORFEITING SCHEME

The procedure involved in the forfeiting scheme is as follows

1. Negotiations with Overseas Buyer

The exporter negotiates with the prospective buyer with respect to the basic contract price and terms of credit such as period of credit, rate of interest etc.

2. Obtaining Indicative Discounting Quote

The exporter submits to the EXIM bank the relevant details such as the name and country of the overseas buyer, nature of goods to be exported, terms of credit and name and address of the buyer's bankers. He then requests the EXIM bank for an indicative discounting quote. The EXIM bank obtains from the overseas forfeiting agency the indicative quote of forfeiting discount together with the commitment fee and other charges.

3. Finalising the Contract

On receipt of the indicative quote from the forfeiting agency, the exporter finalises the terms of contract with the overseas buyer.

4. Obtaining Firm Forfeiting Quote

On receipt of the indicative quote from the EXIM bank, the exporter has to finalise the terms of contract with the overseas buyer and then approach the EXIM bank of obtaining a final quote.

5. Obtaining Availed Promissory Notes/Bills of Exchange

The exporter requests the importer to issue availed (guaranteed by a bank) promissory notes in his favour. The promissory notes are endorsed with the words. "Without recourse" by the exporter. Alternatively the exporter may draw bills of exchange on the importer. The bills are sent along with the shipping documents through the buyer's bankers for acceptance.

6. Submission of Notes/Bills of EXIM Bank

The exporter hands over the availed promissory notes or accepted bills of exchange to his bankers. The bankers in turn hands them over to the EXIM bank.

7. Forwarding of Notes/Bills to forfeiting agency

The EXIM bank verified the promissory note or bills and then forwards it to the forfeiting agency for discounting purpose.

8. Collection of Amount

The EXIM bank then makes arrangement to collect the discounted proceeds of promissory notes or bills from the overseas forfeiting agency. The EXIM bank then credits the proceeds to the exporter through his bankers.

On the due of the promissory notes/bills the forfeiting agency makes arrangement to realize the payment from the overseas buyer.

11.10 METHODS OF PAYMENT/TERMS OF PAYMENT

11.10.1 INTRODUCTION

There are different methods of payments in export trade. The mode and manner of payment are decided by the parties to a foreign trade transaction. Banks play the most important role in this

regard. The seller has to make sure that the sales proceed is credited in his account with in 180 days from the date of shipment of goods.

11.10.2 METHODS OF SECURING PAYMENTS IN AN EXPORT TRADE

There are several methods of securing payment of export proceeds, some of which are as follows

1) Open Account

Open account is also called trade credit. Under this method, there is an understanding between the seller and the buyer on the terms of credit and rate of interest on the outstanding amount. This facility is extended by the seller to his overseas buyer only when he is confident of the buyers' integrity to honour his commitments.

An advantage of this method is that the seller is relived of the botheration of drawing and discounting bills of exchange. But it can be adopted only when the parties are well known to each other and there are cross dealings between them so that the accounts are at least partly squared up.

2) Advance Payment

Under advance payment, the buyer is supposed to make the payment in advance. If this term of payment is offered, there is absolute safety of getting payment. This method may work when the buyer is completely dominated by the exporter and the buyer is interested in getting the goods. It is customary on the part of the exporter to demand a certain percentage of the value of goods in advance especially when the goods manufactured are against certain specifications of the buyer.

3. Payment against Shipment on Consignment

The exporter supplies the goods to the overseas consignee or agent, without actually giving up the title. Payment is made only when the goods are ultimately sold by the overseas consignee to other parties.

This method is costly, because of commission to be paid to the consignee, apart from other charges and at the same time it is very risk. The consignee may return the goods back if remained unsold and even the consignee may not clear off the dues in time. The price to be realized also uncertain as it depends on market conditions in the buyer's country.

However, this method offers an advantage to the buyer as the buyer can examine the goods before purchasing and the seller may get a higher price if the buyer is satisfied about the quality.

In India prior approval is required to be taken from the exchange control department of RBI for shipment on consignment basis.

4. Documentary Bills

When relevant documents of the title of the goods are also sent along with the foreign bill of exchange it is called documentary bill. Which are of two types i.e. (a) Documents Against Payments (D/P) and (b) Documents Against Acceptance (D/A).

(a) Documents against Payment (D/A)

The documents are released to the importer against payment this method indicates that the payment is made against sight draft. Necessary arrangements will have to be made to store the goods, if a delay in payment

(b) Documents Against Acceptance (D/A)

The documents are released against acceptance of the time draft i.e. credit is allowed for a certain period, say 90 days. However, the exporter need not wait for payment till the bill is met on due date, as he can discount the bill the negotiating bank and can avail of funds immediately after shipment of goods.

5. Letter of Credit (L/C)

When the exporter draws a bill of exchange on the importer he faces the risk of violation of the contract by the importer. A superior method of settlement of debt for the exporter is that if he exports the goods as per the contract and produces evidence to that effect, he would receive payment without default.

Letter of credit is an authorization issued by the opening bank to the negotiation banks that if the exporter presents the relevant set of documents, make the payment.

Letter of credit defined as “an undertaking by importer’s bank stating that payment will be made to the exporter if the required documents are presented to the bank within the validity of the letter of credit”.

CHECK YOUR PROGRESS

1. Define the following terms:

- a. Letter of credit
- b. Open account
- c. Forfeiting scheme

11.11 FACTORS DETERMINING PAYMENT TERMS

The following factors may affect the methods of payment or payment terms subject to conditions of RBI.

1) Nature of Product

The terms of credit or the method of payment depends upon the nature of goods. For example, perishable goods would not justify a longer credit term. In case of capital goods the exporter may allow “deferred payment terms”.

2) Credit Worthiness of the Buyer

The method of payment may also depend on the creditworthiness of the buyer. If the importer enjoys a sound creditworthiness, then the exporter may accept the method of “Documents Against Acceptance”.

3) Economic Situation in the Importer’s Country

If the economic conditions are poor in the importer’s country, then the exporter may not like to offer longer period terms.

4) Size of the Order

The exporter also has to consider the size of the order. If the order is substantial, then the exporter may receive the money in installment, and as such longer credit period can be given. The exporter may agree to “Documents Against Acceptance” method.

5) Competitors Credit Terms

The exporters also have to find out the credit terms offered by the competitors. If they allow a longer period of credit, the exporter may also follow the same.

6) Financial Position of the Exporter

If the exporter’s financial position is sound, the exporter may offer a longer credit term to the importer.

7) Exchange and Import Controls in the Importing Country

The exporter has to find out whether the importer has complied with the exchange and import controls. If there are no problems in respect of exchange and import controls, exporter may give a longer credit period.

8) Relations

The exporter may consider trading relations with the importer. If the exporter has good relations, then he may provide longer credit terms.

11.12 LETTER OF CREDIT

11.12.1 MEANING

Letter of credit has become the most popular form in recent times. As it is more secured as compared to other methods of payments.

Letter of credit is an authorization issued by the opening bank to the negotiation bank that if the exporter presents the relevant set of documents, make the payment.

11.12.2 PROCEDURE FOR OPENING LETTER OF CREDIT

The following are the steps in the process of opening of a letter of credit.

1) Exporter's Request

The exporter requests the importer to issue L/C in his favour. L/C is the most secured form of the payment in foreign trade.

2) Importer's Request to his Bank

The importer requests his bank to open a L/C. He may either pay the amount of credit in advance or may request the bank to open credit in his current account with the bank.

3) Issue of L/C

The issuing bank issues the L/C and forwards it to its correspondent bank with a request to inform the beneficiary that the L/C has been opened. The issuing bank may also request the

advising bank to add its confirmation to the L/C, if so required by the beneficiary.

4) Receipt of L/C

The exporter takes in his possession the L/C. He should see to it that the L/C is confirmed

5) Shipment of Goods

Then the exporter supplies the goods and presents the full set of documents along with the draft to the negotiating bank.

6) Scrutiny of Documents

The negotiating bank then scrutinizes the documents and if they are in order makes the payment to the exporter.

7) Realisation of payment

The issuing bank will reimburse the amount (which is paid to the exporter) to the negotiating bank.

8) Documents to importer

The issuing bank in turn presents the documents to the importer and debits his account for the corresponding amount.

11.12.3 PARTIES INVOLVED IN LETTER OF CREDIT

The following parties involved in L/C are as follows

1) Opener

The importer or the buyer at whose instance and whose behalf the letter of credit is opened.

2) Beneficiary

The seller or the exporter who is entitled to receive payment under the L/C.

3) Opening/Issuing Bank

The importer's bank which opens the L/C.

4) Negotiating Bank

This is the exporter bank in his country expressly nominated by the opening bank to make payment to the beneficiary on fulfillment of terms and conditions stipulated in the L/C.

5) Advising Bank

This is the foreign correspondent of the opening or issuing bank which advises the letter of credit to the seller duly authenticated otherwise.

6) Confirming Bank

Bank in exporter's country which guarantees the credit on the request of the opening bank.

11.12.4 TYPES OF LETTER OF CREDIT

There are several types of letter of credit, which are stated as follows.

1. Revocable L/C

Revocable L/C is one which can be cancelled or modified at any time without notice to the beneficiary. In this type of L/C, the issuing bank reserves the right to withdraw, cancel or modify the credit, at any time. It might be revoked before the goods are dispatched.

The major weakness of revocable L/C is that it may be cancelled or modified without prior permission of the beneficiary by the issuing bank. This type of L/C is not very popular.

2. Irrevocable L/C

This type of L/C is preferred to revocable letter of credit. In this type, once the L/C is accepted by the exporter, it can not be cancelled or modified by the buyer or issuing bank without prior permission of the beneficiary and other parties involved such as confirming bank. Exporters normally insist on irrevocable letter of credit because it does not have the inherent weakness of revocable letter of credit.

3. Confirmed L/C

When it is necessary for an irrevocable credit to be confirmed for the beneficiary by another bank, arranging bank adds its confirmation on receiving necessary authorization from the issuing bank, it binds itself to negotiate documents there under.

4. Unconfirmed L/C

As the name indicates, Unconfirmed L/C is one to which confirmation is not added by the advising bank. Therefore, the bank does not accept the liability to make payment. The risk of non-payment is high.

5. With Recourse L/C

In this type, the exporter is held liable to the paying/negotiating bank, if the draft/bill drawn against L/C is not honored by the importer issuing bank. The negotiating bank can make the exporter to pay the amount along with the interest, which it has already paid to the beneficiary.

6. Without Recourse L/C

It is popularly known as sans recourse L/C. This L/C is without the condition. In case the bill is not honoured by the importer and the negotiating bank has already paid to the exporter, the negotiating bank cannot ask the exporter, to refund the amount. The negotiating bank can take recourse to the opening bank and the opening bank can demand money from the importer. This is generally an irrevocable L/C which projects the interests of the exporter. Hence an irrevocable, Without recourse and confirmed L/C is the most secured L/C.

7. Revolving Letter of Credit

The importer opens a L/C with substantial amount for a specific period in favour of the exporter. The exporter can make one or more shipments and withdraw payment against the original L/C. when the amount and restores the balance. This L/C is suitable when there is regular flow of trade activities between the importer and exporter.

8. Transferable L/C

A transferable L/C is one which contains an express provision that the benefits under it may be transferred either fully or partly to one or more parties. In our country, such L/C can be transferred only once and that too within the country.

9. Red Clause L/C

It is a special clause incorporated in red ink in the documentary credit, which authorizes the negotiating bank to grant advances, on the receipt of full set of shipping documents. The

exporter receives payments from his bank on the submission of shipping documents.

10. Back-to –Back L/C

It is a domestic L/C. It is an ancillary credit created by a bank based on a confirmed export L/C received by the direct exporters. The direct exporter keeps the original L/C with the negotiating or some other bank in India, as a security, and obtains another L/C in favour of domestic supplier. Through this route the domestic supplier gains direct access to a pre-shipment loan based on the receipt of domestic or back-to-back L/C.

11. Traveller's L/C

This type of L/C is issued to a person who plans to visit foreign countries. Up to the amount mentioned in L/C, the person can draw cheques which the banks will honour. It is of great convenience for the person because he can draw several cheques up to the amount mentioned in L/C.

12. Clean L/C

A clean L/C is one in which payment is made to the beneficiary against a clean draft. The bank does not put any condition as regards to the acceptance and payment of bills.

13. Stand by L/C

This type of L/C differs from other types in that the buyer and seller hope it will never be drawn upon. They are often used as security for open account trading where the seller requires some kind of 'back-up' in the event of the buyer not paying for the goods. They normally require the issuing bank to make payment to the seller upon presentation of documents evidencing non-payment by the importer.

They are also commonly used in some countries as a substitute for a bank guarantee which, due to the regulations in that country, is not generally acceptable.

14. Documentary L/C

Most of the L/Cs are documentary L/Cs. Payment is being made by the bank against delivery of the full set of documents as laid down by the terms of credit. The important documents required

To be submitted by the exporter under documentary L/C.

15. Green Clause L/C

The green clause L/C addition to permitting packing credit advance also provides for the storing facilities at the part of shipment. Green L/Cs are extensively used in Australian wool credits.

16. Fixed L/C

A fixed L/C is one which is issued for a fixed period and fixed amount. The exporter can draw the bills up to the given amount within the given period, the L/C stands terminated when the amount is used up within the given period.

11.12.5 ADVANTAGES OF LETTER OF CREDIT

Letter of credit is beneficial to the exporter and importer. These are as follows.

A) ADVANTAGES OF THE EXPORTER

A letter of credit offers a number of advantages or benefits to the exporter.

1) No Blocking of Funds

Once the exporter fulfills all the conditions of L/C and presents the documents for negotiation to his bankers, he receives payment as per the terms of L/C. The exporter is entitled to receive the full payments of the exports.

2) Clearance of Import Regulations

When the opening bank issues the L/C indicates that the importer has fulfilled all provisions of exchange control regulations in his country. Transfer of funds will not create a problem from the exchange control authorities.

3) Free from Liability

In case of confirmed L/C and without recourse clause, the liability of the exporter comes to an end as soon as he hands over the relevant documents to the bank.

4) Pre-shipment Finance

In India, pre-shipment finance is granted by commercial bank on the strength of L/C received by the exporter from the importer's bank.

5) Non-refusal by Importer

The importer may refuse to take possession of goods and make and make payment in case of D/P, and D/A bills of exchange, but is difficult for him to refuse to take possession of goods and make payment against bills drawn under letter of credit.

6) No Bad Debts

As the payment is guaranteed by the opening bank, the exporter is free from the problem of bad debt. In case the exporter holds a confirmed L/C, there is double guarantee by the opening bank and the confirming bank.

B) ADVANTAGES OF THE IMPORTER

Letter of credit is beneficial to the importer. These are as follows

1) Better Terms of Trade

The opening bank provides credit facility to the importer. This helps the importer to obtain better terms of trade from the foreign supplier.

2) Certainty of Shipment of Goods

The exporter can not get any benefit under the letter of credit without shipping the goods and submitting documents to the bank, therefore, the importer is certain to get the supply.

3) Overdraft Facility

When the importer falls short of payments, he can take possession of the documents against overdraft facility.

4) Funds are not blocked

There is no need for the importer to block his funds by making advance payment to the exporter.

5) Delivery on Time

The importer can obtain required documents on time under the terms of L/C. Thus he can get the delivery of goods on time.

6) Better Relations

L/C creates a better relationship between the buyer and the seller as all the terms are specified and both parties are protected.

11.12.6 LIMITATIONS OF LETTER OF CREDIT

The main problems or limitations of L/C are as follows

1) Short Life

Every letter of credit has validity period carries short life. It does not give sufficient time to the exporter for shipment of goods and submission of documents.

2) Problem of Weight Units

Weights and measures are different in different countries. Thus disparity often arises through misinterpretation of weight units.

3) Insurance Problem

The letter of credit may indicate a broad coverage of marine risk where as underwriters may view them as less risky. Hence underwriters may like to go for limited coverage of risk.

4) Packing Material Consideration

When the importer places an order, he specifies in the letter of credit the type of packing material that the exporter should provide. If the exporter uses some other packing materials without the permission, of exporter can take objection.

5) Luck of Safety

In case of revocable L/C opening bank can cancel or modify the L/C without prior permission of the beneficiary. This creates the problem of safe of payment.

6) Delayed Payments

The exporter collects payments from the negotiating bank no sooner he submits the documents. When payment is delayed by the opening bank, the exporter has to pay heavy interest on the advances.

7) Problem of discrepancy

If the exporter does not submit the documents as demanded by the importer, it is called discrepancy in documents. Because of discrepancy the importer either can delay or with hold payment.

11.13 SUMMARY

Exporters need finance at both the steps i.e. at pre-shipment and at post-shipment. Pre-shipment finance is an advance credit facility contained by an exporter from a bank or financial institution.

Post-shipment Finance is needed after making the shipment and before realization of payment from overseas buyers. Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods.

Commercial banks provide financial assistance both at pre-shipment as well as post-shipment levels to exporters not only on priority basis but also on liberal terms. Commercial banks services are divided into: Fund Based Assistance (Financial Services) and Non-Fund Based Assistance (Non-Financial Assistance).

The EXIM bank of India was established by an act of parliament, for the purpose of financing, facilitating and promoting foreign trade. This bank was mainly created for the purpose of financing medium and long term loans to exporters there by promoting the country's foreign trade.

The main objectives of SIDBI are: to serve as the principal financial institution for promotion, financing and development of small scale sector and to coordinate the functions of the institutions engaged in promoting, financing of developing small scale sector.

The Export Risk Insurance Corporation (ERIC) which is now known as ECGC of India Ltd., was introduced to provide export credit and insurance support to Indian exporters.

Forfeiting means "Surrender of rights". In a forfeiting transaction, the exporter surrenders, without recourse to him, his right to claim payment of goods delivered to the importer.

There are different methods of payment in export trade such as: Open account, Advance payment, Payment against shipment on consignment, Documentary bill, and Letter of credit.

Credit terms are decided after taking into consideration the factors like: nature of product, credit worthiness of the buyer, economic situation in the country of importer, size of order,

competitors credit terms, financial position of the exporter and relations.

11.14 QUESTIONS FOR SELF-ASSESSMENT

1. What is export finance? Explain the types of export finance?
2. Discuss the features of pre-shipment finance?
3. Explain the features of post-shipment finance?
4. Enumerate the role of commercial banks in export financing?
5. Discuss the role of EXIM bank in promoting exports?
6. Explain the forfeiting scheme of EXIM bank?
7. What is the role of SIDBI in export marketing?

8. Explain the standard and specific policies of ECGC?
9. Discuss the financial guarantees issued by ECGC?
10. What are the various methods of payment in international marketing? Discuss?
11. Discuss the various terms of payment in export marketing?
12. Explain the factors determining payment terms?
13. What are the parties involved in letter of credit?
14. Explain the procedure for opening letter of credit?
15. Discuss the various types of letter of credit?
16. Evaluate the procedure to obtain export finance?
17. Explain the advantages of letter of credit to the exporter?



EXPORT PROCEDURE

Unit Structure

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Stages in Export Procedure
- 12.3 Excise clearance procedure
- 12.4 Role of custom House Agents
- 12.5 Shipping and custom formalities
- 12.6 Marine Insurance
- 12.7 Negotiation of Export Documents
- 12.8 Realization of export proceeds
- 12.9 ISO 9000 certification
- 12.10 Distinguish between pre-shipment and post-shipment procedure
- 12.11 Summary
- 12.12 Questions for self-Assessment

12.0 OBJECTIVES

After studying this chapter the students should be able to :

- Elaborate the stages in export procedure.
- Describe the excise clearance procedure
- Understand the role of custom House Agents
- Explain shipping and custom formalities.
- Know about the marine insurance
- Understand negotiation of export documents and realization of export proceeds.
- Know ISO certification and its procedure for obtaining ISO certification.
- Make a comparative study of pre-shipment and post-shipment procedure.

12.1 INTRODUCTION

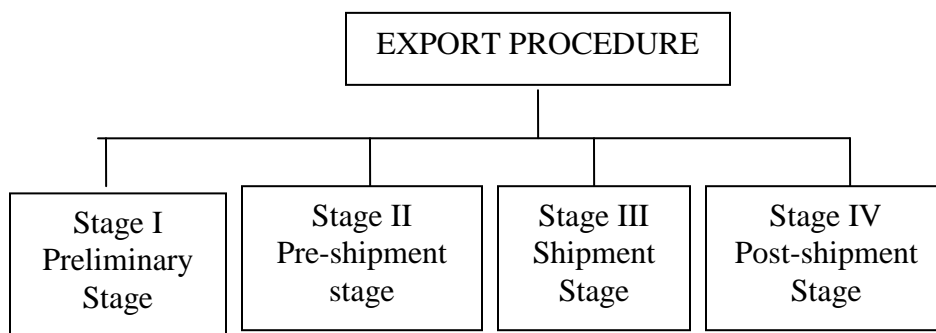
Export procedure refers to the execution of an order received from an overseas buyer and includes everything that the exporter is required to do right from the receipt of a confirmed order up to the realization, o/s final payment. It is not difficult to receive an export order but extremely difficult to successfully and satisfactorily execute the same. This is because exporting goods overseas involves same definite procedure and is covered by legal restrictions.

Export trade is governed by legal controls and therefore, every function of it is carried out under definite procedures. The various procedures that are followed in the export of goods facilitate execution of export in a systematic manner.

Export market is not merely an extension of domestic market. Apart from the basic principles of sound business in domestic as well as foreign market, selling abroad requires specialized knowledge regarding certain matters such as detailed market surveys, shipping, marine insurance, customs and foreign exchange formalities, etc.

12.2 STAGES IN EXPORT PROCEDURE

Export procedure involves a number of steps. The various steps can be classified into four stages



12.2.1 PRELIMINARY STAGE

1) Organizing –

The exporter should have an organization to look after exports. Exporters may set up a complete new organization or add on export section to an existing one. At this stage the exporter may take a decision to select the right product sell abroad.

2) Registering with various Authorities –

The exporter should register his organizations with various authorities. These are as follows:

- a) Income Tax Authorities to obtain permanent Account Number (PAN).
- b) Jt. DGFT – to obtain Importer's exporter's code Number (IEC No.)
- c) EPC – to obtain Registration – cum –membership – certificate (RCMC)
- d) Other authorities, such as FIEO, sales Tax authorities, chambers of commerce etc.

3) Appointing Agent / Distributors –

It is advisable to appoint agents or distributors in the selected overseas markets. The exporter may also open branches or sales divisions or depute permanent representative abroad.

4) Approaching Foreign Buyers –

The overseas agents / representatives approach foreign buyers with a quotation. The foreign buyer, if satisfied with the quotation and after clarifications, if any, will place an order with the exporter.

12.2.2 PRE-SHIPMENT STAGE**1) Confirmation of order –**

When the buyer is satisfied with the terms and conditions of the seller, he will place either a formal or confirmed order along with a signed copy of the contract. The exporter should acknowledge and confirm the receipt of such order.

2) Obtaining Letter of credit –

Together with the acknowledgement letter confirming the receipt of an export order, the exporter may send a formal request to the importer to open a letter of credit in his favour.

3) Obtaining pre-shipment Finance –

As soon as the exporter receives a confirmed order and the L/C, he should approach his bank for securing pre-shipment finance to meet his working capital requirements.

4) Obtaining Export Licence, if necessary's –

Export control is exercised to a limited extent in India. The problem of obtaining export licence arises only in the case of a few controlled items. Otherwise, export business has been delined.

5) Production and Procurement of goods –

Soon after securing the pre-shipment advance from bank, the exporter has to arrange for production and procurement of goods for shipment. A manufacturer exporter himself undertakes the entire process of production.

6) Packing and Marketing –

After procuring the goods meant for export, the exporter has to arrange for proper packing and marking of the goods. Packaging must ensure proper protection of the goods. The packing material should be selected after considering the distance to be covered, mode of transportation, types of handling of the goods at ports etc.

7) Pre-shipment Inspection –

If the export cargo is subject to quality control and pre-shipment inspection, the exporter should get in touch with EIA to obtain Inspection certificate.

8) Central Excise Clearance –

Goods meant for export are exempted from the payment of excise duty. Excise clearance is obtained by two methods
a) Export Under Rebate and b) Export Under Bond.

9) ECGC cover –

The exporter must take appropriate policy to protect him from credit risk.

10) Marine Insurance policy –

In order to protect the cargo from perils on high sea, the exporter has to obtain marine insurance policy. Payment of insurance premium depends on the type of price quotation accepted by the importer.

11) Appointment of clearing and Forwarding Agent –

It is always advisable to appoint C & F agent to look after forwarding work which includes booking of shipping space, preparing and submitting various documents to customs.

12.2.3 SHIPMENT STAGE**1) Reservation of space in the ship –**

The exporter has to contact the shipping company well in advance for booking the required space in the vessel for shipment of his consignment. He has to provide necessary information as regards date of shipment, gross and net weight of each package, particulars of the importer and that of his own, arrival and departure date of the vessel etc. when shipping company accepts the

exporter's request, the company or its agent issues "shipping order".

2) Preparation and processing of shipping documents –

When goods reach the port of shipment, the exporter has to arrange for preparation of a complete set of documents to be passed on to the forwarding agent.

3) Physical Examination of goods at the port –

The C & F agent obtains the carting order from the Port Trust to Cart the goods inside the docks. He then approaches the custom Examiner, who may physically inspect the goods. The custom Examiner then given "Let Export order".

4) Loading of goods –

The duplicate copy of shipping bill which is endorsed by the custom Examiner is handed over to the custom preventive officer, who endorses it with 'Let ship order'. The goods are then loaded on board the ship, for which Mate's Receipt is issued by the mate of the ship. The Mate's Receipt is handed over to the shipping company to obtain Bill of Lading.

12.2.4 POST-SHIPMENT STAGE

1) Dispatch of Documents –

Dispatch of documents by C & F Agent to the exporter. The details and the mode of dispatch of the shipping documents are specified in the L/C. negotiating, in this sense, implies mailing of dispatching a set of documents to ensure that the importer or his agent receives the same in time so that he can delivery of the exported goods.

2) Shipmea font advice to importer –

After the shipment of goods, the exporter has to sent suitable intimation to the importer for his information. By this intimation, the date of shipment, the name of the vessel, date on which the goods will reach the destination should be informed to the importer. A copy of non-negotiable bill of lading is also sent for information. The importer gets the remaining documents through his bank.

3) Presentation of Documents to the Bank –

A complete set of documents is submitted by the exporter to his bank for the purpose of negotiating the same and obtaining export proceeds in time. The bank then sends the same documents to the exporter.

4) Realization of export proceeds –

The exporter then proceeds to claim export incentives on the basis of bank certificate. The bank certificate gives description of

the product, its value, the rate of conversion, the details of invoice etc. The exporter is entitled to various incentives such as IPRS, DBK and other incentives, if applicable.

5) Follow-up of Export sales –

A good exporter should always have a follow-up after sales i.e. he should provide necessary after sale service, find out buyer's opinion towards the product and so on, which will help to generate more sales in the international market.

12.3 EXCISE CLEARANCE PROCEDURE

Excise duty is a levy imposed by the Central Government on goods manufactured in India. This duty is usually collected on goods at source i.e. before they are removed from the factory. Export goods are totally exempted from central excise duty. However, necessary clearance has to be obtained in either of the following two ways: a) Export under bond and b) Export under Rebate.

a) Export under bond –

Under this system, the exporter need not pay any amount of duty but export the goods under a bond supported by a bank guarantee, for a sum equivalent to excise duty chargeable on such goods. As this system amounts to a "running bond account", the bond is arranged for a suitably large amount with the approval of the Excise Authorities so that several consignments may be exported under the same bond without frequent renewals.

b) Export under Rebate –

Under this system, the manufacturer / exporter initially pays the duty and then claims its refund after shipment of the goods.

- **PROCEDURE FOR EXCISE CLEARANCE**

The common procedure of excise clearance under 'bond' and under 'rebate' is as follows –

1) Preparing of Invoice –

The export goods have to be cleared from the factory under invoice. The invoice contains details like name of the exporter, value of goods, excise duty chargeable, etc. The invoice is to be prepared in triplicate. In case of export under Bond, the invoice should be marked as "For Export without payment of duty". In addition to the invoice, a prescribed form ARE-1 has to be filled in by exporter.

2) Filling up of ARE-1 Form –

The exporter has to fill up ARE-1 form in five copies. Which can be used at the time of claiming other export incentives? The ARE-1 copies have distinct colour for the purpose of verification and processing.

Original copy	-	white
Duplicate copy	-	Buff
Triplicate copy	-	pink
Quadruplicate copy	-	Green
Quintuplicate copy	-	Blue

3) Application to Assistant collector –

The exporter now has to remove the goods from the factory/warehouse premises for which he has to apply to Assistant collector of central Excise.

4) Instruction to Range Superintendent –

The ACCE will instruct the Range Superintendent of Central Excise under whose Jurisdiction the factory is located.

5) Appointment of Inspector –

In order to comply with excise duty clearance, the Range Superintendent will appoint an inspector. The inspector will clear the goods either at the factory or at the port.

6) Processing of ARE-1 Form –

The excise Officer / Inspector will make endorsement on all copies of ARE-1. The handling of ARE-1 Form is done as follows.

- a) The fifth (blue) copy is returned to the exporter.
- b) The fourth (green) copy is sent by Excise Authorities to the chief Accounts officer of central Excise.
- c) The third (pink) copy is sent to maritime collector of central Excise at the port of shipment.
- d) The original (white) and the duplicate (buff) copies are returned to the exporter.
- e) The exporter hands over the original and the duplicate copies to the customs Authorities.
- f) The customs preventive officer sends the original to the maritime collector (MCCF) and the duplicate copy is returned to the exporter or his agent.

7) Refund of Excise Duty –

The exporter has to apply to maritime collector of Central Excise (MCCF) after the shipment of goods along with the duplicate copy of AR-4. If MCCE is satisfied, it will instruct the Refund Section to prepare cheque and hand it over to the exporter.

CHECK YOUR PROGRESS:

1. Draw the chart showing Export procedure.
2. Enlist the points included in the Pre-shipment stage.
3. Explain the following points in the common procedure of excise clearance:
 - a. Preparing of invoice
 - b. Appointment of inspector
 - c. Refund of excise duty
4. State the distinct colours and name of the copy of ARE-1 form.

12.4 ROLE OF CUSTOM HOUSE AGENTS

Custom Agents are the agents who look after the customs and forwarding formalities relating to export of goods. The custom House Agent provides a variety of services, which are complex in nature. The following are the most important among them.

1) Obtaining Shipping order –

The CHA may obtain shipping order from the shipping company. The shipping order enables booking of space on the ship. At time, the importer does the booking of space on the ship.

2) Arrangement for Internal Transport –

The CHA arranges for the transportation of goods from the exporters factory or warehouse to the docks or the airport.

3) Preparing of shipping Bill –

Preparing of shipping bill based on the details mentioned in various documents given to him by exporter, the custom House Agent prepares the shipping bill in 5 copies. The shipping bill is required for customs clearance.

4) Submission of Documents to customs –

The CHA submits the relevant documents along with five copies of the shipping bill to the customs house for verification.

5) Obtaining carting order –

The CHA obtains a carting order from the port trust authorities. The carting order is required for moving goods inside the docks.

6) Storing of goods –

After obtaining carting order the goods are physically moved into the port area and stored in appropriate shades. This is required for the purpose of examination of goods.

7) Obtaining 'Let Export' order –

The CHA gets the goods examined by the customs examiner and gets the 'Let Export' order from the customs examines who duly endorses it on duplicate copy of shipping bill.

8) Obtaining 'Let Ship order –

The agent shows the 'Let Export' order to the customs preventive officer before loading goods on the ship. After checking the goods if satisfied, he issues a let ship order i.e. permission to load goods on the ship.

9) Loading of goods –

Loading of goods then the CHA makes arrangement for loading of goods on the ship and after the goods are loaded the mate of the ship issues a mate receipt to the port superintendent.

10) Obtaining Bill of Lading –

The CHA surrenders the mate receipt to the shipping company and obtains the Bill of Lading. The Shipping company issues two or three negotiable and two or three non-negotiable copies of the Bill of Lading. It is an important document required further by the importer for customs clearance at the port of destination in importers country.

12.5 SHIPPING AND CUSTOM FORMALITIES

The shipment of export cargo has to be made with prior permission of and under the close supervision of the custom authorities. They cannot be loaded on board the ship unless a formal permission is obtained from the custom authorities. The custom authorities grant this permission only when it is being satisfied that the goods being exported are of the same type and value as have been declared by the exporter or his C & F agent, and that the duty has been properly determined and paid, if any.

The custom procedure can be briefly explained as follows.

1) Submission of Documents –

For customs clearance of cargo, the exporter or his agent has to submit five copies of shipping bill along with necessary documents such as –

- Letter of credit or confirmed export order.
- Commercial invoice.
- Packing list.

- Certificate of origin.
- G. R. Form
- ARE-1 Form.
- Original copy of certification inspection.
(Wherever necessary)
- Marine insurance policy.

2) Verification of documents –

The customs appraiser verifies the details mentioned in each document and ensures that all formalities have been complied with by the exporter. If satisfied; he issues “A Shipping Bill Number” which is very important from the exporter’s point of view.

3) Carting order –

The custom house agent of the exporter approaches the superintendent of the concerned port trust for obtaining a carting order. After obtaining the carting order, the cargo is physically moved inside the docks, which is basically the permission to move cargo inside the docks. The carting order is issued by means of an endorsement on the duplicate copy of the shipping bill.

4) Storing the goods in the sheds –

After securing the carting order, the goods are moved inside the docks. The goods are then stored in the sheds at the docks.

5) Examination of goods –

The customs examiner examines the goods and gets the package sealed in his presence. If satisfied the examiner grants permission for the loading of the goods onto the ship in the form of a “Let Export” order. The same procedure is now processed through Electronic Data Interchange (EDI) system.

6) Obtaining “Let ship order” –

The custom House Agent submits the duplicate copy of the shipping bill along with other documents to customs preventive offices. If the customs preventive officer finds that every thing is in order he endorses the duplicate copy of shipping bill with “Let ship order”.

7) Loading of goods –

After obtaining the “Let ship” order the goods are loaded on the ship for which the mate of the ship issues a “Mate’s Receipt” to the superintendent of the port. That’s how the mate’s receipt reaches the office of the port trust.

8) Payment of port dues –

The Agent of the exporter then pays the required port dues and collects the mate’s receipt.

9) Obtaining Bill of lading –

As the final step, the agent of the exporter submits the mate's receipt to the shipping company on whose ship the goods are loaded. The shipping company issues a bill of lading. Normally the bill of lading is issued in two or three negotiable and non-negotiable copies, as they are required on various occasions later on.

12.6 MARINE INSURANCE

12.6.1 MEANING

Marine Insurance is a contract under which the insurer undertakes to indemnify the insured against losses, caused due the perils of the sea.

Here perils of the sea include –

Sinking of ship, Damage to the ship and cargo due to dashing of the waves, Dashing of the ships on the rocks, Fire or explosion on the ship, spoilage of cargo to sea water, Destruction of the ship and cargo by the crew or captain of the ship, piracy and such other risks.

Section 3 of the Marine Insurance Act, 1963 defines a contract of marine insurance as an insurance cover for marine cargo, air cargo and post parcels. Thus, marine insurance is used to cover transportation by any of the following modes of transit singly or jointly –

- a) Sea, air or land
- b) Inland water voyages
- c) Rail / road
- d) Air
- e) Post

It provides insurance or protection to goods in 'transit' and also extends to storage of goods provided such storage is incidental to transportation.

12.6.2 PROCEDURE FOR OBTAINING MARINE INSURANCE POLICY

The following is the procedure for obtaining marine insurance policy.

1) Selection of Insurance Company –

The exporter needs to select the insurance firm to obtain marine insurance policy. General insurance business in India is the monopoly of General Insurance Corporation (GIC) of India and its four subsidiaries. However, if an exporter intends to insure with a

foreign company, then prior permission of the RBI must be obtained.

2) Type of policy –

There are various types of marine insurance policies issued by the GIC to suit the requirements of the exporters. The exporter should decide the appropriate type of policy taking in to consideration his requirements. Such as – Time policy, Voyage policy mixed policy etc.

3) Proposal Form –

To obtain a marine insurance policy, there is a need to fill up the proposal form. Complete, correct and clear information must be mentioned in the proposal form. Any misrepresentation or non-disclosure will render the contract null and void.

4) Verification of proposal form –

The insurance company verifies the proposal form and checks the relevant details. If it is satisfied, it accepts the proposal form.

5) Payment of premium –

The insurance premium charges may vary from company to company and country to country. Payment on marine insurance policy can be made in rupees provided exporter certifies that insurance charges on the shipment in question have to be borne by him.

6) Insurance policy –

After making payment of insurance, the insurance company issues the insurance policy which contains the following –

- a) The name and address of the insurance company.
- b) The name and address of the insured.
- c) A description of the risks covered.
- d) A description of the goods insured.
- e) The sum insured.
- f) The date of issue, and the period of the policy.
- g) The places where claims are payable together with details of the agent to whom claims may be directed.
- h) Any other details, as applicable.

7) Filing of claim –

If the goods are damaged in transit, the exporter may file a claim for damages or loss with the insurance firm. The claim

must be submitted in prescribed form supported by relevant documents.

8) Claim Amount –

The insurance firm verifies the claim of the exporter. Normally, investigation is done in respect of the claim. If the insurance firm is satisfied with the claim, it sanctions the claim amount to the exporter.

12.7 NEGOTIATION OF EXPORT DOCUMENTS

The submission of the full set of shipping documents to the bank for realization of payments is called negotiation of documents.

Payments from overseas buyer in respect of export proceed must be realized only through the negotiating bank.

1) Negotiation of Documents –

The exporter must submit shipping documents to his bank for negotiation within 21 days of the date of shipment of goods (subject to certain exceptions). Full value of export should be realized within 180 days from the date of shipment. Where it is not possible to realize the sale proceeds within the prescribed period, the exporter must secure prior permission from the RBI. The following constitute full set of shipping documents. –

Commercial invoice, original L/C, customs invoice, certificate of origin, insurance policy, packing list, foreign exchange declaration form, Bank certificate etc.

2) Letter of Indemnity –

If the documents submitted are not according to the requirements of L/C, the bank normally refuses to negotiate the same. In such a case, the exporter should execute a letter of indemnity or request the bank to obtain special 'Authority to pay' from the bank of the importer which has advised the L/C.

3) Dispatch of documents –

Before the transmission of documents for negotiation the bank examines them thoroughly with reference to the terms and condition of the buyer's order, L/C and the laws relating to foreign exchange control. It after scrutiny, the documents are in order, the bank dispatches them to its overseas branch / correspondent as early as possible.

4) Declaration of Export –

Every exporter before export of goods outside India should furnish in prescribed forms such as full value of export of goods, if the full value is unascertained at the time of exports, the prevailing market value or the value which will be realized.

5) Declaration Forms –

The main declaration forms are as follows:

- a) G R Form: G R Form is exchange from submitted to customs authorities at the port of shipment.
- b) D P Form: Exports to all countries other than Nepal and Bhutan by parcel post be declared on P P Form, which is prepared in duplicate. At first, this form must be presented to the bank for counter signature.
- c) VP/COD Form: This is used in case of exports to all countries by parcel post under arrangements to realize exports proceeds through post either by value payable post system or cash on delivery system.

CHECK YOUR PROGRESS:

1. Define the following terms
 - a. Custom house agents
 - b. Marine insurance
 - c. Negotiation of documents
2. Enlist the points explaining the role of Custom house. agents
3. Explain the following points of shipping and custom formalities:
 - a. Submission of documents
 - b. Storing the goods in sheds
 - c. Obtaining Let ship order
 - d. Loading of goods
 - e. Obtaining Bill of loading

12.8 REALIZATION OF EXPORT PROCEEDS

Payment against exports should be realized only through an authorized dealer. No payment can be received even through bank drafts and cheques, unless exempted otherwise by RBI.

The following are the steps in realizing export proceeds.

1) Approaching a Bank –

After dispatch of goods, either by sea, or by air, the exporter should approach his bank with a formal request to realize sale proceeds from the foreign buyer.

It is obligatory to submit the shipping documents to an authorized dealer with 21 days of the date of shipment. In India, the exporters have to realize the full value of exports within 180 days from the date of shipment.

2) Submission of documents to the bank –

The exporter should submit the various documents such as Bill of Exchange, Full set of bill of Lading, commercial invoice copies, certificate of origin, Insurance policy, Inspection certificate, packing list, G R Bank certificate and other certificate.

3) Verification of documents –

The bank will verify the documents to find whether the required documents are in order, whether the required documents are attested by customs and other.

4) Letter of Indemnity –

The exporter can collect advance payment from his banker by signing a letter of indemnity. The understanding is in case the buyer's bank does not release the payment, the exporter will refund the money with accrued interests to the bank.

5) Discounting of Bills –

The bank may discount or purchase the bills drawn against L/C amount, and make immediate payment to the exporter, if so required.

6) Despatch of documents –

The details and the mode of dispatch of the shipping documents are specified in the L/C. negotiating, in this sense, implies mailing or dispatching a set of documents to ensure that the importer or his agent receives the same in time so that he can present them to the port authorities and claim delivery of the exported goods.

7) Method of Realization –

For the purpose of receiving payments against exports, countries have been divided into two groups i.e. a) Asian clearing union – It includes Bangladesh, Burma, Pakistan, Iran and Sri Lanka and make a payment in Indian Rupees or any permitted currency b) External Group – It includes rest all countries and make payment in any permitted currency.

8) Processing of G R Form –

When the negotiating bank has received payment from abroad, it will record it on the duplicate copy of GR and forward it to RBI. The original copy of GR was already sent to RBI by the customs when goods were shipped. Now RBI will tally the information's in the original and duplicate copy of GR. When they

are found to be alright, the transaction is treated closed because the required foreign exchange payment has already been received.

12.9 ISO 9000 CERTIFICATION

12.9.1 MEANING

International organization for standardization (ISO) is an international body representing more than 120 countries including India, Bureau of Indian standards (BIS) is the Indian representative to ISO. The objective of ISO is to facilitate the development of international standards in order to reduce the “barriers” effect of different national standards on international trade of goods and services. ISO is a non-governmental organization. ISO prepares and publishes a large number of new and revised international standards annually. Meaning of ISO 9000.

Quality standard recognized at the global level is called ISO 9000.

ISO 9000 provides common standards of products and services worldwide. ISO 9000 is essentially a mark of quality assurance. It is adopted by more than 120 countries. The developed nations prefer to import from the exporters who have obtained ISO 9000 certification for their products. Indian companies with ISO 9000 certification do maintain good quality standards and in their case quality inspection from EIC is not required.

ISO 9000 is a series of five international standards an quality management. The series consists of ISO 9000, ISO 9001, ISO 9002, ISO 9003 and ISO 9004. These are as follows.

12.9.2 STANDARDS

- ISO 9001- Consists of 20 elements covering design, development, production, installation and servicing. It is the most comprehensive standard.
- ISO 9002 - Same as 9001 without design and service,
- ISO 9003 - Consists of 12 elements covering final inspection and testing for laboratories, ware houses etc.

12.9.3 GUIDELINES

- ISO 9000 - It is used to find out which of the three standards is applicable.
- ISO 9004 - It interprets the standards and provides suggestions which are not mandatory.

12.9.4 IMPORTANCE / ADVANTAGES OF ISO 9000

The importance / advantages of ISO 9000 certification benefit the company both internally as well as externally.

- **INTERNAL BENEFITS –**

- 1) **Improvement in Efficiency –**

ISO 9000 certification leads to improved efficiency, which in turn results in higher returns at lower costs.

- 2) **Lower Rejects –**

ISO 9000 certified firm follows high quality standards where rejections would be either nil or very low.

- 3) **Better Relation –**

As an ISO 9000 certified firm works in a systematic way with clear-cut policies and procedures, there would be no scope for disharmony. This result in better relations between the management and the employees.

- 4) **Team work –**

There would also be better team work among the employees of different departments because of harmony and goods relations among people of all cadres in the organization.

- 5) **Optimum Utilization of Resources –**

Due to clear policies and plans in the organization, there would be minimum wastage and optimum utilization of available resources, both material and human.

- 6) **Motivate personnel –**

The internal environment in an ISO 9000 certified firm is harmonious and more over employees get properly remunerated. Given the right type of incentives employees would be well motivated.

- **EXTERNAL BENEFITS –**

- 1) **Customer Satisfaction –**

There can be customer satisfaction. This is because, the customers are provided with better quality goods and at right prices. This is because of higher efficiency of the firm.

- 2) **Corporate Image –**

Firms obtaining ISO 9000 certification earns a good corporate image in the domestic as well as international markets. The customers, suppliers, investors and other trust ISO 9000 certified firms.

3) Improved competitiveness –

ISO 9000 firms have a higher competitive strength and hence can successfully face stiff competition in the international market. This is due to improved efficiency and better marketing practices.

4) Increase in sales –

Due to better products, reasonable prices and higher consumer satisfaction, there would be increased sales consistently.

5) Better Brand Image –

As quality goods are sold at right prices backed with right promotional efforts, helps the firm's products enjoy a better brand image in the market.

12.9.5 PROCEDURE FOR OBTAINING ISO CERTIFICATION

An Indian company can obtain ISO 9000 certification from foreign accredited agency or from Bureau of Indian Standards (BIS). The Indian exporters normally obtain ISO 9000 certification from a foreign accredited agency because of reputation of foreign agencies in the world markets.

The following is the procedure to obtain ISO 9000 certification.

1) Assessment of existing quality procedure –

The company willing to go for ISO 9000 certification should start with assessing the level of existing quality procedure, and take stock of the situation, so that it can equip itself to go for ISO 9000 certification. For this purpose, the ISO steering team can be appointed to evaluate the existing quality procedures.

2) Initiating corrective Action –

If the company finds deficiencies in the existing quality procedures, then there is a need to correct or overcome such deficiencies. Such correction is required so as to conform to ISO series standards.

3) Preparation of Quality assurance programme –

The company should prepare a quality assurance programme which refers to observance of quality control at various areas, training of employees and education to top management. The object to maintain high quality standard.

4) Preparation of Quality Manual –

It is a manual containing guidelines to the employees of the firm so as to maintain quality standard.

5) Selection of certification agency –

The company has to select an agency that can provide ISO 9000 certification. The company may select Bureau of Indian Standards (BIS) or a foreign agency. Normally foreign agencies are selected as certification agencies because a foreign agencies carry more weight in international markets.

6) Pre-inspection meeting –

The representatives of the firm will have a pre-insection meeting with the registration of the agency. The purpose is to analyze and appraise the quality standards being followed by the firm.

7) Preliminary visit –

The accredited agency pays a preliminary visit to the firm. The purpose of the visit is to find out any commission or variations and to suggest corrective measures.

8) Actual assessment visit –

It is a detailed visit involving assessment of how effectively the systems are functioning. It any deficiencies are found, the firm is given time to rectify the same.

9) Certification –

If the assessment agency is satisfied with the quality systems followed by the firm, then the firm is granted ISO 9000 certification.

10) Surveillance –

The accredited agency may take periodic surveillance programmes to ensure that the certified firm is maintaining quality systems. In case it finds that the firm failed to maintain quality finds that the firm failed to maintain quality system, certification may be cancelled or suspended.

12.10 DISTINGUISH BETWEEN PRE-SHIPMENT PROCEDURE AND POST-SHIPMENT PROCEDURE

Pre-shipment procedure	Post-shipment procedure
1) Meaning – It refers to the procedure involved before shipment of goods.	It refers to the procedure involved after shipment of goods.

<p>2) Registration – This stage involves registration of the export firm with various authorities.</p>	<p>This stage is post registration stage, hence there is no need for registration with any authority.</p>
<p>3) Getting export-order During this stage exporter gets the export order to supply goods.</p>	<p>During this stage exporter actually executes the export order by exporting goods as per export order.</p>
<p>4) Letter of credit / Bill of exchange During this stage exporter obtains letter of credit from the importer.</p>	<p>During this stage exporter draws a bill of exchange against letter of credit.</p>
<p>5) Types of credit – During this stage exporter goes for pre-shipment finance to meet working capital requirements before shipment of goods</p>	<p>During this stage exporter goes for post-shipment credit to meet working capital needs arising after shipment of goods.</p>
<p>6) Documents – During this stage various documents such as invoice packing list, etc are prepared</p>	<p>During this stage various documents are submitted to various authorities and to the importer.</p>
<p>7) Customs House Agent – During this stage customs house agent is appointed to look after customs formalities.</p>	<p>During this stage customs house agent is paid for the services offered by him.</p>
<p>8) Customs Formalities – During this stage a number of customs formalities are to be fulfilled.</p>	<p>During this stage there are no customs formalities to be fulfilled.</p>
<p>9) Number of activities – There are a number of activities involved during this stage.</p>	<p>When compared to pre-shipment stage the number of activities during this stage is less.</p>
<p>10) Time element – This stage is lengthy and time consuming</p>	<p>This stage is relatively less time consuming.</p>
<p>11) Realization of export procedure – During this stage there is no question of realization of export proceeds as the export process is not completed.</p>	<p>During this stage the proceeds of exports are realized as export process is completed.</p>
<p>12) Realization of export incentives –</p>	

During this stage the question of realizing incentives does not arise as the export process is not complete.	During this stage the exporter tries to realize various export incentives like DBK Excise refund etc.
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12.11 SUMMARY

Export trade is governed by legal controls and therefore every function of it is carried out under definite procedure. The several steps in the procedure are classified into four stages as: Preliminary stage, Pre-shipment stage, Shipment step and Post-shipment stage.

Excise duty is a levy imposed by the Central Government on goods manufactured in India. The general procedure for excise clearance is: Preparing of invoice, Filling of ARE-1 form, applying to assistant collector, Instructions to range superintendent, Appointment of inspector, Processing of ARE-1 form, and Refund of Excise duty.

The agents looking after the customs and forwarding formalities relating to export of goods are called as Custom Agents. Variety of services has been provided by these agents such as: Obtaining shipping order, Arrangement for internal transport, preparing of shipping bill, submission of documents to customs, obtaining carting order, storing of goods, obtaining 'let export' order, obtaining 'let ship order', loading of goods, obtaining bill of loading.

While exporting exporter has to complete the shipping and custom formalities. The procedure includes the steps like: submission of documents, verification of documents, carting order, storing the goods in the sheds, examination of goods, obtaining 'let ship order', loading of goods, payment of port dues, obtaining bill of loading.

Marin insurance provides insurance or protection to goods in transit. For obtaining Marine insurance policy to follow a particular procedure becomes compulsory. It includes the steps like: selecting the insurance firm and type of policy, filling up the proposal form, verification of proposal form, payment of premium, issuing the insurance policy, filing a claim for damages, sanctioning the claim amount to the exporter.

Negotiation of export documents means submission of all shipping documents to the bank for realization of payment. The export payment should be realized only through the dealer after completing proper procedure i. e. approaching a bank, submission of documents to the bank, verification of documents, letter of

indemnity, discounting of bills, dispatch of documents, processing of G R form.

International organization for standardization (ISO) is an international body representing more than 120 countries. The objective of ISO is to facilitate the development of international standards in order to reduce the “barriers” effect of different national standards on international trade of goods and services.

12.12 QUESTIONS FOR SELF-ASSESSMENT

1. What are the various stages in Export Procedure?
2. Explain the Excise Clearance Procedure in exports.
3. Examine the Role of custom House Agents.
4. Discuss the shipping and custom Formalities.
5. Enumerate the procedure to obtain marine insurance policy in exports.
6. Evaluate the negotiation of export Documents.
7. Discuss the procedure involved in Realization of Export Proceeds.
8. What is ISO Certification & Explain its importance?
9. Explain the procedure for obtaining ISO certification.
10. Distinguish between pre-shipment and post-shipment procedure.



EXPORT DOCUMENTATION

Unit Structure

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Commercial Invoice
- 13.3 Shipping Bill
- 13.4 Certificate of origin
- 13.5 Consular Invoice
- 13.6 Mate's Receipt
- 13.7 Bill of lading
- 13.8 GR Form
- 13.9 Distinguish between Commercial Invoice V/s consular Invoice
- 13.10 Distinguish between Certificate of origin V/s consular Invoice
- 13.11 Distinguish between Mate's Receipt V/s Bill of Lading
- 13.12 Summary
- 13.13 Questions for self-Assessment

13.0 OBJECTIVES

After studying this chapter the students should be able to

- Understand the main documents used in export trade and their importance.
- Make a comparative study of –
Commercial invoice V/s consular Invoice
Certificate of origin V/s consular Invoice
Mate's Receipt V/s Bill of Lading.
- Define the export documents.

13.1 INTRODUCTION

Every export shipment must be accompanied by a number of document. They are extremely important in overseas trade. In the absence of shipping documents, a foreign buyer may find it difficult to clear the goods, or he may be required to pay import duty at higher rate. It is necessary that the buyer and the seller must decide their documentary requirements as a part of sales contract. In fact the buyer lists out his documentary requirements in the letter of credit. It is the duty of the seller to go through carefully the types

of documents required by the overseas buyer and arrange them accordingly. He is also obliged to arrange necessary documents as required by foreign exchange and customs authorities in his country.

An exporter is required to submit a full set of shipping documents to his bank for negotiation. He is obliged to arrange shipping necessary documents required by the customs authorities in his country and also the documents required by the country of buyer. The documentary requirement of the buyer is usually contained in the letter of credit. Exporter is required to submit necessary documents called "full set of shipping documents to his bank within 21 days from the date of shipment of goods.

13.2 COMMERCIAL INVOICE

13.2.1 MEANING

Commercial invoice is the statement of account sent by the seller to the buyer and is prepared on seller's letter-head. It is an exporter's bill for the goods shipped.

Commercial invoice is the basic document in an export transaction. All other documents are prepared with the help of information contained in commercial invoice. It contains such information as description of goods, price charged, term of shipment and the marks and numbers on the packages containing the merchandise. It is the seller's bill for the goods which contains complete particulars about the consignment.

The commercial invoice should contain:

- a) The name and address of the exporter and the importer.
- b) The description of goods like quality, quantity, weight etc.
- c) The value of goods, less discounts, if any.
- d) The net amount payable by the importer.
- e) Terms and conditions for sale.
- f) The signature of the exporter.

Other details of shipment to be included as –

- g) Name of the ship
- h) Letter of credit number.
- i) Import-Export licence number of the export.
- j) Bill of lading number.
- k) Packaging specification and marketings there on
- l) Identification marks on the package.
- m) Shipping bill number and date.

- n) Shipping terms and conditions.
- o) Freight charges and Marine Insurance premium.
- p) Any other details if required.

13.2.2 IMPORTANCE OF COMMERCIAL INVOICE

The commercial invoice is important both to the exporter and to the importer.

- **Importance to the Exporter –**

1) Payment collection –

Commercial invoice is the exporter's bill which the importer has to pay. It enables the exporter to collect payment from the importer.

2) Quality Control Inspection –

A copy of commercial invoice is required to be submitted to Export Inspection Agency (EIA).

3) Customs Clearance –

A copy of commercial invoice is required to submit to customs for customs clearance at the post of shipment.

4) Documentary Proof –

It can act as a documentary proof in case of disputes between the exporter and importer regarding the amount payable by the importer and such other aspect.

5) Preparation of other documents –

Commercial invoice helps to the exporter on his agent to prepare other documents based on the commercial invoice, such as shipping bill.

6) Claiming of Incentives –

A copy of commercial invoice is required by the exporter to claim incentives like DBK, Excise Refund, etc.

7) Recording and Filing –

A copy of commercial invoice is required by the exporter for the purpose of recording and filing for future reference.

- **Importance to the Importer**

1) Payment of customs duty –

A copy of commercial invoice helps to the importer to pay customs duty at the port of destination.

2) Payment to Exporter –

Commercial invoice helps to know the exact amount that is to be paid to the exporter.

3) Obtaining Loan –

A copy of commercial invoice may be required to obtain loan from the bank against the import of goods.

4) Preferential Tariffs –

Commercial invoice is useful for the collection of tariff concession, if available.

5) Recording and Filing –

A copy of commercial invoice is required for future reference.

6) Customs clearance –

A copy of commercial invoice is required by the importer for the purpose of customs clearance at the port of destination.

13.3 SHIPPING BILL

13.3.1 MEANING

Shipping Bill is the main documents on the basis of which the custom's permission for export is given. It is a multi-purpose documents used as application for export of goods, as dock challan and for claiming duty drawback and other export incentives.

The shipping bill contains description of goods and other particulars such as.

- a) Name, address and IEC number of the exporter.
- b) Name of the ship or the vessel.
- c) Name of the agent
- d) Description of goods
- e) Details of packages and marketing there on.
- f) Value of the goods.
- g) The port at which goods are to be discharged.
- h) Other details, if applicable.

Shipping bill is the main customs document. It is required by the customs authorities for granting permission for the shipment of goods.

The shipping bill is generally prepared in five copies –

- a) Customs copy
- b) Drawback copy
- c) Export Promotion copy
- d) Port Trust copy
- e) Export's copy

13.3.2 TYPES OF SHIPPING BILLS

Generally there are five types of shipping bill. These are as follows.

1) Free Shipping Bill –

Free shipping bill is used for goods which neither attracts any duty nor is entitled to duty drawback on their exportation.

2) Dutiable Shipping Bill –

Dutiable shipping bill is used in case of goods subject to export duty.

3) Drawback Shipping Bill –

Drawback shipping bill is used in case of goods which are entitled to drawback (refund of customs duty)

4) Shipping bill for shipment Ex-bond –

It is used in case of imported goods meant for re-exports and which are kept in bond.

5) Coastal shipping bill –

It is used in case of shipments which are moved from one port of another by sea in India. It not an export document.

Generally, the format of shipping bill in case of export by air and by sea is more or less the same, except colour of the form may be different.

13.3.3 IMPORTANCE OF SHIPPING BILL

The importance of shipping bill to the exporter can be stated as follows –

1) Customs clearance –

Shipping bills is required by the custom authorities for clearance of goods. The custom authorities endorse the duplicate copy of the shipping bill with “let export order” and “let ship order”.

2) Obtaining Incentives –

Shipping bill endorsed by the customs enables the exporter to obtain export incentives, such as excise refund and duty drawback.

3) Loading of goods –

When the customs preventive officer provides duplicate copy of the shipping bill to the agent of the shipping company, permission to load the goods or Cargo is given.

4) Appraising value of goods –

Shipping bill helps the customs to appraise the value of goods that are to be exported.

5) Recording and Filing –

A copy of shipping bill is required by the exporter for the purpose of recording and filing for future reference.

13.4 CERTIFICATE OF ORIGIN

13.4.1 MEANING

Certain countries require their importers to obtain certificate of origin from the exporter, certifying the origin of goods, without which clearance of imported goods is refused. This certificate may form a part of the commercial invoice itself. This certificate is issued by the chamber of commerce or Trade Association or some other competent authority.

Some countries, such as countries in the Middle East and Gulf insist an certificate of origin attested by their consulate stationed in India.

Certificate of origin (COO) declares that the goods which are being exported are manufactured in a specific country.

Contents of the certificate of origin

- a) Description, quantity and value of goods.
- b) Number of packages and markings there on.
- c) Declaration by the shipper
- d) Certificate by the issuing authority.

13.4.2 TYPES OF CERTIFICATE OF ORIGIN

The certificate of origin is of three types such as –

1) Certificates for clearance –

These certificates are required by all countries for clearance of goods by the importers. They are generally issued by trade associations and the chambers of commerce. The exporter gives

details in the prescribed form, submits a copy of the commercial invoice and pays required fees. On the basis of all these documents, the chamber of commerce issues certificate of origin.

2) Certificates for availing concessions under GSP –

These certificates are required for availing concessions available under Generalized System of Preferences (GSP). Such certificates are to be obtained in triplicate. In India, certain agencies such as Export Inspection Council, central silk board, Jute Commissioner, etc. are authorized to issue certificates under GSP.

3) Certificate for availing concessions under common wealth preference (CWP) –

The prescribed form of such certificate of origin is available with the organizations mentioned above. These organizations are their regional offices have been authorized by the Govt. of India to issue certificate of origin required in respect of exports to the preference giving countries under CWP.

13.4.3 IMPORTANCE OF CERTIFICATE OF ORIGIN

I) Importance of COO to the exporter

- a) It acts as a proof that the goods are of Indian origin.
- b) It helps to clear the goods from the customs of exporter's country.

II) Importance of COO to the Importer

- a) An importer gets quick delivery of goods from the customs.
- b) An importer can claim special concession as regards payment of tariff.
- c) An importer gets adequate proof about the origin of goods.

13.5 CONSULAR INVOICE

13.5.1 MEANING

Sometimes, the importer requires the invoice to be certified by the consulate of his own country stationed at the exporters' country. The certified copy of the commercial invoice is called consular invoice.

Consular invoice is issued by the council of the importing country stationed in the exporting county. This is obtained by the exporter to ensure prompt clearance of the goods on the arrival of the ship. It is necessary to convince the customs authorities desiring to open the packages and scrutinize the goods for the purpose of calculating customs duty. If this is done a considerable delay will be put many hardship. To avoid this, consular invoice is

obtained by applying to the concerned consulate on a prescribed form. It is generally prepared in triplicate one copy is sent to the customs authorities of the importing country and the third copy is given to the exporter to enable him forward to the importer along with other documents.

Consular invoice is a certificate issued by the Trade Consulate of the importer's country stating that goods of particular value are being imported from a particular country by a particular importer.

13.5.2 IMPORTANCE

I) Importance of Consular Invoice to the Exporter

- a) It facilitates easy clearance of goods from the customs.
- b) When the invoice is signed by the consulate of the importing country, it is an assurance to the exporter that his goods will enter into the buyer's country without any difficulty.
- c) The interest of the exporter is well protected. He can realize foreign exchange against shipment without problem.

II) Importance of consular Invoice to the importer

- a) The importer gets quick delivery of goods and that too without opening the containers for verification purpose.
- b) Goods are delivered quickly after the calculation of duty as per the consular invoice received.
- c) The importer is rest assured that banned goods are not sent.

III) Importance of consular invoice to the customs office.

- a) The work of customs authorities become easy and quick. Goods are cleared quickly.
- b) Duty calculation is possible on the basis of consular invoice received. This means the physical verification is not required.
- c) No need to open the cargo to calculate of value of goods.
- d) Loss of time and re-packing of the goods are avoided.

13.6 MATE'S RECEIPT

13.6.1 MEANING

When the cargo is loaded on the ship the commanding officer of the ship will issue a receipt called the "Mate Receipt". The Mate Receipt is first handed over to the port authorities. Port Trust

Docks will accept the necessary charges on goods shipped at the dock, and will hand over the mate receipt to the exporter or his agent.

The exporter or his agent will have to make an application in the prescribed form to the Manager, Mumbai Port Trust Docks to accept payment of wharf age and demurrage and other charges on the goods to be shipped. This application contains such detailed information as, name of vessel, name of agent, owner of vessel, nationality of flag of vessel, port of destination of goods, country to which goods are consigned, marks and numbers, description of goods, packages, weight, wharf age, other charges and so on.

Mate's receipt issued by the mate or master of the vessel in which the goods are shipped for onward Journey to specific port of destination. It is issued by the mate after cargo is loaded on the ship. It is a prima facie evidence that goods are loaded in the vessel.

13.6.2 TYPES OF MATE'S RECEIPT

Mate's receipt is of two types –

a) Clean receipt –

Clean receipt indicates that goods have been properly packed and there is no defect of any kind in the packing.

b) Qualified receipt –

Qualified receipt means packing is defective and that shipping company will not be responsible for damages of any kind.

The exporter should get a clean receipt to avoid further complications.

13.6.3 IMPORTANCE OF MATE'S RECEIPT

The importance of mate's receipt can be summarized as under.

1. Mate's receipt serves as an acknowledgement of the cargo loaded on the ship.
2. It further enables the shipping company to issue the bill of lading.
3. It enables the exporter or his agent to pay port trust dues.
4. It is only after presenting the mate's receipt to the customs preventive officer that he records the certificate of shipment on all copies of shipping bill and other documents.

13.7 BILL OF LADING

13.7.1 MEANING

A bill of lading is a document issued by the shipping company upon shipment of the goods. It is a contract between the shipper (exporter) and the shipping company for the carriage of goods to the port of destination. It is a document title to goods and as such required by the importer to clear the goods at the port of destination.

Bill of Lading is a document of title to the goods. It is issued by the shipping company and serves as a receipt from the shipping company which undertaken to deliver the goods at agreed destination on payment of freight.

A Bill of Lading contains are the following.

- a) The name of the shipping company.
- b) The name and address of the shipper exporter.
- c) The name and address of the importer / agent.
- d) The name of the ship.
- e) Voyage number and date.
- f) The name of the ports of shipment and discharge.
- g) Quality, quantity, marks and other description.
- h) The number of packages.
- i) Whether freight paid or payable.
- j) The number of original issued.
- k) The date of loading of goods on the ship.
- l) The signature of the issuing authority.

In short, bill of lading is a contract between the shipper and the shipping company for the carriage of goods to the port of destination. It is an acknowledgement indicating that the goods accepted for transportation are in order and in good condition.

13.7.2 TYPES OF BILL OF LADING

The important types of Bill of Lading are as follows.

1) Clean Bill of Lading –

A clean bill of lading is one which does not contain any indication that the goods were defective when boarded on ship.

2) Clause BL –

It bears some adverse remarks when goods are not properly packed and show signs of damage. The shipping company puts adverse remark for example “goods damaged”.

3) State BL –

If the bill of lading is held to long and not presented to the bank / consignee soon after it is given by the shipping company, it is called state bill of lading.

4) Freight paid BL –

This bill of lading is issued when the exporter has paid for the freight charges. The words 'freight paid' are mentioned on the bill of lading.

5) Freight collects BL –

When the export contract is on F. O. B. terms and when freight is not paid by the exporter, it is called freight collect bill of lading.

6) To order BL –

This bill of lading is issued in the order of a certain person. Title to the goods is given by possession of bill of lading.

7) Straight BL –

In this importer / consignee / agent is named in the bill of lading, it is called straight bill of lading.

8) On Board & Received BL –

A bill of lading issued after the goods are loaded on the vessel is called 'on board bill of lading'.

9) Container BL –

When containers are used in international trade, the shipping company issues container bill of lading. Such a bill covers a particular container from one port to another.

13.7.3 IMPORTANCE OF BILL OF LADING:

I) Importance of BL to the Exporter

- a) Bill of lading is a legal document. In the event of dispute it can be presented in a court of law.
- b) It is a contract of transportation.
- c) It is an acknowledgement of the receipt of the goods on board the ship.
- d) It enables the exporter to send a shipment advice to the buyer.
- e) It helps the exporter to file claim of compensation, if goods are damaged in transit.
- f) It helps the exporter to calculate exact amount of freight while submitting CIF quotation.

II) Importance of BL to the Importer

- a) It is a document title of goods; as such he can claim the possession.
- b) It is a semi-negotiable document i.e. its ownership can be transferred by endorsement and delivery.
- c) It enables him to pay proper freight amount under FOB contract.

III) Importance of BL to the shipping company

- a) It helps the shipping company to collect the freight from the shipper or the importer.
- b) It protects the shipping company in sense that goods damaged before loading on the ship is shown in bill of lading.

CHECK YOUR PROGRESS:

1. Fill in the blanks:
 - a. A bill of lading does not containing any indication that the goods were defective when boarded is called as -----.
 - b. The words -----is mentioned on the Freight paid bill of lading.
 - c. In this importer / consignee / agent is named in the----- bill of lading.
 - d. ----- indicates that goods have been property packed and there is no defect of any kind in the packing.
 - e. Certificates for clearance are generally issued by -----and -----.
 - f. The certified copy of the -----is called consular invoice.

2. Define the following terms
 - a. Clause Bill of lading
 - b. State bill of lading
 - c. On board bill of lading
 - d. Container bill of lading
 - e. Qualified mate receipt
 - f. Consular invoice
 - g. Certificate of origin

3. Enlist the important types of Bill of Lading

13.8 GR (GUARANTEED REMITTANCES) FORM

13.8.1 MEANING

This is prepared the duplicate in case of all shipments other than Nepal and Bhutan and submitted to customs Authorities at the part of shipment.

The GR formality is to be completed as per the rules of RBI. The GR form is a declaration form, wherein, the exporter guarantees to realize the full value of export proceeds within a stipulated period, which is normally 180 days from the date of exports.

GR Form is an exchange control document which is to be submitted to the Reserve Bank of India after clearance from the customs Authorities, contents of the GR Form.

- a) Name of the exporter
- b) Name of the negotiation bank.
- c) Currency in which payment will be received.
- d) Currency in which payment will be received.
- e) Name of buyer's country.
- f) Port of origin.
- g) Port of destination
- h) Commission or discount payable on export.
- i) Quality, quantity and value of export.

13.8.2 PREPARATION OF GR FORM

- a) GR Form is used for declaring exports to all countries other than Nepal and Bhutan. It is to be completed in duplicate.
- b) GR Form is used to declare receipt of foreign exchange.
- c) All entries should be made in the currency of the invoice.
- d) Bank's name concerned with the realization of export proceeds should be noted clearly.
- e) The code number of exporter should be noted correctly and clauses which are not applicable should be scored out.

13.8.3 PROCESSING OF GR FORM

After examination of the particulars in the form, customs will certify the export value on both the copies of GR Forms. Original copy is sent to the RBI by customs and the second copy is handed over to the exporter. The exporter hands over the duplicate copy of

GR Form to his bank. After the proceeds are realized, the bank sends the duplicate copy of GR to RBI.

13.9 DISTINGUISH BETWEEN COMMERCIAL INVOICE AND CONSULAR INVOICE

Commercial Invoice	Consular Invoice
<p>1) Meaning – Commercial invoice is the statement of account of sale rendered by the seller to the buyer and it is prepared by seller on his letter head. It is nothing but exporter bill for shipment of goods.</p>	<p>Consular invoice is a certificate issued by the Trade consulate of the importer's country stationed in the exporter's country stating that goods of particular value are imported from a particular country by particular importer.</p>
<p>2) Purpose – Its basic purpose is to inform details of goods supplied and the amount payable by importer to exporter.</p>	<p>Its basic purpose is prompt clearance through customs at the port of destination.</p>
<p>3) Status – It is a fundamental document and it is rightly called 'horoscope' of export trade transaction. It provides information required for preparing other export documents.</p>	<p>It is a secondary document. The preparation of this document depends upon requirement of buyer. It is needed only when duty is being charged on the basis of value of goods.</p>
<p>4) Fee – Seller does not charge fee for preparing this document.</p>	<p>Consul of the concerned country charges nominal fee for preparing this document.</p>
<p>5) Contents – It contains the terms and conditions of sale as well as particulars of goods.</p>	<p>It only contains details regarding value of goods being imported from certain country.</p>

13.10 DISTINGUISH BETWEEN CERTIFICATE OF ORIGIN AND CONSULAR INVOICE

Certificate of Origin	Consular Invoice
<p>1) Meaning –</p> <p>The certificate of origin states that the goods which are being exported have originated in a specific country.</p>	<p>Consular invoice is a certificate issued by the Trade consulate of the importer's country stationed in the exporter's country stating that goods of particular value are being imported from a particular country by a particular importer.</p>
<p>2) Purpose –</p> <p>The certificate of origin is necessary for taking advantage of a preferential tariff or to ensure that the goods produced in a particular country are not banned from import in the country concerned.</p>	<p>This document is required only for prompt clearance and avoiding the trouble of opening packages and repacking them for determining value.</p>
<p>3) Legalisation –</p> <p>No legalization is required in case of the certificate of origin.</p>	<p>This document has to be properly legalized by presenting it to the consul of the importing country stationed in the exporting country.</p>
<p>4) Issuing Authority –</p> <p>The certificate of origin is issued by the chambers of commerce, EPC or Authorized Trade Association.</p>	<p>Consular invoice is issued only by the Trade consulate of the importer's country stationed in the exporter's country.</p>

13.11 DISTINGUISH BETWEEN MATE'S RECEIPT AND BILL OF LADING

Mate's Receipt	Bill of Lading
<p>1) Meaning –</p> <p>Mate's receipt is a receipt issued by the mate i.e. master of the vessel after cargo is loaded in the ship.</p>	<p>Bill of lading is the official receipt issued by the shipping company. This bill officially acknowledges the receipt of goods for transportation.</p>
<p>2) Types –</p> <p>It is generally two types i.e. clean mate's receipt and the other is claused mate's receipt.</p>	<p>It is of several types, such as clean BL, claused BL, state BL, Freight, paid BL, Freight collect BL.</p>
<p>3) Negotiability –</p> <p>Mate's receipt is not a negotiable document and as such it does not have any title to goods.</p>	<p>Bill of lading is a negotiable documents and as such it has title of goods.</p>
<p>4) Importer's Need –</p> <p>The copy of mate's Receipt is not required by importer.</p>	<p>Bill of lading is essential to the importer.</p>
<p>5) Number of copies –</p> <p>It can be prepared in three copies, one for the mate for his records, the second copy is sent to the shipping company and the third is handed over to the exporter.</p>	<p>It is prepared in set with 2 negotiable copies and several non-negotiable copies, only the negotiable copies have title to goods and non-negotiable copies are used for record purpose.</p>
<p>6) Signed by –</p> <p>Mate receipt is signed by the mate of the ship</p>	<p>It is signed by the shipping company or its agent.</p>

13.12 SUMMARY

Commercial invoice is an exporter's bill for the goods shipped. It contains such information as description of goods, price charged, term of shipment and the marks and numbers on the packages containing the merchandise. It is the seller's bill for the goods which contains complete particulars about the consignment.

Shipping Bill is the main documents on the basis of which the custom's permission for export is given.

Certificate of origin is the document certifying the origin of goods, without which clearance of imported goods is refused. Certificate of Origin contents description, quantity and value of goods, number of packages and markings there on, declaration by the shipper, certificate by the issuing authority.

Consular invoice is a certificate issued by the Trade Consulate of the importer's country stating that goods of particular value are being imported from a particular country by a particular importer.

After loading the cargo on the ship the commanding officer of the ship issues a receipt called the "Mate Receipt". It is a prima facie evidence that goods are loaded in the vessel.

Bill of Lading is issued by the shipping company and serves as a receipt from the shipping company which undertaken to deliver the goods at agreed destination on payment of freight. It is an acknowledgement indicating that the goods accepted for transportation are in order and in good condition.

The GR form is a declaration form, wherein, the exporter guarantees to realize the full value of export proceeds within a stipulated period, which is normally 180 days from the date of exports.

13.13 QUESTIONS FOR SELF-ASSESSMENT

1. Explain in brief the main documents required by custom authorities at the port of shipment.
2. Discuss the importance of the following documents –
 - a) Certificate of origin
 - b) Bill of Lading
 - c) Shipping Bill
 - d) Consular Invoice

3. Write short notes on the following documents –
 - a) Commercial Invoice
 - b) Bill of Lading
 - c) Shipping Bill
 - d) Certificate of origin
 - e) Consular Invoice
 - f) Mate's Receipt

4. Distinguish between the following –
 - a) Commercial Invoice Vs Consular Invoice
 - b) Certificate of origin Vs Consular Invoice
 - c) Mate's Receipt Vs Bill of Lading

5. Explain the checklist for submitting documents to authorized dealer for negotiation of export bills.



14

EXPORT ASSISTANCE AND INCENTIVES

Unit Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Main Export Incentives
- 14.3 Duty Drawback (DBK)
- 14.4 EPCG Scheme
- 14.5 Marketing Development Assistance (MDA)
- 14.6 Market Access Initiative (MAI)

- 14.7 DEPB Scheme
- 14.8 Deemed Exports
- 14.9 ASIDE Scheme
- 14.10 State level export promotion committee (SLEPC)
- 14.11 Summary
- 14.12 Questions for Self-Assessment

14.0 OBJECTIVES

After detailed study of this chapter the students should be able to.

- Understand the main export incentives
- Elaborate the term DBK
- Know in detailed EPCG, DEPB, and ASIDE Schemes.
- Explain Marketing Development Assistance and market Access Initiative.
- Know deemed exports.

14.1 INTRODUCTION

Export assistance and incentives is a financial help given by the Government to Indian exporters to improve their ability to compete in foreign markets. Indian exporters can survive provided they can produce good quality goods at reasonable cost. In the domestic market practically everything is highly taxed. We can export our goods but not taxes. The exporters need various concessions and rebates to make the price competitive.

14.2 MAIN EXPORT INCENTIVES

The main export incentives are as follows.

1) Export Promotion Capital Goods Scheme –

The scheme allow import of new capital goods at 5% customs duty subject to an export equivalent to 5 times. CIF value of capital goods to be fulfilled over a period of 8 years. Both new and second hand capital goods can be imported.

2) Duty Drawback (DBK) –

The exporters are entitled to claim the refund of the customs duty paid on the imported materials and components. DBK also involves refund of central excise duty paid on indigenous materials used in the manufacture of the finished goods. Such refunds are described as “drawback”.

3) Exemption from Excise Duty –

Finished goods, when exported are exempted from payment of excise duty. Exemption can be made in two ways i.e. Export under rebate and Export under bond.

In case of export under rebate, the exporter has to initially pay the duty which he can claim refund at a later stage.

In case of export under bond, goods can be exported without prior payment of duty but an indemnity bond is executed in favour of excise authorities.

4) Exemption from VAT –

Export goods are also exempted from the payment of sales tax. Necessary documents are to be provided to the sales tax authorities, giving proof of export, in order to claim sales tax exemption.

5) Marketing Development Assistance –

Large exporters such as export houses, trading houses, star trading houses and SSTH are given marketing development assistance which ranges between 25% to 60% of the actual expenditure incurred MDA is provided in respect of conducting market surveys, advertising and publicity abroad, opening showrooms in India and abroad, etc.

6) Octroi and Rail Freight Refund –

The exporters can claim Octroi refund from local authorities. Octroi is the levy imposed by local authorities like Municipal Corporation on goods entering from outside the local area jurisdiction. The exporters can also claim railway freight refund paid on transportation of goods by railways from the place of production to the ports or docks.

7) Exemption from Income Tax –

Our Government has provided income tax relief to all exporters. Under section 80 HHC, exporters are given 100% exemption from the payment of income tax on export profits. Similarly, FTZs / EPZs and 100% EOUs enjoy a five year tax holiday.

8) Duty Free Credit –

Exporters get duty free credit on various items depending on the FOB value of goods. For example, under Vishesh Krishi Gram Udyog Yojana, exporters get 5% duty free credit on FOB value of exports. Also service providers are eligible for duty free credit of

10% of FOB earned by them under the “Served from India” scheme.

9) Special Incentives to SEZ Units –

The SEZ units are given special incentives to boost export performance. For example a five year tax holiday is given to SEZ units. The SEZ units are also given extension in credit realization from 180 days to 360 days.

10) Market Access Initiative –

Under this scheme, Govt. provides financial assistance to undertake market studies, and marketing development activities in respect of certain ‘ Focus Products’ and ‘Focus Markets’. The assistance is provided to various agencies such as Departments of Central and State Governments, Export promotion Councils, Individual exporters and others. The amount of assistance ranges from 25% to 100% of the total cost depending upon the activity and the implementation agency.

14.3 DUTY DRAWBACK

14.3.1 MEANING

Duty Drawback means refund of custom duties paid on the import of raw materials components and packing material. DBK also involves refund of central excise duties paid on indigenous material used in the manufacture of export products.

The Duty Drawback scheme has been introduced to compensate the exporters for the additional costs in form of taxes that he has to bear, apart from the actual cost of the import.

Therefore, the Central excise and customs duty paid on the imported items are reimbursed to the exporter to give him the opportunity of making his products competitive in the international markets.

14.3.2 Duty back is available on the following items.

- a) Raw materials and components used in the process of manufacture.
- b) Materials used in the manufacture of raw materials and components used on the manufacture of finished products.
- c) Irrecoverable wastages which arises in the process of manufacturing.
- d) Material used for packing the finished export products.
- e) Finished products.

14.3.3 DBK is not admissible

If the –

- a) Amount of drawback entitlement is less than Rs. 50/-.
- b) Goods have been taken into use after manufacture except tea chest used as packing materials for export of blended tea.
- c) Goods are produced using imported materials or excisable materials in respect of which duties have not been paid.
- d) Products manufactured by 100% EOUs and units located in FTZs / EPZs.
- e) Amount of drawback is less than 2% of net FOB value of exports.
- f) Goods exported to Nepal, Bhutan, Tibet and SingKiang.

14.3.4 Procedure to claim DBK.**Whom to Apply –**

The application need to be made to the nearest customs House.

When to Apply –

Application must be made within a period of 60 days from the date of obtaining “Let Export Order” from the customs examiner.

What Documents Required –

The application must be supported by the following documents.

- a) Non-negotiable copy of Bill of Lading.
- b) A copy of duty drawback
- c) A copy of commercial invoice.
- d) A copy of special brand rate letter, if required
- e) Other required documents.

14.3.5 Rate of DBK

There are two rates of duty drawback –

a) All Industry Rates –

All Industry Rates are declared by the Government of India from time to time. These rates are applicable to all units in the industry. For example, if the govt. declares 20% DBK for textiles then all units in the textile industry can get 20% DBK.

b) Special Brand Rates –

Special Brand Rates are provided by the Govt. on the special application made by a particular unit.

14.4 EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

Under the Export Promotion Capital Goods (EPCG) scheme, the import of capital goods at 5% customs duty is allowed subject to an export obligation equivalent to 5 times CIF value of capital goods to be fulfilled over a period of 8 years. In case of EPCG licenses for Rs. 100 crore or more the same export obligation can be fulfilled over a period of 12 years.

14.4.1 Conditions

Import of capital goods is subject to actual user condition till the export obligation is achieved. Under this scheme, exporters are allowed to import both new and second hand capital goods with residual life of ten years. The import of second hand capital goods under the scheme is subject to certain conditions.

Capital goods means, plant, machinery, Equipment, Packing machinery and equipment, Quality and pollution control, Testing instruments, Power generation sets, Machine tools, Refrigeration equipments, Research and development etc.

14.4.2 Who are eligible?

EPCG scheme is available both for manufacturing and service sectors including manufacturer exporters; merchant exporters tied to supporting manufacturers are eligible to import capital goods, also service providers such as hotels, hospitals, travel and tour operators etc. are eligible.

14.4.3 Features of EPCG Scheme

- a) The EPCG licence holder can buy capital goods from domestic manufactures.
- b) Whatever capital goods are imported, it is subject to actual user conditions.
- c) In order to know about the progress of business, the EPCG licence holder has to submit a report of his export every six months.
- d) In order to continue to get the benefit of EPCG Scheme, the licence holder must fulfill the export obligations.
- e) When export obligation is fulfilled, the EPCG licence holder must submit a consolidated statement of exports.
- f) The EPCG licence holder will submit a certificate from his banker when payment is received from abroad.

- g) EPCG is a facility given to the exporters to improve their business.
- h) In order to get registered for EPCG facility, the exporter has to apply to Director General of foreign Trade (DGRT) with application fee and relevant documents.

14.5 MARKETING DEVELOPMENT ASSISTANCE (MDA)

14.5.1 PURPOSE

The Government of India established the MDA fund in 1963 with a view to promote exports along with marketing of Indian products and commodities abroad. It is utilized for the following purposes.

- a) Market research, commodity research, area survey and research.
- b) Product promotion and commodity development.
- c) Export publicity and dissemination of information.
- d) Participation in trade fairs and exhibitions.
- e) Trade delegations and study items.
- f) Establishment of offices, branches and godowns abroad.
- g) Grant-in-aid to Export Promotion councils and other approved organizations for the development of exports and the promotion of foreign trade.
- h) Any other scheme which is calculated generally to promote the development of markets for Indian products and commodities abroad.

14.5.2 AMOUNT OF ASSISTANCE

The amount of assistance is normally 50% of the actual expenditure. However, 60% of the actual expenditure may be considered in respect of small scale units.

14.5.3 Beneficiaries –

The expenditure controlled by the MDA committee and assistance is provided under the following sub-heads.

a) Grant in aid to Export Promotion and Market Development Organization.

MDA grant is available to 20 export promotion councils, grantee institutions, approval organizations such as FIEO, IIFT,

Indian Institutes of packaging, Indian Council of Arbitration and Indian Diamond Institutes, recognized exporters such as Trading Houses, Star Trading Houses and Export Houses. The budget provision for MDA for all organizations are approved by the MDA committee

b) Disbursing Authorities –

- i. Ministry of commerce for opening of foreign offices, warehouses, after sales service centers and R & D facilities.
- ii. FIFO to promote participation in exhibitions and fairs abroad, advertising in foreign media and road shows abroad.

14.6 MARKET ACCESS INITIATIVE (MAI)

The Government of India has initiated a scheme called 'Market Access Initiative (MAI)' to promote India's exports on a sustained basis. This scheme is based on 'focus product and focus market' concept.

14.6.1 The Focus product scheme

It provides incentives to exporters of products which have high employment potential in rural and Semi-urban areas. The incentives include duty free credit of 2% of the FOB value of export turnover of notified products such as value added fish and leather products, stationary items, fireworks, sports goods, handloom and handicraft items.

14.6.2 The Focus market scheme

Its aims at offsetting the high freight cost and other disabilities faced by exporters in exporting to certain international markets. The markets include Algeria, Nigeria, Tanzania, Kenya, South Africa, Vietnam, Cambodia, Australia, New Zealand, Latin American markets, etc. the exporters get 3% duty free credit of FOB value of exports on all products to the notified areas.

14.6.3 Beneficiaries of Assistance

The assistance is provided to the following agencies –

- a) Departments of Central and State Governments.
- b) Organizations of Central and State Governments.
- c) Indian commercial missions abroad.
- d) Export promotion councils.
- e) Commodity Boards.

- f) Registered Trade Promotion Organization such as ITPO
- g) Recognized Apex Trade Bodies.
- h) Recognized Industrial clusters
- i) Individual Exporters for Pharma products registration and testing charges for engineering products abroad.

14.6.4 Components of Assistance –

- a) Conducting marketing studies.
- b) Establishing showrooms and warehousing facilities in target markets.
- c) Participation in international trade fairs, seminars, sales promotion campaigns, etc.
- d) Transport subsidy for select agricultural products.
- e) Launching export potential products.

14.6.5 Amount of Assistance

All export promotion activities can get financial assistance from the Govt. ranging from 25% to 199% of the total cost depending upon the activity and the implementing agency.

CHECK YOUR PROGRESS:

1. Enlist the main export incentives.
2. Define the following terms:
 - a. Duty drawback
 - b. Export promotion capital goods scheme
 - c. Marketing development assistance
 - d. Export assistance and incentives
3. Give the full forms of
 - a. DBK
 - b. EPCG
 - c. MDA
 - d. MAI
4. Fill in the blanks
 - a. -----scheme is based on 'focus product and focus market' concept.
 - b. The expenditure controlled by the MDA committee and assistance is provided under the sub-heads namely -----and-----.

- c. Under ----- scheme, exporters are allowed to import both new and second hand capital goods.
- d. For DBK application must be made within a period of 60 days from the date of obtaining -----.

14.7 DUTY ENTITLEMENT PASS BOOK (DEPB) SCHEME

The value based advance licensing scheme and the old pass book scheme have been replaced by a new scheme called the DEPB scheme in the EXIM policy 1997-2002. The DEPB scheme is likely to be withdrawn after May 2009.

Under the Duty Entitlement Passbook (DEPB) scheme an exporter is eligible to claim credit at a specified percentage of FOB value of exports. The credit shall be available against such export products and at such rate as may be specified by the DGET.

14.7.1 Applications

The application for obtaining credit should be filed within a period of six months from the date of exports or within three months from the date of realization. The DEPB shall be issued with single part of registration i.e. the port from where the exports were made. No exports shall be allowed under DEPB scheme unless the DEPB rate of the concerned export product is notified.

14.7.2 Validity

Duty Entitlement pass book scheme shall be valid for 12 months from the date of its issue.

14.7.3 Eligibility

Merchant – exporter and manufacturer – exporter are eligible for DEPB.

14.7.4 Types

DEPB is of two types these one as follows

a) Pre-export basis –

DEPB on pre-export basis aims to provide the facility to eligible exporters to import inputs which are required for production.

b) Post – export basis –

DEPB on post – export basis will be granted against exports already made and will be transferable.

The credit of DEPB on pre-export basis will be granted at the rate of 5% of the average export performance during the three preceding licensing years.

14.8 DEEMED EXPORTS

14.8.1 MEANING

Deemed exports are not physical exports. It involves those transactions of goods within the country as specified by the Government of India. In other words goods supplied do not leave the country and the payments for such goods are made in India, by the recipient of the goods. The deemed exports treated as exports for certain facilities and benefits under the EXIM policy.

Deemed exports refers to those transactions in which the goods supplied do not leave the country and the payment for such goods are made in India by the recipient of the goods in Indian rupees. Demand exports are not physical exports.

14.8.2 CATEGORIES OF DEEMED EXPORTERS

- a) Supply of goods against duty free licenses issued under the Duty Exemption Scheme.
- b) Supply of goods to units located in EPZs or EHTPs or STPs or to 100% EOUS.
- c) Supply of capital goods to holders of licenses under the EPCG scheme.
- d) Supply of goods to the power, oil and gas sectors duty approved by Ministry of finance.
- e) Supply of goods to any project approved by ministry of finance which permits import of such goods at zero customs duty.
- f) Supply of capital goods and spares to fertilise plants if the supply is made under the procedure of international competitive bidding.
- g) Supply of goods to projects financed by multilateral or bilateral agencies / funds as notified by the Department of Economic Affairs, Ministry of Finance under international competitive bidding.

14.8.3 BENEFITS TO DEEMED EXPORTERS

- a) The supplier can claim special Import License at the rate of 6% of FOB value.

- b) The supplier can claim duty drawback.
- c) The supplier can claim refund or excise duty paid on raw materials which are used in the production of “end” products.
- d) The supplier can claim special Import License / Advance Intermediate License.
- e) The supplier can import duty free specified inputs. In order to claim Deemed Export Benefits, the supplier is required to produce documentary evidence about realization of export proceeds through banks.
- f) The benefit of deemed exports is also available in respect of supplies of capital goods and spares to fertilizer plants completed during the Ninth plan period.

14.9 ASSISTANCE TO STATES FOR INFRASTRUCTURE DEVELOPMENT FOR EXPORTS (ASIDE) SCHEME

ASIDE Scheme was announced in March, 2002. It was titled as “Assistance to state for Development of Export Infrastructure and Allied Activities”. For convenience, it can be referred as ‘Assistance to states for Infrastructure Development for Exports’.

14.9.1 Purpose of ASIDE Scheme

This scheme is designed to encourage state Government to participate in the promotion of exports from their respective states. Under this scheme, financial assistance is provided by central Government to State Governments for the development of infrastructure and allied activities related to exports.

14.9.2 Criteria for Allocation of Funds

The funds are allocated to the state on twin criteria of gross exports and the rate of growth of exports. The financial outlay of the scheme has two components.

- a) State component, where 80% of the funds are allocated to the states / UTs on the basis of approved criteria.
- b) Central component, where 20% to be retained by central Govt. for meeting the requirements of inter-state projects, capital outlays of EPZs, activities relating to promotion of exports from the North Eastern Region (NER). The Central Govt. will also retain an amount allocated to states but remained unutilized in the previous years, if any and spend that amount for export promotion and development activities.

Special importance to North Eastern Region (NER)

A minimum of 10% of the scheme outlay is reserved for North Eastern Region and Sikkim; this would enable the development of NER and Sikkim in the area of exports.

Private Participation

To encourage private participation in the development of export related infrastructure, state Govt. Are to identify projects with private participation by giving them additional incentives.

14.10 STATE LEVEL EXPORT PROMOTION COMMITTEE (SLEPC)

Every state / UT shall have a SLEPC, headed by Chief Secretary of the state. SLEPC will scrutinize and approve the projects and monitor the implementation of the scheme in the state.

Activities –

The State Govt. shall utilize the funds for the development of infrastructure such as –

- a) Roads connecting production centers with the ports or docks.
- b) Setting up of Inland container Depots and container Freight stations.
- c) Certain of New State Level Export Promotion industrial parks / zones.
- d) Equity Participation in infrastructure projects.
- e) Development of minor ports and Jetties.
- f) Assistance in setting up of common effluent treatment facilities.
- g) Stabilizing power supply.
- h) Any other activity as notified by Dept. of commerce from time to time.

14.11 SUMMERY

Export assistance and incentives is a financial help given by the Government to Indian exporters to improve their ability to compete in foreign markets. It includes EPCG scheme, DDK, Exemption from excise duty and VAT and income tax, MDA, Octroi and rail freight refund, Duty free credit, special incentives to SEZ units, MAI etc.

Duty Drawback means refund of custom duties and central excise duties paid. Therefore, the Central excise and customs duty

paid on the imported items are reimbursed to the exporter to give him the opportunity of making his products competitive in the international markets.

Under the Export Promotion Capital Goods (EPCG) scheme, the import of capital goods at 5% customs duty is allowed subject to an export obligation equivalent to 5 times CIF value of capital goods to be fulfilled over a period of 8 years. EPCG scheme is available both for manufacturing and service sectors.

The Focus product scheme provides incentives to exporters of products which have high employment potential in rural and Semi-urban areas.

The Focus market scheme aims at offsetting the high freight cost and other disabilities faced by exporters in exporting to certain international markets.

DEPB is the new face of the Value Based Advance Licensing scheme and the old Pass Book Scheme in the EXIM policy 1997-2002. Under the Duty Entitlement Passbook (DEPB) scheme an exporter is eligible to claim credit at a specified percentage of FOB value of exports.

Deemed exports are not physical exports. It involves those transactions of goods within the country as specified by the Government of India. The deemed exports treated as exports for certain facilities and benefits under the EXIM policy.

14.12 QUESTIONS FOR SELF-ASSESSMENT

- 1) Discuss the incentives available to Indian Exporters.
- 2) Write short notes on –
 - a. Duty drawback
 - b. EPCG scheme
 - c. MDA scheme
 - d. MAI scheme
 - e. DEPB scheme
 - f. Deemed Exports
 - g. ASIDE scheme



15

OBJECTIVES QUESTIONS – CONCEPT ABBREVIATIONS

Objectives:

The basic purpose of this chapter is to give an appropriate meaning of the term, so as to understand and make easy to learn very effectively.

Objective Questions – Concepts:

1) Ad-Valorem Duty –

Ad-Valorem duties are imposed at a fixed percentage on the value of a commodity imported. Here, value of the commodity imported is taken as a base for the calculation of duty.

2) Anti-dumping Duty –

At present, certain exporter's resort to dumping of goods at very low price, even below the domestic cost of production. The main purpose is to capture a large market share and to create adverse effect on competitors through the price war. To offset anti-dumping effect, importing countries additional levy or duty called as anti-dumping duty.

3) ARE-1 Form –

The exporter has to fill up ARE-1 form in five copies of the following different colours –

Original copy	-	white
Duplicate copy	-	Buff
Triplicate copy	-	pink
Quadruplicate (Fourth) copy	-	Green
Quintuplicate (fifth) copy	-	Blue

4) Back to Back letter of credit –

It is an ancillary credit granted by a bank in India against the security of original L/C, which the exporter has received from the importer's bank.

5) Bilateral Trade Agreement --

It refers to a trade agreement between two countries. Countries enter into trade agreement for tariff concessions, or in any other respect for promoting the trade among the contracting parties. Trade agreement between more than two countries is called multilateral trade agreement.

6) Bill of Lading –

Bill of Lading is a document of title to the goods. It is issued by the shipping company and serves as a receipt from the shipping company which undertakes to deliver the goods at agreed destination on payment of freight.

7) Blanket permit –

Large export organizations like export houses and all forms of trading houses are given the facility of blanket exchange permit, under which lump sum foreign exchange is provided to meet expenses abroad.

8) Branding –

It is process of assigning a brand name to a product. The main purpose of brand is to enable the target customers to identify the brand and to get familiar with it.

9) Brand Piracy –

Brand Piracy refers to counter feiting popular brand names in foreign markets. The brand piracy is common in case of consumer goods.

10) Break even point –

It is that point where the total revenue intersects with total cost is called break-even-point.

11) Canalization of Export –

It means exports to be undertaken only by the canalizing agency such as MMTC, NAFED etc. in respect of certain specified items under the EXIM policy.

12) Carting order –

Carting order is issued by superintendent of port Trust. It is the permission given by the port trust authorities to get the goods inside the docks.

13) Certificate of origin –

Certificate of origin declares that the goods which are being exported are manufactured in specific country.

14) CIF Quotation –

CIF refers to cost, insurance and freight. It includes all costs and expenses till the goods are loaded on the ship plus payment of insurance premium and freight charges.

15) Confirmation of letter of credit –

Confirmation of letter of credit means giving a guarantee from a local bank in respect of the letter of credit.

16) Core Product –

Core product is the primary level of a product. It constitutes the primary service or benefit that a customer is looking for.

17) Consular Invoice –

Consular invoice is a certificate issued by the Trade consulate of the importer's country stating that goods of particular value are being imported from a particular country by a particular importer.

18) Deemed Exports –

Deemed exports are supplies made within India, and treated as exports for the purpose of certain benefits. It includes supply of goods to units in SEZ, 100% EOUs, EHTP/STP etc.

19) Deferred Payment Terms –

Deferred credit means the exporter receives the payment in installment over a period of time. It is offered in case of sale of capital goods. The period of credit if exceeds over 180 days is called as deferred credit or deferred payment terms.

20) Direct Exporting –

Direct exporting means the manufacturer exporter directly exports the goods without the help of intermediaries.

21) Discounting of Bills –

It means encashing the bills proceeds before the maturity date at a discount. The bank advances the amount of the bill after deducting the discount charges.

22) Documents Against Acceptance –

It is one type of documentary bills. Under DA bills, the documents will be handed over to the importer against the acceptance of bill of exchange.

23) Documents Against Payment –

It is one type of documentary bills. Under DP, the documents are to be handed over to the importer against payment of bill of exchange.

24) Dollar Denominated Credit –

The exporter gets post shipment credit is denominated in foreign currency and the exporters pay interest at rates applicable to the foreign currency i.e. dollar.

25) Dumping--

It is a method of selling goods in the market at a low price, even below the cost of production. Dumping can take place in the domestic as well as in the export markets.

26) Duty Drawback--

It refers to the exporter is eligible to get refund of custom duty and excise duty paid on materials, components and consumable utilized in the manufacture of finished goods.

27) ECGC--

ECGF stands for Export Credit Guarantee Corporation of India Limited. The two main objects of ECGC are –

- a) To protect the exporters against credit risks, i.e., non-repayment by buyers.
- b) To protect the banks against loses due to non-repayment of loans by the exporters.

28) 100% EOUs –

100% Export Oriented Units manufacture the goods purely for export purpose. However, they can sell upto 50% of the production in local area, subject to payment of duties.

29) EPC –

It refers to Export Promotion Council. It is an export promotion organization. It assists member exporters in their marketing activities. In India, there are 23 EPCs which includes.

Apparel EPC, Cashew EPC, Basic chemicals EPC, Engineering EPC, Carpets EPC, Gems & Jewellery EPC etc.

30) EPCG –

EPCG stands for Export Promotion Capital Goods Scheme. Under this scheme the import of capital goods at 5% customs duty is allowed subject to an export obligation.

31) EPZ –

EPZ stands for Export Processing Zones. A free trade zone is an area near a sea / air port where firms can import goods duty

free if they are to be re-exported or used in the manufacture of goods for export.

32) Export marketing –

Export marketing includes the management of marketing activities for product which cross the national boundaries of a country.

33) Export or Perish--

“Export or Perish” this slogan was coined by Late Mr. J Nehru in early 1960s. this slogan places lot of emphasis on export earnings. This slogan states that if a nation increases its exports, it will prosper, or otherwise it will perish or face economic crisis. In order to over come foreign exchange crisis, Mr. Nehru coined the slogan “Export or Perish”.

34) Export obligation –

Export obligation means the obligation to export compulsorily by a certain firm which has undertaken certain imports under concessions in import duty.

35) Export Promotion –

It refers to export marketing efforts undertaken to promote the sale of goods and services in overseas markets.

36) Export Under Bond –

Export under bond is a system of excise clearance. Under this system exporter can remove goods for export from his factory or warehouse, without the payment of excise duty. However he has to submit a bond supported by a bank guarantee, in favour of the excise authorities for a sum equivalent to the amount of excise chargeable on such goods.

37) FOB Price –

Under the FOB contract, the seller quotes a price which includes all the expenses incurred until the goods are actually delivered on board the ship at the port of shipment.

38) Foreign Trade (EXIM) Policy –

The FTP or EXIM policy provides guidelines regarding export or import of goods and services. The FTP is reviewed every year in m/April, at present FTP 2004-09 is in force.

39) Forfeiting scheme –

This scheme was introduced by EXIM Bank in 1992. In forfeiting transaction, the exporter forfeits his right to receive or

claim payment of export goods delivered to an importer, in return for immediate cash payment from the forfeiting agency.

40) GATS--

GATS stand for General Agreement a Trade in services. It is one agreements signed by the members of the WTO. Under GATS, the member nations of WTO should open up the services sector to foreign firms so as to generate competition in the interest of customers.

41) GSP –

GSP stands for generalized system of preferences. The developed countries provide tariff concessions on the imports of developing countries. Therefore developing countries are in a better position to export more to developed nations.

42) G R Form

G R Form is an exchange control document which is to be submitted to the Reserve Bank of India after clearance from the customs Authorities within 180 days.

43) IEC Number –

IEC stands for importer's exporter's code number. It is issued by it. Directorate General of Foreign Trade. It refers to export – import registration. In India, it is compulsory to obtain IEC number.

44) IIFT –

IIFT stands for Indian Institute of Foreign Trade it provides training facilities to export personnel.

45) INCO Terms –

INCO refers to International commercial terms in respect of price quotations. The terms specify the exporter's and importer's obligations under various pricing quotations such as FOB, CFX, and CIF and so on. The obligations are universally accepted by importers and exporters.

46) Indirect Exporting –

Indirect exporting refers to exporting with the help of intermediaries such as merchant exporters and star export houses.

47) International Dumping –

It refers to the practice of selling goods in other countries at a very low price, which is much below cost of production.

48) IRMAC –

IRMAC stands for Industrial Raw Material Assistance Centre. Under this scheme, large exporters such as export houses import raw materials in bulk and distribute them in required quantity to manufacturers, suppliers or actual users.

49) ISO-9000 –

ISO - 9000 series of standard is evolved by the International Standards is evolved by the series is a set of five individual, but related international standards. These are ISO-9000, ISO-9001, 9002, 9003 and ISO -9004. The main purpose of these standards is to bring internationally uniform standards on quality management and quality assurance.

50) Letter of credit –

Letter of credit means an undertaking given by the importer's bank to make payment to the exporter within the terms and conditions of the letter of credit.

51) Let export order –

The customs examiner at the port of shipment issues let export order after physically examining the goods. It is a formal permission to export the goods.

52) Let Ship order –

The Customs preventive officer at the docks issues "Let Ship order". It is a permission to ship the goods.

53) LIBOR--

LIBOR stands for London Inter Bank offer Rate. It is short term borrowing rate among London banks. LIBOR is a benchmark for pricing Euro Loans.

54) Lines of credit –

It is a special scheme introduced by EXIM Bank provides loans to foreign financial institutions so that they provide loans to overseas buyers to buy Indian capital goods. The main objective is to promote exports of Indian capital goods.

55) Market Penetration pricing strategy –

A pricing strategy in which exporter introduces the product into the market charging very low price initially. The purpose is to capture the largest market possible and drive away competitors.

56) Mate's Receipt--

Mate's receipt is issued by the mate or master of the vessel in which the goods are shipped for onward journey to specific port of destination.

57) MFN Clause –

MFN stands for most favored nation principle. Under this clause, if a country provides tariff concessions to one member of GATT (WTO), then automatically such concessions are applicable to all other member countries.

58) MMTC –

The minerals and metals Trading Corporation of India Ltd. (MMTC) was established by the GOI in Oct. 1963. It is a canalizing agency which deals with export of minerals and metals.

59) MNC--

MNC stands for Multinational Corporation. It is a corporation that controls production and distribution facilities in more than one country. In other words, a country that undertakes business activities in more than one country is called MNC.

60) MODVAT--

MODVAT stands for modified value Added Tax, Now it has been replaced by CENVAT.

61) Negative List of Exports –

Negative list of exports means a list of items the export of which is not allowed freely. It includes –

- Prohibited items, such as birds, animals and plants.
- Restricted items, such as cattle, camels, chemical fertilizers
- Canalized items, such as Gum Karaya, Niger seeds, petroleum products etc.

62) Non-Tariff Barriers--

Non-Tariff barriers are also called quantitative restrictions. They restrict the quantity of goods to be imported / exported.

63) OGL--

Open General License means the list which contains those items which can be imported or exported without restrictions. Items covered by an OGL can be exported or imported freely without any licencing formalities to or from all permitted nations.

64) Overseas Buyer's credit –

It is a special scheme introduced by EXIM Bank of India. Under this scheme, EXIM Bank provides loans to overseas buyers to buy Indian capital goods. The loans are provided at international rate of interest. The main objective is to promote the exports of Indian capital goods.

65) Packing Credit –

Packing credit is also known as pre-shipment finance. It refers to the credit provided to the exporter to meet working capital requirements before the shipment of goods such as payment of

wages, purchase of raw material, payment of recurring factory expenses etc.

66) Penetration pricing – strategy –

A pricing strategy in which exporter introduces the product into the market charging very low price initially. The purpose is to capture the largest-market possible and drive away competitors.

67) Post-shipment credit –

Post-shipment credit refers to the credit provided to the exporter after the shipment of goods for meeting working capital requirements. It fulfils the shortage of finance between the date shipment and actual receipt of payment from the importer.

68) Price Quotation –

It refers to the terms and conditions agreed between the seller and the buyer. It provided the buyer's and seller's obligations. There are several price quotations such as FOB, C & F, CIF etc.

69) Probe Pricing –

It is a pricing strategy, where the exporter fixes a high price, when a new product is launched in the market. The main objective is to probe or judge the customers reactions towards the price.

70) Product –

According to Philip kotler –

Product is anything that can be offered to a market for attention, acquisition or consumption that might satisfy a want or need

71) Product Adaptation –

Product adaptation refers to modifying the product as per the needs and requirements of the consumers in foreign markets.

72) Product Life cycle –

Products pass through a life cycle. Normally, the product passes through four phases or stages. They are a) Introduction stage b) Growth stage c) Maturity state and d) Decline stage.

73) Product mix –

It refers to a set of products offered for sale by a company. For example a product mix may consist of food items, footwear, fashion wear etc.

74) Product Positioning –

Product positioning defined as an effort aimed at creating and maintaining in the mind of target customers the intended image for the product or brand, relative to other brands so that they will perceive the product as possessing the attributes they want.

75) Product standardization –

Product standardization means introducing the product in the market without any change.

76) Proforma Invoice –

Proforma invoice is a quotation given in the form of a regular invoice. It is sent as a reply to an inquiry.

77) RCMC –

RCMC stands for “Registration cum membership certificate”. It is issued by the export promotion council and Federation of Indian exporting organization.

78) SAARC Countries –

SAARC stands for South Asian Association for Regional Cooperation. There for seven members of SAARC which includes India, Pakistan, ShriLanka, Bangladesh, Bhutan, Maldives and Nepal? This group aims of regional cooperation as far as trade is concerned. In 2007, Afghanistan joined the group as the 8th member.

79) Seed Capital –

Seed capital is promoter’s contribution towards equity. The seed capital is provided by financial institutions like state Financial Corporations.

80) Services Exports –

It refers to marketing of services in other countries. The services exports include banking, transport, travel, communications, insurance, software etc.

81) SEZ –

SEZ stands for Special Economic Zone. It is a specifically delineated duty free area and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

81) Shipping Bill –

Shipping bill is the main customs document. It is required by the customs authorities for granting permission for the shipment of goods.

82) Shipping order –

Shipping order issued by the shipping company reserving berth or space for loading the goods on the ship.

83) Skimming pricing strategy –

It refers to introducing the product with high pricing and heavy promotional expenditure in order to skim the cream or to

make as much profits as possible in the initial stages of product introduction.

84) Specific Tariff Duty –

Specific Tariff duty is one type of customs duty. It is charged on the physical characteristics of goods such volume, weight, size, design model etc.

85) State Bill of Lading –

It is one type of bill of lading. If the bill of lading is held too long and not presented to the bank / consignee soon after it is given by the shipping company it is called state bill of lading.

86) Star Export Houses –

The concept of star Trading House was introduced in 1990. There are registered merchant exporters. They are also one of the status holders.

87) Tariff Barrier-

It refers to taxes or duties imposed on export items. Normally, tariff barriers are imposed on imports. Tariff barriers restrict the free flow of goods and services between nations.

88) Time draft and sight Draft –

Time draft means the payment will be made against the draft or bill of exchange after a certain period of time. Sight draft means the payment needs to be made immediately against the draft or bill of exchange.

89) Trading Bloc –

Trading Bloc is a group of countries, which come together to increase trade and development. It reduces or removes trade barrier on member nations. Some of the examples - NAFTA, ASEAN, EU etc.

90) TRIMS –

TRIMS is the Trade Related Investment Measures Agreement which was introduced by the WTO to protect international trade from trade related investment measures that countries adopt to protect their domestic trade.

91) TRIPs –

TRIPs is the agreement on Trade Related Aspects of Intellectual Property Rights under the WTO. It sets out the minimum standards of intellectual property rights protection that all WTO members must include in their national policies to protect international trade.

92) UNCTAD---

UNCTAD stands for United Nations conference on Trade and Development. Its members consist of developed and developing nations. The main objective of UNCTAD is to promote trade and development of less developed countries.

93) VAT –

It stands for value Added Tax. It is charged at the time of production and at every stage of exchange. Thus it is a multi-point tax.

94) WTO –

WTO stands for World Trade Organization. It came into existence in 1995 by replacing GATT. The main objective of WTO is to increase world trade and employment by reducing / eliminating tariff and non-tariff-barriers.

ABBREVIATIONS –

ACC	Assistant collector of central Excise.
ACU	Asian clearing union.
ADB	Asian Development Bank
ADS	Aligned Documentation System.
AEPC	Apparel Export Promotion Council.
AEZs	Agricultural Export zones.
APEDA	Agricultural & processed Food Products export Development Authority.
ASEAN	Association of South East Asian Nations.
ASIDE	Assis to states for Infrastructure Development for Exports.
ASSOCHAM	Association of Indian chambers of commerce.
BIFT	Board for industrial and Financial Reconstruction of India.
BIS	Bureau of Indian standards
BIPs	Bio Technology parks
C & F	Cost and Freight
CAPEXIL	Chemicals and Allied products Export Promotion council.
CIF	Cost, Insurance and Freight
CIP	Carriage and Insurance paid to
CSEZ	Cochin Special Economic Zone
CCIC	Central cottage industries Corporation
CWP	Common Wealth Preference

DBK	Duty Drawback
DDP	Delivery Duty paid
DEQ	Delivery Ex-Quay.
DES	Delivered Ex-ship
DGFT	Director General for Foreign Trade
DGTD	Director General of Technical Development
DTA	Domestic Tariff Areas.
ECD	Exchange control Department
ECGC	Export Credit Guarantee Corporation of India Ltd.
EDI	Electronic Data Interchange
EEC	European Economic Community
EEFC	Exchange Earner's Foreign currency Account.
EEPC	Engineering Export Promotion Council
EHTPs	Electronic Hardware Technology Parks
EIA	Export Inspection Agency
EIC	Export Inspection Council
EME	Entrepreneur Merchant Exporter.
EOUs	Export Oriented Units
EPC	Export Promotion Council
EPCG	Export Promotion Capital Goods Scheme.
EPZ	Export Processing Zone
EU	European Union
EXIM Bank	Export Import Bank of India
FEDAI	Foreign Exchange Dealer's Association of India.
FEMA	Foreign Exchange management Act 1999
FICCI	Federation of Indian chambers of commerce and industry
FIEO	Federation of Indian Export organization
FOB	Free on Board
FOR	Free on Rail
FOT	Free on Truck
FIZs	Free Trade Zones
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSIP	Global system of Trade Preferences among Developing countries.
GSP	Generalised System of Preferences.
HHEC	Handicrafts and Handloom Exports Corporation

IBEC	International Bank for Economic Co-operation
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	Indian council of Arbitration.
ICC	International chamber of commerce
IDA	International Development Association
IDBI	Industrial Development Bank of India
IIFT	Indian Institute of Foreign Trade
IIP	Indian Institute of Packaging
IMC	Indian merchants chamber
IRMAC	Industrial Raw Materials Assistance centre
ITPO	Indian Trade Promotion Organization
KSEZ	Kandla Special Economic Zone
L/C	Letter of Credit
LAFTA	Latin American Free Trade Area
LDCs	Less Developed Countries
LIBOR	London Inter Bank offered Rate
MAI	Market Access Initiative
MDA	Marketing Development Assistance (scheme)
MDF	Marketing Development Fund
MSEZ	Madras Special Economic Zone
MFN	Most Favoured Nation (clause of GATT)
MITCO	Mica Trading corporation
MMTC	Minerals and Metals Trading corporation
MPEDA	Marine Products Export Development Authority
MSSIDC	Maharashtra State Small Industries Development Corporation
NAFED	National Agricultural Federation of India Ltd.
NAFTA	North American Free Trade Agreement.
NSEZ	Noida Special Economic zone
NHDC	National Handloom Development Corporation
NPC	National Productivity council
OECD	Organization For Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting countries
OGL	Open General Licence
PSCFC	Post Shipment Credit Denominated in Foreign currency
RCMC	Registration-cum-membership certificate

SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trade Agreement
SEEPZ	Santacruz Electronics Export Processing Zone
SEZ	Special Economics Zone
SIL	Special Import Licence
SIDBI	Small Industries Development Bank of India
SSEZ	Surat Special Economic zone
SSTH	Super star Trading House
STC	State Trading Corporation of India
STCL	Spices Trading Corporation Limited
STPs	Software Technology Parks
TRIFED	Tribal Co-operative Marketing Federation of India Ltd.
TRIPs	Trade Related Intellectual Property Rights
TRIMS	Trade Related Investment measures
TTCI	Tea Trading Corporation of India
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development organization
VABAL	Value Based Advanced Licence
VAT	Value Added Tax
VEPZ	Visakapatnam Export Processing Zone
VKGUY	Vishesh Krishi Gram Udyog Yojana
WTC	World Trade Centre
WTO	World Trade Organization
WWEPC	Wool and Woollen Export Promotion Council.



Q. 1 Explain the following terms / concepts in about 30 words (any eight) : - **(16)**

- a) Composition of Export Trade
- b) Dumping
- c) Prohibited Items
- d) EPC
- e) C. I. F. Quotation
- f) Warehousing
- g) Letter of Credit
- h) Mates Receipt
- i) Let Ship Order
- j) Product Promotion
- k) Towns of Export Excellence
- l) Give the full form of :
 - i) OPEC
 - ii) IIFT

Q. 2 Answer any two from the following : **(16)**

- a) Define and explain the term Export Marketing. What are its features?
- b) Discuss the causes for the poor share of India's export trade.
- c) Distinguish between Tariff and Non-tariff barriers.
- d) What are the effects of Trading Blocs on international trade?

Q. 3 Answer the two from the following : **(16)**

- a) What are the steps involved in the new product development process?
- b) Discuss the role of MPEDA in export promotion.
- c) What is ITPO? What are its functions?
- d) Write a detailed note on FTP 2009-14.

Q. 4 Answer any two from the following : **(16)**

- a) From the following data, calculate the minimum FOB price to be quoted by an exporter in US \$ = Rs. 45/-.

Cost of Raw Material	Rs. 2,50,000
Cost of Labour	Rs. 35,000
Packaging Charges	Rs. 25,000
Profit Contribution	10% on FOB cost
Duty Drawback	10% on FOB price..

- b) Read the case and answer the following questions :

'Glow Hair' is one of the Mumbai's leading hair care company offering everything needed for beautiful hair; such as hair colour, shampoos, conditioners, permanent waves, and styling products. These products are sold solely to beautiful salons in the major cities of India.

In 2000, Glow Hair introduced its product in U.S.A. for the first time. Glow Hair followed its Indian distribution method of distributing the goods through direct sales to the clients i.e. beauty salons.

Glow Hair has its own sales force which visits the salons all over the cities to collect orders and also give fundamental training in the use of the hair care products.

Likewise Glow Hair established offices In California and hired sales force to call on prospective buyers. Glow Hair became instant success in California area, but it proved difficult to service prospective customers in rest of U. S. A.

Glow Hair tried until 2010 to service US customers directly as in India, but realized that the Indian distribution methods were not adequate for the US markets.

- Q. 1** What is the reasons for the success of Glow Hair in Indian Market?
- Q. 2** If you are the export marketing manager of Glow Hair for US Market, what changes in distribution system would you recommend?
- c) What is skimming pricing strategy? What are its advantages and limitations?
- d) Explain the features of post-shipment credit.

Q. 5 Answer any two from the following :

(16)

- a) Explain the Registration procedure to be followed by an exporter.
- b) Explain the Excise clearance procedure relating to export trade.
- c) Explain any four incentives offered to an Indian exporter.
- d) Write importance of :
 - i) Shipping Bill
 - ii) GR Form

SECTION II (Only for IDOL Students)

- Q. 6** Write Short Notes (any 4 FROM 6) **(20)**
 Covering the entire Syllabus.



Syllabus

Export Marketing (under the Applied Component Group Subjects) for Implementation from the Academic Year 2011-12

I. Introduction to Export Marketing

Meaning and features of Export Marketing- Importance of Exports for a nation and a firm- Difference between domestic marketing and export marketing- Motivations for export marketing – Present problems faced by Indian exporters- Trends in World Trade- the sunrise exports, review of Services Export, Composition and Direction of India's Export trade since 2000, - Reasons for India's poor share in world trade.

II. International Marketing

Meaning, trade barriers – tariffs – WTO and its implications on International Marketing with reference to agreements: TRIPs, TRIMs, GATS, Agreements on Agriculture and its implications on developing Nations – Regional Economic Groupings- Implications of Trade blocs for International Marketing- Major regional economic groupings-EU, NAFTA, ASEAN, SAARC- Global System of Trade Preferences among Developing Countries (GSTP)

III. Preliminaries for Starting Export Business

Overseas market research-Identifying foreign markets- factors for selecting foreign markets- Product planning strategies for exports- New product development Process- International Product Life cycle-Methods of entry in foreign markets- Channels of Distribution in export markets- Warehousing and its Case Studies.

IV. Export Marketing and Promotional Organisations in India

Export Marketing Organisations- Export Promotion Organisations- Export Promotion Councils- Commodity Boards- MPEDA- APEDA- FIEO- IIFT- National Council for trade Information (NCTI)- ITPO- EIC- TIP- ICA- Department of Commercial Intelligence and Statistics- Directorate General of Foreign Trade- Chamber of Commerce- STPs- EOUs- SEZs- Sales in DTA- Incentives to units in SEZs- Contribution of SEZs in india's exports.

V. Foreign Trade Policy (FTP)

Main objectives- Highlights of FTP 2009-2014- Special Focus Initiatives- Towns of Export Excellence- Eligibility Criteria for Export Houses / Star Export Houses / Trading Houses / Star Trading Houses / Premier Trading Houses- Privileges of Export and Trading House Status Holders- Negative list of exports.

VI. Export Pricing

Factors determining export price- Basic data required for export pricing decisions, Marginal cost pricing-Export Pricing Strategies- Main Export Pricing Quotations- Break even point- Simple problems on FOE Pricing

VII. Export Finance-

Meaning and types of export finance- Features of Pre-shipment and Post-shipment finance- Role of Commercial banks, EXIM bank, SIDBI and ECGC in Export Finance- Forfating scheme of EXIM bank- Methods of payment used in international trade- Terms of Payment and factors determining payment terms- Letter of Credit- Procedure for opening L/C, Parties involvea, Important Types of L/C. (10 Lectures)

VIII. Export Procedure

Stages in export procedure- Excise clearance procedure- Role of Custom House Agents (CHA)- Shipping and Customs formalities- Marine Insurance- Negotiation of Export Documents- Realisation of Export Proceeds- ISO Certification- Procedure for obtaining ISO Certification.

IX. Export Documentation

Main documents used in export trade and their importance in export trade- Commercial Invoice- Shipping Bill- Certificate of Origin- Consular Invoice- Mate's Receipt- Bill of Lading- GR Form.

X. Export Assistance and Incentives

Main export incentives extended to Indian exporters by the Indian government- Duty Drawback- EPCG Scheme- MDA- MAI- DEPB Scheme- Deemed Exports- ASIDE-Other incentives available to Indian exporters.

Suggested References-

International Marketing- P K Vasudeva- Excel Books, New Delhi.

International Marketing Management- An Indian Perspective- R. L. Varshney & B. Bhattacharya, Sultan Chand & Sons, New Delhi.

Foreign Trade Policy 2009-14, Government of India, Ministry of Commerce and Industry.



Pattern of Question Paper

For College students, 80 Marks Theory Examination (To Attempt Section I only) for Two and a Half Hour duration and 20 Marks Project work and Viva or Presentation.

For Students of IDE, 100 Marks Theory Examination (To Attempt Section I and Section II) for Three Hours duration.

SECTION I

N.B. Attempt All Questions.

1. Explain the meaning of the following Terms / Concepts in about 30 words (Any Eight)
(Twelve Terms / Concepts from the entire syllabus)
2. Answer the following:
(Any Two from Four Questions, from Modules I and II)
3. Answer the following :
(Any Two from Four Questions, from Modules III, IV and V in the Ratio of 1:2:1)
4. Attempt any Two from the following :

- A) Simple Problem on Calculation of Minimum FOB Price (From Modules VI)
 - B) One Case Study with Two Questions (relating to Modules III)
 - C) One Question (from Modules VI)
 - D) One Question (from Modules VII)
5. Answer the following :
- (Any Two from Four Questions, from Modules VIII, IX and X in the Ratio of 2:1:1)

SECTION II

- (Only for Students of IDE and College Students who took admission in T. Y. B. Com Class during the Academic Year 2005-06 or Earlier)
- i. Attempt any Four from Six Short Notes (covering the entire syllabus)



Reference Books:

International marketing and Foreign Trade Pankaj Mehra, Alfa Publication, New Delhi.

International marketing – P. K. Vasudeva – Excel books, New Delhi.

India's Export policy – Trends and prospects Pushpa Tarafdar, Deep & Deep Publications Pvt. Ltd. New Delhi.

International marketing management – An Indian Perspective – R. L. Varshney & B. Bhattacharya, Sultan Chand & Son's New Delhi.

International Marketing – P. Saravanel, Himalaya Publishing House, Delhi.

International Marketing – S. Yuvaraj, Vrinda Publications Pvt. Ltd. Delhi

Foreign Trade Policy 2009-14, Government of India, Ministry of Commerce and industry.

Internet Marketing – Carolyn F. Siegel Houghten Mifflin company Boston, New York.

