Export and Import Management

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Unit 01: Foreign Trade

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Objectives

In this unit, student will be able to:

- Understand meaning of institutional framework and export import documentation.
- Comprehend the Role of World Trade Organization (WTO).
- Understand what it takes to export as an entrepreneur - steps, role of government and semi government agencies in export promotion.

Introduction

Foreign trade is the exchange of capital, goods, and services across international borders or territories.

Foreign trade is the exchange of goods across national boundaries. Prof. J.L. Hanson said, “An exchange of various specialized commodities and services rendered among the corresponding countries is known as foreign trade.”

Foreign trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade does not change fundamentally depending on whether a trade is across a border or not.

In most countries, it represents a significant share of gross domestic product (GDP). Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system.

Increasing international trade is crucial to the continuance of globalization. International trade is a major source of economic revenue for any nation that is considered a world power.

Without international trade, nations would be limited to the goods and services produced within their borders.

The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays, and costs associated with country differences such as language, the legal system, or a different culture.

Foreign trade is all about imports and exports. The backbone of any foreign trade between nations is those products and services which are being traded to some other location outside a particular country's borders.

Some nations are adept at producing certain products at a cost-effective price.

Perhaps it is because they have the labor supply or abundant natural resources which make up the raw materials needed. No matter what the reason, the ability of some nations to produce what other nations want is what makes foreign trade work.

1.1 <u>Types of Foreign Trade</u>

The foreign trade is classified as:

1. Import
2. Export
3. Re-Export

1. **Import**

Import is the purchasing of goods or services made in another country. For example, importing edible oil from Chinese producers.

2. **Export**

Exporting is selling domestic-made goods in another country. For example, Hameem Garments exports Readymade Garments (RMG) products to Western Countries.

3. **Re-export**

When goods are imported from a foreign country and are re-exported to buyers in some other foreign countries, it is called re-export.

1.2 Reasons for Foreign Trade

Division of Labor and Specialization

Foreign trade leads to the division of labor and specialization at the world level. Some countries have abundant natural resources.

They should export raw materials and import finished goods from countries which are advanced in skilled manpower. This gives benefits to all the countries and thereby leading to the division of labor and specialization.

Optimum Allocation and Utilization of Resources

Due to specialization, unproductive lines can be eliminated, and wastage of resources avoided. In other words, resources are canalized for the production of only those goods, which would give the highest returns. Thus, there is rational allocation and utilization of resources at the international level due to foreign trade.

Equality of Prices can be stabilized by foreign trade.

It helps to keep the demand and supply position stable, which in turn stabilizes the prices, making allowances for transport and other marketing expenses.

Availability of Multiple Choices

Foreign trade helps in providing a better choice for the consumers. It helps in making available new varieties to consumers all over the world.

Ensures Quality and Standard Goods

Foreign trade is highly competitive. To maintain and increase the demand for goods, the exporting countries have to keep up the quality of goods. Thus, quality, and standardized goods are produced.

Raises Standard of Living of the People

Imports can facilitate the standard of living of the people. This is because people can have a choice of new and better varieties of goods and services. By consuming new and better varieties of goods, people can improve their standard of living.

Generate Employment Opportunities

Foreign trade helps in generating employment opportunities by increasing the mobility of labor and resources. It generates direct employment in the import sector and indirect employment in other sectors of the economy. Such as Industry, Service Sector (insurance, banking, transport, communication), etc

Facilitate Economic Development

Imports facilitate the economic development of a nation. This is because, with the import of capital goods and technology, a country can generate growth in all sectors of the economy, agriculture, industry, and service sector.

Assistance During Natural Calamities

During natural calamities such as earthquakes, floods, famines, etc., the affected countries face the problem of shortage of essential goods. Foreign trade enables a country to import food grains and medicines from other countries to help the affected people.

Maintains Balance of Payment Position

Every country has to maintain its balance of payment position. Since every country has to import, which results in an outflow of foreign exchange, it also deals in export for the inflow of foreign exchange.

Brings Reputation and Helps Earning Goodwill

A country which is involved in exports earns goodwill in the international market. For example, Japan has earned a lot of goodwill in foreign markets due to its exports of quality electronic goods.

Promotes World Peace

Foreign trade brings countries closer. It facilitates the transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements. Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

1.3 Institutional Framework for International Trade in India

India has a comprehensive institutional set up to promote international trade. Exporting firms need to understand and appreciate the institutions involved and the functions carried out by them.

Tier level	Bodies	Responsibilities
Tier I	Department of Commerce	Framing of trade policy
Tier II	Advisory bodies	Coordinating discussion between industry and government for bringing in required changes
Tier III	Commodity organizations	Assist the export effort of specific product group
Tier IV	Service organizations	Facilitate and assist exporters to expand markets
Tier V	Government trading organizations	Handle export import of specific commodity
Tier VI	State export promotion agencies	Facilitate export promotion from the states

1.Department of Commerce

The Department of Commerce is the primary governmental agency responsible for developing and directing foreign trade policy and programmes, including commercial relations with other countries, state trading, various trade promotional measures and development, and regulation of certain export-oriented industries.

2.Advisory Bodies

Advisory bodies provide an effective mechanism for continued interaction with trade and industry and increased coordination among various departments and ministries concerned with export promotion. The Government of India has set up the following advisory bodies for promoting international trade.

3.Commodity Organizations

In order to focus on the commodity-product-specific exports, there are various commodity organizations such as export promotion councils, commodity boards and autonomous bodies. These organizations look after sectors specific exports right from product development to export marketing.

4. Service Organisations

A number of institutions and organizations have been established to meet the requirements of industry and trade. The fields in which these institutions are engaged include development of export management personnel, market research, export credit insurance, export publicity, organization of trade fairs and exhibitions, collection and dissemination of export-related information, inspection and quality control, development in packaging, etc.

5.Government Participation in Foreign Trade

The Government of India has set up a number of trading corporations, namely, the State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), Spices Trading Corporation Limited, and Metal Scrap Trading Corporation (MSTC). These corporations have provided the essential base for developing and strengthening efforts relating to specific commodities and products and diversifying the country's foreign trade.

6.States' Involvement in Promoting Exports

States, being the prime centres for export production, need to be involved actively in export promotion. The central and state governments, therefore, have enacted a number of measures to promote exports.

1.4 Institutional Framework for International Trade in India-Tier 1: Department of Commerce

The Department of Commerce is the primary governmental agency responsible for developing and directing foreign trade policy and programmes, including commercial relations with other countries, state trading, various trade promotional measures and development, and regulation of certain export-oriented industries.

The principal functional divisions of the Department of Commerce engaged in export promotion activities are discussed as follows:

1. The Economic Division is engaged in export planning, formulating export strategies, periodic appraisal, and review of policies. The Economic Division also maintains coordination with and control over other divisions and various organizations set up by the Ministry of Commerce to facilitate export growth.

Besides, the Economic Division monitors work relating to technical assistance, management services for exports, and overseas investment by Indian entrepreneurs.

2.The Trade Policy Division keeps track of development in international organizations, such as WTO, UNCTAD, Economic Commission of Europe, Africa, Latin America, and Asia and Far East (ESCAP). The Trade Policy Division is also responsible for India's relationship with regional trading agreements, such as EU, NAFTA, SAFTA, Commonwealth, etc. It also looks after GSP and non-tariff barriers.

3.The Foreign Trade Territorial Division looks after the development of trade with different countries and regions of the world. It also deals with state trading and barter trade, organization of trade fairs and exhibitions, commercial publicity abroad, etc. Further, it maintains contact with trade missions abroad and carries out related administrative work.

4.The Export Product Division looks after problems connected with production, generation of surplus, and development of products for exports. However, for products wherein the administrative responsibility remains with concerned ministries, the Export Product Division keeps in close touch with them to ensure that the production is sufficient to realize the full export potential besides ensuring the home consumption.

5.The Exports Industries Division is responsible for development and regulation of rubber, tobacco, and cardamom. It is also responsible for handling export promotion activities relating to textiles, woolens, handlooms, readymade garments, silk, and cellulosic fibers, jute and jute products, handicrafts, and coir and coir products.

6. The Export Services Division deals with the problems of export assistance, such as export credit, export house, market development assistance (MDA), transport subsidies, free trade zones, dry ports, quality control and pre-shipment inspection, assistance to import capital goods, etc.

In addition to these divisions, attached and subordinate offices are also involved in the promotion of foreign trade.

These are as follows:

1.Directorate General of Foreign Trade:

The directorate is responsible for execution of export-import policy announced by the Government of India. It is headed by the Director General of Foreign Trade (DGFT). The directorate also looks after the work relating to issuing of licenses and monitoring of export obligations.

- Its headquarters are at New Delhi and subordinate offices are located at Ahmedabad, Amritsar, Bangalore, Baroda, Bhopal, Kolkata, Chandigarh, Chennai, Coimbatore, Cuttack, Emakulam, Guwahati, Hyderabad, Jaipur, Kanpur, Ludhiana, Madurai, Moradabad, Mumbai, New Delhi, Panipat, Panaji, Patna, Pondicherry, Pune, Rajkot, Shillong, Srinagar (functioning at Jammu), Surat, Varanasi, and Visakhapatnam.

2.Directorate General of Commercial Intelligence and Statistics:

- The Directorate General of Commercial Intelligence and Statistics (DGCI&S) was set up in 1962 and is headquartered at Kolkata. It is responsible for collection, compilation, and dissemination of trade statistics and commercial information. The DGCI&S also brings out a number of publications, mainly on inland and coastal trade statistics, revenue statistics, shipping, and air cargo statistics, etc.
- Its main publications, such as India Trade Journal (weekly) and Foreign Trade Statistics of India (monthly) provide detailed information on export trade statistics. The DGCI&S uses mainly the Daily Trade Returns (DTRs), an authentic source, for compiling and generating export-import statistics.
- **Directorate General of Anti-Dumping and Allied Duties:** Constituted in April 1998, the Directorate General of Anti-Dumping (DGAD) is responsible for carrying out anti-dumping investigations and to recommend wherever required, the amount of anti-dumping/countervailing duty under the Customs Tariff Act, on identified articles which would be adequate to remove injury to the domestic industry.

1.5 Institutional Framework: Tier2: Advisory Bodies

Advisory bodies provide an effective mechanism for continued interaction with trade and industry and increased coordination among various departments and ministries concerned with export promotion.

The Government of India has set up the following advisory bodies for promoting international trade.

A. Board of Trade:

In order to deploy an effective mechanism for maintaining continuous dialogue with trade and industry on issues related to international trade, the Board of Trade was set up under the chairmanship of the Union Minister of Commerce and Industry in May 1989. It was reconstituted on 1 April 2005 with an eminent representative from trade and industry as its chairperson.

Secretaries of Commerce and Industry, Finance (Revenue), External Affairs (ER), Textile, Chairman of ITPO, Chairman/MD of ECGC, MD of Exim Bank, and Deputy Governor of Reserve Bank of India are official members of the Board.

Representatives from FICCI, CII, FIEO and various trade and industries sector, media, and other important eminent personalities in the field of import and export trade are also board members.

The broad terms of reference (ToR) of the Board of Trade are given below:

i. To advise the government on policy measures for preparation and implementation of both short- and long-term plans for increasing exports.

ii. To review the export performance of various sectors, identify constraints, and suggest industry specific measures to optimize exports earnings.

iii. To examine the existing institutional framework for exports and suggest practical measures for further streamlining to achieve the desired objectives.

iv. To review the policy instrument, package of incentives, and procedures for exports and suggest steps to rationalize and channelize such schemes for optimal use.

v. To commence studies for promoting trade.

Thus, the Board of Trade ensures a continuous dialogue with trade and industry in order to advise the government on policy measures, to review export performance of various sectors, identify constraints, and suggest industry specific measures to optimize export specific earnings.

It meets at least once every quarter and has the power to set up sub-committees, co-opt experts, and make recommendations on specific sectors.

B. Export Promotion Board:

In order to provide greater coordination among concerned ministries involved in exports, the Export Promotion Board works under the chairmanship of the Cabinet Secretary to provide policy and infrastructural support.

The secretaries of all the ministries directly related to international trade are represented in this board, including secretaries of Departments of Commerce, Ministry of Finance, Department of Revenue, Department of Industrial Policy and Promotion, Ministry of Textiles, Department of Agriculture and Cooperation, Ministry of Civil Aviation, Ministry of Surface Transport, and others, according to the requirements of inter-ministerial coordination.

The coordinated approach of the Export Promotion Board provides the required impetus to the export sector and resolves inter-ministerial issues in promoting exports.

1.6 Institutional Framework –Tier3: Commodity Organizations

In order to focus on the commodity-product-specific exports, there are various commodity organizations such as export promotion councils, commodity boards and autonomous bodies. These organizations look after sectors specific exports right from product development to export marketing.

A. Export promotion councils (EPCs) are non-profit organizations. They are supported by financial assistance from the central government. The basic objective of the EPCs is to develop and promote the country's exports of specific products from India.

EPCs aim to project India's image abroad as a reliable supplier of high-quality goods and services. In particular, the EPCs encourage and monitor the observance of international standards and specifications by exporters.

The EPCs also keep abreast of the trends and opportunities in international markets for goods and services and assist their members in taking advantage of such opportunities in order to expand and diversify exports. Each council is responsible for the promotion of a particular group of products, projects, and services.

The major functions of the export promotion councils are:

i. To provide commercially useful information and assistance to their members in developing and increasing their exports.

ii. To offer professional advice to their members in areas such as technology upgradation, quality and design improvement, standards and specifications, product development, innovation, etc.

iii. To organize visits of delegations of its members abroad to explore overseas market opportunities.

iv. To organize participation in trade fairs, exhibitions, and buyer-seller meets in India and abroad.

To promote interaction between the exporting community and the government, both at the central and state levels

vi. To build a statistical database and disseminate information.

The EPCs also issue registration-cum-membership certificates (RCMCs) to their members which are mandatory for getting export incentives.

- Engineering Export Promotion Council
- Project Export Promotion Council
- Pharmaceutical Export Promotion Council
- Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council
- Chemicals and Allied Products Export Promotion Council
- Council for Leather Exports
- Sports Goods Export Promotion Council
- Gem and Jewellery Export Promotion Council
- Shellac Export Promotion Council
- Cashew Export Promotion Council
- Plastics Export Promotion Council
- Apparel Export Promotion Council
- Export Promotion Council for EOUs and SEZ units
- Carpet Export Promotion Council
- Cotton Textile Export Promotion Council
- Export Promotion Council for Handicrafts
- Handloom Export Promotion Council
- The Indian Silk Export Promotion Council
- Synthetic and Rayon Textile Export Promotion Council
- Wool and Woollens Export Promotion Council
- Powerloom Development and Export Promotion Council

B. Commodity Boards:

In order to look after the issues related to production, marketing and development of commodities, there are nine statutory commodity boards as under:

i. The Tea Board

ii. The Coffee Board

iii. The Coir Board

iv. The Central Silk Board

v. The All-India Handlooms and Handicraft Board

vi. The Rubber Board

vii. The Cardamom Board

viii. The Tobacco Board

ix. The Spice Board

The functions carried out by commodity boards are similar to those of export promotion councils.

These boards broadly carry out the following functions:

i. Provide an integrated approach for production development and marketing of the commodity under their purview.

ii. Act as a linkage between Indian exporters and importers abroad.

iii. Formulate and implement quality improvement systems, research and development programmes, education and training of farmers, producers, packers, and exporters on post-harvest management practices.

iv. Act as an interface between international agencies, such as the ITC, Geneva, Food and Agriculture Organization (FAO), and United Nations Industrial Development Organization (UNIDO), etc.

v. Collect and disseminate information on production, processing, and marketing of the products under their purview.

vi. Export promotion activities, such as participation in international trade fairs, organizing buyer-seller meets, inviting foreign delegations, and taking Indian delegations abroad.

1.7 Institutional Framework: Tier4: Service Organisation

A number of institutions and organizations have been established to meet the requirements of industry and trade.

The fields in which these institutions are engaged include development of export management personnel, market research, export credit insurance, export publicity, organization of trade fairs and exhibitions, collection and dissemination of export-related information, inspection and quality control, development in packaging, etc.

A. Indian Institute of Foreign Trade:

The Indian Institute of Foreign Trade (IIFT) was set up in 1963 by the Government of India as an autonomous organization to induce professionalism in the country's foreign trade management. The institute has significantly contributed to India's foreign trade policies, rationalizing the framework of procedures and documentation, and developing the country's international trade strategy.

The major objectives of the institute are:

i. To impart professional education in modem management techniques in the area of international business.

ii. To enable participants to appreciate the interrelationship between the diverse and complex tasks of international business.

iii. To develop capacities among business executives and government officials for improved understanding of various trade and economic issues.

iv. To conduct high-quality research that addresses domestic as well as world trade and business issues.

The institute conducts capacity-building programmes and research apart from basic foundation programmes in international business (Fig. 4.6). The institute has achieved high standards of excellence and occupies the unique position today of being India's only premier institution that focuses on international business.

B. Export Inspection Council:

The Export Inspection Council (EIC) is responsible for the enforcement of quality control and compulsory pre-shipment inspection of various commodities meant for exports, notified under the Export (Quality Control and Inspection) Act, 1963.

Headquartered in New Delhi, it functions through Export Inspection Agencies (EIAs) located at Chennai, Delhi, Kochi, Kolkata, and Mumbai besides a network of 38 sub- offices and laboratories.

C. Indian Council of Arbitration:

The Indian Council of Arbitration (ICA) set up under the Societies Registration Act, promotes arbitration as a means of setting commercial disputes and popularizes the concept of arbitration among traders, particularly those engaged in international trade.

D. India Trade Promotion Organization:

The India Trade Promotion Organization (ITPO) is a premier trade promotion agency, which provides a broad spectrum of services to trade and industry so as to promote India's exports.

The major activities carried out by ITPO are:

i. Participating in overseas trade fairs and exhibitions.

ii. Managing the extensive trade fair complex, Pragati Maidan in Delhi

iii. Establishing linkages between Indian suppliers and overseas buyers.

iv. Organizing buyer-seller meets and exclusive India shows in India and abroad.

v. Organizing India promotions with department stores and mail order houses abroad.

vi. Arranging product displays for visiting overseas buyers.

vii. Organizing seminars, conferences, and workshops on trade-related subjects.

viii. Encouraging small and medium scale units in their export promotion efforts.

ix. Conducting in-house and need-based research on trade and export promotion.

x. Trade information services through electronic accessibility at Business Information Centre

ITPO maintains India's largest trade fair complex—Pragati Maidan—spread over 149 acres of prime land in the heart of Delhi, having 62,000 sq. m. of covered exhibition space besides 10,000 sq. m. of open display area.

ITPO has its regional offices at Bangalore, Chennai, Kolkata, and Mumbai. Besides, ITPO also has overseas offices at New York, Frankfurt, Tokyo, Moscow, and Sao Paulo to promote India's international trade and investment.

E. National Centre for Trade Information:

The National Centre for Trade Information (NCTI) has been set up as a registered company in March 1995 with a view to create an institutional mechanism for collection and dissemination of trade data and improving information services to the business community, especially small and medium enterprises. NCTI is a non-profit joint venture of ITPO and the National Informatics Centre (NIC).

The major functions carried out by NCTI are:

i. To create databases and disseminate information on trade and commerce at national and international level.

ii. To keep in constant communication with trade and commercial bodies throughout the world with a view to taking appropriate measures for promoting exports and facilitating imports.

iii. To advise or represent government, local authorities, and trade and commercial bodies on matters related to standardization, access, and dissemination of information on trade and commerce.

iv. To create and maintain databases/trade statistics for the nodal ministry and to prepare region, country, and product-specific analytical and value-added reports with a view of providing support for policy formulations and other strategic actions having bearing on the country's exports.

v. To keep abreast of emerging information technologies and standardizing formats for collection and dissemination of trade information in user-friendly formats.

Under UNCTAD's trade efficiency programme, NCTI is certified as an operational trade point in India. It uploads the trade leads on the World Trade Point Federations (WTPF) as per UN/EDIFACT standard and provides value-added product, industry, or country-specific information on international trade as per the request of the customer on payment of a fee.

F. Export Credit Guarantee Corporation:

Operating in the international market is far riskier than operating in domestic markets.

Due to little predictability on political and economic changes, such as an outbreak of war and civil war, a coup or an insurrection, economic difficulties or balance of payment problems, commercial risks of insolvency, and protracted default of buyers may result into delayed payments, restrictions on transfer of payments and non-payment.

The Export Credit Guarantee Corporation (ECGC) provides credit insurance in order to protect exporters from the consequences of payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

The type of insurance protection provided by ECGC may be grouped as follows:

i. A range of credit risk insurance covers to exporters against loss in export of goods and services

ii. Guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.

iii. Overseas investment insurance to Indian companies investing in joint ventures abroad in the form of equity or loan.

In addition to insurance protection to exporters against payment risks, the ECGC facilitates the exporters by:

i. Providing guidance in export-related activities.

ii. Making available information on different countries with their own credit ratings.

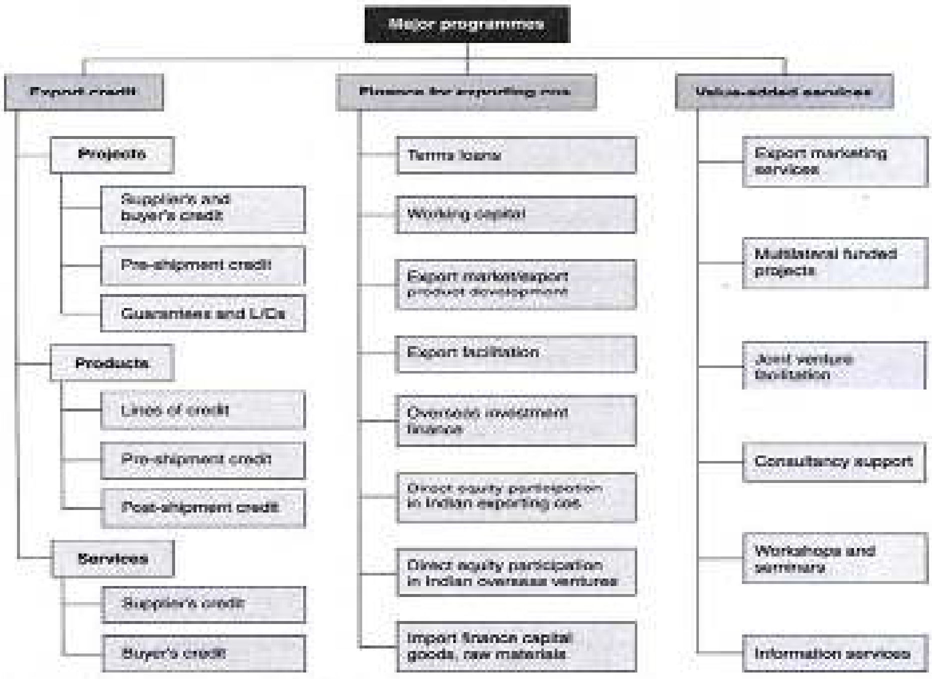
iii. Providing information on the creditworthiness of overseas buyers.

iv. Making it easy to obtain export finance from banks/financial institutions.

v. Assisting exporters in recovering bad debts.

G Export-Import Bank of India:

The Export-Import (Exim) Bank of India was setup by an act of parliament in September 1981. It aims to provide financial assistance to exporters and importers, and to function as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promote India's international trade.



H. Indian Institute of Packaging:

Considering the existing deficiencies in the standards of packaging for eye-appeal and safe transit, the Government of India, in collaboration with the industry set up the Indian Institute of Packaging (IIP) in 1966.

The main objectives of the institute are:

i. To undertake research on raw materials for the packaging industry.

ii. To keep India in step with international developments in the field of packaging.

iii. To organize training programmes on packaging technology.

iv. To stimulate consciousness of the need for good packaging.

v. To organize consultancy services for the industry.

Its activities include effecting improvements in packaging standards and rendering testing facilities for packaging.

I. Federation of Indian Export Organizations:

The Federation of Indian Export Organizations (FIEO) is the apex body of various export-promotion organizations and institutions in India. Set up in 1965, the FIEO acts as a primary servicing agency to provide integrated assistance to government- recognized export and trading houses.

It also acts as the central coordinating agency for promoting exports of consultancy services from India. Representing more than hundreds of thousands of exporters from India, FIEO is not a product-specific organization, and the member exporters may be from any export sector.

The basic functions of the FIEO are:

i. Maintaining linkages with international agencies and export promotion organizations in other countries.

ii. Organizing visits of multi-product delegations to prospective overseas markets and hosting foreign business delegations in India.

iii. Organizing buyer-seller meets in India and abroad.

iv. Providing advisory services to its members as well as foreign buyers in international markets.

v. Maintaining a comprehensive database on India's export sector.

vi. Acting as a nodal agency for promoting exports of consultancy and other services.

vii. Disbursing market development assistance to export and trading houses

viii. Keeping track of export-related policy changes and acting as an interface between the government and the exporters so as to resolve the problems of its member exporters.

ix. Interacting closely with the central bank, commercial banks, financial institutions and the ECGC and take up issues and problems of its member exporters.

J. Indian government's trade representatives abroad:

The institutional arrangements that have been developed and strengthened within the country are supplemented by the Indian trade representatives abroad. The trade representations in the Embassies and Consulates are continually being strengthened to enable them to effectively support trade efforts being made within the country.

India's commercial representatives are expected to monitor the commercial events and developments of their accreditation, identify products with export potential and other trade opportunities, and study tariff and non-tariff barriers, government procedures, and shipping facilities.

The representatives should also take initiative in cultivating specific trade contacts, undertake all publicity activities for image-building, organize participation in trade fairs and stores promotion, etc., effectively guide trade visitors and missions, maintain a flow of timely commercial intelligence, and deal with all problems of commercial complaints and bottlenecks.

Further, they are expected to provide facilities to the Indian trade delegations and exporters visiting foreign countries and help procure and forward samples of exportable goods imported from other countries.

K. Autonomous Bodies:

1.Agriculture and Processed Food Products Export Development Authority:

Set up under an act of Parliament of 1986, the Agricultural and Processed Food Products Export Development Authority (APEDA) looks after the promotion of exports of agriculture and processed food products. It works as a linkage between Indian exporters and global markets.

2.Marine Products Export Development Authority:

The Marine Products Export Development Authority (MPEDA), established in 1972, is an autonomous body under the Ministry of Commerce aimed at increasing export- oriented production, specifying standards, processing, and export marketing of all kinds of fisheries and its products.

Tier 5; Government Trading Organisation

The Government of India has set up a number of trading corporations, namely, the State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), Spices Trading Corporation Limited, and Metal Scrap Trading Corporation (MSTC).

The STC itself has a number of subsidiaries, namely the

Handicrafts and Handlooms Export Corporation,

the Projects and Equipment Corporation,

the Tea Trading Corporation of India, and

the Cashew Corporation of India.

The Mica Trading Corporation is a subsidiary of the MMTC.

These corporations have provided the essential base for developing and strengthening efforts relating to specific commodities and products and diversifying the country's foreign trade.

Briefly, their activities are:

1. To arrange for exports where bulk handling and long-term contracts are advantageous

2. To facilitate exports of 'difficult to sell' items through various devices such as linking essential imports with additional exports under countertrade

3. To organize production to meet export demands and to help production units overcome difficulties of raw materials and other essential requirements to meet export orders and develop lines of export by various methods.

4. To undertake import of such commodities where bulk purchase is advantageous.

The corporations handle actual transactions. They also maintain offices abroad and function like any commercial unit in the corporate sector.

However, the government is now reducing its direct participation in trade. Therefore, a number of items that were earlier canalized through government corporations have been removed from the canalized list.

New governmental policies are expected to intensify competition for the government corporations from private sector companies. As a result, the government is moving towards privatization of these corporations.

Tier6: State Export Promoting Agencies

States being the prime centers for export production need to be involved actively in export promotion. The central and state governments, therefore, have enacted a number of measures to promote exports; these measures are discussed under this section.

Inter-State Trade Council:

The Inter-State Trade Council has been set up in order to ensure a continuous dialogue between the state governments and union territories. It advises the governments on measures for providing a healthy environment for international trade with a view to boost India's exports.

States' Cell in Ministry of Commerce:

As an attempt to involve states in export promotion, the union government has created a State's Cell under the Ministry of Commerce with the following functions:

1. To act as a nodal agency for interacting with state governments/union territories on matters concerning imports and exports

2. To process all references of general nature emanating from state governments and state export corporations, which do not relate to any specific problem pending in a division in the Ministry

3. To monitor proposals submitted by the state governments to the Ministry of Commerce and coordinate with other divisions in the Ministry

4.To act as a bridge between state level corporations, associations of industries and commerce, and export organizations, such as India Trade Promotion Organisation (ITPO), Federation of Indian Export Organisation (FIEO), Export Processing Zones (EPZs), etc.

5. To disseminate information regarding export and import policy and export prospects to state governments and to other state level organizations

6. To provide guidance to state-level export organizations and assist in the formation of export plans for each state, in cases where export possibilities remain untapped

Further, the Ministry of Commerce has nominated nodal officers for maintaining liaison with the state governments in export promotion matters.

Institutional Infrastructure for Export Promotion by state governments:

The State Level Export Promotion Committee (SLEPC) headed by the Chief Secretary is the apex body at state level promoting exports. It scrutinizes and approves projects and overseas implementation of union government's scheme on Assistance to States for Development of Export Infrastructure and other allied activities (ASIDE).

Most of the problems of exporters relating to infrastructure, availability of power, water, supply of raw material from within the state and inter-state movement of raw material, and remission of taxes by the state governments are dealt by separate departments within the state.

In order to resolve the problems of exporters emanating from multiplicity of departments within the state, most state governments have nominated a senior officer as the nodal officer or 'niryat bandhu' at the level of Commissioner or Secretary of Industries.

The Directorates of Industries in most states along with other industrial development organizations have shown interest in activities related to promoting exports of the goods produced in the state. There have been wide variations in the steps taken in this direction by various state governments.

Institutional framework at both international and national level influences international business environment.

Although the foci of international economic organizations under the aegis of United Nations differ but complement each other, international economic growth is used as a strategic tool to reduce poverty and improve quality of life of millions of people, especially in the developing and the least developing countries as a part of its millennium development goals.

Several international economic institutions have been established under the UN framework to perform a variety of functions such as technical assistance for development, information collection and dissemination, training, economic surveillance, extending loans, promoting multilateral trade and investment.

Individual countries do have independent trade promotion organizations at national level. ITC headquartered at Geneva carries out a host of trade facilitation activities. Besides, most countries have got their own trade promotion organizations.

Although the trade facilitation by national governments is primarily focused on export promotion, some countries with considerable imports do facilitate imports by exclusive import promotion organizations. India has got a comprehensive set-up for trade promotion both at central and state levels.

Export Import Documentation

Any commercial cargo, whether it is for import or export, requires customer clearance. Simply put, this means that businesses engaged in exporting and importing goods to and from the country need to clear specific customs barriers as outlined by the government.

The customs clearance process typically involves preparing documents that may be submitted electronically or physically with the consignment. This helps concerned authorities to calculate taxes and duties that will be levied on the cargo.

The type of documents required for customs clearance usually depends on the type of goods being shipped. It may also vary depending on the country of origin and the destination of the cargo. However, as a thumb rule, there are a set of general documents that most businesses need to comply with when importing or exporting goods.

List of Documents required for Exports Customs Clearance

- Proforma Invoice
- Customs Packing List
- Country of Origin or COO Certificate
- Commercial Invoice
- Shipping Bill
- Bill of Lading or Airway Bill
- Bill of Sight
- Letter of Credit
- Bill of Exchange
- Export License
- Warehouse Receipt
- Health Certificates

List of Documents required for Imports Customs Clearance

- Bill of Entry
- Commercial Invoice
- Bill of Lading or Airway Bill
- Import License
- Certificate of Insurance
- Letter of Credit or LC
- Technical Write-up or Literature (Only required for specific goods)
- Industrial License (for specific goods)
- Test Report (If any)
- RCMC Registration cum Membership Certificate
- GATT/DGFT declaration
- DEEC/DEPB/ECGC License for duty benefits

Pro Forma Invoice

The Pro Forma Invoice documents the intention of the exporter to sell a predetermined quantity of goods or products. This invoice is generated as per the outlined terms and conditions agreed upon between the exporter and the importer, through a recognised medium of communication such as email, fax, telephone or in person. It is similar to a 'Purchase Order', which is issued prior to completing the sales transaction.

Customs Packing List

The customs packing list states the list of items included in the shipment that can be matched against the pro forma invoice by any concerned party involved in the transaction. This list is sent along with the international shipment and is especially convenient for transportation companies as they know exactly what is being shipped. Individual customs packing lists are secured outside each individual container to minimize the risk of exporting incorrect cargo internationally.

Country of Origin or COO Certificate

The Country of Origin Certificate is a declaration issued by the exporter that certifies that the goods being shipped have been completely acquired, produced, manufactured or processed in a particular country.

Commercial Invoice

A commercial invoice is a mandatory document for any export trade. The customs clearance department will ask for this document first as it contains information about the order, including details such as description, selling price, quantity, packaging costs, weight or volume of the goods to determine customs import value at the destination port, freight insurance, terms of delivery and payment, etc. A customs representative will match this information with the order and decide whether to clear this for forwarding or not.

Shipping Bill

In export trade, international shipping and delivery is an important step – making sure products reach the importer or end-customer without any damage is key to a successful export business. In this process, a shipping bill is an essential document issued by the Customs Service Centre[1]. This bill allows an exporter to get customs clearance and initiate shipping.

While sending products from one country to another, an exporter has to go through various formalities like submitting a few applications, acquiring licenses, paying duties, etc. To obtain clearance from customs, an exporter has to apply for a shipping bill to avoid any challenges while shipping. All products can only be exported out of the country if the shipping bill has been checked by the customs with 'Let Export Order' and 'Let Ship Order'.

Bill of Lading

Bill of Lading is a legal document issued by the carrier to the shipper. It acts as evidence of the contract for transport for goods and products, mentioned in the bill provided by the carrier. It also includes product information such as type, quantity, and destination that the goods are being carried to.

This bill can also be treated as a shipment receipt at the port of destination where it must be produced to the customs official for clearance by the exporter. Regardless of the form of transportation, this is a must-have document that should accompany the goods and must be duly signed by the authorised representative from the carrier, shipper, and receiver.

Bill of Sight

Bill of Sight is a declaration from the exporter made to the customs department in case the receiver is unsure of the nature of goods being shipped. The Bill of Sight permits the receiver of goods to inspect them before making payments towards applicable duties.

Letter of Credit

Letter of credit is shared by the importer's bank, stating that the importer will honour payment to the exporter of the sum specified to complete the transaction. Depending on the terms of payment between the exporter and importer, the order is dispatched only after the exporter has this letter of credit.

Bill of Exchange

Bill of Exchange is an alternative payment option where the importer is to clear payments.

Export License

Businesses must have an export license that they can provide to customs in order to export or forward any products. This only needs to be produced when the shipper is exporting goods to an international destination for the very first time. This type of license may vary depending on the type of export you intend to make. This can be done by applying to the licensing authority, and the permit is eventually issued by the Chief Controller of Exports and Imports for goods received from the exporter either on-demand or at a fixed or determinable future. It is similar to promissory notes that can be drawn by banks or individuals.

Warehouse Receipt:

Simply put, a warehouse receipt is a document which proves ownership of a given commodity that is stored in a recognised location, like a warehouse or a vault.

Health Certificates

Health Certificate is applicable only when there are food products that are of animal or non-animal origin involved in international trade. The document certifies that the food contained in the shipment is fit for consumption by humans and has been vetted to meet all standards of safety, rules and regulations prior to exporting. This certificate is issued by authorised governmental organisations from where the shipment originates.

Bill of Entry:

A bill of entry is a legal document that is filed by importers or customs clearance agents on or before the arrival of imported goods. It's submitted to the Customs department as a part of the customs clearance procedure. Once this is done, the importer will be able to claim ITC on the goods.

Import License

There are certain items that cannot be freely imported in India, an import license is a permission granted by the government to undertake import activities for restricted goods. In order to avail benefits, one must file an application to the licensing authority.

Insurance certificate

An Insurance Certificate is a document required for import customs clearance. This certificate helps the authorities to verify the shipment, in terms of whether the selling price contains the insurance or not. Also, it helps determine the precise value which eventually decides the import duty aggregate.

RCMC (REGISTRATION-CUM-MEMBERSHIP CERTIFICATE)

According to the Foreign Trade Policy, a Registration-cum-Membership Certificate (RCMC) is required for exporters in order to avail benefits under the policy. Holding the certificate can also help exporters in availing benefits with respect to Customs and Excise.

GATT/DGFT declaration

Every importer has to file a GATT and DGFT declaration while completing customs clearance formalities for imports. It has to be filed as per the terms stated in the General Agreement on Tariff and Trade.

Technical write up, literature.

A Technical Write up is a document only required for some specific goods. It describes the features/usage of the product, mostly done for better handling of goods. This helps the authorities to better define the product and understand the value-added cost under it.

Industrial License

An industrial license may be required for importing specific commodities. If an importer wants to avail itself of any import duty benefit, an industrial license can be used as proof to avail the benefit. In this particular case, a copy of industrial license also becomes one of the customs clearance documents required for importing the goods.

Role of World Trade Organisation (WTO)

Progressive opening and regulation of markets

The WTO's mission is to open markets gradually while ensuring that rules are respected. The origin of the organization dates back to the end of World War II when the idea of peaceful cooperation among peoples was emerging.

In 1947, several countries decided to open their markets on the basis of common principles, and founded the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT).

In the current round of trade negotiations, the WTO is seeking to make further advances in equitable trade.

The WTO acts as conductor, tribunal, monitor and trainer.

1.Orchestra conductor

International trade is governed by very precise rules developed by the WTO's members. Countries must apply these rules when trading with one another. The WTO acts as the orchestra conductor, ensuring that rules are respected.

The WTO was founded in 1995, but its origins date back to 1947 and the creation of the GATT. Since then, WTO members have adapted these rules to keep up with new developments.

For example, services have developed considerably since the 1980s, and have now become one of the most important economic sectors.

As a result, WTO members established rules governing international trade in services. Adapting or changing the principles of international trade means reaching consensus among WTO members through a round of negotiations.

2.Tribunal

One of the main roles of the WTO is to settle disputes between its members. The WTO plays the role of trade tribunal, where members may file complaints against other members who fail to abide by the principles of international trade.

There are three stages to dispute settlement. To begin with, the disputing countries try to settle their differences by themselves. If that fails, the case is decided by a panel made up of three experts, which issues a ruling. That ruling may be appealed.

Once a definitive ruling has been issued, the losing party must comply. If it does not, it is liable to sanctions. Since 1995, over 400 complaints have been filed by WTO members.

3.Monitor

The WTO regularly reviews the trade policies of its members. These reviews assess whether WTO members are abiding by WTO rules and measure the impact of their domestic policies on international trade. The purpose of these reviews is not so much to solve problems as to prevent them from occurring in the first place.

4.Trainer

The WTO provides training programmes for government officials from developing countries for example, ministry staff or customs officials.

The WTO currently spends about 35 million Swiss francs annually on these programmes. Africa is the main beneficiary, followed by Asia and Latin America. In 2011, approximately 26 per cent of training activities took place in Africa.

Indian Context of WTO

Positive Role Played by WTO:

Rule based trading system.

Developing country status to India

Impartial trade dispute settlement process

A definite schedule for trade liberalization with special protection will calibrate with global economy.

Opportunity to set up Agri exports.

Liberalization process of Indian economy supports.

Globalization process of WTO.

Most favored nation status ensures normal trade of India with all members.

One nation one vote makes WTO truly democratic where there is lesser scope of developed countries ruling the stage.

Rule based dispute settlement process is transparent.

Opening up of service sector benefits India

Lower tariffs for developing economy benefits India.

Reduction of subsidies on agriculture by developed nation will benefit India.

Negative Role of WTO:

While globalization is welcome, pace must be set by the sovereign government.

The agreement related to TRIPS works against affordable medicines.

Multinational corporations affect WTO agreement, and their work is to their advantage.

Compulsory lower import duties on agriculture may affect the livelihood of the farmers.

The reduction of subsidies and tariffs is not done by the rich countries, is a violation of the treaty mandates.

The dispute settlement process seems to be more philosophical in comparison to actual instances when it seems to act against the poor countries.

Fulfilling WTO agreements may need administrative and legal reforms.

Global commitments shrink policy space.

Competition amongst members to get developing country status, due to self-selection process.

Mandates of developed countries like inclusion of nontrade issues like labor standards, environment protection, human rights acts like protectionist measures against developing countries.

Recently the setting of dispute panel by WTO on the request of Japan and Taiwan due to the reason of import duties imposed by India on mobiles and ICT products are the instances where there is observed interference in the internal affairs of a member country.

Steps in exporting as an entrepreneur

In recent years, India has become a popular destination for import sourcing. It falls under the top twenty nations of the world in the list of exporting countries and is a world leader in various goods for exports like coffee, tea, spices, and certain gemstones.

Since liberalization has entered the Indian economy, the process has become even easier and more accessible.

Initial Step how to start an export business:

First and foremost, you must know how to set up the export business in India, and then we shall proceed with the process. To ensure the safe and legal export of goods, the export business must follow a simple process. The procedure for starting an export business, according to government guidelines, is as follows:

Step 1: You must have a valid business operation. Next, as mandated by the government, you must open a bank account in any authorized bank in India. It is necessary to open a current account with a bank authorized to deal in foreign exchange.

To begin an export business, a sole proprietorship/partnership firm/company must be established according to the procedure, with an appealing name and logo.

Step 2: Obtaining a Permanent Account Number (PAN) - Every exporter and importer must obtain a PAN from the internal revenue service. The businesses and bank account holders have it already.

Step 3: Obtaining an IEC (Importer-Exporter Code) Number - It is mandatory to obtain an IEC for export/import from India, according to the Foreign Trade Policy.

Step 4: Registration and membership certificate (RCMC) - Exporters must obtain an RCMC from the Export Promotion Council to obtain authorization for export.

Step 5: Pricing and Sampling - Providing customized samples to meet the needs of foreign buyers aids in the acquisition of export orders. Exports of bona fide trade and technical representatives of freely exportable items are allowed without restriction under the FTP 2015-2020.

The price should be calculated based on the terms of sale, such as Free on Board (FOB), Cost, Insurance, and Freight (CIF), Cost and Freight (C&F), and so on; the businesses must consider all expenses from sampling to realization of export proceeds. Also, the export cost should be fixed at a competitive price with a good profit margin.

Know about the payment risks
Payment risks will persist in international trade due to geographical barriers and insolvency issues on the side of the buyer/country. To mitigate these risks, there are few options, and one of the most solid options is to obtain an Export Credit Guarantee Corporation Ltd policy (ECGC).

The six steps outlined above are required to begin an export and must be completed in their entirety to ensure that all licenses, permissions, and security measures are in place.

Here is the next phase of your export process. You will find the following section about the information related to how to export from India:

Step 1:

Export Order Confirmation
Firstly, when you have received the confirmation, make sure the Order requirements should be carefully noted upon receipt of an export order.

Step 2:
Next, check and secure the supplemental information related to the Ordered item, specifications, payment terms, and delivery date.

To avoid the risk of consignment rejection in the future, the exporter can enter into a formal agreement with the overseas buyer.

Step 3: Investing
Labelling, packaging, packing, and marking are the third and final steps.

Step 4: Export Goods Shipment Insurance
You must purchase a marine insurance policy to protect your export goods.

Step 5: Set a Dispatch Date
If the delivery is late, your efforts may be futile. As a result, the most important thing is that the export order is delivered on time to the buyer's port. After receiving the order, you must contact CHA to confirm the number of days the shipment will take to arrive at the destination port. As a result, you'll need to plan and get the package ready for delivery.

Step 6:
To reserve the required space on the vessel for shipment, the exporter must contact the shipping company well in advance.

Internal transportation from the factory/warehouse to the shipping portals must be organized to avoid loss or damage during transit. CIF agreements are typically insured by exporters, whereas C&F and FOB agreements generally are insured by importers.

Step 7:
The following mandatory documents for import and export are outlined in the Documentation of Export Goods FTP 2015-2020.

Commercial invoice cum packing invoice shipping bill/ invoice of export/ invoice of entry Bill of Lading/ Airway Bill Commercial invoice cum packing invoice shipping bill/ invoice of export/ invoice of access (for imports).
Submitting documents to the bank.

Following shipment, the documents must be presented to the bank within 21 days for forwarding to the foreign bank for payment arrangements.

The role of Government and Semi Government Agencies in Export Promotion

Exports play a major role in the economic development of a country. More the exports more will be the inward foreign remittance, more jobs & employment, lower current account deficit, and hence greater overall economic growth. Therefore, India needs to increase its export performance and grow worldwide.

The Government of India first time introduced 5-year Export Import Policy (EXIM) on 1st April, 1992. Export-Import Bank of India (EXIM Bank) was set up in 1982 to provide financial assistance to exporters and importers, and to finance export. The Government of India, Ministry of Commerce and Industry announced New Foreign Trade Policy on 01st April 2015 for the period 2015-2020, earlier this policy known as Export Import (Exim) Policy. In April 2020, the Government extended FTP for one more year, up to March 31, 2021.

The Foreign Trade (Development and Regulation) Act 1992 (FTDR Act) formulates the export policy and issued orders regulating the export of goods. As per the Foreign Trade Policy of India 2015-2020 (FTP), exports and imports shall be 'free' except for prohibited/restricted/excluded items.

Ministry of Commerce and Industry:

It was set up in 1903. Federation of Indian Export Organisation (FIEO): Established in 1965 (Ministry of Commerce, Government of India, 2021; Government of India, 2021)

Indian Council of Arbitration (ICA):

Established in 1965 (Government of India, 2021). Central Board of Indirect Taxes and Customs (CBIC): Established in 1855. (Department of Revenue under the Ministry of Finance, Government of India, 2021)

Central Board of Indirect Taxes and Customs (CBIC): Established in 1855. (Department of Revenue under the Ministry of Finance, Government of India, 2021)

Department of Economic Affairs: Established in 1964. (Government of India, Ministry of Finance, 2021)

The Directorate of Enforcement: Established in the year 1956. (Department of Revenue, Ministry of Finance, Government of India, 2021)

Cabinet Committee on Economic Affairs (CCEA): Established in 2014. (Government of India, Ministry of Finance, 2021)

Export Promotion Councils (EPCs): Established in 1965. (Government of India, Ministry of Commerce and Industry, 2021)

Directorate General of Foreign Trade (DGFT): Established in 1991. (Ministry of Commerce and Industry, 2021)

Reserve Bank of India: Established in 1935.

	Government of India		
Ministry of Commerce	Ministry of Finance	Reserve Bank of India	Indian Council of Arbitration
Federation of Indian Export Organisation	Central Board of Indirect Taxes and Customs		
Export Promotion Councils	Dept of Economic Affairs		
Directorate General of Foreign Trade	Dept of Expenditure		
Export Promotion Council	Dept of Revenue		
	Dept of Fin Service Directorate of Enforcement		
	Department of Economic Affairs		
	Cabinet Committee on Economic Affairs		

1.8 Ministry of Commerce & Industry

The Ministry of Commerce and Industry administers two departments,

A. the Department of Commerce and

B. the Department for Promotion of Industry & Internal Trade (formerly Department of Industrial Policy & Promotion).

A. Department of Commerce:

The department is entrusted with formulating and implementing the foreign trade policy and responsibilities relating to multilateral and bilateral commercial relations, state trading, export promotion measures, and development and regulation of certain export-oriented industries and commodities. In order for the smooth functioning, the Department handling foreign transactions is divided into eight divisions:

1.Finance Division-

The Integrated Finance (IF) Division is headed by the Additional Secretary & Financial Advisor and consists of Chief Controller of Accounts (Commerce), Economic Adviser (Finance), three Under Secretaries in the Integrated Finance Units and a Budget and Accounts Section.

2.International Trade Policy Division-

The International Trade Policy Division, also called Trade Policy Division keeps abreast of the developments in the international trade organization like including the WTO, UNCTAD, ESCAP, etc. Matters like promotion of trade cooperation among developing countries, Commonwealth trade, multilateral trade, and tariff negotiations are also the responsibility of this Division.

3.Economic Division-

Major functions of this division includes a) Annual Monitoring and review of export performance against export targets b) Commissioning special research studies on international trade and its impact on the economy c) Analysis of overall trends in India's Foreign Trade d) Studies of trend in trade with specific countries / regions e) All matters relating to adoption of HS Code, technical problems of trade classification etc. f) Import Monitoring-Quarterly appraisal of Imports g) Formulate an action plan to reduce import dependence of non-essential commodities

4.Foreign Trade Territorial Division-

The Division deals with Sub-Saharan African Region (Eastern, Western, Central and Southern) comprising 48 countries regarding trade promotion, policy, negotiations for FTA/PTA & other related activities.

5.Export Product Division-

The Division exercises administrative control over the following organizations a) Agricultural & Processed Food Products Export Development Authority (APEDA) b) Tobacco Board.

6.Export Industries Division-

This division handles all aspects of the work relating to tea.

7.Export Services Division-

Major Functions of this division includes a) Implementation of the Market Access Initiative (MAI) Schemes b) General Policy matters relating to the Export Promotion Councils c) All matters relating to the Federation of Indian Export Organisations (FIEO).

8.SEZ Division-

Major functions of this division include a) Handling of all Personnel Administration matters of SEZs b) Monitoring of the implementation of Make in India where the Department is the Administrative Department, in consultation with the concerned Divisions c) Handling Court Cases, RTI applications, Parliament Questions, proposals d) All work relating to Administration of Export Promotion Council for EOUs & SEZs (EPCES)

1.9 Ministry of Finance

The Ministry of Finance is an important ministry within the Government of India concerned with the economy of India, serving as the Indian Treasury Department. In particular, it concerns itself with taxation, financial legislation, financial institutions, capital markets, centre and state finances, and the Union Budget. The Union Finance Ministry of India comprises five departments:

1.Dept of Economic Affairs

2.Dept of Expenditure

3.Dept of Revenue

4.Dept of Fin Service

5.Department of Economic Affairs

Department of Economic Affairs: The Department of Economic Affairs is the nodal agency of the Union Government to formulate and monitor country's economic policies and programmes having a bearing on domestic and international aspects of economic management.

Department of Revenue: The Department of Revenue functions under the overall direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC).

Reserve Bank of India:

It is India's central bank, responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development. There are various functions of the Reserve Bank of India. Besides, other important functions the Reserve Bank of India plays the role of Monetary Authority and Manager of Foreign Exchange

Cabinet Committee on Economic Affairs (CCEA):

CCEA has a mandate to review economic trends on a continuous basis with a view to evolving a consistent and integrated economic policy framework for the country. It also directs and coordinates all policies and activities in the economic field, including foreign investment. Matters regarding fixation of prices of agricultural products as well as reviewing progress of activities related to rural are in CCEA's competence.

Indian Council of Arbitration (ICA):

It was set up under the Societies Regulation Act and it settles the commercial disputes among the traders, especially foreign/international trading.

Federation of Indian Export Organisation (FIEO):

It is an apex body that deals with import-export duties. This organization was set up jointly by the Ministry of Commerce, Government of India and private trade and industry. It is non-profit organizations set up by the Ministry of Commerce, Govt. of India. FIEO is the premier body of all export promotion councils, commodity boards, and export development authorities in India. It provides the crucial interface between international trading community of India and the central and state governments, financial institutions, ports, railways, surface transport and all others engaged in export trade facilitation.

Export Promotion Councils (EPCs):

Under the administrative control of the Ministry of Commerce there are twelve EPCs. They perform both the advisory and executive functions and they are registered as non-profit organizations under the Companies Act. It was established in 1965. Export Promotion Councils are government-initiated authorities that promote and support export firms in developing their overseas trade. Additionally, EPCs also promote government schemes, act as a data store and conduct overseas tours and studies. They also act as an intermediary between the government and the export industry and are critical in formulating the foreign policies of the country.

The Directorate of Enforcement:

It is responsible for enforcement of the Foreign Exchange Management Act, 1999 (FEMA) and certain provisions under the Prevention of Money Laundering Act. It is part of the Department of Revenue, Ministry of Finance, Government of India.

Central Board of Indirect Taxes and Customs (CBIC):

The CBIC comes under the ministry of finance in controlling the authority to handle customs related issues. The CBEC publishes the "Indian Customs Tariff Guide" that provides every information about the rules and regulations of custom duties. It is a part of the Department of Revenue under the Ministry of Finance, Government of India. It deals with the tasks of formulation of policy concerning levy and collection of Customs, Central Excise duties, Central Goods & Services Tax and IGST, prevention of smuggling and administration of matters relating to Customs.

Directorate General of Foreign Trade (DGFT):

The Directorate General of Foreign Trade is a government organization in our country which is responsible for formulating guidelines for imports and exports in our country. The main responsibilities include preparation, formulation, and implementation of Exim Policies. It is also responsible for assigning an import-export code (IEC). Before 1991, DGFT was known as the Chief Controller of Imports & Exports (CCI&E).

Levels	Heads	Organisations	Functions
1	Formulating and Implementing Policies and Guideline	Directorate General of Foreign Trade (DGFT) Department of Economic Affair	Formulates Guidelines of Import and export and implements EXIM policy. Formulating and monitoring country's economic policies
2	Review, Regulates and Monitoring	Cabinet Committee on Economic Affair Reserve Bank of India	Review economic trend to frame economic. Regulates foreign exchange matters
3	Control	Central Board of Indirect Tax and Customs The Directorate of Enforcement Department of Revenue	Handles customs related issues and publish " Indian Customs Tariff Guide. Law enforcement agency and economic intelligence agency . Responsible for enforcing laws and fights economic crime.
4	Support and Arbitration	Export Promotion Councils Federation of Indian Export Organisations Indian council of Arbitration	Promoting Government schemes and support export firms in developing trade. Import and export duties. Settle commercial disputes especially foreign/international trade

Export promotion schemes in India:

India is still a developing country and a small country like Singapore is ahead of India. One of the major reasons for India's poor export performance is its high cost of export products. Indian exporters are not able to sell the goods at a cheaper and competitive rate, which makes them uncompetitive in the global market. Indian products have high prices due to poor Infrastructure, associated costs, Interest rates. Therefore, the Govt. of India tries to compensate for the disadvantages that the Indian exporters face by introducing various Export Promotion Schemes/Export Incentives in India to remain competitive in the global market.

Following are 18 (eighteen) promotion schemes/incentives the Govt. of India has introduced to compensate hurdles facing by the India exporters.

1. MEIS Scheme: This is designed to provide rewards to exporters to offset infrastructural inefficiencies and associated costs like payment of basic customs duty, additional duty, payment of central excise duty. MEIS was introduced in the Foreign Trade Policy (FTP) for the period 2015-2020.

2. RoDTEP Scheme: RoDTEP is a new scheme to replace the existing MEIS scheme for exports of goods from India, which aims to reimburse the taxes and duties incurred by exporters such

as local taxes, coal Cess, mandi tax, electricity duties and fuel used for transportation, which are not exempted or refunded under any other existing scheme.

3. SEIS Scheme- This reward scheme is to promote the export of services from India. SEIS Scheme was introduced on 1st April 2015 for 5 Years under the Foreign Trade Policy of India 2015-2020.

4. AAS Scheme- Advance License scheme was introduced to allow duty-free import of raw materials required for the production of export goods

5. DFIA Scheme- The purpose of this scheme is the same as the Advance License scheme i.e., to allow duty-free import of raw materials. However, unlike the AA, DFIA Scheme is a post-export scheme. It means that duty-free import is allowed only after the export is made.

6. DBK Scheme- It is a refund of the duties given by the Govt. In the DBK scheme, duties of customs & central excise that are chargeable on imported and indigenous materials used in the manufacture of exported goods are refunded back.

7. RoSCTL Scheme- The old RoSL scheme was replaced by the new RoSCTL Scheme from 07.03. 2019.RoSCTL scheme is only applicable to the Apparels & made-up Industry. It gives a refund of State and Central Taxes and Levies such as VAT on transportation fuel, Captive Power, Mandi Tax, Electricity Duty. Etc.

8. EPCG Scheme- The objective of the EPCG Scheme is to facilitate the import of capital goods/machinery for producing quality goods and services and enhance India's manufacturing competitiveness.

9. EOU/EHTP/STP/BTP Schemes- The major benefits of the EOU Scheme are – No Import duties while procuring raw materials or capital goods, faster custom clearance facilities, it can be set up anywhere in the country, unlike an SEZ unit.

10. GST Refund for Exporters / LUT Bond facility / 0.1% GST benefit for Merchant Exporters- Exporters are given a host of preferential facilities under the GST Act. They can make an export supply either "on payment of GST" or "without paying any GST" under the LUT bond facility.

11. TMA Scheme- This scheme is introduced only for agricultural export products, and it came into effect from 01.03.2019.

12. Deemed Export Benefits- The Objective of these benefits is to provide a level-playing field to the domestic manufacturers in certain specified situations

13. Star Export House / Status Holder Certificate- This is not a financial incentive scheme, but a kind of recognition/certification given by the Govt. of India to eligible exporters. Status holders are regarded as business leaders who have successfully contributed to India's foreign trade.

14. MAI Scheme- The objective of this scheme is to play a catalytic role in promoting exports from India by exploring new markets and supporting all the export promotion activities in the new markets.

15. MDA Scheme- This is an old scheme that was merged into the new Market Access Initiative (MAI Scheme), 2018.

16. TEE Scheme- Towns exporting goods worth more than Rs. 750 Cr. And having high export potential are notified as Towns of export excellence (TEE). Financial assistance is provided to recognized associations in those towns as per the guidelines covered under the Market Access Initiative (MAI Scheme).

17. IES Scheme- IES which is also known as an Interest subvention scheme was introduced in April 2015, to provide pre- and post-shipment export credit to exporters in rupees

18. NIRVIK Scheme- It is primarily an insurance cover guarantee scheme that provides cover of up to 90% of principal and interest as against the current credit guarantee of only up to 60% loss. The cover will include both the pre- and post-shipment export credit.

Summary

Export and Import are the two broad functions in the foreign policy of a particular country. We all live as one family and the whole universe has become one family. The relationships amongst countries have changed and all this is owed to the broader leaps and bounds done in the arena of Information Technology. The common simple example is the of email in which one is approaching practically at more speed to one in United States than a colleague sitting in the next row of an office cubical.

Yes, international trade is at its peak and civilization has just woken up to the advents and opportunities available here in context of being truly globalized. India as a country has fully endeavored to create and harness the opportunities available from international trade It may be becoming active members at World Trade Organisation (WTO) or creating regional sects like (Brazil. Russia, India, China, and South Africa (BRICS), South Asian Association for Regional Cooperation (SAARC) etc.

The is proper ministry to deal with foreign trade and possibly best infra is created to help foreign trade *vis a vis* the needs and challenges of the country.

Keywords

Foreign Policy: The decisions that represent the interest of the country before other countries.

Contemporary: Modern timed or present timed.

Export: The outflows of goods or services from home country to other nations.

Import: The inflows of goods or services from other nations within a country (home country).

Export Promotion: The efforts of a nation to increase outflows of goods or services to other countries in its quest to earn possibly the highest foreign exchange.

Import substitution: The approach adopted by a country to create imported goods with its own techniques or initiatives taken to replace imported goods with domestic produced goods in a quest to save foreign exchange.

Self Assessment

1. Importing goods for manufacturing good domestically with a intention to export them is called:

A. Pure Import

B. Pure Export

C. Entrepot

D. Re-Export

2. Every nation wants to increase -------and reduce ----------.

A. Import/Export

B. Export/Import

C. Re export/Export

D. Re import/Export

3. Export of goods is ----------when the price of Dollar increases against Indian Rupee.

A. Unfavourable

B. Favourable

C. Indifferent

D. None of the above

4. Import of goods is ----------when the price of Dollar decreases against Indian Rupee.

A. Unfavourable

B. Favourable

C. Indifferent

D. None of the above

5.Convertible Currency is

A. Easily exchangeable currency

B. Available everywhere.

C. Indian Rupee is partially convertible.

D. All of the above

6.New Economic Environment ushered in 1991 got in it:

A. Liberalization

B. Privatization

C. Globalization

D. All of the above

7. Theory of comparative advantage was presented by:

A. David Ricardo

B. Adam Smith

C. J M Keynes

D. F W Taylor

8. A commercial invoice is issued by

A. Exporter's Bank

B. Importer

C. Exporter

D. All of the above

9. Buying the accounts receivable of a company is called:

A. Financing

B. Funding

C. Factoring

D. Switch Trading

10. The three C's of international business are:

A. Context

B. Connection

C. Complexity

D. All of the above

11. Two countries gain foreign trade with

A. Different price ratios

B. Different cost ratios

C. Different tariff

D. Both A and B

12. IEC is a 10 digit alpha numeric code issued by:

A. Central Government

B. Director General of Foreign Trade

C. Ministry of Commerce

D. State Government

13. The Director General of Foreign Trade is appointed by:

A. Supreme Court

B. Ministry of Commerce

C. Central Government

D. World Trade Organization

14. Which is true about letter of credit

A. It is issued by the bank.

B. A document

C. The Bank agrees to honour a draft drawn on importer.

D. It is issued at the request of the exporter.

15. Trade between two countries will be useful if cost ratios are

A. Same

B. Different

C. Undetermined

D. Decreasing

Answers for Self Assessment

1.	C	2.	B	3.	B	4.	B	5.	D
6.	D	7.	A	8.	C	9.	C	10.	D

11.	D	12.	B	13.	C	14.	D	15.	B

Review Questions

1. What is the meaning of foreign trade? Discuss importance of foreign trade.
2. Write a detailed note on World Trade Organisation (WTO).
3. Discuss the scene of Institutional Framework of Foreign Trade in India.
4. Explain the role of Government and Semi-Government agencies for Export Promotion in India.
5. Discuss the challenges in exporting as an entrepreneur.

Further Readings

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Dr. Rajinder Minhas, Lovely Professional University

Unit 02: Export Import Documentation and Steps

CONTENTS

Objectives

In this unit, student will be able to:

- Understand Export Import Documentation
- Comprehending steps in export import documentation.
- Understand steps for successful exporting.

Introduction

The export and import documentation can be studied in following steps: -

Step 1 – Getting started: assessing export potential.

Step 2 – Globalization: linking to global value chains.

Step 3 – Charting route: developing export plan.

Step 4 – Setting out: identifying target market.

Step 5 – Reaching the customer: developing export marketing strategy.

Step 6 – Opening the door: entering target market.

Step 7 – Shippers and shipping: delivering the goods.

Step 8 – Identifying export financing requirements.

Step 9 – The fine print: understanding the legal side of international trade.

Step 10 – Selling online: e-commerce for exporters.

2.1 Step 1: Getting Started: Assessing Export Potential

There are several good reasons to export, including:

- **Increased sales.** If domestic sales are good, exporting is a way to expand your market, find foreign niche markets and take advantage of demand around the world.
- **Higher profits.** If one can cover fixed costs through domestic operations or other types of financing, export profits can grow very quickly.
- **Economies of scale.** When one has a larger market base, it can produce on a scale that lets it make the most of its resources.
- **Reduced vulnerability.** If you diversify into international markets, you avoid depending on a single marketplace and suffering from a domestic downturn.
- **New knowledge and experience.** The global marketplace abounds with new ideas, approaches, and marketing techniques.
- **Global competitiveness.** The experience your company gains internationally will help keep you competitive in Home Country and in the global marketplace.
- **Domestic competitiveness.** If your company succeeds in the global marketplace, it will ensure your resilience to potential foreign competition in Home Country.

Exporting has many challenges, but you can surmount them through careful preparation and planning. Among these challenges are:

- **Increased costs.** You may have to modify packaging or your products or services, and account for short-term costs such as extra travel, production of new marketing materials and additional staff to adapt to markets abroad.
- **Level of commitment.** It takes time, willingness, effort, and resources to establish and maintain yourself in foreign markets.
- **Staying in for the long haul.** While exporting holds great economic promise for most companies, months or even several years can pass before you see a significant return on your export investment.
- **Language and cultural differences.** Familiarize yourself with the differences in language, culture, and business practices so you don't inadvertently offend your potential customer and lose a sale.
- **Paperwork.** There's no way around it, both Canadian and foreign governments require a lot of documentation from exporters of products and services.
- **Accessibility.** You have to be easily available to your foreign clients.
- **Competition.** You must be sure you're thoroughly familiar with the competition in your target market.

Exporting *goods* versus exporting *services*

Exporting goods and exporting services present quite different challenges. The former must deal with packaging, customs, and physical delivery, for example, while the latter confronts issues such as work permits, credential validation, language, and travel to and from the market. When exporting goods, it is also important to remember that there is often a service component that should be anticipated (installation, training, service, warranty, etc.).

Getting ready?

An export-ready business is one that has the capacity, resources, and management to deliver a marketable product or service on a global scale at a competitive price. The trick is to determine whether this is true of your company—and if it isn't, how to make it happen.

Consider the following as a starting point:

Business expectations. Do business have:

- clear and achievable export objectives?
- a realistic idea of what exporting entails and the timelines for results.
- an openness to new ways of doing business?
- an understanding of what is required to succeed in the international marketplace.

Human resource requirements. Do businesses have:

- the capacity to handle the extra demand associated with exporting.
- senior management committed to exporting?
- efficient ways of responding quickly to customer inquiries?
- personnel with culturally sensitive marketing skills?
- ways of dealing with language barriers?
- a local contact or "go to" person?

Financial and legal resources. Can company:

- obtain enough capital or lines of credit to produce the product or service for new orders?
- find ways to reduce the financial risks of international trade?
- find people to advise you on the legal and tax implications of exporting?
- deal effectively with different monetary systems and ensure protection of intellectual property?

Competitiveness. Do the company have:

- a product or service that is potentially viable in the target market?
- resources to do market research on the exportability of the product or service?
- proven and sophisticated market-entry methods?

Export myth: My company is too small to be successful at exporting.

To succeed in international markets, you don't have to be a big firm. Tens of thousands of Canadian small and medium-sized companies (SMEs)—those with foreign sales of between $30,000 and $5 million—are currently exporting and are doing very well.

Evaluating export potential

Can the product or service find a worthwhile market outside home country?

Answering this question is crucial. If there's no demand for what you're offering, it would be unwise to proceed.

When analyzing the export potential of your products/goods or services, you may want to account for the following considerations:

Customer profiles

- Who already uses the product or service of the company?
- Is the product or service in broad, general use or limited to a particular group?
- Is the product or service popular with a certain age group?
- Are there other significant demographic patterns to its use?
- What climatic or geographic factors affect the use of the product or service?

Product modifications

- Are modifications required to make the product appeal to foreign customers?
- What is the shelf life of the product? Will this be reduced by time in transit?
- Can the packaging be easily modified to satisfy the demands of foreign customers?
- Is special documentation required? For example, does the product have to meet any technical or regulatory requirements?

Transportation

- How easily can a product be transported?
- Would transportation costs make competitive pricing a problem?
- How efficiently does the target market process incoming shipments?
- Are specialized containers or packaging materials required?

Local representation

- Does it require a local marketer/salesperson or other local representation?
- Do products require professional assembly or other technical skills?
- Is after-sales service needed? If so, is it available locally or do you have to provide it? Do you have the resources to do this?

Exporting services

- If exporting services, what is unique or special about them?
- Are services considered to be world-class?
- Is there a need to modify your services to allow for differences in language, culture and business environment?
- How it is planned to deliver your services: in person, with a local partner or by electronic means such as the Internet?

Capacity

- Will it be able to serve both your existing domestic customers and new foreign clients?
- If domestic demand increases, will a company still be able to look after its export customers and vice versa?

International business and science, technology, and innovation

- International partnerships are an essential catalyst for ST&I, as these collaborations often accelerate the pace of discovery and result in improved commercialization.

2.2 Step 2- Globalization: Linking to Global Value Chains

The term "economic globalization" refers to the rapid expansion of international trade and capital flows since the 1990s. The world's economies have become even more closely integrated than ever.

Globalization has caused many businesses to divide their products or services into components. Instead of producing the components themselves or obtaining them from domestic suppliers, businesses outsource certain aspects of the work to other countries. Economists call this co-dependency a Global Value Chain (GVC).

A value chain (whether global or not) consists of activities that bring a good or service from its conception to its end use and beyond. This includes design, production, marketing, distribution, and support to the final consumer.

The activities that comprise a value chain can be contained within a single firm or divided among different firms. When those activities are no longer contained within a single geographic location, such as a country, we have a GVC.

Global value chains aren't new. Trade and investment were becoming broadly internationalized in the late 19th and early 20th centuries. But due to the outbreak of the First World War, followed by the Great Depression and the Second World War, globalization didn't really move to the forefront until the last quarter of the 20th century.

International trade has evolved from companies that once manufactured products in one country and sold them in another. It is also departing from the branch–plant approach, wherein a business produced its goods in a foreign market and sold them almost exclusively in that market. Instead, international trade is now increasingly characterized by intermediate inputs (for both goods and services) who may be found anywhere in the world.

Growth of Global Value Chains

There are three major forces driving the growth of GVCs.

1. Declining costs of transportation-Unless time concerns dictate otherwise; companies can afford to move their goods production and services provisions to locations that offer the best competitive advantages.

2. Improved information and communication technologies-Advances in information and communication technologies (ICT) mean that companies are much less limited by distance when operating in foreign markets.

3.Reduced barriers to trade and investment-New bilateral trade and investment treaties, lower global tariffs, and liberalized economies in developing markets, such as China and India, have allowed companies to gain access to markets that were formerly closed to them.

Companies worldwide have had to adapt to the evolution of GVCs. For example, non-core activities may be outsourced to suppliers, partners, or affiliates in countries with lower labour costs or other competitive advantages. Alternatively, SMEs may supply goods or services to a GVC established by another company, including a foreign multinational.

GVCs and business

Thera are considerable range of strategies for benefiting from GVCs. The following are among the most common.

Provide intermediate input for existing value chain.

If your product is something that another company uses as an intermediate input, you may be able to link into their GVC by becoming a supplier. This is a very common approach and certainly the simplest. For SMEs, especially those with niche technologies or specializations, new opportunities are constantly emerging to sell to multinationals or their suppliers.

Develop your own GVC through outsourcing.

If your company manufactures either finished products or intermediate inputs, you can set up your own GVC. Acquiring intermediate inputs—such as raw materials, components, subsystems and other goods and services—from foreign suppliers can help you manufacture your own products at either lower cost or greater responsiveness to market forces. Make investments abroad to connect to or establish a global value chain.

By investing abroad, you can gain immediate access to a foreign market and expand your company's sales and promote its growth. There is a broad spectrum of investment approaches, ranging from the passive to the active.

You might, for example, join a GVC simply by investing in a foreign company while taking little or no part in its operations. Purchasing a foreign firm, or setting up a joint venture or partnership, is another way to increase your competitiveness in the local market. This approach can be very cost-effective if you obtain existing production and distribution capabilities through investment, so you don't need to build them from the ground up.

Focus on service sectors

The demand for service exports is growing all over the world. Even if you're primarily a manufacturer, you may be able to move up the value chain by branching into value-added services related to your sector, such as design, distribution, marketing, and logistics.

Secondary industries may provide additional opportunities. Companies are demanding an increasing variety of services to facilitate trade, such as financial, information processing, telecommunications, logistics and legal services. Your company may have specialized expertise that is directly applicable to such activities.

Consider supplier diversity

Corporate supplier diversity initiatives facilitate inclusive sourcing of goods and services from groups that have been traditionally underrepresented in supply chains. Diverse suppliers include businesses owned by women, minorities, indigenous peoples.

2.3 Step 3- Charting Route-Developing Exporting Plan

If you plan your export project thoroughly, you'll have a better chance of doing well in your target market. Bad planning (or no planning) can lead to major failure abroad and could severely damage your domestic operations as well.

Financial institutions and other lending agencies will not normally provide funds to a business that lacks a well-developed export plan. In addition, potential partners and investors will want to see exactly how you plan to achieve your objectives.

Export plan should contain the following:

- Introduction
- business history
- vision and mission statements
- purpose of the export plan
- organizational goals and objectives
- international market goals
- short- and medium-term objectives for exporting
- location and facilities

2. Organization

- ownership
- management
- staffing
- level of commitment by senior management

- relationship between exporting and domestic operations
- corporate experience and expertise in exporting
- strategic alliances
- labour market issues abroad

3. Products and services

- description of products and services
- key and/or unique features that distinguish your product/services from those in the target market adaptation and redesign required for exporting.
- production of products and services
- future products/services pipeline
- comparative advantage in production

4. Market overview

- political environment
- economic environment
- size of market
- key market segments
- purchasing process and buying criteria
- description of industry participants
- market share held by imports.
- tariff and non-tariff barriers
- industry trends and other market factors
- market outlook

5. Market-entry strategy

- target market(s)
- description of key competitors
- analysis of competitive position
- product positioning
- pricing strategy
- terms of sale
- distribution strategy
- promotion strategy / development of sales leads
- description of intermediaries and partners

6. Regulatory and logistical issues

- intellectual property protection
- other regulatory issues
- modes of transportation and cargo insurance
- trade documentation
- use of trade service providers

7. Risk factors

- market risks
- credit and currency risks
- political and other risks

8. Implementation plan

- key activities
- evaluation criteria and process

9. Financial plan

- revenues or sources of funding
- operating budget
- cost of sales
- marketing and promotion costs
- other expenses or expenditures

2.4 Step 4- Setting out: Identifying Target Market

After the export plan, market research can be the most important contributor to international success. There are more than 190 countries in the world, and you want to target the right one(s) for your product or service.

To do this, you need information that will provide a clear picture of the political, economic and cultural factors affecting your operations in a given market

Market research is the key to understanding your opportunities. It can confirm that an opportunity actually exists, provide you with insight into how a new market can be developed, or help you discover what's important to your potential customers.

The three basic stages of international market research:

Stage 1. Screen potential markets

Collect statistics that show your sector's product or service exports to various countries.

Identify five to 10 large and fast-growing markets for your product or service. Look at their performance over the past three to five years. Has market growth been consistent year over year? Did import growth occur even during periods of economic slowdown? If not, did growth resume with economic recovery?

Apply the same research questions to select smaller emerging markets that may not have as many competitors as an established market.

Target three to five of the most promising markets for further study.

Stage 2. Assess target markets.

Examine trends that could influence demand for your product or service. Calculate the overall consumption of products or services like yours and identify the amount imported.

Study the competition, both domestic and international. Look at each competitor's Domestic and foreign market shares.

For marketing purposes, become familiar with channels of distribution, cultural differences, and business practices.

Identify any foreign barriers (tariff or non-tariff) for the product or service being imported into the country, as well as any Domestic barriers (such as export controls) affecting exports to the country.

Research potential federal, provincial, or foreign government incentives to help you promote the export of your product or service.

Stage 3. Draw conclusions.

After analyzing the data, you may decide that you should restrict your marketing efforts to a few countries. In general, one or two countries are usually enough to start with.

Types of market research

There are many ways to study a market, but the more detailed and objective your research, the better.

There are two main types of market research: secondary and primary.

Secondary research

Secondary research can be done using data sources including periodicals, studies, market reports, books, surveys, and statistical analyses. Many of these are available online, as well as from chambers of commerce, economic development organizations, industry, and trade associations, and Concerned companies that are already doing business in your target market.

Primary research

After completing your secondary research, collect market information through direct contact with potential customers or other sources. Primary research almost always demands direct, personal involvement through on-site interviews and consultations.

State your company's objectives at the outset and present your questions clearly. For example:

Company description: give a brief description of your company, its history, industries and markets served, professional affiliations (if any) and your product or service.

Objectives: briefly list or describe one or more objectives for your planned export product or service, based on your secondary market research.

Product or service: clearly describe the product or service you want to export.

Questions: base your questions on your secondary research and be as specific as possible. You'll get a better response if it's clear that you've carefully researched your subject.

Profiling potential markets

Here's a checklist to help you summarize what you can learn about a possible market. After you've created two or three profiles, compare them to see which market(s) present the best overall opportunities.

Market type. Is it:

- a fully developed market (e.g., Germany, the U.S.)?
- a developing market with rapid growth (e.g., China, India)?
- a developing market with marginal growth (e.g., many African nations)?

2. Political highlights. Describe:

- the government
- who's who.
- major political themes

- relations with home country, including trade agreements.
- 3.Economic highlights. Describe:
- the domestic economy
- economic trends
- general imports and exports
- imports and exports to and from home country

3. Business information. Specify:

- the currency
- the language(s)
- business practices and regulations
- differences in legal framework
- government procurement practices
- work relationships
- office hours

4. Partnering options. List:

- Domestic firms doing business in the target market.
- major firms from the target market doing business in home country.
- options for local partners
- 6.Support for market-entry strategies. Identify:
- industry associations
- trade events in the target market
- other networking options
- trade media
- research facilities
- market research sources

5. Cultural considerations. Specify:

- greetings and forms of address
- do's and don'ts
- cultural differences
- attitudes toward natives of home country
- general tips

6. Travel tips. Describe:

- visa, work permits or other entry requirements.
- business support services
- suitable hotels
- telecommunications standards
- tipping customs
- electrical voltage
- religious or statutory holidays

2.5 Step 5 – Reaching the customer: developing your export marketing strategy

A good marketing plan should be built around your research and will answer the following questions:

- What are the characteristics of your target market?
- How do your competitors approach the market?
- What is the best promotional strategy to use?
- How should you adapt your existing marketing materials, or even your product or service?

The many Ps of international marketing

Commonly referred to as the "marketing mix," the four Ps of marketing are:

- Product. What is your product or service and how must it be adapted to the market?
- Price. What pricing strategy will you use?
- Promotion. How will you make your customers aware of your product or service?
- Place. How and where will you deliver or distribute your product or service?

International trade is more complicated. Add the following nine Ps to the list to produce the 13 Ps of International Marketing:

- Payment. How complex are international transactions?
- Personnel. Does your staff have the necessary skills?
- Planning. Have you planned your business, market, account, and sales calls?
- Paperwork. Have you completed all the required documentation?
- Practices. Have you considered differences in cultural and business practices?
- Partnerships. Have you selected a partner to create a stronger market presence?
- Policies. What are your current and planned policies?
- Positioning. How will you be perceived in the market?
- Protection. Have you assessed the risks and taken steps to protect your company and its intellectual property?

Source: FITT, Going Global

Building your export marketing plan

Your marketing plan is a work in progress that you will have to modify continuously. As you develop it, consider the following questions:

- What is the nature of your industry?
- Who are your target customers?
- Where are they located?
- What is your company's marketing strategy?
- What products or services do you plan to market?
- How will you price your products and services?
- Which segment of the market will you focus on?
- Does your marketing material accurately convey the quality and value of your products or services and the professionalism of your company?

Take sufficient time to collect background information on the consumer demand, competitive landscape, local import laws, customs requirements, and other important factors in the target market.

As for content, a good marketing plan is closely related to your export plan and should contain the following sections:

Executive summary, which describes the purpose of your marketing plan and how marketing activities will be used to support your export strategy.

Product or service analysis, which gives a clear description of your export product or service, its unique selling points and how marketable it might be in the target market.

Market analysis, which describes your target market's key economic, social, political, and cultural characteristics, and provides a profile of your target customer, including buying patterns and factors influencing purchasing decisions.

Competitive analysis, used to decide pricing and marketing strategies of your product or service.

Goals, which describe how you will achieve your objectives in terms of market share, position, revenue, and profit expectations.

Marketing strategy, which includes pricing recommendations, mode(s) of delivery and proposed promotional methods.

Implementation, which identifies the activities and target dates you'll undertake to carry out your marketing plan, including a detailed marketing budget.

Evaluation, which describes how you will evaluate your marketing plan at various stages to determine if your goals are being achieved and what modifications may be needed.

Summary, which describes, in a half page, how your marketing plan goals fit into your overall export plan.

Setting prices

Strategic pricing is one of the most important factors in achieving financial success. Part of setting a realistic export price, and therefore an appropriate profit margin, is to examine production, delivery and distribution costs, competition, and market demand. You should also understand the variables of your target market and other export-related expenses, such as:

- currency exchange rates and fluctuations
- market research
- customer research and credit checks
- receivables/risk insurance
- business travel
- international postage, cable, and telephone rates
- translation
- commissions, training charges and other costs involving foreign representatives.
- consultants and freight forwarders
- product or service modification and special packaging
- Market demand
- As in domestic markets, demand in foreign markets can affect your price. In other words, what will the market bear?

For most consumer goods, per capita income is a fairly good way to gauge a market's ability to pay. Per capita income for most industrialized nations is similar to that of Canada or the United States, while it is much lower for much of the rest of the world. Often, simplifying products or services to reduce the selling price may be the best option in less affluent markets.

Competition

In domestic markets, few companies can set prices without considering their competitors' pricing. This is also true in exporting.

If you have many competitors in a foreign market, you may have to match or undercut the going price to win a share of the market. However, if your product or service is unique, new or demonstrates superior quality, you may be able to set a higher price.

Pricing strategies

How will each market affect your pricing? Include product modifications, shipping, and insurance in your calculations. And, as mentioned above, you can't ignore your competitors' pricing.

Refer to your market objectives when setting your price. For example, are you trying to penetrate a new market? Looking for long-term market growth? Or pursuing an outlet for surplus production?

You may have to tailor your marketing and pricing objectives to certain markets (e.g., developing nations). There are several pricing strategies available:

- Static pricing – charging the same price to all customers.
- Flexible pricing – adjusting prices for different types of customers.
- Full cost-based pricing – covering both fixed and variable costs of the export sale.
- Marginal cost – covering only the variable costs of production and export, while you pay overhead and other fixed costs out of domestic sales.
- Penetration pricing – keeping your price low to attract more customers, discourage competitors and gain quick market share.
- Price skimming – pricing the product high to make optimum profit among high-end consumers while there is little competition.

After you've determined your costs and chosen your pricing strategy, establish a competitive price for your product or service that gives you an acceptable profit margin.

Pricing checklist

Use this handy checklist to track your costs and develop your pricing strategy.

- Marketing and promotion
- agent/distributor fees
- advertising, media relations
- travel
- communications
- materials (brochures, business cards)
- trade fairs and exhibitions
- Production
- unit cost of manufacture
- product or service modification
- regulatory approval
- increased R&D costs
- labelling/packaging, including translation.
- packing/marking
- Documentation
- Inspection
- Certification
- Document préparation
- Cargo insurance
- freight forwarder's fees

- Transportation
- lading and related charges
- carriage
- warehousing and storage
- insurance
- Customs
- customs and other duties at port of entry
- customs brokerage fees
- Financing
- costs of financing
- interest charges
- exchange rate fluctuations
- export credit insurance

Different approaches used to market goods versus services

Factor	For marketing goods	For marketing services
Demonstrations	Sample product	Presentation of capabilities
Initial marketing by	Sales representatives	Firm's principals
What do you market?	Your product	Your firm and your services
Local market presence	Sales/distribution facility	Office or virtual office in target market
Cultural factors	Product design and packaging	Interpersonal dynamics
Local associations	Distributors, resellers	Service industry
Local events	Trade shows	Conferences (as speaker)
Media	Product advertising	Press coverage
Local partners	Production/distribution firms	Other service firms
Government procurement	Goods acquisition	Services contracts

Promotion

Tip

Get your sales brochures, website and marketing proposition translated right away into the local language. Make sure to use local translators to ensure intercultural effectiveness when communicating through the use of text and/or imagery.

The outcome of your promotional strategies can make or break your export venture.

Promotion refers to any or all of the communications tools listed below that you may use to convince people to buy your product or service.

Advertising

Carefully select the media that have a wide circulation within your target audience. If few people have televisions, is radio a better bet? Or print? Or online advertising? Or social media? Word of mouth promotion (testimonials, samples, etc.)?

Promotional materials

You may need to remove elements that are inappropriate, offensive, or meaningless in the target market. Then have a commercial writer adapt these materials into the native language, and have it double-checked by a native of the country.

- Direct mail. A targeted direct mail campaign can be very effective if you do your research and gain experience in your target market.
- Media. Prepare a media kit that includes a profile of your company, new products/services, newsworthy activities, and any articles published about your company.
- Personal visits. Many cultures value personal contact as the best means of promotion and building business relationships.
- Trade shows. Attending or participating in international trade shows allows you to promote your business, check out the competition and do market research.

- Internet. Be prepared to commit time and money to keeping your website up-to-date, useful to customers and maintained in other languages.
- Social media. Consider the most appropriate online platform for your audience and market. What is your demographic and where do they congregate, communicate, and share information with business peers? Is it Facebook, LinkedIn, or Twitter? Or are there local social media platforms relevant to the market (e.g., WeChat in China or XING in Germany)?

Marketing tools

Developing the right marketing tools is crucial to the success of your business. Below is a list of tools and tips to get you started.

Business cards

- Professionally designed and high quality
- Easy to read.
- In the appropriate language(s)
- Consistent throughout your firm
- Distinctive and informative
- Up-to-date and complete, including area codes, country, telephone and fax numbers, postal code, email, and website addresses.

Brochures

- Creative and appealing
- Informative and easy to read, highlighting your uniqueness.
- Professionally designed and printed.
- Visually pleasing

Customer testimonials

- Demonstrate that your company is highly recommended.
- Represent your best customers.
- Feature quotes from top executives
- Include it in your brochure and on your website.

News articles

- Clearly state that your company is a recognized leader.
- Quote in your brochure
- Reproduce on your letterhead.
- Display in your office
- Send to potential clients.

Videos

- Sophisticated and interesting
- Professionally translated and produced.
- Oriented to the quality and benefits of your product or service.
- Clear and concise
- Make it conveniently available on YouTube, Twitter, and other social media channels.

Website

- Comprehensive and informative
- Professionally designed.
- Easy to navigate.
- Visually pleasing
- Up to date and reliable
- Enabled to submit online enquiries (via forms or email)
- Capable of allowing online purchasing (if appropriate)

Social media

- Set up accounts in social media such as Facebook, LinkedIn, Twitter, those from consumer organizations and online review sites.
- Be aware of the social media that is used in your targeted market.
- Be aware of the functionality in these social media, such as the Share button.
- Understand how your product shows in search engines on the Internet.
- Set up social media analytics so you are aware of your audience, their referrals of your company, as well as associated commentary.
- Be prepared to respond in a positive, proactive fashion to address customer concerns or demonstrate appreciation of compliments.

2.6 Step 6 – Opening the door: entering your target market

Understanding entry strategies

Developing a market-entry strategy simply means finding the best methods of delivering and distributing your goods.

Now, based on your market research, you must decide which entry method best suits your needs.

Some factors to consider:

- How is business conducted in your target market and industry sector?
- What are your company's export strengths and weaknesses?
- What is your company's financial capacity?
- What product or service are you planning to export?
- How much service and after-sales support will your customers require?
- What trade agreements or barriers apply to your target market?

The traditional means of market entry fall into four broad categories: direct exports, indirect exports, partnerships, and acquisitions/investments.

Direct exports

For products, you market and sell directly to the client. For services, you negotiate, contract and work directly with the client.

Advantages of direct exporting

A higher return on your investment than selling through an agent or distributor.

Allows you to set lower prices and be more competitive.

Close contact with your customers

Disadvantages of direct exporting

You don't have the services of a foreign intermediary.

Customers or clients may take longer to get to know you.

Indirect exports

For products, you market and sell to an intermediary such as a foreign distributor. You can also retain a foreign agent or representative who does not directly purchase the goods.

For services, you contract with an intermediary who then negotiates and contracts on your behalf.

For many new exporters, an intermediary may be the best way to enter a market.

Partnerships

You might find it advantageous to partner with a local company whose strategic position complements or enhances your own. A well-structured partnership can benefit both parties in the following ways:

Your partner can complement your capabilities and provide the local expertise, insights, and contacts.

Each company focuses on what it does and knows best.

Both partners share the risk.

You can pool ideas and resources to help keep pace with change.

You can approach several markets simultaneously.

Your partner may provide technology, capital, or market access that you might not be able to afford on your own.

Partnerships may help resolve problems related to professional accreditation, movement of personnel across borders and tax and legal status.

In a highly competitive global market, combining the technical and financial strengths of two businesses can make both more competitive.

You develop a partnership strategy in three steps:

- Decide whether or not a partnership can work for you. If your needs can be satisfied in-house, a partner may not be necessary. If you need financing, you may be better off looking for investors. But if you require special expertise or a local market presence, then a partnership might work very well.
- Define the form, structure, and objectives that a partnership must have to suit your needs. To do this, evaluate your company's goals, its ability to achieve them and where you need help in doing so. Then identify how the partnership must work in order to fill in those gaps.
- Find a partner who meets these criteria and who will be a good "fit" with your company. It is very important to select a partner that has the values and approach to businesses that match your own for a partnership to be successful.

There are several different forms of partnerships. The primary options are:

- Licensing – a licence is the granting of rights to another business so that it can legally use your proprietary technology and/or intellectual property. This usually does not involve granting all the rights to the property.
- Franchising – more than licensing, the franchisee is given the right to use a set of manufacturing or service delivery processes, along with established business systems or trademarks, whose use is controlled by a licensing agreement.
- Cross-licensing – each firm licenses products or services to the other for sales purposes.
- Cross-manufacturing – a type of cross-licensing in which companies agree to manufacture each other's products.
- Co-marketing – carried out on the basis of a fee or a percentage of sales to take advantage of existing distribution networks and domestic markets.
- Co-production – the joint production of goods, enabling your business to use its skills and resources to provide cheaper manufacturing.
- Joint venture – each business contributes capital to a newly created corporation that they operate together, or the Canadian and the local business enter into a general partnership agreement and operate the joint venture as a partnership.

Using the expertise of lawyers, accountants, bankers, and other professionals is vitally important when setting up any type of partnership.

All parties must be absolutely clear about who holds which rights and which responsibilities.

Selling to foreign governments

Foreign governments can present a rich source of contracts for exporters. The United States government alone procures more than $500 billion in goods annually.

Selling to multinational corporations

To sell goods or services to foreign corporations, it is essential to conduct research to understand their supply chain sourcing practices. Incorporating the mechanism by which you access the supply chain should be considered in developing your market-entry strategy.

Evaluating the use of intermediaries

Before you jump on a plane and start knocking on doors, think about using an intermediary. The right one can save you an enormous amount of time and money. There are several types: agents, representatives, trading houses and distributors.

Agents and representatives

Agents and representatives aren't exactly the same. An agent secures orders from foreign customers in exchange for a commission. A representative specializes in sales within a specific geographic area.

Both types of intermediaries may be authorized and commissioned to enter into contractual sales agreements with foreign customers on your behalf. This is usually less costly than setting up your own direct sales operation. Such an arrangement also gives you control over the price of your product or service—an important advantage.

Trading houses

Trading houses are domestic intermediaries that market your goods or services abroad. A full-service trading house handles a great many aspects of exporting, such as market research, transportation, appointing distributors, or agents, exhibiting at trade fairs and preparing advertising and documentation.

Foreign distributors

Unlike agents, distributors actually purchase your product or service and resell it to local customers. Often, they set the selling price, provide buyer financing, and look after warranty and service needs.

A bonus is that the distributor can usually provide after-sales service in the foreign market. On the other hand, using a foreign distributor may reduce your profit margins and result in a loss of control over your product and/or price.

Selecting the right intermediary

To evaluate a prospective intermediary in detail, use the questionnaire below.

- Size of sales force
- How many field sales personnel does the agent or distributor have?
- What are its short- and long-range expansion plans, if any?
- Will it have to expand to accommodate your needs properly? If yes, would it do so?
- Sales record
- Has its sales growth been consistent over the past five years? If not, why not?
- What are its sales objectives for the next year? How were they determined?
- Territorial analysis
- What territory does it now cover? Is it consistent with the coverage you're looking for? Is it willing and able to expand?
- Does it have any branch offices in the territory you wish to cover?
- Are its branch offices located where your sales prospects are greatest?
- Are there plans to open additional offices?
- Product or service mix
- How many product or service lines does it represent?
- Are they compatible with yours?
- Does it represent any other Canadian firms?
- Would there be any conflict of interest?

- Would it be willing to alter its present product or service mix to accommodate yours, if necessary?
- What would be the minimum sales volume needed to justify handling your lines?
- Do its sales projections reflect this minimum figure?
- From what you know of the territory and the prospective agent or distributor, is its projection realistic?
- Facilities and equipment
- Does it have adequate warehouse facilities?
- What is its method of stock control?
- Are their computers compatible with yours?
- What communications facilities does it have?
- If servicing is required, is it equipped and qualified to do so?
- If new equipment and/or training are required, to what extent will you have to share these additional costs?
- If necessary, would it be willing to inventory repair parts and replacement items?
- Marketing policies
- How is its sales staff compensated?
- Does it have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific lines?
- How does it monitor sales performance?
- How does it train its sales staff?
- Would it be willing to share expenses for sales personnel to attend seminars?
- Customer profile
- What types of customers is it currently in contact with?
- Are its interests compatible with your lines?
- Who are its key accounts?
- What percentage of total gross receipts do these accounts represent?
- Principals represented.
- How many principals does it currently represent?
- Would you be its primary supplier?
- If not, what percentage of its total business would you represent? How does this percentage compare with other suppliers?
- Promotional thrust
- Can it help you research market information?
- What types of media does it use, if any, to promote sales?
- How much of its budget is allocated to advertising? How is it distributed?
- Would you be expected to share promotional costs? If so, how will this amount be determined?
- If it uses direct mail, how many prospects are on its mailing list?
- What printed materials are used to describe its company and the lines it represents?
- If necessary, can it translate your advertising copy?
- Does it have its own website?

2.7 Step 7 – Shippers and shipping: delivering the goods

Delivering products

There are four ways of getting your product to your customer's doorstep: by truck, rail, air or ocean. Choosing the right shipping method, or combination of methods, is vital to export success—you want the product to get there on time and at the lowest cost.

Shipment methods

- Truck

Trucking is popular for shipments within North America, but service declines once you go beyond the major industrialized countries.

- Rail

Rail is widely used when shipping to the United States or to and from seaports.

- Air

Air is more expensive than surface or sea transport, but the higher costs may be offset by faster delivery, lower insurance, cheaper warehousing, exotic markets, and better inventory control.

- Ocean

Shipping large items, bulk commodities and goods to offshore markets that do not require fast delivery is more economical by sea.

You'll need to deal with a lot of documents when delivering products to foreign countries. You don't normally do it all yourself, however—use freight forwarders and customs brokers to help reduce the workload abroad.

Freight forwarders will help you improve your delivery times and customer service. These agencies will negotiate rates for you with shipping lines, airlines, trucking companies, customs brokers, and insurance firms. They can handle all of your logistical requirements, or just negotiate your shipping rate.

Packing your goods

Proper packing can also reduce the risk of theft during transit.

Assume your products will have a bumpy ride, particularly if you're shipping overseas.

Pack them to survive rough-and-ready cargo handlers and poor roads.

During transit, handling and storage, your goods may be exposed to bad weather and extreme temperatures. If they need special temperature controls or other protective measures, be sure they get them.

The type of shipping may determine the kind of packing you should use. For example, if the goods are carried by ship, you need to know whether they will be placed above or below deck.

Labels and marks

Labelling regulations vary widely from nation to nation, so verify the required labels before you ship.

Your product may not clear customs if labels don't conform to local requirements such as product weight or electrical standards.

Marking distinguishes your goods from those of other shippers. Marks shown on the shipping container must agree with those on the bill of lading or other shipping documents; they may include some or all of the following:

buyer's name or some other form of agreed upon identification.

point/port of entry into the importing country

gross and net weight of the product in kilograms and pounds

identification of the country of origin, e.g., "made in Canada."

number of packages

appropriate warnings or cautionary markings

Provide a packing list that identifies and itemizes the contents of each container. Each container must also contain a packing list itemizing its contents.

Transportation insurance

International carriers assume only limited liability and make the seller responsible for the goods up to the point of delivery to the foreign buyer. For this reason, you must have international transportation insurance.

Marine transportation insurance protects both ocean- and air-bound cargo. It also covers connecting land transportation. There are three main types of marine transportation insurance:

Free of particular average (FPA) insurance is the narrowest type of coverage. Total losses are covered, as well as partial losses at sea if the vessel sinks, burns or is stranded.

With average (WA) offers greater protection from partial losses at sea.

All risk is the most comprehensive insurance, protecting against all physical loss or damage from external causes. Once the documents transferred title are delivered to the foreign buyer, you are no longer liable for the goods.

Export Documentation

Export documentation identifies the goods and the terms of sale. It also provides title to the goods, evidence of insurance coverage and certifies a certain quality or standard. Several documents are required for overseas shipping and fall into two categories:

Shipping Documents

Goods shipped by sea are typically insured for 110% of their value, to compensate for the extra costs involved in replacing lost goods.

Shipping documents are prepared by you or your freight forwarder. They allow the shipment to pass through customs, be loaded onto a carrier and be transported to the destination. Key shipping documents include:

- commercial invoice
- special packing or marking list.
- certificate of origin
- certificate of insurance
- bill of lading/air waybill*
- A bill of lading is used for land and ocean freight, while an air waybill is used for air freight.

Collection Documents

The most important collection document is probably the commercial invoice, which describes the goods in detail and lists the amount owing by the foreign buyer. This form is also used for customs records and must include:

- the date of issue
- the names and addresses of the buyer and seller.
- the contract or invoice number
- a description of the goods and the unit price including the total weight and number of packages
- shipping marks and numbers

- the terms of delivery and payment

Other collection documents include:

- certificates of origin
- certificates of inspection, used to ensure that goods are free from defects.
- import and export licenses, as required (e.g., a NAFTA certificate of origin)

Delivery services: how it's different

The challenges of delivering services to a foreign market are just as complex as those of delivering products. The challenges are different, however, and often depend on factors in your target market, such as:

- extent and reliability of telecommunications/internet links
- existence of a reliable IT infrastructure
- frequency and convenience of air links between Canada and the market
- technological sophistication, receptivity, and flexibility of customers
- potential support through official channels, government departments and international development agencies
- ability to satisfy legal regulations governing work permits or professional certification.
- potential to enter into a local partnership.

You'll most likely be delivering your services by one, or a combination of, the following methods:

Provider visits client. This is the most common export activity and involves meeting the client repeatedly, often at the site.

Client visits provider. In industries such as tourism, thousands of Canadians earn income by meeting the needs of foreign visitors.

Establishment in the market. Large legal and accounting firms, as well as major banks, are most likely to use this method to establish their presence abroad.

Electronic delivery. E-business is increasingly more important for conducting global business.

2.8 Step 8 – Identifying Export Financing Requirements

Export drive will need a reliable cash flow. You will also need a comprehensive financial plan for the export venture. If you don't have one, it will be very difficult to arrange the financing your venture may need.

The most important objective of your plan, however, is to ensure that your company always has sufficient cash or operating lines of credit. To do this, the plan must include:

- a cash budget that highlights your financing requirements over the next two or three years, so you can determine the timing and amount of your cash expenditures.
- a capital budget, which is a longer-term overview of the funds you'll need to complete your export project, that provides an operating plan against which you can measure actual expenditures and revenues and tells you when the project will start generating positive cash flows.

Know the timing of both cash inflows and outflows. Cash flow planning can help you defend against such problems as:

- exchange rate fluctuations

- transmission delays
- exchange controls
- political events
- slow collection of accounts receivable

There is a detailed list of export financing schemes initiated by the Indian Government viz. pre shipment and post shipment.

Therefore, the exporters can get help from all such schemes formulated by the Country.

Accurate details are important to the overall effectiveness of your export plan.

International trade payments usually take longer to arrive than domestic ones, so allow for this in your cash flow planning.

Methods of collecting payment

There are several ways for customers to pay an invoice in international trade: cash in advance, letters of credit, documentary credit, documentary collection and open account.

1. **Cash in advance**

Cash in advance is your most secure option because it eliminates all risk of non-payment and adds to your working capital. Unfortunately, few foreign buyers are willing to pay cash in advance, although some will pay a portion when goods or services are specially ordered. For services, a retainer might be paid upon signing a contract, after which progress, payments are matched to deliverables.

2. **Letters of credit**

Letters of credit (L/Cs) name a bank to receive and check shipping documents and to guarantee payment. With an L/C, the costs of financing a transaction may be borne by either the exporter or importer.

Both sight- and term-payment provisions can be arranged.

Letters of credit can be confirmed or unconfirmed. For example, a Canadian bank can confirm an L/C issued by a foreign bank, thus guaranteeing that the Canadian bank will pay the exporter even if the foreign bank doesn't. This kind of L/C is much better for you than the unconfirmed one.

L/Cs can also be irrevocable, which means they can't be cancelled or amended without your approval. The most secure L/C is one that is both confirmed and irrevocable.

In practice, an L/C works like this:

The customer arranges an L/C with his or her bank.

The customer's bank prepares an irrevocable L/C. This includes specifications as to how you'll deliver the goods.

The customer's bank sends the L/C to your bank for confirmation.

Your bank issues a letter of confirmation and sends the letter and the L/C to you.

You check the L/C very carefully. In particular, you ensure that it agrees in all respects with the terms of your contract with the customer. If the L/C's terms and those of the contract are different, and if you don't meet the L/C's terms because you overlooked the discrepancy, the L/C may be deemed invalid, and you might not get paid.

You arrange shipping and delivery with your freight forwarder. Once the goods are loaded, you get the appropriate shipping documents from the forwarder; you use these to prove that you have fully complied with the terms of the contract.

You take these documents to your bank, which sends them to the customer's bank for review. The customer's bank sends them to the customer and the customer obtains the documents that will allow the goods to be claimed.

The customer's bank pays your bank, which then pays you.

3. Documentary credit

Exporters can also use sight and term documentary credits:

A documentary credit calling for a sight draft means that the exporter is entitled to receive payment on sight, i.e., upon presentation of the draft to the bank.

A term documentary credit, in contrast, may allow for payments to be made over terms of 30, 60 or 90 days, or at some other specified future date.

4. Documentary collection

In a collection, you ship goods to an importer (your customer) and forward the shipping documents to a collecting bank. Next, the customer pays the collecting bank in exchange for the documents. You then obtain the money from the bank.

With a collection, no bank has guaranteed that you'll get paid, and you're required to finance the shipment until your customer receives the goods and pays through a sight or term draft.

5. Open account

Open accounts require you to ship goods and pass title to the customer before payment is made. In these cases, you're fully exposed to any credit risk associated with the customer until payment is received. In addition, because open account terms usually allow 30, 60 or 90 days (or even longer) before payment is due, you are, in fact, financing the transaction for your buyer.

Insuring against non-payment

The effects of your buyer not paying can be severe and lasting.

You can protect your company through EDC's Accounts Receivable Insurance (ARI). ARI protects you against non-payment by covering up to 90% of losses resulting from a wide variety of commercial and political risks. Better still, you'll be able to free up your capital and, possibly, extend more attractive payment terms and credit options to new customers.

If you have outstanding accounts receivable (A/R) but need the cash immediately you can sell your A/R to your bank. A/R discounting as it's called is made even more possible with credit insurance as the bank can be certain it will be paid.

2.9 Step 9 – The Fine Print: Understanding the Legal Side of International Trade

In international trade, contractual arrangements can be much more prone to complications than domestic ones. Language barriers may cause misunderstandings. Cultural and geographical impediments may crop up. Words often have different meanings in different places.

International business contracts must, therefore, be specific and all-encompassing. This will go a long way toward reducing misunderstandings, misconceptions, and disputes.

Finding a legal professional who specializes in international trade will help you sidestep regulatory and legal pitfalls and, if necessary, resolve disputes

Understanding 'proper law'

Problems in international business contracts can occur because of differences in the laws of the countries involved. When different laws are applied, results may be inconsistent and substantive rights may depend on whose law applies. For example, one law may require that a contract be written, whereas another may not. Or, under one law, persons who are not a party to the contract may have certain rights, whereas under another law they may have no rights.

Resolving disputes

Many issues can become controversial in international trade transactions. For example:

- Disputes with agents
- Collection of payments due
- Breach of contract or warranty
- Intellectual property rights
- Secured creditors' rights, e.g., seizure of assets.
- Enforcement of foreign judgments

Consult with legal counsel in the jurisdiction of the contract should a dispute arise to explore options for dispute resolution.

In certain circumstances, arbitration could be an option. Also called alternative dispute resolution, arbitration uses a tribunal to consider the questions over which the parties are in conflict and to decide how to resolve the questions.

2.10 Step 10 – Selling Online: E-Commerce For Exporters

E-commerce (also known as digital commerce) refers to the act of selling and buying via the Internet. This definition includes transactions in which not all of the activity takes place online. A website may play a role in informing a buyer about a product or offer for which the purchase takes place offline.

That is a common model that is not typically captured in e-commerce statistics. Similarly, a goods producer or wholesaler may depend on distributors or retailers in other countries to sell goods to customers using their own e-commerce channels.

Why sell online?

Opportunities for online sales are huge and growing. By selling online, companies can:

- find new customers in overseas markets.
- conduct business 24/7
- build brand awareness.
- access new markets in a low-cost manner
- monitor real-time sales to understand what customers are searching for!

The role of e-commerce in the global retail landscape cannot be understated. Global brick-and-mortar retail sales experienced a decline between 2012 and 2017, while e-commerce more than doubled to reach over US$1.3 trillion in 2017.

The United States is a key driver behind the rise of global e-commerce, with total e-commerce sales in the U.S. exceeding US$360 billion in 2017, second only to China.

E-exporting: using the Internet to export

By definition, exporting is the practice of sending or transporting goods or services to a foreign country for trade or sale. In comparison, e-exporting is the practice of receiving and processing orders online from customers located in foreign countries. The Internet offers some digital advantages over traditional exporting approaches. Not only can you reach a large number of potential customers from around the globe without needing to establish a physical presence in other countries, but you can also:

- Customize your product or service offerings based on the customer's location by offering special links on your website for different markets (e.g., provide information in the language and currency of the target market).
- Offer electronic customer support through a list of frequently asked questions (FAQ) on your website or through email assistance, rather than by operating a costly and time-consuming toll-free number.

- Highlight the features and benefits of your products or services using pictures, descriptions, technical details, pricing, shipping and return policies, as well as include customer testimonials and video demonstrations.
- Promote your company and build your brand with potential customers by telling them more about your company's history, staff, location, partners and so on.
- Facilitate communication with international customers through email. Respond to questions instantly, notify your customers of their product shipment status and send them the latest news or information on special offerings.

There are seven principal steps when you are considering e-exporting:

- Evaluate your e-export potential. Before spending a great deal of time, effort, and money on e-exporting, take some time to reflect on your current operations and product offerings. This assessment phase will help you avoid headaches later and will educate you on what you need to do to get ready to e-export (refer to section 10.4).
- Develop an e-export plan. If you are being proactive and thinking about actively marketing your products in foreign markets, an export plan is a definite must. An e-export plan will help you to tackle the digital aspects of commerce.
- Modify your products for foreign markets. Before entering a foreign market, you need to be sure your products are suitable in their current form. You need to consider both the tastes and preferences in your foreign markets, as well as the specific foreign regulations that apply to your products. Note that these will vary by country, so you may have to limit the foreign markets where you sell or intend to sell your products.
- Research the legal issues related to e-exporting. As with most business transactions, informing yourself about the laws and regulations that govern e-exporting transactions is critical. Consult a lawyer specializing in international law to make sure you are following the various domestic and foreign regulations.
- Leverage your website to sell abroad. The Internet represents a critical sales tool for SMEs with limited resources. Consider developing a multilingual website, one that offers content in more than one language. This will be necessary if you are aiming to reach customers in multiple countries where different languages are used.
- Ship your products. Once you have made a sale, you need to get your products to your customer. The international shipping process can be complicated at best. To ease the burden of shipping products abroad, you can call upon the assistance of freight forwarders, customs brokers, and fulfillment houses.
- Get paid. Arranging for online payment before the goods are shipped will help you to avoid having to collect payment after the goods have been shipped. Online payment options include third-party credit card processing companies, online fund transfer services and prepaid credit services, all of which allow payments and money transfers to be made through the Internet. The services these companies offer are not available in all countries.

Applications and benefits

E-commerce has many applications, including sales, customer relations, finance, market research, market intelligence and procurement. Some of the benefits these applications can bring to exporters are:

- reduction of the time needed to deliver and update information about products or services.

- flexibility and adaptability of online marketing and advertising
- customer access to your products or services 24 hours a day, 365 days of the year
- faster responses to customers' needs
- more efficient ordering and order processing
- easier access to intelligence about export essentials such as demographics, market characteristics and competitors
- electronic rather than physical delivery of certain products and services
- access to world markets and, therefore, more export opportunities

Assessing your potential

If you're going to succeed in e-commerce, you have to start with a clear-sighted evaluation of your company's potential for online business. Ask yourself the following questions:

- IT resources: How sophisticated is your Web presence? How much experience do you have in managing IT projects? Are you aware of new technology and how you can use it?
- Management: Your e-business strategy needs to be developed in the context of your overall corporate objectives. Do you know what parts of your business should be put online? Is senior management committed to going in this direction?
- Personnel: Do your employees understand your e-business strategy? Have you asked for their input? Do you have a plan for training them in the new skills they might need?
- Customers: Do you use online resources to track competitive trends and identify potential new business? Does your e-business strategy address the security and privacy concerns of your customers? Is your website customer-friendly?
- Competition: Are you aware of your competitors' e-commerce initiatives and how they could affect your competitiveness?
- Suppliers: Do you know if you can reduce procurement costs by purchasing online? Do you use the Internet to look for suppliers? Have you used supplier input to help plan your e-business strategy?
- Profitability: Have you done cost-benefit analyses for your e-business strategy? Do you know how long it will take to amortize the start-up costs?
- At the end of the diagnostic, you'll have a detailed analysis of how ready you are to adopt an e-business strategy. You'll ill also identify ways to improve your competitiveness in this venture.

Localization

Adapting your website to suit your target market is called localization.

At least part of an exporter's website has to present information in the native language of the target market. Translating a website completely can be expensive, so you may prefer to begin by having professional translators localize only the most important pages.

Finding e-leads

The Internet is a fruitful source of electronic business leads from around the world, usually called e-leads. There are several ways to track down such virtual opportunities in international e-marketplaces. For example, Canadian retailers and their brands can reach consumers overseas through e-marketplaces, which are online locations that provide a platform for retailers of all sizes to conduct business through e-commerce.

Checking e-leads

The precautions you take in traditional exporting also apply to the world of e-business, including:

Know who you're dealing with. Always verify addresses and if you can't identify a potential customer or the country in which an order originates, don't proceed with the deal. The TCS can help validate a potential customer with a bona fide check.

Verify other characteristics of the potential customer's country. How good is its communications infrastructure? How stable is its financial systems? What level of political risk does it represent?

Conduct market research. It is a key component of evaluating e-leads. The principles of market research are the same for e-business exporting as they are for traditional exporting.

Monitor credit assessments. They are just as important in e-business.

E-payments

Arranging for online payment (before the goods are shipped) will help you to avoid having to collect payment after the goods have been shipped. Online payment options include third-party credit card processing companies, online fund transfer services and prepaid credit services, all of which allow payments and money transfers to be made through the Internet.

Supporting your online customers

Support for your customers is crucial to ensuring repeat business. You can do this, of course, through traditional methods such as telephone, email, fax, and the postal system. But a good e-business customer support system can give you an edge. The potential impact of social media—positive and negative—should also be considered, especially when dealing with tech-savvy customers.

Privacy is a major concern for potential online customers. You will need to convince them that any electronic transactions they make with you are secure and that their privacy and personal information will be protected.

Social media networks

Social media is an effective business development tool. It is best used as an interactive platform for listening to and sharing information with members of an online community. Social media can also represent a cost-effective channel to directly reach out to, and engage with, thousands of potential consumers and enterprise customers.

Summary

The business of export and import has got detailed formalities to be complied with. It is well understood that the trade, when between two parties, that are situated in two different nations definitely poses challenges called “foreign trade risks”.

It is, therefore, very necessary that there are done authentic paper works to be very sure that the aforesaid risks are not happening at all. Similarly, in this unit there is done a detailed commentary to make aware the learners of export and import management, with the documentation formalities to be done while doing export and import business respectively.

Keywords

Social Media Networks: Linking using e-technology through social media platforms like Facebook, Twitter, LinkedIn. etc.

E-Payments: Payment using core banking solutions (IT supported /digital banking)

Localization: Fitting to target market

Letter of Credit(L/C): The bank of imported guarantees the bank of exporter payment of a deal of export.

Global Value Chain (GVC): Outsourcing certain components needed for a product form foreign supplier.

Self Assessment

1. Exporter must register with one of the following authorities.

A. RBI
B. EXIM bank
C. DGFT
D. ECGC

2. The exporter gets _______ from DGFT.

A. IEC number
B. PAN number
C. Aadhaar number
D. Credit number

3. Let export order is received from the Customs _______ .

A. Preventive Officer
B. Examiner
C. Superintendent
D. Custom officer

4. Mate's Receipt is issued by _______ .

A. Customs
B. Captain of the Ship
C. Importer
D. Inspection agency

5. The CHA is also known as _______ .

A. C&F agent
B. Consignor
C. Customs official
D. Shipping company

6. The CHA submits the relevant export documents to the _______ for the purpose of verification.

A. RBI
B. SIDBI
C. Customs house
D. Shipping company

7. The CHA must obtain ______ from the Port Trust Authorities.

A. Commercial invoice
B. Let Export order
C. Let Ship order

D. Carting order

8. Customs Preventive Office issues _______ order.

A. Let Export
B. Let Ship
C. Carting
D. Mate's

9. The shipping bill is made in ______ copies.

A. one
B. three
C. five
D. seven

10. Bill of lading is issued by _______ company.

A. transport
B. shipping
C. warehousing
D. outsourcing

11. Canalization of Export and Import means: -

A. Canalisation of import and export means the import and export of commodities through specified government agencies.
B. The items specified in the canalised list can be canalised only through a specified canalising agency.
C. State Trading Corporation of India (STC), and Metals and Minerals Corporation (MMTC) are the example of authorities for canalization.
D. All of the above

12. Which form is required to be filled for registration?

A. Aayat Niryat Form
B. EIC
C. SEZ
D. (d)FTZ

13. Timelines for cash in advance payments are:

A. Prior to manufacturing or shipping
B. Post manufacturing or shipping
C. After Export
D. Before Import

14. Document used for documentary collection is?

A. Bill of Exchange/ Draft
B. Usance Bill
C. Bill of Lading
D. All of the above

15. What is time of payment of documentary collection?

A. At the sight of goods or acceptance
B. At a future date
C. Prior to shipping
D. None

Answers for Self Assessment

1.	C	2.	A	3.	B	4.	B	5.	A
6.	C	7.	D	8.	B	9.	C	10.	B
11.	D	12.	A	13.	A	14.	A	15.	A

Review Questions

1. What is the difference between exporting goods and exporting services?
2. What the meaning of market research?
3. Write a detailed note on 'canalization'.
4. Global Value Chains (GVCs) are unique business strategy? Discuss
5. Briefly discuss the documentation to be done when exporting?
6. Write a short note on 'localization'.

Further Readings

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Unit 03: Export Import Payments

CONTENTS

Objectives

In this unit, student will be able to understand:

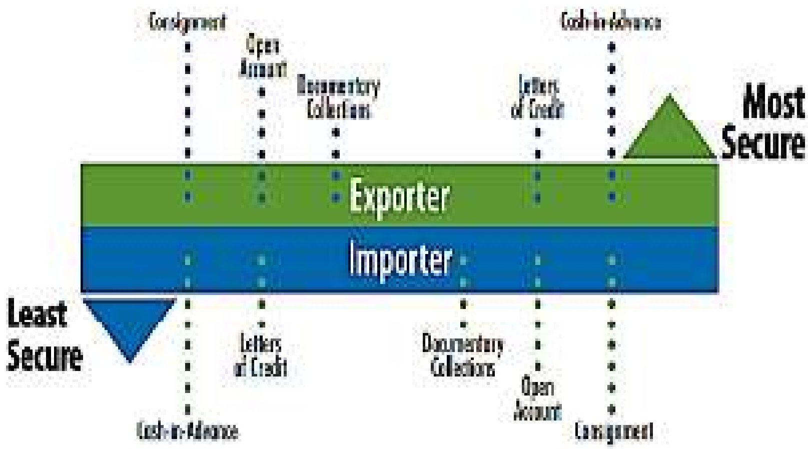
- Methods of payments in international trade
- The scenario of financing of exporters and importers
- Comprehend various instruments of payments.

Introduction

To succeed in today's global marketplace and win sales against foreign competitors, exporters must offer their customers attractive sales terms supported by the appropriate payment methods.

Getting paid in full and on time is the ultimate goal for each export sale, an appropriate payment method must be chosen carefully to minimize the payment risk while also accommodating the needs of the buyer.

Figure 1: Payment Risk Diagram



As shown in figure 1, there are five primary methods of payment for international transactions. During or before contract negotiations, you should consider which method in the figure is mutually desirable for you and your customer.

1. Cash-in-Advance
2. Letters of Credit
3. Documentary Collections
4. Open Account
5. Consignment

1. Cash-in-Advance:

As an exporter, you can eliminate credit risk, or the risk of non-payment from foreign buyers, with the cash-in-advance payment method.

Cash-in-advance is the most secure method of payment for the exporter because the importer pays the full or a significant amount of the payment before the goods are shipped.

Payment is usually made via wire transfer, credit card, or escrow service. Cash-in-advance is recommended in high-risk trade relationships or export markets, particularly for small export transactions for which other payment methods may not be cost-effective.

Cash-in-advance is also less burdensome than a letter of credit and has less risk for the exporter than an open account. However, requiring payment in advance is the least attractive option for the buyer.

Exporters who insist on cash-in-advance as their sole payment method for doing business may lose out to competitors who are willing to offer more attractive payment terms.

Therefore, depending on the sales opportunity, an exporter may also need to consider other terms of payment.

Cash-in-advance payment: options on how to get paid:

A Wire Transfer is the most secure and preferred cash-in-advance option for exporters. It's commonly used, and typically one of the quickest options. Exporters should provide clear bank routing instructions to the importer when using this option.

A Credit Card is a viable cash-in-advance option, especially for small consumer goods transactions and exporters with e-commerce businesses.

An Escrow Service is a cash-in-advance option that can benefit and protect both parties. It places the funds with a trusted third party until the specified conditions are met—namely that goods have been sent in exchange for advance payment.

There are international banks and firms that specialize in cross-border escrow and other deposit and custody services.

Before choosing a service provider with your importer, check that the escrow service firm is appropriately licensed or accredited. The exporter or the importer can pay the escrow fee, or they can split it evenly.

Here's how an escrow service works:

The importer sends the agreed amount to the escrow service.

After payment is verified, the exporter is instructed to ship the goods.

Upon delivery, the importer has a pre-determined amount of time to inspect and accept the goods, for example five days.

Once the importer accepts the goods or after the inspection period is over, the funds are released by the escrow service to the exporter under the agreed upon terms.

If, during the inspection period, the buyer returns the goods, the exporter will not receive payment.

In summary, exporters should consider using the cash-in-advance method in the following situations:

1.The importer is a new customer or has a less-established purchasing history.

2. The importer's creditworthiness is doubtful or unverifiable, the political and commercial risk in the importer's country is high, or the exporter's product is unique, not available elsewhere, or in heavy demand.

2. Letters of Credit:

Letters of credit (LCs) are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents.

The buyer establishes credit and pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank.

An LC also protects the buyer since no payment obligation arises until the goods have been shipped as promised.

3.1 What is a Letter of Credit?

A Letter of Credit is a contractual commitment by the foreign buyer's bank to pay once the exporter ships the goods and presents the required documentation to the exporter's bank as proof.

As a trade finance tool, Letters of Credit are designed to protect both exporters and importers. They can help you win business with new clients in foreign markets.

This means the exporter gets a guarantee of payment while offering the importer reasonable payment terms.

Before Applying for a Letter of Credit

Letters of Credit are one of the most secure payment instruments available but can be labor-intensive and relatively expensive due to bank fees.

They are recommended for use in higher-risk situations, when the importer's credit is unacceptable or not available, when dealing with a new or less-established trade relationship or when extended payment terms are requested.

The required documents are detailed and prone to errors and discrepancies. To avoid payment delays and extra fees, documents required by the Letter of Credit should be prepared by trained professionals.

Additionally, the exporter should consult with their bank before the importer applies for the Letter of Credit. Ask about:

What type and size of export transactions are suitable for a Letter of Credit?

How much does a Letter of Credit cost? Who pays the fees?

How are disputes resolved between importers and exporters?

How to Apply for a Letter of Credit

The exporter and their bank must be satisfied with the creditworthiness of the importer's bank. Once the Sales Agreement is completed, the importer applies to their bank to open a Letter of Credit in favor of the exporter.

The Importer's bank drafts the Letter of Credit using the Sales Agreement terms and conditions and transmits it to the exporter's bank. The exporter's bank reviews and approves the Letter of Credit and sends it to the exporter.

The exporter ships the goods in the manner provided for in the letter of credit and submits the required documents to their bank. A freight forwarder may be used to assist in this process.

The Exporter's bank checks the documents for compliance with the Letter of Credit terms and conditions. Any document errors and discrepancies must be amended and resubmitted. After approval, the exporter's bank submits the complying documents to the importer's bank.

The importer's bank releases payment to the exporter's bank. The importer's account is and their bank releases the documents to the importer to claim the goods and clear customs.

3. Documentary Collections:

A documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment.

Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance).

The collection letter gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than LCs.

The Documentary Collections payment method is an approach used for merchandise and commodity exports. Generally recommended in situations where there is an established and ongoing trade relationship with a trusted buyer, this method can simplify your export transaction, offer faster payment, and reduce costs when compared to Letters of Credits.

In a Documentary Collections transaction, the exporters and the importer's banks facilitate the export sale by exchanging shipping documents for payment. However, the banks do not verify that the documents are accurate and do not guarantee payment as they do with Letters of Credit. As a result, Documentary Collections are only recommended for established trade relationships in economically and politically stable markets.

While there are several benefits to the Documentary Collections payment method, each export transaction is unique. We recommend you consult with your bank before moving forward.

Ask your bank.

How a documentary collection is different from a letter of credit.

What type or size of transaction is suitable.

How disputes are resolved between the importer and exporter.

How the Documentary Collections Payment Method Works

Both the exporter and importer agree to a documentary collection for payment in the sales agreement

The exporter prepares a Bill of Exchange and sends it to their banks for forwarding to the importer's bank.

The Bill of Exchange - also known as a draft - provides instructions to the bank about the required documents, payment amount due, the terms of payment, and when title transfers for the goods.

The importer's bank releases the documents according to one of two options specified in the bill of exchange, outlined below:

+ Release of documents upon receipt from the importer of full payment

+ Release of documents upon receipt of the importer's signed acceptance of the terms that commit to future payment.

What if they don't pay?

If the importer does not pay,

the exporter typically needs to find another buyer, pay for return transportation, or

abandon the merchandise.

4. Open Account

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days.

Obviously, this is one of the most advantageous options for the importer in terms of cash flow and cost, but it is consequently one of the highest risk options for an exporter.

It is due to intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad.

Therefore, exporters who are reluctant to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finances techniques.

When offering open account terms, the exporter can seek extra protection using export credit insurance.

5. Consignment

Consignment in international trade is a variation of open account in which payment is sent to the exporter only after the goods have been sold by the foreign distributor to the end customer.

An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods to the exporter who retains title to the goods until they are sold.

Clearly, exporting by consignment is very risky as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent.

Consignment helps exporters become more competitive on the basis of better availability and faster delivery of goods.

Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider.

Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

3.2 Scenario of Financing Exporters and Importers

The scenario of financing exports and importers can be studied in the following steps:

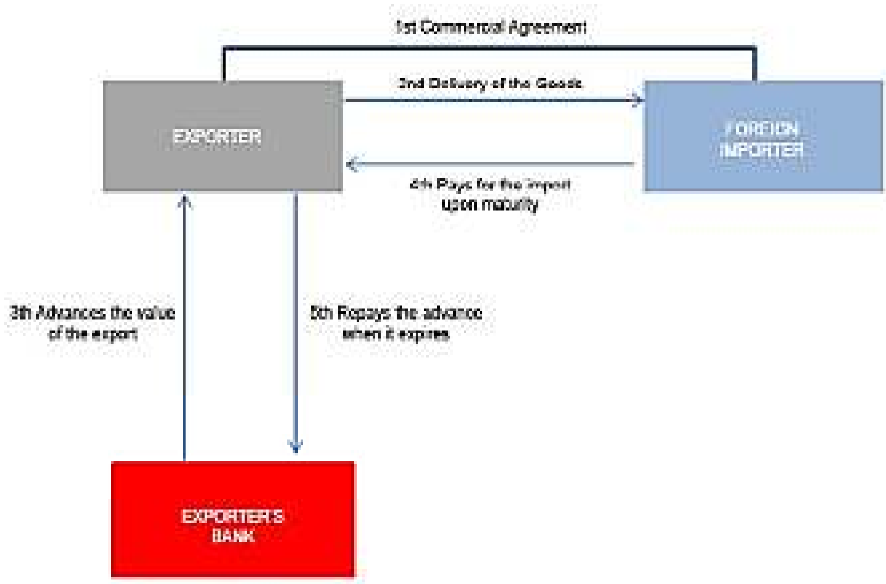
Step 1. Commercial Agreement between the Exporter and Importer

Step 2. Delivery of Goods by the Exporter to the Importer

Step 3. Advances to the Exporter by a financial institution against value of export

Step 4. Importer on maturity pays the value of export

Step 5. Exporter pays back the advance received as per step 3.



(Figure 2) Steps in Export and Import Financing

Step 1. Commercial Agreement between the Exporter and Importer:

This is the first step and in this step the exporter and importer are coming into a legal agreement(contract) for a deal. The detailed terms and conditions of exporting goods or service are decided.

Step 2. Delivery of Goods by the Exporter to the Importer

In this step the goods are delivered by an exporter to an importer as per the terms and conditions decided in step 1.

Step 3. Advances to the Exporter by a financial institution against value of export

In context of financing to be done by a financial institution this step is very important. Here the beauty of things lies in the fact that the goods being supplied are certainly of value and against this value there are parties interested in providing credit to the exporter. There is detailed literature on this construct of financing an exporter.

Step 4. Importers on maturity pay the value of export.

By this time, it is clear that the Importer is delivered the goods and it is obligatory for an importer to commit itself for a payment. There is no doubt that against the goods received by an importer, there are documents of exchange binding the importer for payment against the goods received. It is also possible that the time may not have matured, and the payments are maturing after a certain time in future. So exactly, when the due date has come there has to be honoring of the payment and in our discussion, until and unless decided otherwise, the payment has to be an importer to the exporter.

Step 5. Exporter pays back the advance received as per step 3:

The exporter pays back the advance received to the lending institution (bank).

Summary

The advances in international trade have reached such a level that there are detailed formal things that enable the funding in the course of trade. The exporter is privileged to financing against the value exported due to the reasons that the export business has got one important characteristic of long-time duration *en route* to the destination of an importer, whatsoever, is the course of transit adopted viz. land-road and rail, sea, air. There has emerged on the scene the provisions of financing an exporter to fill the time duration gap emerging when the goods mover from the destination of an exporter to an importer.

Keywords

Export Finance: The advance available to an exporter against the value exported.

Maturity of an Instrument: The time when the instrument is due for honoring.

Honoring: Compliance with the due obligation

Dishonor: The compliance default for an obligation

Commercial Agreement: The trade offer and acceptance for a legal deal

INCOTERMS: International commercial terms

Self Assessment

1. Under an acceptance letter of credit, the responsibility of the issuing bank is

A. only to accept the bill.

B. to pay against the bill.

C. to accept and immediately pay the amount of the bill on its due date.

D. to get the acceptance of the importer on the bill.

2. Incoterms cover

A. trade in intangibles

B. ownership and transfer rights

C. contracts of carriage.

D. rights and obligations of parties to contract of sales.

3. The price quoted by the seller for the product.

A. will vary depending upon the incoterm chosen.

B. irrespective of the incoterm.

C. will be the base price; the effect of incoterm to be added later.

D. will include only cost.

4. Adoption of incoterm is.

A. compulsory for all international contracts

B. compulsory for all letter of credit transactions.

C. optional for the parties to the contract.

D. mandatory for transactions with Europe.

5. Packing credit is

A. an advance made for packing goods for export.

B. pre-shipment finance for export.

C. a priority sector advance.

D. advance for importer.

6. Which of the following person is not eligible for packing credit?

A. a. merchant exporter.

B. a person making deemed exports.

C. sub-suppliers to manufacture exporter.

D. supplier to sub-supplier to manufacture exporter.

7. A packing credit was granted against an export order, but the export could not take place.

A. It should be reported to the RBI.

B. The exporter should be blacklisted.

C. Claim should be preferred with ECG.

D. Interest at domestic rate should be charged on the advance from the date of advance.

8. The following is not a post-shipment advance.

A. negotiation of bill under letter of credit

B. purchase of foreign bill.

C. advance against foreign bill for collection

D. packing credit.

9. Duty drawback is the refund of duty chargeable on

A. Exported material.

B. Imported material.

C. Damaged material

D. Exports to Indian owned warehouses in Europe.

10. If the importer refuses to accept the bill drawn on him the exporter

A. should reimport the goods.

B. must find an alternate buyer.

C. may reimport or sell to an alternate buyer depending upon commercial expediency.

D. sue the importer.

11. If export cargo is lost in transit, the exporter should

A. claim under marine insurance.

B. claim with ECGC

C. seek write off post-shipment credit.

D. seek refund of customs duty.

12. For export-oriented units, Exim bank finances

A. term loans only.
B. both working capital and term loans.
C. term loans, working capital and long-term working capital.
D. for investment from overseas.

13. The facility that is available to commercial banks in India from Exim bank is

A. refinancing of export credit.

B. export bill re-discounting.

C. syndication of export credit risks.

D. all the above.

14. The institution specializing in organizing fairs and exhibitions is

A. Indian Institute of Foreign Trade.

B. Federation of Indian Export Organization.

C. Indian trade Promotion Organization.

D. None of the above.

15. The currency in which payment for import is made depends upon

A. The country from which the goods are shipped.

B. The country of origin of goods.

C. The arrangement between the buyer and seller.

D. The bank which the importer's bank has correspondent relationship.

Answer for Self Assessment

1.	C	2.	D	3.	A	4.	C	5.	B
6.	D	7.	D	8.	D	9.	C	10.	C
11.	A	12.	C	13.	D	14.	C	15.	A

Review Questions

1. Write a detailed note on export import financing.
2. What is factoring? What are advantages and limitation of its?
3. Diagrammatically discuss the steps in financing an exporter.
4. What are INCOTERMS?
5. What are various methods of payments in international trade?

Further Readings

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Export and import documentation and procedures, by S Mahalakshmi , J Senthilvelmurugan , Mjp Publishers (7 August 2013)

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Unit 04: Export-Import Strategies and Practices

CONTENTS

Objectives

In this unit, student will be able to understand:

- export-import business plan and strategy
- export strategy formulation
- export financing
- import strategy.

Introduction

The size of exports in the world grew from less than $100 million after World War II to well over $11 trillion today. Exports and imports are big business, but it isn't just for big businesses. Most of the participants are small and midsize businesses, making this an exciting opportunity for entrepreneurs.

Importing and exporting require much documentation (i.e., filing official forms) to satisfy the regulations of countries. The value of the documentation is that it enables trade between entities who don't know each other. The parties are able to trust each other because the documentation provides a common framework and process to ensure that each party will do what they say in the import/export transaction. The main parties involved in export and import transactions are the exporter, the importer, and the carrier. The exporter is the person or entity sending or transporting the goods out of the country.

The importer is the person or entity buying or transporting goods from another country into the importer's home country. The carrier is the entity handling the physical transportation of the goods. Well-known carriers across the world are United Parcel Service (UPS), FedEx, and DHL. Customs administration offices in both the home country and the country to which the item is being exported are involved in the transaction.

Role of Intermediaries

In addition to the main players described above, intermediaries can get involved at the discretion of the importer or exporter. Entrepreneurs and small and midsize businesses, in particular, make use of these intermediaries, rather than expending their resources to build these capabilities in-house.

A freight forwarder typically prepares the documentation, suggests shipping methods, navigates trade regulations, and assists with details like packing and labeling. At the foreign port, the freight forwarder arranges to have the exported goods clear customs and be shipped to the buyer. The process ends with the freight forwarder sending the documentation to the seller, buyer, or intermediary, such as a bank.

The expanding worldwide market for Indian goods aids in the development of an ecosystem that powers the economy. The increase in exports is encouraging for the Indian economy because it helps to stabilize the nation's finances. India has developed as a hub for industrial manufacturing as a result of recent governmental changes. The expansion of exports is facilitated by improved infrastructure, quick logistical services, and increased manufacturing capacity.

India no longer only exports agricultural products. Manufacturing is expanding quickly and has a significant impact on the economy. The necessary prerequisites for starting an import/export business are important to know for a beginner. The export-import training gives a proper idea of the required paperwork, procedure, and customs laws.

4.1 Preliminaries: Export Import Business

Business Setup

Creating a corporate entity is the initial step in initiating an import-export operation. Without a valid license to trade on the foreign market, the goods cannot be transferred from the port. For verification purposes, Customs would request the relevant document containing all the certificates authorized by the authority. The import export license, customs clearance paperwork, and company registration number must all be displayed together with accurate information about the product you are attempting to import or export. One can sell or buy things on the global market once these standards have been met.

Current Account

Each business must open a current account to be used for regular business operations. You won't be able to accept or send money from consumers without a current account in the company's name. The current account guarantees continuous business with suppliers, customers, and dealers. The current account can be opened in any public or private bank.

Export marketing plan

The next step is developing an export marketing strategy after having finished the business registration process in accordance with Indian government regulations. Planning would increase the accuracy of work and save unforeseen costs. The goal of the export and import strategy is to locate profitable business possibilities on the global market. Analyze the product demand around the world. To determine the price for each product exported from the country, detailed work on the export pricing plan has to be done. In international trade, price disparity is crucial. In order to ensure a deal, it is important to learn how to control the price trend and seize the moment.

Obtain Import export code.

Shipment must abide by both governmental regulations and international commerce laws.

The company that sells and purchases products on the international market is given the import export code. Code, commonly referred to as IEC code, mandates the submission of key paperwork when sending goods through customs to other nations. To prevent problems with cargo, grasping the laws and norms of doing business on the international market is essential.

Developing an efficient import-export plan with IEC paperwork is a paramount necessity. To be made sure that the money invested in the export market plan achieves its goals without incurring too many losses. When operating in the global market, a firm faces several difficulties if unable to serve the consumer effectively. In order to maintain steady growth, adhere to the import-export trade laws properly.

4.2 Export Import Strategies and Practices

Globalization—the shift toward a more interdependent and integrated global economy—creates greater opportunities for international business. International business relates to any situation where the production or distribution of goods or services crosses country borders. As such globalization can take place in terms of markets, where trade barriers are falling, and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries.

These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument)

The entities involved in international business range from large multinational firms with thousands of employees doing business in many countries around the world to a small one-person company acting as an importer or exporter.

This broader definition of international business also encompasses for-profit border-crossing transactions as well as transactions motivated by nonfinancial gains (e.g., triple bottom line, corporate social responsibility, and political favor) that affect a business's future.

Strategic Management and Entrepreneurship

A knowledge of both strategic management and entrepreneurship will enhance your understanding of international business. Strategic management is the body of knowledge that answers questions about the development and implementation of good strategies and is mainly concerned with the determinants of firm performance.

A strategy, in turn, is the central, integrated, and externally oriented concept of how an organization will achieve its performance objectives. One of the basic tools of strategy is a SWOT (strengths, weaknesses, opportunities, threats) assessment. The SWOT tool helps you take stock of an organization's internal characteristics—its strengths and weaknesses—to formulate an action plan that builds on what it does well while overcoming or working around weaknesses.

Similarly, the external part of SWOT—the opportunities and threats—helps you assess those environmental conditions that favor or threaten the organization's strategy. Because strategic management is concerned with organizational performance—be that social, environmental, or economic—your understanding of a company's SWOT will help you better assess how international business factors should be accounted for in the firm's strategy.

Entrepreneurship, in contrast, is defined as the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. An entrepreneur is a person who engages in entrepreneurship. Entrepreneurship, like strategic management, will help you to think about the opportunities available when you connect new ideas with new markets.

An intrapreneur, in turn, is a person within the established business who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation. Intrapreneurship is a form of entrepreneurship that takes place inside a business that is already in existence.

An entrepreneur is starting a business, while an intrapreneur is developing a new product or service in an already existing business. Thus, the ideas of intrapreneurship can be applied not only in new ventures but also in the context of existing organizations—even government. In today's global economy, everyone is accustomed to buying goods from other countries—electronics from Taiwan, vegetables from Mexico, clothing from China, cars from Korea, and skirts from India.

Most modern shoppers take the "Made in [a foreign country]" stickers on their products for granted. Long-distance commerce wasn't always this common, although foreign trade—the movement of goods from one geographic region to another—has been a key factor in human affairs since prehistoric times. Thousands of years ago, merchants transported only the most precious items—silk, gold and other precious metals and jewels, spices, porcelains, and medicines—via ancient, extended land and sea trade routes, including the famed Silk Road through central Asia. Moving goods great distances was simply too hard and costly to waste the effort on ordinary products, although people often carted grain and other foods over shorter distances from farms to market towns. William J. Bernstein, A Splendid Exchange: How Trade Shaped the World (New York: Atlantic Monthly Press, 2008). Remember, globalization refers to the shift toward a more interdependent and integrated global economy. This shift is fueled largely by (1) declining trade and investment barriers and (2) new technologies, such as the Internet. The globalization debate surrounds whether and how fast markets are actually merging together.

For instance, the ubiquity of such food purveyors as Coca-Cola and McDonald's in practically every country reflects the fact that some consumer tastes are converging, though at the likely expense of local beverages and foods. Many people consider globalization a modern phenomenon, but according to Friedman, this is its third stage.

The first stage of global development, what Friedman calls "Globalization 1.0," started with Columbus's discovery of the New World and ran from 1492 to about 1800. Driven by nationalism and religion, this lengthy stage was characterized by how much industrial power countries could produce and apply.

"Globalization 2.0," from about 1800 to 2000, was disrupted by the Great Depression and both World Wars and was largely shaped by the emerging power of huge, multinational corporations.

Globalization 2.0 grew with the European mercantile stock companies as they expanded in search of new markets, cheap labor, and raw materials. It continued with subsequent advances in sea and rail transportation. This period saw the introduction of modern communications and cheaper shipping costs.

"Globalization 3.0" began around 2000, with advances in global electronic interconnectivity that allowed individuals to communicate as never before.

In Globalization 1.0, nations dominated global expansion. Globalization 2.0 was driven by the ascension of multinational companies, which pushed global development. In Globalization 3.0, major software advances have allowed an unprecedented number of people worldwide to work together with unlimited potential.

4.3 Export Import Business Plan

What Is a Business Plan?

A business plan provides a snapshot of your import-export business as it stands today and lays out your growth plan for the next five years. It explains your business goals and your strategy for reaching them. It also includes market research to support your plans.

Why You Need a Business Plan

If you're looking to start an import-export business, or grow your existing business, you need a business plan. A business plan will help you raise funds, if needed, and plan out the growth of your import-export business in order to improve your chances of success. Your import-export business plan is a living document that should be updated annually as your company grows and changes.

Sources of Funding for Import-Export Businesses

With regards to funding, the main sources of funding for an import-export business are personal savings, credit cards, bank loans and angel investors. With regards to bank loans, banks will want to review your business plan and gain confidence that you will be able to repay your loan and interest. To acquire this confidence, the lender will not only want to confirm that your financials are reasonable, but they will also want to see a professional plan. Such a plan will give them the confidence that you can successfully and professionally operate a business. Personal savings and bank loans are the most common funding paths for social media marketing businesses.

Business Plan for an Import-Export Company

If you want to start an import-export business or expand your current one, you need a business plan.

Executive Summary

Your executive summary introduces your business plan, but it is normally the last section you write because it provides a summary of each key section of your plan.

The goal of your Executive Summary is to quickly engage the reader. Explain to them the type of import-export business you are operating and its status. For example, are you a startup, do you have an import-export business that you would like to grow, or are you operating import-export companies in multiple markets?

Next, provide an overview of each of the subsequent sections of your plan. For example, give a brief overview of the import-export industry. Discuss the type of import-export business you are operating. Detail your direct competitors. Give an overview of your target market. Provide a snapshot of your marketing plan. Identify the key members of your team. And offer an overview of your financial plan.

Company Analysis

In your company analysis, you will detail the type of import-export business you are operating. For example, you might operate one of the following types of import-export companies:

Export management company – these types of businesses handle all the details (hiring distributors, handling logistics, creating marketing materials, etc) for companies wishing to export a product.

Export trading company – these types of businesses determine what products foreign buyers want, and then find domestic companies who make the product.

Import-export merchant (or free agent) – this type of business buys merchandise from a manufacturer and resells that merchandise around the world.

In addition to explaining the type of import-export business you will operate; the Company Analysis section of your business plan needs to provide background on the business.

Include answers to question such as:

- When and why did you start the business?
- What milestones have you achieved to date? Milestones could include the volume of products you have exported or imported, number of import-export contracts signed, etc.
- Your legal structure. Are you incorporated as a Corp? An LLC? A sole proprietorship? Explain your legal structure here.

The third reason for market research is to prove to readers that you are an expert in your industry. By conducting the research and presenting it in your plan, you achieve just that.

The following questions should be answered in the industry analysis section of your import-export business plan:

- How big is the import-export industry (in dollars)?
- Is the market declining or increasing?

- Who are the key competitors in the market?
- Who are the key suppliers in the market?
- What trends are affecting the industry?
- What is the industry's growth forecast over the next 5 – 10 years?
- What is the relevant market size? That is, how big is the potential market for your import-export business? You can extrapolate such a figure by assessing the size of the market in the entire country and then applying that figure to your local population.

Customer Analysis

The customer analysis section of your import-export business plan must detail the customers you serve and/or expect to serve. The following are examples of customer segments: manufacturers, wholesalers, retailers, and consumers. As you can imagine, the customer segment(s) you choose will have a great impact on the type of import-export business you operate. Clearly, individuals looking to purchase coffee beans online would respond to different marketing promotions than mobile phone manufacturers, for example.

Try to break out your target market in terms of their demographic and psychographic profiles. With regards to demographics, include a discussion of the ages, genders, locations and income levels of the customers you seek to serve. Because most import-export companies primarily serve customers living in their same city or town, such demographic information is easy to find on government websites.

Psychographic profiles explain the wants and needs of your target customers. The more you can understand and define these needs, the better you will do in attracting and retaining your customers.

Competitive Analysis

Your competitive analysis should identify the indirect and direct competitors your business faces and then focus on the latter. Direct competitors are other import-export companies. Indirect competitors are other options that customers have to purchase from that aren't direct competitors. This includes manufacturers with vertically integrated distribution operations, or consumers who prefer to purchase similar products made domestically.

With regards to direct competition, you want to describe the other import-export companies with which you compete. Most likely, your direct competitors will be import-export businesses located very close to your location. For each such competitor, provide an overview of their businesses and document their strengths and weaknesses. Unless you once worked at your competitors' businesses, it will be impossible to know everything about them. But you should be able to find out key things about them such as:

- What types of customers do they serve?
- Do they specialize in specific products, or in imports from a specific country or region?
- What is their pricing (premium, low, etc.)?
- What are they good at?
- What are their weaknesses?

With regards to the last two questions, think about your answers from the customers' perspective. And don't be afraid to ask your competitors' customers what they like most and least about them.

The final part of your competitive analysis section is to document your areas of competitive advantage. For example:

- Will you provide a wider variety of products or maintain distribution contracts with more manufacturers?
- Will you offer extra services, such as brokerage?
- Will you provide better customer service?

- Will you offer better pricing?
- Think about ways you will outperform your competition and document them in this section of your plan.

4.4 Marketing Plan

Traditionally, a marketing plan includes the four P's: Product, Price, Place, and Promotion. For an import-export business plan, your marketing plan should include the following:

- **Product:**

In the product section, you should reiterate the type of import-export company that you documented in your Company Analysis. Then, detail the specific products you will be offering. For example, in addition to mobile phones, will your import-export business offer other consumer electronics such as laptops or wireless headphones?

- **Price:**

Document the prices you will offer and how they compare to your competitors. Essentially in the product and price sub-sections of your marketing plan, you are presenting the services you offer and their prices.

- **Place:**

Place refers to the location through which you will sell your imported/exported goods. For example, will you distribute your goods directly to consumers online, or will you maintain supply contracts with retailers and wholesalers? In this section, document each method by which you will sell your products.

- **Promotions**:

The final part of your import-export marketing plan is the promotions section. Here you will document how you will drive customers to your business. The following are some promotional methods you might consider:

- Advertising in trade papers and magazines
- Direct contact with potential clients (cold calling)
- Social media marketing
- Exhibits at Trade Shows

4.5 Operations Plan

While the earlier sections of your business plan explained your goals, your operations plan describes how you will meet them. Your operations plan should have two distinct sections as follows.

Everyday short-term processes include all of the tasks involved in running your import-export business, including determining which products are needed, sourcing product manufacturers, securing and maintaining all necessary licenses and permits, arranging logistics, etc.

Long-term goals are the milestones you hope to achieve. These could include the dates when you expect to sign your 100th supply contract, or when you hope to reach $X in revenue. It could also be when you expect to expand your import-export business to a new market.

4.6 Management Team

To demonstrate your import-export business' ability to succeed, a strong management team is essential. Highlight your key players' backgrounds, emphasizing those skills and experiences that prove their ability to grow a company.

Ideally you and/or your team members have direct experience in managing import-export companies. If so, highlight this experience and expertise. But also highlight any experience that you think will help your business succeed.

If your team is lacking, consider assembling an advisory board. An advisory board would include 2 to 8 individuals who would act like mentors to your business. They would help answer questions and provide strategic guidance. If needed, look for advisory board members with experience in logistics, or successfully running small businesses.

4.7 Financial Plan

Your financial plan should include your 5-year financial statement broken out both monthly or quarterly for the first year and then annually. Your financial statements include your income statement, balance sheet and cash flow statements.

Income Statement

An income statement is more commonly called a Profit and Loss statement or P&L. It shows your revenues and then subtracts your costs to show whether you turned a profit or not.

In developing your income statement, you need to devise assumptions. For example, will you import from one country, or will you operate globally? And will sales grow by 2% or 10% per year? As you can imagine, your choice of assumptions will greatly impact the financial forecasts for your business. As much as possible, conduct research to try to root your assumptions in reality.

Balance Sheets

Balance sheets show your assets and liabilities. While balance sheets can include much information, try to simplify them to the key items you need to know about. For instance, if you spend $50,000 on building out your import-export business, this will not give you immediate profits. Rather it is an asset that will hopefully help you generate profits for years to come. Likewise, if a bank sends you a check for $50,000, you don't need to pay it back immediately. Rather, that is a liability you will pay back over time.

Cash Flow Statement

Your cash flow statement will help determine how much money you need to start or grow your business, and make sure you never run out of money. What most entrepreneurs and business owners don't realize is that you can turn a profit but run out of money and go bankrupt.

In developing your Income Statement and Balance Sheets be sure to include several of the key costs needed in starting or growing an import-export business:

- Warehouse build-out including fixtures, construction, etc.
- Cost of buying or leasing the necessary transportation equipment (containers, cargo ship / airplane, etc.), or otherwise securing the means of transporting your goods
- Payroll or salaries paid to staff.
- Business insurance
- Taxes and permits.
- Legal expenses

Appendix

Attach your full financial projections to the appendix of your plan along with any supporting documents that make your plan more compelling. For example, you might include your warehouse lease, or contracts with manufacturers and distributors.

4.8 Export Strategy Formulation

An export plan helps you understand the facts, constraints, and goals around your international effort. Use it to create specific objectives, decide on implementation schedules, and mark milestones of your success. It can also motivate your team to reach goals.

Written plans give a clear understanding of specific steps to take to assure a commitment to exporting. Without a plan, your business may overlook better long-term growth opportunities outside of the domestic market.

Remember that while 59 percent of all U.S. exporters export to only a single market (predominantly Canada), many small exporters sell to more countries than they have employees, and these sales account for a growing percentage of total sales. These mini multinationals are becoming more common, and your company can be one of them.

Steps to develop your export plan.

- Identify the product or service to be exported and check its export potential,
- Conduct market research on the countries of interest,
- Decide on a pricing strategy for the product or service, and
- Define a strategy to find buyers.

Key Tips

- Keep it simple. The initial planning effort itself gradually generates more information and insight. As you learn more about exporting and your company's competitive position, the export plan will become more detailed.
- Make a flexible management tool, not a static document. Objectives should be compared with actual results to measure the success of different strategies. Don't hesitate to modify the plan as additional information and experience are gained.
- A detailed plan is recommended for companies that intend to export directly, meaning selling to an end-user in another country. If your company chooses indirect export methods or sells via your or a third party's website, you may use much simpler plans.

4.9 Elements of an Export Plan

As you develop an export plan, consider the following questions for each market. This Sample Outline of an Export Plan can help you organize your work.

Which products are selected for export development, and what modifications, if any, must be made to adapt them for overseas markets? Evaluate your product/service's Export Potential.

- Is an export license needed?
- Which countries are targeted for sales development?
- What are the basic customer profiles, and what marketing and distribution channels should be used to reach customers?
- What are the special challenges (for example, competition, cultural differences, and import and export controls), and the strategy to address them?
- How will your product's export sales price be determined?
- What specific operational steps must be taken and when?
- What will be the time frame for implementing each element of the plan?
- What personnel and company resources will be dedicated to exporting?
- What will be the cost in time and money for each element?
- How will the results be evaluated and used to modify the plan?

More in-depth questions to answer when building your export plan.

Product or Service

- What needs does my product or service fill in the global marketplace?
- What modifications, if any, must be made to adapt my product for export markets?

- Do I need special licenses or certificates from the U.S. to export, or the buyer's government to import, the product?
- Do I need to modify packaging or labeling?
- What, if anything, do I need to protect my intellectual property?

Pricing Considerations

- What is the cost to get my product to market (freight, duties, taxes and other costs)?
- Given an estimate of the shipping costs, what is my pricing strategy?

Promotion

- What modifications, if any, should I make to my website for marketing purposes?
- Should I sell on third-party eCommerce platforms?
- What kinds of social media should I use to build awareness?
- Should I attend a trade show where international buyers are present?

Management Issues

- Are the reasons for pursuing export markets solid objectives (such as increasing sales volume or developing a broader customer base), or more frivolous (for example, the owner wants an excuse to travel)?
- How committed is top management to exporting? Is exporting viewed as a quick fix for slumping domestic sales? Will export customers be neglected if domestic sales pick up?
- What are the expectations? How quickly does management expect export operations to become self-sustaining? What level of return on investment is expected?

Experience

- In which countries has business already been conducted, or inquiries already received?
- Which product lines are talked about the most?
- Are domestic customers buying the product for sale or shipment overseas? If so, where?
- Is the trend of sales and inquiries up or down?
- Who are the main domestic and foreign competitors?
- What are some lessons learned from past export experiences?

Personnel

- What in-house international expertise does the company have (international sales experience, language capabilities, etc.)?
- Who will be responsible for the export department's organization and staff?
- How much senior management time should/could be allocated?
- What organizational structure is required to ensure export sales are adequately serviced?
- Who will follow through after the planning has been done?

Production Capacity

- How is the present capacity being used?
- Will filling export orders hurt domestic sales?

- What about the cost of additional production?
- Are there fluctuations in the annual workload? When? Why?
- What minimum order quantity is required?
- What is required to design and package products specifically for export?

Financial Capacity

- What amount of capital can be committed to export production and marketing?
- What level of operating costs can be supported by the export department?
- How are initial expenses of export efforts to be allocated?
- What other new development plans might compete with export plans?
- By what date must an export effort pay for itself?
- Do you qualify for any type of export financing?

4.10 Export Finance

Export finance is a short-term funding agreement available to Suppliers (Exporters) trading with overseas Buyers (Importers). Export finance allows Suppliers to access working capital while they wait for Buyers to pay invoices.

Suppliers that trade overseas frequently offer deferred payment terms – sometimes exceeding 120 days – which means that they face a financing gap between shipping the goods and receiving payment for them. Suppliers still need working capital during this period.

To solve this, Suppliers may choose to submit unpaid invoices to a finance provider (financier) that will advance a percentage of the invoice value and pay the balance (minus a service fee) once the Buyer settles the invoice.

A typical export factoring agreement works in the following way:

- An Exporter ships goods to an overseas Importer and raises an invoice with deferred payment terms, for example, 90 days.
- However, the Exporter needs immediate access to working capital, so it assigns the unpaid invoice to an export financing provider, using it as security for a trade financing loan.
- The finance provider agrees to advance most of the invoice value as an immediate payment.
- The Importer pays the invoice amount to the finance provider within the agreed 90-day window.
- The finance provider then pays the remainder of the money to the Exporter, minus any pre-agreed service fees.

Example:

ABC Supplier Ltd exports goods worth £10 000 (GBP) to the overseas XYZ Buyer Ltd and raises an invoice with 90-day payment terms. However, ABC Supplier needs immediate working capital to pay its bills.

So, ABC Supplier submits the unpaid invoice to a financier as proof of its owed income. The financier agrees to provide ABC Supplier with 95% of the invoice value immediately – totaling £9 500 (GBP) – in exchange for a fee of 3% of the loaned amount when the invoice is paid. This fee will amount to £285 (GBP).

XYZ Buyer pays the full £10 000 (GBP) invoice to the financier within 90 days. The financier then transfers the remaining 5% of the invoice value to ABC Supplier, minus the pre-agreed service fee of £The short-term trade financing loan is now paid off and there are no long-term repayment plans or obligations that could affect ABC Supplier’s credit score. 285 (GBP).

Export credit provides plenty of benefits for international Suppliers.

- Suppliers get immediate access to finance that would otherwise be inaccessible for up to 120 days.
- They can use the working capital to invest in other areas of the company and its growth.
- They often avoid late payment charges for their own bills.
- Advances are based on the individual invoices rather than the Supplier's credit history.
- As soon as invoices are settled, the matter is closed.
- Export finance is ideal for SMEs (small- and medium-sized enterprises) that need funds but have limited banking facilities or poor credit history.

Chasing late payments becomes the financier's responsibility (explained further down)

4.11 Potential Risks in International Business

As with any financial service, there are potential risks with export financing. Exporters looking to avoid surprises should be aware of the following:

Service fees - there are service charges with export financing. Usually, this is around 1-3% of the invoice value but maybe more. Exporters should ensure fees are affordable.

Late payments - in recourse factoring, the Exporter is responsible for chasing the Importer for any late payments. Therefore, it risks defaulting on its own repayments to the financier if the Buyer does not pay. This risk can be avoided by using non-recourse factoring, where the finance company assumes responsibility for collecting payments from the Buyer.

Exchange rate risk - trading and borrowing in different currencies present risks for Exporters. It's vital to understand these risks when calculating the payment of finance fees.

Export credit agreements are available through a variety of providers. These range from traditional lenders like banks to alternative lenders like invoice factoring companies.

The application and approval processes will depend on the lender.

Applying for export finance through a bank is typically more complex and often includes numerous background and due diligence checks. These include assessing financial history, assets, ability to repay and more, and can often take months to complete.

Traditional lenders often require applications to be completed on paper rather than online, which can cause further delays. This is quite inconvenient for small- and medium-sized Exporters that need fast working capital.

However, for larger Exporters supplying goods at high volumes, bank export finance may be more convenient because banks can often finance higher-volume orders and offer lower interest rates and fees for those services.

The number of Exporters requesting alternative finance is expected to grow in the coming years. SMEs can benefit from quick and easy finance agreements that alternative lenders provide but banks don't, especially when finance is offered online.

Alternative digital financing platforms often require only a few documents, including unpaid invoices and bills of lading, all of which can be submitted online. The funds are usually transferred within two days of a successful application.

The pre-agreed service fees are often deducted from the final balance payment, meaning the Exporter is not locked into any long-term repayment plans.

To qualify for export financing with alternative lenders, Exporters may have to meet certain criteria.

Finance may be available only to Exporters that:

- trade internationally.

- work with deferred invoice payment terms.
- prove a minimum percentage of revenue comes from exports; or
- provide live, unpaid invoices with an application.
- Check the terms and conditions of the financier you are considering.

However, to qualify for export credit through traditional lenders such as banks, the Exporter may have to meet additional criteria, such as:

- a positive credit scores.
- proof of its ability to repay loans; or
- evidence of a particular volume of export trade that needs to be financed as a whole, rather than on an invoice-by-invoice basis.

4.12 Developing an Import Strategy

Handled well, importing can make a significant contribution to success in business. For some, using overseas suppliers is a key part of controlling costs. Others have built their whole business on the unique products importing.

An effective import strategy must consider all the factors you would consider in any form of purchasing. At the same time, you need to plan how you will deal with extra challenges, such as dealing with long delivery times and the financing burden this can impose.

Import Strategy

- Your import objectives
- Be clear about why you want to import.
- You might want to source goods that are not available from any suppliers in the domestic Country,
- Overseas suppliers may offer cheaper goods than the home competitors.
- You might want to import components to use in your production process, or complete products to resell.
- Think about the kind of relationship you want with your suppliers.
- Building a relationship with an overseas supplier requires an investment of significant time and money. It may not be worth using a new supplier for a relatively small, one-off purchase.
- Consider possible risks and disadvantages.
- Finding suppliers, and setting up and managing the import process, will add to your costs.
- Any products that you are looking to import must meet the importer’s safety requirements. Local standards in suppliers' countries may differ.
- Any problems tend to be more difficult to resolve when dealing with overseas suppliers. For example, if a delivery is incomplete or faulty, it may take a long time to deliver a replacement.
- It may not be possible to negotiate a contract that fully compensates you for the problems. For example, if late delivery of a component means that you have to stop production.
- You may need to protect yourself against fluctuations in exchange rates, particularly if there is a long delivery time.
- You might face problems in the supplier's country, such as new export restrictions or taxes.
- Confirm that your import strategy fits with your overall business strategy.
- Buying cheaper supplies from overseas can be an important part of a cost control strategy.

- Some companies outsource production of parts, or even complete products, to overseas suppliers, so that they can focus on their core skills and on activities where they have a competitive edge.
- The quality of products you import, and the service you get from overseas suppliers, can have a significant effect on the quality of the products and service that you offer your customers.
- You will need to make human and financial resources available to develop your import operations.

4.13 Importing Action Plan

- Nominate one member of staff to be responsible for your import strategy.
- This import manager will need to coordinate with other parts of your business. For example, if you are planning to resell the products you import, the import manager will need to work with staff responsible for sales and marketing.
- Decide on potential sources of supplies to investigate.
- Buying from large companies that are used to supplying Importer's country customers can be a low-risk strategy.
- However, you may not get the same cost advantages as you could by sourcing from smaller suppliers who might value your business more.

Decide how you are going to import.

Importing directly from the supplier and handling as much of the process as possible yourself, is potentially the most profitable option. Smaller businesses and first-time importers are likely to want to use agents to help.

For example, for UK importer, if your supplier is responsible for delivery to a particular UK port, you might use an agent to clear the goods through UK customs and deliver them onwards to your premises.

Establish an initial budget and timescales.

Many businesses start importing with a small-scale trial. As your import business grows, you can then invest more in building up the operation and your in-house expertise.

Locate overseas suppliers.

Identify potential suppliers of the goods you want. Your trade association may be able to recommend overseas suppliers.

Many overseas suppliers will exhibit at trade events in your country. Trade events are also good places to meet agents, distributors and other businesses in your sector who can advise you on suppliers.

If you are happy to import indirectly, If you are UK importer, you may be able to source products through a supplier's UK agent or distributor.

Shortlist suppliers in suitable countries

You may prefer to work with suppliers in a country where you already have experience and contacts.

Suppliers in less developed countries are likely to offer the most competitive prices but may present extra complications and risks. You may prefer not to deal with a supplier in a country with a very different business culture and legal environment (see Check legal and tax issues). Suppliers in remote locations may be unsuitable if you need quick, flexible delivery.

- Check the suppliers' references and track record.
- Assess the suppliers' financial stability. You can suffer significant disruption if a supplier goes out of business.
- You may prefer to deal with an experienced exporter, particularly if you have not imported before.
- Confirm that their products meet your requirements, including your Country's legal requirements.
- Consider visiting the most promising suppliers.
- A visit is a good opportunity to assess their management and operations. For example, you might want to review their working practices and quality-control systems.
- Visiting the country can help you to get a feel for the business environment they operate in.
- You may need to make several visits to your potential supplier to agree a deal, build your relationship with them and find out more about local commercial practices and procedures.

Check legal and tax issues.

- Investigate the local legal environment.
- Assess your chances of enforcing your legal rights in case of a dispute. For example, even in the EU and in countries such as the United States and Australia this can be time-consuming and expensive.
- Find out about standard commercial practices: for example, payment terms and credit periods.
- Local laws covering your supplier can affect you. For example, if your supplier is prohibited from exporting the product, it may well be impossible to enforce any contract.
- Useful sources of information can include your trade association, viz. For UK importers; the British embassy overseas and foreign representatives in the UK.
- Find out about any trade restrictions.

For example, there are UK restrictions on importing certain products. like firearms, software, most food products, and some chemicals. Import restrictions can apply even if you are purchasing goods from the EU.

Import licenses for restricted goods are issued by relevant government departments and agencies, such as the Food Standards Agency.

Your supplier may need a local export licence. Obtaining a licence could delay delivery, increase costs or even be impossible.

Check whether the supplier's product meets legal requirements.

The product will need to meet safety standards. You can be prosecuted for selling unsafe products and can be sued for any harm caused by unsafe products you import.

Products must meet the labelling and packaging requirements of the import country. For example, labels must be printed in English, and must use metric weights and measures.

There are specific regulations affecting certain types of products. For example, foods, building materials, chemicals, and clothing.

You may have to ask your supplier to modify the product to suit your country's requirements.

Take advice on drawing up an import contract.

Negotiate for the contract to be under your country's law and agree an appropriate dispute resolution procedure that can be used instead of going to court. For example, the contract might name a particular arbitration organisation.

Ask your supplier to confirm that their product meets your country standards, and to indemnify you against any legal action taken against you because of defects in the product.

Negotiate agreements on logistics and financial arrangements that consider the risks you have identified.

In contracts, use Incoterms (international commercial terms) wherever possible. These internationally recognised standard trade terms set out what is expected from buyer and seller, particularly for transporting goods, and can help resolve disputes.

You may have to get public liability insurance if your goods are to be sold to consumers.

Negotiate and organise logistics.

Agree on how the products will be delivered.

Key factors include where the goods are coming from and going to, what type of goods they are and whether they need any special handling, and how quickly they need to be delivered.

The full delivery process usually involves several stages and forms of transport. For example, delivery from the importer's premises to a local port, customs clearance there, delivery by ship to a UK port, UK customs clearance, and so on for UK importer.

The contract should include clear agreement on responsibility for each stage of delivery, including insurance. A well-drafted contract will use the appropriate Incoterms standard terms.

Agree what responsibilities you and your supplier will each have.

As well as delivery, you need to be clear who is responsible for insurance at every stage of the journey, and for customs clearance.

The 'obvious' solution is often for your supplier to take responsibility for delivery as far as UK customs. You then take responsibility for UK customs clearance and onward delivery to your premises. (For UK importers).

You may want to take more control of the delivery process. For example, if you want to be sure that food that needs temperature-controlled delivery is being handled in the way you want.

It does not make sense to ask your supplier to do too much, as the supplier will want to negotiate a price that reflects this. For example, a small supplier with no UK presence is unlikely to want to take responsibility for UK customs clearance.

Ensure that your supplier provides the required paperwork.

Goods typically need transport documentation and several copies of the invoice. In the UK, for consignments over £6,500, a valuation document is usually needed. Other requirements can include a certificate of origin.

You will also need copies of transport documentation.

Decide whether to use an agent to handle your responsibilities.

You will not need an agent if your supplier is handling customs clearance and delivering to your premises.

Most smaller importers use an agent, such as a freight forwarder, to handle customs clearance (and onward delivery) for goods.

Organise import finance.

Negotiate the price of the product and the currency to use for payment.

For UK importers, experienced exporters are usually prepared to quote and invoice in pounds sterling.

An exporter may offer a better price if you are prepared to pay in local currency. You can protect yourself against the risk of fluctuations in the exchange rate by using a forward foreign exchange contract with your bank.

Consider who is best placed to finance the purchase.

You and the supplier must agree how to finance the delay between production of the goods and their arrival in the country of import.

If you are in a strong financial position, you may be able to negotiate a better price by agreeing to take more of this financing burden. For example, you could agree to pay once you have evidence that the goods have been shipped.

Negotiate the payment method.

The supplier may want to use an alternative form of payment that reduces their risk and allows them to share the financing burden with you. For example, a 'bill of exchange' or a 'letter of credit'.

Resist any request for payment in advance, or a deposit, unless you trust the supplier.

Agree who will pay any bank charges.

Summary

The export and import of goods are done for a purpose very specific. For businesses, exporting goods is just finding another market away from the domestic market. In situations when the domestic market is fully exhausted then the foreign market acts as another market and is definitely a blessing in disguise. The scene of multinational corporation best collaborates with the aforesaid intents. Check when the existing product has no customers in a developed nation say United States then is it not a good proposition to sell such goods in third world countries where such goods can be a sophistication and state of the art thing.

Similarly, the export or import of goods has to be strategic and strategy is the plan made amidst risk and threats. There is done SWOT analysis while chalking out any of the plans relating to export or import of goods or services.

Keywords

Strategy: A plan made considering risks and threats. SWOT (Strength, Weakness, Opportunity Threat) analysis helps in making strategy.

PESTLE: Macro environmental variables political, economic, social, technological. legal and environmental

Microenvironment: The environment within the four boundary walls of a business like; Location, layout, Human Resources etc.

Export Promotion: The strategy of a country to increase exports.

Import Substitution: The strategy of a country to decrease imports.

An intrapreneur: is a person within the established business who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation.

Self Assessment

1. Import of capital goods under EPCG scheme is subject to

A. Terms and conditions of agreement

B. Conditions of law of exporting country

C. Actual user condition

D. Conditions of law of importing country

2. ___________ contributes a major share of foreign exchange in total Indian service export

A. Software service

B. Business service

C. Educational service

D. Transport service

3. Final selection of overseas market depends on _________

A. Scrutiny

B. Shortlisting

C. Assessment

D. Evaluation

4. Goods/ services do not leave the country and the payments are received either in foreign or Indian currency is known as

A. Export

B. Import

C. Reexport

D. Deemed Export

5. EXIM policy is also called as

A. Foreign trade Policy

B. Export policy

C. Import policy

D. trade policy

6. The authority assists exporter in trade fairs and exhibitions

A. ICA,

B. ITPO,

C. EIC,

D. MIC

7. Expand MDA

A. Market Development Area

B. Market Development Assistance

C. Market Developed Area

D. Market Development Access

8. IRMAC imports raw materials in bulk and supply to exporters at

A. High Price

B. Low Price

C. Same Price

D. Competitive price

9. Product survey includes

A. Production,

B. Advertising expenditures

C. Wages

D. Shape, colour, and design of the product

10. The tenure of the Foreign Trade policy is

A. 3 years

B. 5 years

C. 1 year

D. 7 years

11. The IEC number is issued by the

A. Central Government

B. State Government

C. Director General of Foreign trade

D. Ministry of commerce

12. A tax imposed on certain type of imported goods is.

A. a tariff

B. a surcharge

C. a severance tax

D. a subsidy

13. Headquarters of ITPO is at

A. Mumbai

B. New Delhi

C. Ahmedabad

D. Kolkata

14. Which of the following is an example of intellectual property?

A. Computer hardware.

B. Trademarks.

C. Textiles.

D. Electronics equipment

15. The objectives of import duty is/are

A. to raise income for the government.

B. to restrict imports.

C. to encourage exports.

D. to raise income and restrict imports.

Answers for Self Assessment

1.	C	2.	A	3.	B	4.	D	5.	A
6.	B	7.	B	8.	D	9.	D	10.	B
11.	C	12.	A	13.	B	14.	B	15.	D

Review Questions

1. What is difference between Entrepreneur and Intrapreneur?
2. Explain the meaning of strategy?
3. Discuss how export strategy can be formed?
4. Write a detailed note on Import Strategy.
5. Export financing help the imported and exporter. Discuss

Further Readings

Export Import Management by Justin Paul & Rajiv Aserkar, Oxford Publisher,2013

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Unit 05: Export Marketing

CONTENTS

Objectives

In this unit, student will be able to:

- Understand meaning of export marketing.
- Motivations for Export Marketing
- Problems and Difficulties faced by Indian Exporters
- The meaning of Globalization.
- Effects of Globalization
- Different forms of International Trade
- International Trade Benefits and Drawbacks

Introduction

The export are the transfers of goods or services form a home country to a foreign country and as such it becomes very necessary that there is done the marketing of items by the exporting country because of the prevalence of stiff competition, it has to be understood that the cost of rejection of a assignment is very high. It is therefore very necessary that there is applied proactiveness, appropriate to avoid any of such contingencies.

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 the reasons that procedures, restrictions, global competition, lengthy procedures, and formalities etc, are to be understood for a way out.

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.

5.1 Meaning of Export Marketing

Export marketing means exporting goods to other countries of the world. It involves lengthy procedures and formalities.

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 try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country must 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) 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".

5.2 Features of Export Marketing

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 sole 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 costs and other formalities.

3) Dominance of Multinational Corporations – Export marketing is dominated by MNCs, from USA, Europe, and Japan. They are able to develop worldwide contacts through their network and conduct business operations efficiently and economically. They produce quality goods at low cost and also on a 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 customers will not only bring in higher sales in the overseas markets, but it will also improve and enhance the 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 imports. 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 blocs 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 the 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 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 buyers 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 returns from some other markets.

13) Reputation –

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

5.3 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 to fall, i.e., to the optimum level. Here, the company enters into 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 facilities have 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 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, and the 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 themselves of economic incentives, and benefits provided by the government.

Also, some companies internationalize due to governments 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 worldwide.

This has motivated business firms to enter 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 benefit 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 export organizations. Such benefits encourage companies to participate in export marketing. The benefits also act as motivators for export marketing.

5.4 Problems and 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 problems / 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 in the USA in September 2007. Due to recession, the demand for several Indian items such as Gems and Jewelry, 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 law 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 equipment. 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 Duty Drawback Schemes (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 problems 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 others 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 (both 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 for 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.

5.5 The Meaning of Globalization

Globalization is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.

Countries have built economic partnerships to facilitate these movements over many centuries. But the term gained popularity after the Cold War in the early 1990s, as these cooperative arrangements shaped modern everyday life.

The wide-ranging effects of globalization are complex and politically charged. As with major technological advances, globalization benefits society as a whole, while harming certain groups.

Understanding the relative costs and benefits can pave the way for alleviating problems while sustaining the wider payoffs.

Since ancient times, humans have sought distant places to settle, produce, and exchange goods enabled by improvements in technology and transportation. But not until the 19th century did global integration take off.

Following centuries of European colonization and trade activity, that first "wave" of globalization was propelled by steamships, railroads, the telegraph, and other breakthroughs, and also by increasing economic cooperation among countries.

The globalization trend eventually waned and crashed in the catastrophe of World War I, followed by postwar protectionism, the Great Depression, and World War II.

Free trade and the rule of law are the mainstays of the system, helping to prevent most economic disputes from escalating into larger conflicts.

The idea is to create a better world with countries seeking to cooperate with one another to promote prosperity and peace.

What Is an Example of Globalization?

- A simple example of globalization would be a car manufactured in the U.S. that sources parts from China, Japan, S. Korea, Sri Lanka, and South Africa. The car is then exported to Europe, where it is sold to a driver who fills the car's gas tank with gasoline refined from Saudi oil.

5.6 Effects of Globalization

1. More goods at lower prices: Globalization encourages each country to specialize in what it produces best using the least number of resources, known as comparative advantage.

This concept makes production more efficient, promotes economic growth, and lowers prices of goods and services, making them more affordable especially for lower-income households.

2. Scaled up businesses: Larger markets enable companies to reach more customers and get a higher return on the fixed costs of doing business, like building factories or conducting research. Technology firms have taken special advantage of their innovations this way.
3. Better quality and variety: Competition from abroad drives firms to improve their products. Consumers have better products and more choices as a result.
4. Innovation: Expanded trade spurs the spread of technology, innovation, and the communication of ideas. The best ideas from market leaders spread more easily.
5. Job churn: Globalization supports new job opportunities but also contributes to job displacement. It does not significantly change the total number of positions in the economy, as job numbers are primarily driven by business cycles.
6. Decline in inequality globally, but wider within united states: Globalization has helped narrow inequality between the poorest and richest people in the world, with the number living in extreme poverty cut by half since 1990.

Why support globalization if it displaces jobs?

- Economists look at the effects of globalization across the entire economy to weigh the pros vs. cons.
- Since the overall payoff is so much greater than the costs to individual workers or groups who have lost out, nearly all economists support having an open global market versus closing it off.

Other common arguments:

- Globalization is like technological progress. Both disrupt some livelihoods while enlarging the economic pie and opening up new and better-paying job opportunities. The internet, for instance, made many jobs obsolete but also created new higher-paying jobs and industries unheard of only a few decades ago.
- Protectionism helps select groups but at a higher cost for everyone else. Imposing tariffs on steel, for instance, helps certain domestic steel producers, but many more jobs depend on businesses that need some imported steel to make goods that are affordable.
- One study shows that US tariffs on Chinese tires under President Barack Obama saved 1,200 tire manufacturing jobs. But US consumers paid $900,000 per job saved, and 3,700 retail jobs were lost as tires became more expensive.
- Operating within a rules-based system allows for peaceful conflict resolution. There are cases when unfair trade practices and abuses harm US producers. Maintaining international systems to address those problems is key to preventing mutually destructive trade wars—even real wars.

Pros and Cons of Globalization

Pros

- A larger market for goods and services
- Cheaper consumer prices
- Outsourcing can benefit both domestic firms and foreign labor
- Increased standard of living

Cons

- Concentrates wealth in richer countries
- Some poorer countries can be left behind
- Poorer countries can be exploited of their labor and physical & intellectual resources
- Cultures and the products consumed around the world can become homogenized

Is Globalization Good or Bad?

It depends. Proponents of globalization will point to the dramatic decline in poverty that has taken place throughout the world over the past several decades, which many economists attribute in part to increased trade and investment between nations.

Similarly, they will argue that globalization has allowed products and services such as cellphones, airplanes, and information technology to be spread far more widely throughout the world.

On the other hand, critics of globalization will point to the negative impact it has had on specific nations' industries, which might face increased competition from international firms.

- Globalization can also have negative environmental impacts due to economic development, industrialization, and international travel.

KEY TAKEAWAYS

- Globalization is the spread of products, technology, information, and jobs across nations.
- Corporations in developed nations can gain a competitive edge through globalization.
- Developing countries also benefit through globalization as they tend to be more cost-effective and therefore attract jobs.
- The benefits of globalization have been questioned as the positive effects are not necessarily distributed equally.
- One clear result of globalization is that an economic downturn in one country can create a domino effect through its trade partners.

5.7 Different Forms of International Trade

International Trade is the exchange of goods and services across international borders. It usually comes with additional risks caused by changes in exchange rates, government policies, laws, judicial systems, and financial markets.

Cross-border trade comprises import, export, entrepot, foreign direct investment, job outsourcing, setting up production in other countries, and setting up of multinational companies.

Cross-border commerce increases the reach of local traders and producers—manufacturers upgrade their products and services to suit global demands.

International trade drives a country's growth. Import-export figures are one of the top contributors to a country's gross domestic product.

Thus, every country tries to strengthen its global trade relationships with world leaders.

Goods and services are imported goods due to the following reasons:

- Low price
- Superior quality
- Lack of availability in the domestic market
- Excessive demand
- Low supply

Similarly, goods are exported due to the following reasons:

- Higher value in the international market
- International quality
- Excess production in the domestic market
- Increasing demand in the global market.

Often, companies set up their production units outside their geographical boundaries to avail cheap labor, natural resources unavailable domestically, and lower cost of production.

In the 18th century, Adam Smith brought the international trade theory of comparative advantage analysis into the limelight. It was founded on the mercantilist thoughts of the British School of Classical Economics.

In Wealth of Nations, the author instigated the need for specialized goods production amidst extensive demand and scarce supply of resources. Later, the classical economist David Ricardo proposed the principles of comparative advantage.

International Trade Types

Cross border trade can take place via three different routes:

1. **Import**: Primarily, when a country is incapable of producing products domestically, goods are imported.
2. **Export**: When a country produces surplus goods or services of international quality, it can sell these outside its geographical boundaries. Such international selling of products is termed export trade.
3. **Entrepot**: It is a blend of import and export. Country A buys goods or services from country B and sells them to country C after adding some value to the goods.

Example

Let us assume that there are two countries, X and Y. X produce rice at a very low price (in comparison to Y). X is a developing nation. Y, on the other hand, cannot grow rice on its land despite having a flourishing economy—due to the unfavorable climate and soil.

In such a scenario, international trade takes place between X & Y. To fulfill domestic demands, Y can buy as much as it needs from X. Likewise, by selling its excess yield to Y, X gains monetarily.

Example #2

In 2022, Europe started importing natural gases from Qatar instead of Russia. Before the war, Russia fulfilled almost 40% of Europe's natural gas requirements. Consequentially, Qatar has signed various long-term contracts with the US (natural gas imports).

Importance

In the global era, international trade has bridged the gap between producers, sellers, and consumers.

Comparative Advantage: Through international trade, a nation gains expertise in a particular product or service and develops a reputation. For instance, the US has a comparative advantage in capital goods.

Global Development and Economic Growth: An increase in cross-border commerce boosts the local economy of the involved countries.

Attaining Economies of Scale and Specialization: As the demand for imported goods from a particular nation increases—the country becomes well known for the particular product—production is ramped up the producing country brings down the cost of production by achieving economies of scale.

More Choices for Consumers: When the market is flooded with imported goods and services, the buyers have more options to select from. Customer decisions are dictated by preference and purchasing power. Increased options also mean more competition for the producers—increased product innovation and product quality.

Access to Abundant Raw Material: Many nations lack a particular resource that is required for manufacturing goods. Via international trade, even the rarest natural resources can be acquired.

For example, to manufacture batteries used in electric vehicles cobalt is required; 70% of the world's cobalt is found in the Republic of Congo. But, through international commerce, other countries can acquire the mineral.

5.8 International Trade Benefits and Drawbacks

The benefits of international trade are as follows:

Price Stability: When the goods or services are exchanged globally, their prices standardize in the international market.

Enhances Technological Know-How: There is an exchange of technology between countries—which also contributes to GDP.

Let us now go through the various problems caused by cross border commerce:

Adverse Effect on Domestic Consumption: The import of goods or services from foreign countries results in the falling demand for local products. Domestic players may suffer drastically.

Political Influence: Sometimes, trade is dictated by political agenda—it does not benefit the economy.

Environmental Cost: When a nation receives foreign direct investment increased production can cause environmental issues—global warming, carbon emission, air pollution, and water pollution.

Summary

With the adoption of new economic environment after 1990 there has emerged on the scene lot of opportunities for exporters and importers in India as well as foreigner.

The Indian scenario of export and import has changed in the sense that there are allowed: -

- Liberalization means that the government of India understood in 1990s, that there has to opened economy and the closed walls have lost its importance.
- Privatization (removal of licenses which acted as a bar or constraint in the pre new economic regime.
- Globalization means that the whole world is a family, and the excess barriers are constraints, and it is therefore thought that the foreign direct investments (FDIs), subject of rules and regulations, can accelerate the progress of India. This opinion was the underling premises for the foreign direct investment flooding into India.

Keeping in view the strategic intents of Indian Government one can easily benefit from the export strategy and therefore the companies in India do all out to get the maximum possible advantages from the export strategies. The advantages may be in the form of taxes or levy exemptions, export financing facilities available due to infrastructural support, research and development supports coming, import facilities for the manufacturer eying export (technically called entrepot).

Keywords

FDI: Foreign direct investment

Economies of Scale: Production cost advantage due to bulk size of lots.

Levy: Tax or other charge imposed by the Government

Ad valorem Duty: In proportion to the value of the goods (not on quantity)

Specific Tax: Tax on quantity (not on value)

Self Assessment

1. NAFTA is an example of ________

A. customer union

B. free trade area

C. common market

D. economic community

2. Which one is not an international organisation _____

A. CBDT

B. ASEM

C. SAARC

D. ASEAN

3. The main objectives of International Monetary Fund (IMF) was to ____

A. help economically backward countries

B. maintains stable exchange rates

C. promote international trade

D. promote international liquidity

4. Which of the following is not an international financial institution _____?

A. ICICI

B. World bank

C. IMF

D. IDA

5. The gains from two nations depend on ____

A. domestic barter rates

B. degree of absolute advantage

C. different in the domestic barter rates of the two countries

D. terms of trade

6. Out of the following one is not related with WTO______

A. TRIPS

B. TRIMS

C. IRAI

D. Minstrel conference

7. Which of the following is a not matched against its name ___?

A. ASEAN: economic cooperation amongst all Asian countries

B. WTO: does not allow quantitative restriction on trade

C. SAARC: encourage trade between south Asian countries

D. IMF: to remove unfavourable balance of payments and to provide financial assistance

8. Which of the following is international trade ______?

A. trade between states

B. trade between regions

C. trade between countries

D. trade between provinces

9.Dumping refer to ________

A. buying goods at low price abroad and selling at higher prices locally

B. expensive goods selling for low prices

C. sale of good abroad at low price, below their cost and price in home market

D. reduce tariff

10.Trade between two countries can be useful if cost ratios of goods are _____.

A. degrees

B. undermined

C. equal

D. different

11.The objective of distribution channels is _____.

A. to send the goods from producer to consumer

B. to send the goods from producer to stockiest

C. to send the goods from producer to broker

D. to send the goods from producer to retailer

12.Which of the following is a not part of GST _____

A. SGST

B. CGST

C. NGST

D. IGST

13.What is the full name of BEP ______

A. break each point

B. break easy point

C. breakeven point

D. break every point

14.Where head office is situation of the International Trade Organisation ______

A. China

B. Geneva

C. London

D. New Delhi

15. Duty drawback is the refund of duty chargeable on _______

A. imported material

B. exports to Indian owned warehouses in Europe

C. exported material

D. damaged material

Answer for Self Assessment

1.	B	2.	A	3.	A	4.	A	5.	D
6.	C	7.	A	8.	C	9.	C	10.	D
11.	A	12.	C	13.	C	14.	B	15.	C

Review Questions

1. What is international trade? Discuss types of international trade?
2. What is the new economic environment of India?
3. Discuss advantages and drawbacks of international trade?
4. Write a detailed note on theory of comparative advantage?
5. What is the relevance of "export promotion and import substitution"?

Further Readings

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https://edgy.app/international-marketing.

Unit 06: Methods of Financing Exports

CONTENTS

Objectives

In this unit, student will be able to understand:

- Meaning of Export Finance
- Exploring Pre- Shipment Credit
- Post Shipment Finance
- Meaning of Factoring
- Export Credit Insurance

Introduction

What is Export Finance?

Export finance refers to the various financial products and services that are available to companies that are engaged in exporting goods or services.

These products and services can include things like export credit insurance, export loans, and trade finance services such as letters of credit.

The goal of export finance is to help companies manage the risks and costs associated with exporting, and to provide them with the funding they need to grow their export business.

6.1 When Do You Need Export Finance?

As discussed earlier, as an exporter, you may need export finance (a form of trade finance) at various stages of your business cycle, including:

1.Pre-Shipment

2.Post Shipment

Finance against collection of invoices and at multiple stages of the working capital cycle

Finance needed in case of the suspension or removal of export subsidies and benefits.

Types of Export Finance

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

1. **Pre-Shipment Finance**

Pre-Shipment finance is provided when an exporter needs funds before the shipment of products or goods. Funds are required for purchasing raw materials, processing of raw materials into finished goods, packaging goods etc.

Packing Credit: You can avail pre-shipment finance from your financier against an export order received from the importer in the form of Packing Credit.

Once the funds are received from the overseas buyer, the concerned export packing credit amount will be adjusted, and loan will be closed against that order.

Business Loan: You can utilize a loan to purchase raw materials or to undertake the manufacturing of your product.

2. **Post Shipment Finance**

After you have shipped the products and raised an invoice from the importer, you will have to see through the credit period until you receive payment from your buyer. You may need working capital for this period to fulfill other orders. This can be resolved with post shipment finance from the following sources:

Bill Discounting and Invoice Factoring: You can approach your bank or a financial institution and present your invoice to them for faster liquidation. The banker or the financial institution could purchase, collect, or even discount the bill.

For example, in Invoice Factoring you can submit your invoice along with certain other documents, advances up to 80% of the invoice value within 24 hours can be got from a factor.

On maturity of the invoice, the importer pays the factor, which then settles the remaining amount after accounting for the agreed-upon fee.

Export finance against the collection of bills: Banks generally agree to finance export bills which are repaid by guaranteeing companies in case of default. These lenders provide financial support of around 90% of the FOB (freight-on-board) value of the export.

Letter of Credit Discounting: Banks are often ready to finance against Letter of Credit (LC) as there is an inborn security in a confirmed LC that the issuing bank will make the payment in case of default.

Supplier's Credit & Buyer's Credit: There are also two distinct forms of financing you can tap - supplier's credit, where the exporter's bank finances the exporter with the full amount of the invoice while the importer can make payment in instalments to the exporter's banker; and buyer's credit, where the importer is given credit under the line of credit by your banker, thus facilitating your export transaction.

6.2 Export Finance Benefits from Government

Apart from these sources, the government can also be an important source of finance for exporters, through export benefits that one stands to earn. Financial assistance by the government and its agencies includes measures like an advance authorization scheme which waives import duty if the goods are used as inputs for export products; duty drawback schemes which refund duties and taxes paid for inputs to exporters; for electronic products, a zero-duty export promotion capital goods scheme available on the import of capital goods; and, the post-export EPCG Duty Credit Scrip Scheme which enables exporters to claim a refund on duties paid to customs officials.

Once you figure out why you need the funds and where you plan to use them, you can choose the financing that fits your requirements best and apply for it. These finance products are available from a variety of financial institutions, including banks, NBFCs, factoring companies, etc.

There are different banks, non-banking financial corporations, and foreign trade-specific lenders that offer financial assistance to exporters like you.

The Export-Import (Exim) Bank of India provides buyer's credit, corporate banking products, lines of credit, project-based finance, etc.

Banks, including nationalized banks, private sector banks, foreign banks, regional rural banks, certain cooperative banks, etc. all provide financing.

Who Can Provide Export Finance in India?

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Their services may include pre-shipment or post-shipment finance, lines of credit, foreign currency loans, advances against bills sent on collection/deemed exports/undrawn balance, etc. Of course, not all banks/branches may offer export specific products – be sure to study bank's offerings thoroughly before going ahead.

Non-banking financial institutions can also offer one or more export-specific financial services like bill discounting, factoring, working capital loan, buyer loan, lines of credit, etc.

How Export Promotion Councils help with Export Finance?

Export Promotion Councils encourage exporters, both old and new, to attend a variety of workshops that they conduct throughout the year.

These workshops address topics like documentation, understanding of commercial terms, designing business plans, and understanding finances.

These are excellent platforms for exporters to find solutions and advice on their business and financial needs. One-to-one correspondence with the EPCs to seek financial guidance is also an option.

With a well-rounded approach – which includes your specific needs, correct timing of application, the right choice of finance that suits you, and identification of the appropriate source of finance – you can obtain and utilize your funds in the best possible manner and ensure the growth and stability of your export business.

Pro-Tips

Always keep an eye on foreign exchange rates and terms while entering into a financing agreement.

Financing always comes at a cost – consider the impact of the cost on your profitability and bottom line.

Outsourcing collection of invoices to a third party can release you from the burden of an additional activity. Consider appropriate and trusted outlets that can take on this responsibility for you.

Warnings

Don't apply for finance beyond your repayment capacity – defaults will erode your credibility for future financing purposes.

Don't undertake export orders if their completion is not feasible from a financial standpoint. You may either fail to arrange for the necessary finance or find it available only at exorbitant costs. It is always advisable to undertake export operations within your financial means.

Government benefits are subject to various terms and conditions – be sure to check the terms and conditions thoroughly.

For example, your product may not qualify under a scheme, or the scheme may be applicable only for certain selected markets. Avoid unpleasant surprises later.

6.3 Pre- Shipment Credit

Pre-shipment credit, also called pre shipment finance, can be a useful tool for businesses that need to secure financing to complete a production run or meet customer demand but need more cash on hand.

It can help businesses to manage their cash flow and ensure that they have the necessary funds to complete their production and delivery schedules.

Meaning of Pre-Shipment Finance

Pre-shipment finance is a type of financing solution that is provided to a business before the goods or products have been shipped to the customer.

It is typically used to cover the costs of production, such as raw materials, labour, and transportation, as well as any other expenses incurred before the goods are ready to be shipped.

Pre-shipment finance can be provided by banks, financial institutions, or other lenders and is typically secured by the goods being produced or by a letter of credit from the customer.

It is usually provided for a short period, typically around 30 to 90 days, and is intended to help the business bridge the gap between the time the goods are produced and the time the customer pays for them.

6.4 What are the Types of Pre-Shipment Finance?

The prominent types of pre-shipment finance include:

1. **Extended Packing Credit Loan:** Extended packing credit loan is a type of pre-shipment finance provided to businesses to cover the costs of production and packing of goods being exported. It is typically provided by banks or other financial institutions and secured by the goods being produced or by a letter of credit from the customer. The loan is intended to help the business cover production costs, including the purchase of raw materials, labour, and transportation, as well as the costs of packing the goods for export.
2. **Packing Credit Loan (Pledge):** A packing credit loan (pledge) is a type of pre-shipment finance provided to businesses to cover the costs of production and packing of goods being exported. It is typically provided by banks or other financial institutions and secured by a pledge of the goods being produced or by a letter of credit from the customer. A pledge is a legal agreement in which a borrower gives the lender the right to seize and sell certain assets if the borrower fails to repay the loan. In the case of a packing credit loan (pledge), the goods being produced or exported are used as collateral for the loan.
3. **Packing Credit Loan (Hypothecation):** The loan is typically extended by a bank or financial institution and secured by a hypothecation agreement, which is a legal document that allows the lender to seize the goods being financed if the borrower defaults on the loan. The lender may also require collateral, such as real estate or other assets, to secure the loan.

4. **Advances Against Red Clause L/C:** An advance against a red clause letter of credit (L/C) is a type of loan that is extended to a business based on the strength of a red clause letter of credit issued by a bank. A red clause letter of credit is a special type of L/C that allows the beneficiary (usually the seller of goods or services) to request an advance payment before the goods or services are shipped. The advance payment is typically made by the bank issuing the red clause L/C and secured by the L/C itself.
5. **Pre-Shipment Credit in Foreign Currency (PCFC):** In India, pre-shipment credit in foreign currency (PCFC) is a type of short-term loan that banks and financial institutions extend to businesses to finance the purchase and transportation of goods or services that are being exported. The loan is typically secured by the goods or services being exported and denominated in the importing country's currency. PCFC loans are typically used to cover the cost of purchasing raw materials, transportation and other related expenses. They are often used by businesses to finance the export of goods or services to foreign countries and typically offered to businesses that have a good credit history and a proven track record of exporting.

6.5 What are the Documents Required for Pre-Shipment Finance?

In India, the documents required for pre-shipment finance will vary depending on the specific circumstances of the export transaction and the type of financing being used. However, some common documents that may be required include:

1. **Export contract:** This is the main document outlining the terms and conditions of the export transaction, including the goods being sold, the price, and the payment terms.
2. **Proforma invoice:** This is a preliminary invoice that provides an estimate of the total cost of the goods being exported. A proforma invoice may be used to obtain financing or as a basis for the final invoice.
3. **Letter of credit:** This is a financial instrument issued by a bank on behalf of the buyer, which guarantees payment to the exporter once the goods have been shipped and the required documents have been presented.
4. **Shipping documents:** These documents include the bill of lading, which is a receipt for the goods being shipped, and the commercial invoice, which is a detailed list of the goods being exported and their associated costs.
5. **Insurance documents:** These documents, such as a marine insurance policy, protect against the risk of damage or loss to the goods during shipping.
6. **Certificates of origin:** The certificates of origin documents are essential to show that the exported goods originate from a specific country and may be required for certain types of goods or markets.

6.6 What is the Pre-Shipment Finance Procedure?

In India, the pre-shipment finance procedure typically involves the following steps:

1. Identify the need for financing: Businesses should first assess their financial needs and determine whether they require pre-shipment finance to cover the costs of purchasing and transporting goods or services for export.

2. Research and compare lenders: Businesses should research and compare different lenders, including banks and financial institutions, to find the best pre-shipment finance options for their needs.

3. Prepare and submit a loan application: Businesses should prepare and submit a loan application to the lender of their choice.

The application should include information about the business, the goods or services being exported, the requested financing, and any collateral the business is willing to provide.

4. Review and negotiate the loan terms: Once the loan application has been received, the lender will review it and may request additional information or documentation.

The business and the lender will then negotiate the loan terms, including the interest rate, repayment schedule, and any fees or charges.

5. Sign the loan agreement: If the business and the lender agree on the terms of the loan, they will sign a loan agreement outlining the terms of the loan.

6. Obtain the loan: Once the loan agreement has been signed, the lender will disburse the loan to the business, which can then use the funds to purchase and transport the goods or services for export.

6.7 What are the Benefits of Pre-Shipment Finance?

There are several benefits to using pre-shipment finance, including:

1. **Improved cash flow:** Pre-shipment finance can help businesses to improve their cash flow by providing the funds needed to purchase and transport goods or services for export. This can allow businesses to manage their financial resources better and reduce the risk of financial difficulties.
2. **Enhanced competitiveness:** Pre-shipment finance can enable businesses to better compete in international markets by providing the funds needed to take advantage of export opportunities.
3. **Increased flexibility:** It can provide businesses with greater flexibility in their operations by allowing them to finance the purchase and transportation of goods or services for export as needed.
4. **Reduced risk:** Pre-shipment finance allows businesses to reduce the risk of financial losses by providing the funds needed to purchase and transport goods or services for export. This can help businesses to manage their risks better and increase their chances of success in international markets.
5. **Improved supplier relationships:** It can help businesses to strengthen their relationships with suppliers by providing the funds needed to purchase goods or services for export on time. This empowers businesses to secure better terms and conditions with their suppliers, which can improve their competitiveness and profitability.

6.8 What are the Risks of Pre-Shipment Finance?

There are several risks involved in pre-shipment finance, including:

1. **Credit risk:** Credit risk is the risk that the buyer will not be able to make the required payments due to financial difficulties or bankruptcy.
2. **Political risk:** This explores the risk that political events, such as revolutions, coups, or wars, may disrupt trade or result in non-payment.
3. **Exchange rate risk:** The risk includes the possibility of fluctuations in exchange rates that will affect the value of the payment in the exporting company's domestic currency.
4. **Shipping risk:** This is the threat of goods being damaged or lost during shipping.
5. **Documentation risk:** This includes the risk that documents required for the export, such as letters of credit or insurance documents, will be incorrect or incomplete.

6. **Fraud risk:** It entails the danger that the buyer or intermediaries involved in the transaction will commit fraud or engage in deceptive practices. To mitigate these risks, exporters can use a variety of tools and strategies, such as obtaining credit insurance, using letters of credit, and conducting thorough due diligence on buyers.

6.9 Post Shipment Finance

What Is A Post Shipment Finance Service?

A Post Shipment finance service is a short-term financing solution that takes care of cash or liquidity requirements of export business for the time lag between when an exporter ships the goods, and till the time he receives payment from his buyer.

Since the timeframe for receiving payment, even after completing shipping related formalities, can be quite high - typically between 30 to 90 days, some export companies opt for post shipment finance services that allow them to secure liquidity quickly that allows the exporter to begin work on the next order and scale their business quickly.

Why Post Shipment Finance?

While there are several types of post shipment finance services in the market, there are a few reasons why exporters opt for these services. For one, accessing finance is a lot easier in the post shipment stage, this is because financing institutions are confident on the order execution since the shipments are already in quite an advanced stage. Secondly, post shipment credit solutions are generally quick, and this is also a time when companies wish to begin work on the subsequent orders. This is exactly what makes this financing option so popular.

Post-shipment finance is a special credit or loan given to exporters by banks against a shipment of goods sent to overseas buyers. Since exporters don't wait for importers to deposit funds against the large-scale shipment, they often seek assistance as post-shipment finance and realization options in export proceeds. Usually, post-shipment finance options are sanctioned from the date of offering the credit after the shipment to the date of realization of the exporter proceeds.

Essentially, there are three types of exports for which different types of post-shipment finance is offered to exporters:

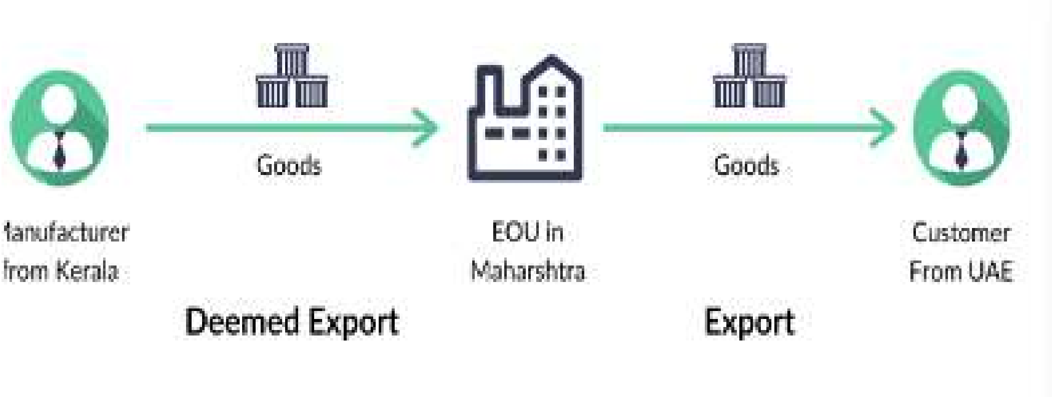
A. Physical Export: Under physical export, finance is offered to the actual exporter whose name is mentioned in the trade documents.

B. Deemed Export: Under Deemed exports, finance is sanctioned to the exporter of goods supplied to the respective agencies.

C. Capital Goods and Project Export: Under capital goods and project export, finance can be extended in the name of the overseas buyer, but the money is disbursed directly to the domestic exporter.

Deemed Export Example:

when a Kerala based manufacturer supplies goods to an Export oriented Unit in Maharashtra, who further ships the product to its customer in the UAE - the first part of the transaction is classified as deemed export while the second transaction is considered an export.



1. Purchased/discounted export bills: Purchased/discounted export bills are used in indisputable international trade transactions for sale contract/order by banks. In case of such bills, the bank is accountable for granting a specific limit to exporters to facilitate the purchase of export bills.

2. Secure extended finance for export bills negotiated: As the issuing bank regulates the payment under LC (Letter of Credit), the payment-related risk for the exporter is less in this post-shipment finance option. The risk potential is further reduced as the bank confirms the LC and guarantees remittance. This is a secure method wherein banks are willing to extend the finance for bills due to the availability of LC.

However, this method can still result in risk scenarios on the bank's side in two situations:

The exporter is a non-performer and is unable to abide by all the terms and conditions. The issuing bank does not consider the LC in this case.

There is a documentation risk where the issuing bank chooses to dishonor its commitment.

To avoid such a high-risk situation, it is critical for the negotiating and lending bank to check all the legal documents thoroughly before submission.

3. Advance against export bills for Collection: If discrepancies are found in the bills under LC, it is mandatory to send the bills for collection. For instance, if an exporter refuses to discount/purchase export bills, they will arrange to send export bills on a collection basis, considering the standard foreign currency exchange.

In this scenario, banks may lend some portion of export bills to the exporter as an advance against collection bills with a concessional interest rate.

This is decided based on the transit period in case of DP (Documents against Payments) bills, which is calculated right from the date of acceptance of the export documents for collection at the bank.

Once the export bills are realized from overseas buyers, the amount is credited as post-shipment credit.

If the realization of the amount from an overseas buyer does not happen in the stipulated period, the bank reserves the right to crystallize pending export bills and levy a commercial rate of interest that is equivalent to the advance amount.

4. Finance against export on a consignment basis: A bank can also finance an exporter when goods are sent as a consignment for sale at the exporter's risk, and the consignee initiates the final payment against the sale to the exporter. The role of the bank, in this case, is to advise its overseas counterpart to issue the document only against the undertaking that sale proceeds be delivered by the specified date. This is strictly practiced even when certain trades allow the bill for the partial estimated value against the exports to be drawn in advance.

In the case of trade that uses Indian-owned overseas warehouses, the ideal realization time limit is 15 months.

5. Finance against the undrawn balance: To avoid certain complexities and trade disputes, a small part of the payment is left undrawn for final adjustments towards differences in exchange rates, consignment weight, quality factors, etc. In some cases, banks provide post-shipment finance against the undrawn balance, provided the balance conforms to the normal level of undrawn balance (which usually equals 10 percent of the maximum export value).

To ensure transparency and minimize risk, an exporter is also expected to submit an undertaking that they will fulfill the balance proceeds of the shipment within six months from either the due date of payment or the date of shipment, whichever is earlier.

6. Advance against Claims of Duty Drawback: Duty drawback is disbursed by the government's customs department as a kind of support to exporters in their country after submission of export documents with customs authorities. The bank lends finance against such duty drawback receivable from customs after the exporter submits all the essential export documents with their bank to confirm eligibility. This the amount is given when the in-house production cost is higher than the international price. Finance of this type helps exporters survive in the global market.

As soon as the shipment is made, any claims lodged by exporters with supporting export documents are processed carefully. After satisfactorily meeting eligibility criteria and making sure that the bank holds the right to receive the loaned amount directly from respective government authorities, the bank sanctions the advance amount against duty drawback. The advance is offered at a lower rate of interest for 90 days. These days, the customs of the department do not take too long to disburse duty drawback if all documents are found perfectly in order.

It may be noted that finance is granted to an exporter only when the same bank extends other export finances to the exporter.

The Crystallization of Overdue Export Bills

If an export bill purchased/negotiated/discounted is not realized until the due date, foreign exchange for the exporter is converted into rupee liability.

In case of unpaid DP bills, the rupee conversion takes place on the 30th day after the expiry of the NTP (Normal Transit Period). In the case of DA (Documents against Acceptance) bills, the liability is converted on the 30th day after the national due date.

The exchange conversion rate is the current TT (Telegraphic Transfer) selling rate or the original bill buying rate on the day of crystallization, whichever is higher.

Conclusion

Mentioned above are the prevalent post-shipment finance and realization options currently available to exporters. Due to ongoing changes and frequent updates introduced by the government, documents, and bank-approved loans and overseas export affairs, these credit options may change.

So, it is essential to stay informed of any new rules that may be implemented.

6.10 Meaning of Factoring

A factor is an intermediary agent that provides cash or financing to companies by purchasing their accounts receivable. A factor is essentially a funding source that agrees to pay the company the value of an invoice less a discount for commission and fees.

Factoring can help companies improve their short-term cash needs by selling their receivables in return for an injection of cash from the factoring company. The practice is also known as factoring, factoring finance, and accounts receivable financing.

Factoring allows a business to obtain immediate capital or money based on the future income attributed to a particular amount due on an account receivable or a business invoice.

Accounts receivable represent money owed to the company from its customers for sales made on credit. For accounting purposes, receivables are recorded on the balance sheet as current assets since the money is usually collected in less than one year.

Sometimes companies can experience cash flow shortfalls when their short-term debts or bills exceed the revenue being generated from sales.

If a company has a significant portion of its sales made via accounts receivables, the money collected from the receivables might not be paid in time for the company to meet its short-term payables.

As a result, companies can sell their receivables to a financial provider (called a factor) and receive cash.

There are three parties directly involved in a transaction involving a factor:

1. the company selling its accounts receivables.
2. the factor that purchases the receivables; and
3. the company's customer, who must now pay the receivable amount to the factor instead of paying the company that was originally owed the money.

Requirements for a Factor

Although the terms and conditions set by a factor can vary depending on its internal practices, the funds are often released to the seller of the receivables within 24 hours. In return for paying the company cash for its accounts receivables, the factor earns a fee.

Typically, a percentage of the receivable amount is kept by the factor; however, that percentage can vary, depending on the creditworthiness of the customers paying the receivables.

If the financial company acting as the factor believes there's an increased risk of taking a loss due to the customers not being able to pay the receivable amounts, they'll charge a higher fee to the company selling the receivables.

If there's a low risk of taking a loss from collecting the receivables, the factoring fee charged to the company will be lower.

Factoring is not considered a loan, as the parties neither issue nor acquire debt as part of the transaction. The funds provided to the company in exchange for the accounts receivable are also not subject to any restrictions regarding use.

Essentially, the company selling the receivables is transferring the risk of default (or nonpayment) by its customers to the factor. As a result, the factor must charge a fee to help compensate for that risk.

Also, how long the receivables have been outstanding or uncollected can impact the factoring fee. The factoring agreement can vary between financial institutions. For example, a factor may want the company to pay additional money in the event one of the company's customers defaults on a receivable.

Benefits of a Factor

- The company selling its receivables gets an immediate cash injection, which can help fund its business operations or improve its working capital. Working capital is vital to companies since it represents the difference between the short-term cash inflows (such as revenue) versus the short-term bills or financial obligations (such as debt payments).
- Selling all or a portion, of its accounts receivables to a factor can help prevent a company that's cash strapped from defaulting on its loan payments with a creditor, such as a bank.
- Although factoring is a relatively expensive form of financing, it can help a company improve its cash flow.
- Factors provide a valuable service to companies that operate in industries where it takes a long time to convert receivables to cash—and to companies that are growing rapidly and need cash to take advantage of new business opportunities.
- The best factoring companies also benefit since the factor can purchase uncollected receivables or assets at a discounted price in exchange for providing cash up front.

Example of a Factor

Assume a factor has agreed to purchase an invoice of $1 million from Clothing Manufacturers Inc., representing outstanding receivables from Behemoth Co. The factor negotiates to discount the invoice by 4% and will advance $720,000 to Clothing Manufacturers Inc.

The balance of $240,000 will be forwarded by the factor to Clothing Manufacturers Inc. upon receipt of the $1 million accounts receivable invoice for Behemoth Co.

The factor's fees and commissions from this factoring deal amount to $40,000. The factor is more concerned with the creditworthiness of the invoiced party, Behemoth Co., than the company from which it has purchased the receivables.

Is Factoring a Good Investment?

Determining whether "factoring" is a good investment for a company will depend on many factors, particularly the company specifics, such as the type of business and its financial condition.

Generally, factoring is a good investment choice for a business, as it increases liquidity, increases competitiveness, improves cash flow, is efficient, removes the need for good credit, and reduces the reliance on traditional debt.

How Does Factoring Work?

A company that has accounts receivables is waiting on payment from its customers. Depending on the company's finances, it may need that cash to continue operating its business or funding growth.

The longer it takes time to collect the accounts receivable, the more difficult it is for a business to run its operations. Factoring allows a company to sell off its receivables at one time rather than having to wait to collect from customers.

The receivables are sold at a discount, meaning that the factoring company may pay the company with the receivables 80% or 90%, depending on the agreement, of the value of the receivables. This may be worth it to the company in order to receive the influx of cash.

KEY TAKEAWAYS

- A factor is essentially a funding source that agrees to pay a company the value of an invoice less a discount for commission and fees.
- The terms and conditions set by a factor may vary depending on its internal practices.
- The factor is more concerned with the creditworthiness of the invoiced party than the company from which it has purchased the receivable.

6.11 Export Credit Insurance

Export Credit Insurance–a policy that protects a company's accounts receivable–is a simple tool with significant benefits. International markets can represent both tremendous opportunity and daunting risk. Export Credit Insurance equips companies to win international sales while taking risk out of the export equation. While businesses are well acquainted with the concept of insurance and the importance of managing risk, accounts receivable are often the largest uninsured asset on a company's balance sheet. Export Credit Insurance allows exporters to safeguard their foreign receivables, transferring the risk of nonpayment by overseas customers to insurer.

Like any insurance policy, the exporter pays a premium and gets protection in return. In this case, if a foreign buyer purchases on credit terms and fails to pay, insurer pays the exporter up to 95% of the invoice value.

The benefits of Export Credit Insurance

It gives businesses the confidence necessary to enter new markets and chart a path forward with margins they can depend on. With this security in hand, exporters can increase their global competitiveness by offering the credit terms needed to win sales.

Moreover, Export Credit Insurance empowers companies to overcome cash flow obstacles by borrowing against their insured receivables.

The Value of an Export Credit Insurance Policy

1. **Safeguard Against Risk:** Foreign market risk is on every exporter's mind. Export Credit Insurance transfers the risk of credit and counterparty exposure to insurer, protecting against liquidity shortages arising from delayed payments or nonpayment from overseas customers. A policy can reduce an exporter's earnings volatility, providing certainty and peace of mind.
2. **Increase and Expand Sales:** Export Credit Insurance can support exporters to win more sales and grow their business overseas. Insured exporters can extend competitive credit terms to customers, rather than demanding payment in advance.

Insured Exporters Can Increase Their Sales in Two Ways:

A. Expand Into New Markets:

With an insurance policy, exporters can safely enter new markets. Many potential customers buy only on credit, yet some markets might present a prohibitive repayment risk. Export Credit Insurance protects an exporter's bottom line and allows them to make sales that would otherwise be out of reach.

B. Boost Sales with Existing Customers:

Many exporters have existing customers that would buy more with an extension of credit terms, or an increase in the credit line offered. A safety net for a business' foreign receivables allows it to seize.

opportunities and increase sales.

3. Unlock More Attractive Bank Financing

Cash flow concerns reign supreme for exporters. EXIM's Export Credit Insurance can help businesses access the liquidity needed to fulfill orders and pay for day-to-day operations. With a policy in hand, insured exporters have greater borrowing power. Some banks require Export Credit Insurance to lend against foreign receivables. In other instances, banks will offer higher advance rates for insured receivables. In both cases, Export Credit Insurance turns the same collateral into a greater borrowing base. In essence: same receivables, but better cash flow.

4. Transfer the Burden of Credit Management

Exporters have enough on their plates: seeking sales, navigating logistics, managing employees, making products, and so on. The one thing they don't have is time. Export Credit Insurance can help by easing the

burden of credit risk management that prevents businesses from focusing on their core operations.

5. Realize Tax Benefits

Companies offering credit terms generally account for a "bad debt" or "loss" reserve–that is, an account set aside to offset anticipated nonpayment on outstanding accounts receivable. Unlike bad debt reserves, however, the premium paid for an Export Credit Insurance policy is tax-deductible*. With insured receivables, companies can lower bad debt reserves and taxable income, decreasing risk and increasing their bottom line.

Summary

Financing international trade is crucial and the system itself is there to support this notion. In simple words the Importer and exporter are definitely benefitted by the financing done. The concept of financing in international trade can be studied separately as:

A. Financing the exporter
B. Financing the Importer

The strategy of every nation is to support imports and exports as per the needs of the nation. Similarly, the Indian scenario of financing the exports and imports is fully developed to help the trade at times appropriate. Additionally, the exporters and importers need to understand the dynamics of financing of transactions for a support that definitely sets a pace. The discounting of invoices using the services of a financial institution or a factor or a forfaiting should be the areas of interest for a particular trader, especially in relation to international transactions involving higher risks.

Keywords

Factor: A financial service provider who accepts unmatured invoices as collateral for advance.

Forfaiting: Means of financing enabling immediate cash to exporters against receivables long term.

Default Risk: The probability that there will be default in making payments against an obligation.

Insurance: To be safeguarded against a probable risk.

Incoterms: Terms covering rights and obligations of the parties in a contract of sales.

Self Assessment

1. Govt. policy about exports and imports is called:

A. Commercial policy

B. Fiscal policy

C. Monetary policy

D. Finance policy

2. Market in which currencies buy and sell and their prices settle on is called the

A. International bond market

B. International capital market

C. Foreign exchange market

D. Eurocurrency market

3. Incoterms cover

A. trade in intangibles

B. ownership and transfer rights

C. contracts of carriage.

D. rights and obligations of parties to contract of sales.

4. The price quoted by the seller for the product

A. will vary depending upon the incoterm chosen.

B. irrespective of the incoterm.

C. will be the base price; the effect of incoterm to be added later.

D. will include only cost.

5. Packing credit is

A. an advance made for packing goods for export.

B. pre-shipment finance for export.

C. a priority sector advance.

D. advance for importer.

6. Factoring refers to.

A. discounting of any export bill.

B. discounting of medium-term export bill.

C. writing off unrealized export bill.

D. waiver of charges on export bills.

7. Which of the following services is not provided by an export factor?

A. invoice discounting.

B. providing credit information.

C. maintenance of debtors account.

D. none of the above.

8. Export factoring encourages the following method of payment

A. open account system.

B. letter of credit method

C. documentary bill.

D. advance payment

9. Under supplier's credit for deferred payment exports scheme of Exim bank

A. pre-shipment finance is available for periods beyond 180 days

B. post-shipment finance is available in Indian rupees for deferred payment exports.

C. post-shipment finance is available in foreign currency for deferred payment exports.

D. post-shipment finance is available in Indian rupees or foreign currency for deferred payment

10. Which of the following statements relating to consultancy and technology services finance programme of Exim bank is wrong?

A. The exporter is expected to get an advance payment of 25%

B. The exports should be covered by ECGC policy.

C. Minimum period of the loan is seven years.

D. They should be secured by a government guarantee or letter of credit.

11. Exim bank issues guarantees to commercial for

A. all export advances

B. all export advances repayable beyond one year.

C. post-shipment suppliers' credit from one year to three years.

D. loans with refinance from Exim bank.

12. The following is not a post-shipment advance

A. negotiation of bill under letter of credit

B. purchase of foreign bill.

C. advance against foreign bill for collection

D. packing credit.

13. Which of the following countries need entrepreneur?

A. Developing

B. Developed

C. Both A & B

D. Neither A nor B

14. It is alternatively called corporate venturing?

A. Entrepreneurship

B. New Venture started.

C. Offering new product.

D. Intrapreneurship

15. Through which canal the maximum international trade is happening?

A. Panama

B. Suez

C. English

D. Kiel

Answer for Self Assessment

1.	A	2.	C	3.	D	4.	A	5.	B
6.	B	7.	D	8.	A	9.	A	10.	C
11.	C	12.	D	13.	C	14.	D	15.	A

Review Questions

1. Write a detailed note on "Factoring".
2. What is pre-shipment finance? Discuss its various types?
3. What is post shipment finance? Discuss its various types?

4. What is export credit insurance? Discuss advantages of export credit insurance?
5. Discuss Indian scenario of export and import finance?

Further Readings

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Unit 07: Business Risk Management and Coverage

CONTENTS

Objectives

In this unit, student will be able to understand:

- risk management in export-import business
- types of risks
- quality and pre shipment inspection

Introduction

Export and import business have got important characteristics that there is trade across national frontiers. The buyer and seller are respectively situated and placed in two different nations, and it is therefore quite obvious that the governance system of two nations is emerging in a deal that is international. The environment means the macro environment in terms of PESTLE, which is expanded as political, economic, social, technological, legal, and environmental.

The contemporary challenges interfere making the trade of export and import very risky. The challenges may be termed as the inflation rate interfering in between. Instance can be that if an Indian exporter earns USD a week ago and the rate of INR changed to high against the USD then there is loss of Rupees for this exporter because the rise in the rate of Rupees against Dollar fetches less Rupees on conversion and vice versa for an importer. For importer it is gain as the Rupees rate high against the dollar means that the less rupees have to be paid to get a particular dollar.

The exchange rate is not only the one example that is intervening in international trade there are a lot many other which affects the dealing or transaction in term of export and import. Inflation rate prevalent between the two nations accordingly affect the buying and selling powers of the importer and exporter. The legal environment in terms of affecting change in the levies is the next change which may positively or negatively affect the particular exporter or an importer.

What is noteworthy is that the environment of two nations is affecting the trade and it is certain that there may be consequent affects to the parties involved in the deal.

7.1 Risk Management in Export-Import Business

Exporting goods to other countries can be a source of significant growth for businesses in the form of new markets and opportunities. In the process, these businesses are likely to face new risks, especially when it comes to managing payments, that they may not have encountered or experienced before.

With careful management, companies can understand the impact new risks are likely to have on the business and how to mitigate these risks on their own or with the help of third parties, like insurers.

Not all of these risks will have the same significance. Some payment risks can lead to unexpected levels of bad debt that have devastating consequences for a business. Other situations involve risks that only lead to short-term concerns, such as sporadic delays in payment.

Risks that catch business leaders by surprise can be particularly devastating to business performance and profitability. To avoid this, companies can leverage a range of tools and solutions to manage the risks in export business, credit insurance, and stricter payment terms for higher risk customers. Learn about risks involved in exporting and how to manage them should be a continuous drive.

7.2 What is Export Risk Management?

Export risk management is not about eliminating risks. There is no such thing as risk-free business, especially when working with business partners and customers in other countries. Instead, risk management is about taking steps to ensure that a company knows what and how much risk it faces and how much of that risk it is able to mitigate.

These steps to stronger export risk management can help businesses focus on both individual risks and the entire portfolio of export risks they face.

Identify all Potential Risks.

Rank each risk according to the likelihood of occurring and potential severity. These risks can include *macroeconomic risks*, such as the risk of inflation; *political risks*, such as civil unrest or economic sanctions in a given country or region; *and business-specific risks*, such as the potential for decreased market demand and changes to customers' creditworthiness.

Evaluate strategies to manage these different types of export risks, including developing customized payment terms, targeting business partners only in specific locations or industries, and insuring against specific and significant risks where possible.

Monitor risks over time as circumstances and conditions change and adjust risk management and mitigation approaches according to new information.

A strong export risk management approach allows companies to do business with a larger number and variety of international business partners. A company with strong risk management can more confidently extend credit and favorable payment terms in order to increase growth and solidify critical business relationships, while also investing in other customer relationships slowly over time when necessary.

For example, when an otherwise good customer wanted payment terms for a larger-than-normal order, one export company recognized that it would not be able to absorb the loss if something should go wrong. Because the company did not want to miss out on the growth this deal would create, the company began taking a more proactive risk management strategy for its export business, including purchasing credit insurance for its accounts receivable. With that strategy in place, the company is now able to approve credit limits faster and offer financing on open terms where its competitors can't.

7.3 What Are the Types of Export Risks?

There are many types of export risks. While doing business internationally, companies may be affected by more extreme changes in the political environment or fluctuations in business and macroeconomic indicators than they might encounter in domestic markets. Business norms and cultures differ. Currency exchange rates rise and fall. Changes to the business, political and legal environment can all impact companies doing business in a given country or region.

Political Risks

Exporters can face significant political risks when doing business in various countries. Some of these risks are established and well known while others can arise quickly and unexpectedly. A new election, sanctions or pressure from other countries' governments, and civil unrest can all rapidly change a political situation. In general, the more stable a country's business, financial and social systems are, the less political risk that country represents.

When the political situation in a country change or deteriorates, companies operating or doing business in that country could face a range of problems. Governments could seize assets. Businesses may have trouble moving money in and out of the country. Customers could default on payments if their businesses suffer during times of political turmoil or changing government policies.

Because political risk can be difficult to predict or mitigate directly, export businesses can focus on closely monitoring the political situation in the countries in which they operate. With a clear process in place, the company can take steps to limit their financial exposure—for example, by reducing credit limits for customers in that country—as soon as the situation appears to be deteriorating to minimize potential losses. Certain insurance policies, including credit insurance, may also provide coverage for losses related to changes in the political environment.

Legal Risks

Laws and regulations vary around the world. What is common practice in one country may not be so in another. As a result, exporting companies could face legal issues related to a number of areas of the business, including customs, contracts, currency, and the liability and intellectual property rights involved with the products they sell.

One of the best ways to mitigate the legal risks of exporting is to hire legal advisors either located in a given country's jurisdiction or with proven expertise in dealing with local laws. The last thing a company wants to do is get bogged down in a prolonged legal dispute in an unfamiliar country that involves local legal issues. Relying on trusted legal advisors can go a long way toward avoiding and even anticipating and proactively dealing with potential legal issues.

Credit & Financial Risk

When doing business internationally, the risk of nonpayment or default by customers is one of the key issues exporters must deal with. Indeed, export credit risk is among the most significant financial risks a company can face. Getting a delinquent customer to pay is difficult even when that customer is down the street. It can be exponentially more difficult when that customer is in another country.

Even assessing the creditworthiness of an international customer can be difficult. Not all countries have detailed information about a customer's past credit history or current creditworthiness. To mitigate these credit risks, exporters often rely on payment in advance or credit guarantees, such as letters of credit, before making shipments. Unfortunately, taking these steps could delay shipments or exclude potential customers that are unable or unwilling to provide these documents, causing exporters to lose out on business opportunities.

Export credit insurance is perhaps the most effective way to deal with export credit risk. In addition to providing payment in the event of a customer default, credit insurance can also provide important credit information about current and potential customers, allowing exporters to make more informed credit decisions.

Quality Risk

Once goods are shipped, a customer may register complaints about the quality of those products. This could be a genuine objection based on the buyer's specific requirements and expectations. It could also be a way for the buyer to gain leverage and negotiate a discount on the shipped products after the fact.

One way to deal with quality risk is to hire an independent third party to inspect the goods before they are shipped. If that is not possible, the exporter can send samples to the importer or end customer so that they can inspect the products themselves and determine whether the quality is acceptable before any order is shipped.

Transportation and Logistics Risk

Making an export sale is just the beginning of the process. The sold goods now need to be promptly and safely shipped to the customer. This is where exporters can encounter a range of transportation and logistics risks, which can vary based on the goods being shipped and the requirements to do so. Some goods require refrigeration, must not be exposed to excessive heat or cold, or have an expiration date. Other goods are extremely fragile, require careful handling or must be assembled before delivery to the customer. All shipments must be tracked. If something goes wrong, the buyer may try to negotiate a price reduction or reject the shipment altogether.

Mitigating transportation and logistics risks often involves quality control and careful tracking procedures throughout the process. Specialist transportation and logistics firms can also bring expertise to this effort and some insurers offer coverage for losses caused by delays and problems during shipment.

Language and Cultural Risk

Doing business with importers and customers in another country requires a certain amount of trust. Differences in language, culture, religion, and many other aspects of life require careful handling. For example, when exporters and their customers speak different languages, important details and nuances can get lost in translation.

Different cultural mores can impact everything from "normal business hours" to ethical behavior to whether customers will want to buy a product. There are many areas where well-meaning exporters can unknowingly create tension or cause offense to customers, government officials and others important to timely product shipments and other aspects of the business.

The best way to prevent these types of problems is to have people on staff who speak the local language or have experience of living in a particular culture or region. In addition, exporters can focus on building local business relationships in the countries that are importing its products to help smooth out problems as they occur and increase the exporters ties and presence locally.

7.4 When to Get Export Insurance

While some export risks can be managed and mitigated with the right staff, attention to cultural nuance, and local resources, other export risks may be large enough to warrant export insurance.

When deciding whether to obtain insurance coverage for specific export risks, it is important to evaluate each risk and compare the cost of insuring with the potential benefits of doing so. In some cases, having insurance coverage for a specific risk provides not only protection but helps nurture the confidence necessary to expand and diversify the business.

Here are some of the insurance coverages that can be helpful to exporters:

Export credit insurance provides protection against customer payment default and, often, against unpaid invoices caused by non-credit risks, such as political events.

Political risk insurance can protect against loss caused by political events and turmoil.

Transportation and logistics coverage can cover losses caused by problems and delays getting products to customers in the importing country.

No single approach is likely to meet a company's needs. Instead, the right mix of strong risk management, risk mitigation activities, and insurance coverage for specific risks can create a program that meets an exporter's unique needs and circumstances. Learn more about Export Credit Insurance with Allianz Trade here.

7.5 How to Mitigate Credit Risk in International Trade

Most export risks are country specific. Some are obvious, such as political instability, and others are less so. Identifying and understanding the extent of these risks is a good first step toward strong overall export risk management. The Organization for Economic Cooperation and Development provides country risk classifications. Specialized Trade Associations so offer more detailed country risk reports exporters can use plan and manage international trade.

7.6 Quality and Pre-Shipment Inspection

What is quality control and pre-shipment inspection?

By including the quality control measure of pre-shipment inspection, one ensures that the product quality is checked before it's dispatched. Strategically, this helps to ensure that the products meet company's quality standards while they are still in production, in order to avoid paying for defective goods.

There are three methods of quality control and inspection. They are:

1. Consignment-Wise inspection

Under this system, each consignment, in packed condition, is subjected to detailed inspection by the Export Inspection Agencies. They conduct the inspection on the basis of statistical sampling plan. If the goods conform to the stipulated quality, they issue the inspection certificate. The certificate also carries a validity period before which the export consignment must be shipped. In case of consignment-wise inspection, actual export consignment, in packed condition, is taken for inspection.

No consignment of any notified commodity is allowed to be exported without the certificate issued by the recognised inspection agency. This system is applicable to all commodities other than those that undergo in-process quality control. Generally, Small-scale manufacturers who cannot afford to have their own facilities and personnel adopt consignment-wise inspection certificate procedure.

2. In-process Quality Control

Certain commodities like paints and allied products, linoleum, ceramics, printing ink, sanitary wares etc. come under the purview of In-process quality control.

In case of continuous process industries, an option is given to them to become approved "export-worthy" unit, as they possess the requisite infrastructure for manufacturing/processing products of standard quality. This status enables them to conduct inspections and give declaration and based on their declaration, they get inspection certificate.

3. Self-Certification

With the experience gained in operating the compulsory Quality Control and Pre-Shipment Inspection Scheme in India, there has been a qualitative change in the inspection system also. Recently, a self-certification system has been introduced. This is based on the concept that the manufacturing unit which has in-built responsibility for quality control should have the freedom to certify its own product for export.

Summary

Exporting goods to other countries can be a source of significant growth for businesses in the form of new markets and opportunities. In the process, these businesses are likely to face new risks, especially when it comes to managing payments, that they may not have encountered or experienced before. With careful management, companies can understand the impact new risks are likely to have on the business and how to mitigate these risks on their own or with the help of third parties, like insurers.

Unfortunately, it is not always immediately clear which risks can lead to which set of consequences. Therefore, managing an export business begins with a clear recognition and understanding of all of the risks that business faces and the level of those risks.

With that insight, companies will be able to monitor and manage those risks as needed. It is when companies do not understand or recognize the inherent risks of export businesses that real problems occur. Looking the other way and hoping for the best is not a viable export risk management strategy.

Keywords

Risk: The chance that the expected things may not happen.

Degree of Risk: Probability(degree) of the expected things not happening.

Insurer: The entity insuring the risk of a customer subject to premium consideration.

Default: Not honoring a commitment.

Environment: The outer and inner environment of a business.

Microenvironment: The internal environment, within the four walls of a business.

Macro Environment: The outer environment of a business (PESTLE).

Self Assessment

1. "Three Faced Competition" involves

A. Competition from other exporters of his own country, exporters of other countries and
B. domestic producer of importer's country .
C. Competition from local exporter producers , wholesalers and retailers
D. Competition from developed countries, distributers and suppliers.
E. Competition from Domestic producer of importer's country, small scale units and China

2. Non-trade barrier includes

A. Taxes for importers
B. Duty for exporter
C. Quota
D. Method of transportation

3.Export marketing is important to a nation because

A. It earns foreign exchange
B. Get pre-shipment finance
C. Enjoy tax holiday
D. Bring efficiency in organisational

4.International trade helps to maintaining relations, countries can maintain

A. political and cultural relations.
B. relation between shipping company and exporter
C. relation between supplier and retailer
D. Export house and port agent

5. Identify is irrelevant statement from export marketing perspective

A. Valuable foreign exchange is needed to pay oil import bill
B. With foreign exchange manufacturer can import raw material
C. Foreign exchange can be used to import machinery
D. Foreign exchange can be used to go to USA for vacation

6.Export marketing is important to a company because it gives

A. High profit
B. Optimum utilisation of resources.
C. Spreading risk
D. All of the above

7.In export marketing product's quality can be improved by

A. Research and development
B. Using attractive labelling
C. Using imported raw materials
D. By writing export quality product on the label

8. FTP means

A. Foreign Travel Policy
B. Foreign Transfer Policy
C. Foreign Trade Policy
D. Foreign Tariff Policy

9.Domestic marketing involves

A. Buying and selling of goods and services within the country
B. Buying and selling of goods and services in other country
C. Buying from one country and selling the same to another country
D. Buying from villages and selling in foreign market

10. Exporter must know

A. Culture and language of importers country
B. Culture and senior citizen population of importer’s country
C. Language and education policy of importers country
D. Culture and employment opportunities in importers country

11. Which of the following risks are applicable to exporter

A. Foreign exchange rate
B. Political environment in importing country
C. Competition from other exporters
D. All of the above

12. what is meaning of ASEAN?

A. Association of South East Asian Nations
B. Association of Southern and East African Nations.
C. Association of scientific and East African Nations
D. Association of South East Afghanistan Nature club

13. How an exporter is saved from legal problems? Identify correct statement from the following

A. By having Free Trade Agreement as per ASEAN requirements.
B. By lobbying with Government authority
C. By incorporating Arbitration Clause in the agreement.
D. By arranging an expert lawyer.

14. Who helps in identifying credit worthiness of foreign buyer - identify the correct one from the

following

A. Chartered accountant
B. Cost accountant
C. Bank authorities
D. Exporter himself

15. What is the meaning of "Deemed Export".

A. Foreign exchange earned by export to SAARC country
B. Foreign exchange earned by export to South Africa
C. Those transaction in which goods supplied do not leave the country.
D. Foreign exchange earned by export to European Countries.

Answer for Self-Assessment

1.	A	2.	D	3.	A	4.	A	5.	D
6.	D	7.	A	8.	C	9.	A	10.	A
11.	D	12.	A	13.	D	14.	D	15.	C

Review Questions

1. What is the meaning of risk? List risks in international trade?
2. Write a detailed note on deemed export?
3. Discuss how insurance helps in international trade?
4. What is export marketing? Discuss elements of export marketing?
5. What is quality? Discuss the methods of quality assurance in international trade?

Further Readings

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Unit 08: Custom Clearance of Import and Export Cargo

CONTENTS

Objectives

In this unit, student will be able to understand:

- Clearance of import cargo
- Clearance of export cargo
- customs valuation

Introduction

Both import and export of goods have to pass through a system of clearance named, the clearance of import cargo and clearance of export cargo. There are separate rules of clearance for every country, and this has to be, especially, a cause of worry for every exporter and importer. There has to be no doubt that there has to be informed knowledge as to what are the legal formalities in terms of details to be complied with in the course of one is exporting or importing goods, whatsoever.

In Indian context, the import of goods fetches levy and the duty which is charged on is called tariff. Similarly, the export of goods has to passing through the system of export developed and pursued by India. The Customs Act, 1962 of India is the act dealing with the customs.

8.1 Procedure for Clearance of Imported and Export Goods

Bill of Entry – Cargo Declaration:

1. Goods imported in a vessel/aircraft attract customs duty. Detailed customs clearance formalities of the landed goods have to be followed by the importers.
2. In regard to the transit goods, so long as these are mentioned in import report/IGM for transit to any place outside India, Customs allows transit without payment of duty.
3. Similarly for goods brought in by particular vessel aircraft for transshipment to another customs station detailed customs clearance formalities at the port/airport of landing are not prescribed and simple transshipment procedure has to be followed by the carrier and the concerned agencies.

4. For other goods, which are offloaded importers, have the option to clear the goods for home consumption after payment of the duties leviable or to clear them for warehousing without immediate discharge of the duties leviable in terms of the warehousing provisions built in the Customs Act. Every importer is required to file in terms of the Section 46 an entry (which is called Bill of entry) for home consumption or warehousing in the form, as prescribed by regulations.
5. If the goods are cleared through the EDI system no formal Bill of Entry is filed as it is generated in the computer system, but the importer is required to file a cargo declaration having prescribed particulars required for processing of the entry for customs clearance.
6. The importer clearing the goods for domestic consumption has to file bill of entry in four copies; original and duplicate are meant for customs, third copy for the importer and the fourth copy is meant for the bank for making remittances.
7. In the non-EDI system along with the bill of entry filed by the importer or his representative

   The following documents are also generally required: -

   - Signed invoice.
   - Packing list
   - Bill of Lading or Delivery Order/Airway Bill
   - GATT declaration form duly filled in.
   - Importers/CHA's declaration
   - License wherever necessary
   - Letter of Credit/Bank Draft/wherever necessary
   - Insurance document
   - Import license.
   - Industrial License, if required
   - Test report in case of chemicals
   - Ad hoc exemption order
   - DEEC Book/DEPB in original
   - Catalogue, Technical write up, Literature in case of machineries, spares or chemicals as may be applicable.
   - Separately split up value of spares, components machineries
   - Certificate of Origin if preferential rate of duty is claimed.
   - No Commission declaration
8. While filing the bill of entry and giving various particulars as prescribed therein the correctness of the information given has also to be certified by the importer in the form a declaration at the foot of the bill of entry and any mis-declaration/incorrect declaration has legal consequences, and due precautions should be taken by importer while signing these declarations.
9. Under the EDI system, the importer does not submit documents as such for assessment but submits declarations in electronic format containing all the relevant information to the Service Centre
10. the importer has to get the bill of entry noted in the concerned unit which checks the consignment sought to be cleared having been manifested in the particular vessel and a bill of entry number is generated and indicated on all copies. After noting the bill of entry gets sent to the appraising section of the Custom House for assessment functions, payment of duty etc.
11. After noting/registration of the Bill of entry, it is forwarded manually or electronically to the concerned Appraising Group in the Custom House dealing with the commodity sought to be

cleared. Appraising Wing of the Custom House has a number of Groups dealing with earmarked commodities falling under different Chapter Headings of the Customs Tariff and they take up further scrutiny for assessment, import permissibility etc. angle. Assessment:

12. The basic function of the assessing officer in the appraising groups is to determine the duty liability taking due note of any exemptions or benefits claimed under different export promotion schemes.
13. They have also to check whether there are any restrictions or prohibitions on the goods imported and if they require any permission/license/permit etc., and if so whether these are forthcoming.
14. Assessment of duty essentially involves proper classification of the goods imported in the customs tariff having due regard to the rules of interpretations, chapter and sections notes etc., and determining the duty liability. It also involves correct determination of value where the goods are assessable on ad valorem basis. The assessing officer has to take note of the invoice and other declarations submitted along with the bill of entry to support the valuation claim and adjudge whether the transaction value method and the invoice value claimed for 15. the basis of assessment is acceptable, or value needs to be redetermined having due regard to the provisions of Section 14 and the valuation rules issued thereunder, the case law and various instructions on the subject. He also takes note of the contemporaneous values and other information on valuation available with the Custom House.
16. Where the appraising officer is not very clear about the description of the goods from the document or as some doubts about the proper classification, which may be possible only to determine after detailed examination of the nature of the goods or testing of its samples, he may give an examination order in advance of finalization of assessment including order for drawing of representative sample.
17. On receipt of the examination report the appraising officers in the group assesses the bill of entry. He indicates the final classification and valuation in the bill of entry indicating separately the various duties such as basic, countervailing, anti-dumping, safeguard duties etc., that may be leviable. Thereafter the bill of entry goes to Assistant Commissioner/Deputy Commissioner for confirmation depending upon certain value limits and sent to comptist who calculates the duty amount taking into account the rate of exchange at the relevant date as provided under Section 14 of the Customs Act.
18. After the assessment and calculation of the duty liability the importer's representative has to deposit the duty calculated with the treasury or the nominated banks, whereafter he can go and seek delivery of the goods from the custodians.
19. Where the goods have already been examined for finalization of classification or valuation no further examination/checking by the dock appraising staff is required at the time of giving delivery and the goods can be taken delivery after taking appropriate orders and payment of dues to the custodians, if any.
20. In most cases, the appraising officer assesses the goods on the basis of information and details furnished to the importer in the bill of entry, invoice and other related documents including catalogue, write-up etc. He also determines whether the goods are permissible for import or there are any restriction/prohibition. He may allow payment of duty and delivery of the goods on what is called second check/appraising basis in case there are no restriction/prohibition. In this method, the duties as determined and calculated are paid in the Custom House and appropriate order is given on the reverse of the duplicate copy of the bill of entry and the importer or his agent after paying the duty submits the goods for examination in the import

sheds in the docks etc., to the examining staff. If the goods are found to be as declared andno other discrepancies/mis-declarations etc., are detected, the importer or his agent can clear the goods after the shed appraiser gives out of charge order.

21. Wherever the importer is not satisfied with the classification, rate of duty or valuation as may be determined by the appraising officer, he can seek an assessment order. An appeal against the assessment order can be made to appropriate appellate authority within the time limits and in the manner prescribed. EDI Assessment:
22. All imported goods are required to be examined for verification of correctness of description given in the bill of entry. However, a part of the consignment is selected on random selection basis and is examined. In case the importer does not have complete information with him at the time of import, he may request for examination of the goods before assessing the duty liability or, if the Customs Appraiser/Assistant Commissioner feels the goods are required to be examined before assessment, the goods are examined prior to assessment. This is called First Appraisement.
23. The goods can also be examined subsequent to assessment and payment of duty. This is called Second Appraisement. Most of the consignments are cleared on second appraisement basis. It is to be noted that whole of the consignment is not examined. Only those packages which are selected on random selection basis are examined in the shed.
24. For faster clearance of the goods, provision has been made in section 46 of the Act, to allow filing of bill of entry prior to arrival of goods. This bill of entry is valid if vessel/aircraft carrying the goods arrive within 30 days from the date of presentation of bill of entry.

8.2 Export

For clearance of export goods, the export or his agents have to undertake the following formalities:

Registration:

1. The exporters have to obtain PAN based Business Identification Number(BIN) from the Directorate General of Foreign Trade prior to filing of shipping bill for clearance of export goods.
2. Under the EDI System, PAN based BIN is received by the Customs System from the DGFT online. The exporters are also required to register authorised foreign exchange dealer code (through which export proceeds are expected to be realised) and open a current account in the designated bank for credit of any drawback incentive.
3. Whenever a new Airline, Shipping Line, Steamer Agent, port or airport comes into operation, they are required to be registered into the Customs System. Whenever, electronic processing of shipping bill etc. is held up on account of non-registration of these entities, the same is to be brought to the notice of Assistant/Deputy Commissioner in-charge of EDI System for registering the new entity in the system.
4. Registration in the case of export under export promotion schemes: All the exporters intending to export under the export promotion scheme need to get their licences/DEEC book etc. registered at the Customs Station. For such registration, original documents are required.
5. Processing of Shipping Bill-Non-EDI:
    A. Under manual system, shipping bills or, as the case may be, bills of export are required to be filed in format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. The bills of export are being used if clearance of export goods is taken at the Land

Customs Stations. Different forms of shipping bill/bill of export have been prescribed for export of duty-free goods, export of dutiable goods and export under drawback etc.

B. Processing of Shipping Bill-EDI:

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA.

6. Octroi procedure, Quota Allocation and Other certification for Export Goods: The quota allocation label is required to be pasted on the export invoice.
7. Arrival of Goods at Docks: The goods brought for the purpose of examination and subsequent 'let export' is allowed entry to the Dock on the strength of the checklist and other declarations filed by the exporter in the Service Center. The Port authorities have to endorse the quantity of goods actually received on the reverse of the Check List.
8. System Appraisal of Shipping Bills: In many cases the Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. In other cases where the Shipping Bill is processed on screen by the Customs Officer, he may call for the samples, if required for confirming the declared value or for checking classification under the Drawback Schedule. He may also give any special instructions for examination of goods, if felt necessary.
9. Status of Shipping Bill: The exporter/CHA can check up with the query counter at the Service Center whether the Shipping Bill submitted by them in the system has been cleared or not, before the goods are brought into the Docks for examination and export. In case any query is raised, the same is required to be replied through the service center or in case of CHAs having EDI connectivity through their respective terminals. The Customs officer may pass the Shipping Bill after all the queries have been satisfactorily replied to.
10. Customs Examination of Export Cargo: The Customs Officer may inspect/examine the shipment along with the Dock Appraiser. The Customs Officer enters the examination report in the system. He then marks the Electronic Bill along with all original documents and checklist to the Dock Appraiser. If the Dock Appraiser is satisfied that the particulars entered in the system conform to the description given in the original documents and as seen in the physical examination, he may proceed to allow "let export" for the shipment and inform the exporter or his agent.
11. Variation Between the Declaration & Physical Examination: The check list and the declaration along with all original documents is retained by the Appraiser concerned. In case of any variation between the declaration in the Shipping Bill and physical documents/examination report, the Appraiser may mark the Electronic Shipping Bill to the Assistant Commissioner/Deputy Commissioner of Customs (Exports). He may also forward the physical documents to Assistant Commissioner/Deputy Commissioner of Customs (Exports) and instruct the exporter or his agent to meet the Assistant Commissioner/Deputy Commissioner of Customs (Exports) for settlement of dispute In case the exporter agrees with the views of the Department, the Shipping Bill needs to be processed accordingly. Where, however, the exporter disputes the view of the Department principles of natural justice is required to be followed before finalization of the issue.
12. Stuffing / Loading of Goods in Containers: The exporter or his agent should hand over the exporter copy of the shipping bill duly signed by the Appraiser permitting "Let Export" to the

steamer agent who may then approach the proper officer (Preventive Officer) for allowing the shipment. In case of container cargo, the stuffing of container at Dock is dome under Preventive Supervision. Loading of both containerized and bulk cargo is done under Preventive Supervision.

13. Drawing Samples: Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter the particulars thereof along with details of the testing agency in the ICES/E system.
14. Amendments: Any correction/amendments in the checklist generated after filing of declaration can be made at the service center, provided, the documents have not yet been submitted in the system and the shipping bill number has not been generated. Where corrections are required to be made after the generation of the shipping bill No. or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

If the goods have not yet been allowed "let export" amendments may be permitted by the Assistant Commissioner (Exports).

Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

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

15. Export of Goods Under Claim for Drawback: After actual export of the goods, the Drawback claim is processed through EDI system by the officers of Drawback Branch on first come first served basis. There is no need for filing separate drawback claims.

16.Export General Manifest: All the shipping lines/agents need to furnish the Export General Manifests, Shipping Bill wise, to the Customs electronically within 7 days from the date of sailing of the vessel.

8.3 Customs Valuation:

The rates of customs duties leviable on imported goods (& export items in certain cases) are either.

- Specific: A levy of a given amount of money per unit of the import e.g., $1 per yard.
- Ad valorem basis: Duty calculated as a percentage of value of import.
- Compound (at times specific cum ad valorem).
- The compound duty is mix of both specific and ad-valorem.

Rights of appeal:

The principles of natural justice are also required to be followed in valuation matters. When the Customs authorities do not accept the declared value and re-determine the Customs value, the importer or his representative is required to be given a written notice normally and even a personal hearing. An adjudication order giving in detail the basis of determination of the value can be obtained if the importer is aggrieved with the re-determination of value. Under the Customs Act, 1962, an importer can appeal against a decision on valuation to the Commissioner (Appeal) in the first instance. A second appeal lies to the Tribunal consisting of administrative and judicial members. A third appeal lies to the Supreme Court of India. The importer is informed regarding his rights of appeal by each of the adjudicating and appellate authorities.

Summary

The export of goods outside Indian frontiers and import of good in India are governed by the customs act,1962. There are detailed procedural formalities to be complied with for the export and import transactions. It is therefore very necessary for a particular exporter or importer to get a detailed knowledge to avoid any of the losses emerging from procedural lapses. The services of an expert can be the best alternative in cases when the things are not possibly to be done by the entrepreneur themselves.

Keywords

Specific Duty: A levy of a given amount of money per unit of the import e.g., $1 per yard.

Ad-Valorem Duty: Duty calculated as a percentage of value of import.

Appeal: To move to higher authority against the orders passed by the lower authority.

Bill of Entry: Legal document filed by the importer of customs clearance agents (CHA).

Shipping Bill: Main document for export permission by customs office.

Self Assessment

1.The value of export goods shall be the

A. transaction value
B. market value
C. MRP
D. none of the above

2.The value of the export goods shall be based on the transaction value of goods of

A. goods of like kind and quality
B. exported at or about the same time to other buyers
C. in the same destination country of importation
D. all of the above

3. Computed value, shall include the following

A. cost of production, manufacture or processing of export goods
B. charges, if any, for the design or brand
C. an amount towards profit
D. all of the above

4. Any article which is imported into India is also liable to a duty equal to the excise duty for the time being leviable on a like article if produced or manufactured in India. This duty is called as

A. Additional duty
B. Countervailing Duty
C. Special duty
D. None of the above

5. “Goods of the same class or kind”, means imported goods that are within a group or range of imported goods produced by a particular industry or industrial sector and includes

A. identical goods
B. similar goods
C. both a & b
D. either a or b

6. The term "produced" includes

A. grown
B. manufactured
C. mined
D. all of the above

7. For the purpose of these customs valuation (determination of value of imported goods) rules, 2007,persons shall be deemed to be "related" only if –

A. they are officers or directors of one another's businesses
B. they are legally recognized partners in business
C. they are employer and employee
D. all of the above

8. Under the Customs Act, 1962, the rulemaking power is delegated to

A. Central Board of Indirect Taxes and Customs (CBIC)
B. Central Government
C. Respective State Governments
D. Partly to the Central Government and partly to the respective State Governments

9.Under the Customs Act, 1962, the regulation making power is delegated to

A. Central Board of Indirect Taxes and Customs (CBIC)
B. Central Government
C. Respective State Governments
D. Partly to the Central Government and partly to the respective State Governments

10. As per Section 2(4) of the Customs Act, 1962, "bill of entry" means a bill of entry referred to in ______

A. Section 45
B. Section 46
C. Section 47
D. Section 48

11. As per Section 2(5) of the Customs Act, 1962, "bill of export" means a bill of export referred to in _____

A. Section 53
B. Section 52
C. Section 51
D. Section 50

12. " Customs Area" means

A. Area of a Customs Station
B. Area of a warehouse
C. Any area in which imported goods or export goods are ordinarily kept before clearance by Customs Authorities
D. All of the above

13. "Customs Station" means

A. Any customs port
B. Any customs airport
C. Any international courier terminal
D. All of the above

14. "Dutiable Goods" means

A. All imported goods.
B. Any goods which are chargeable to duty and on which duty has been paid.
C. Any goods which are chargeable to duty and on which duty has not been paid.
D. Any goods which are chargeable to duty and on which proper amount duty has been paid.

15. "Export goods" means

A. any goods which are to be taken out of India
B. any goods which are to be taken out of India to a place outside India
C. which exporter desires to take outside India
D. none of the above

Answer for Self Assessment

1.	A	2.	D	3.	D	4.	A	5.	C
6.	D	7.	D	8.	B	9.	A	10.	B
11.	D	12.	D	13.	D	14.	D	15.	B

Review Questions:

1.What is the meaning of custom duty? Discuss various types of custom duties?

2. Write a detailed note on the Bill of Entry?

3. What is shipping bill? Discuss the features of shipping bill?

Further Readings

Export Import Management by Justin Paul & Rajiv Aserkar, Oxford Publisher,2013

Export and import documentation and procedures, by S Mahalakshmi , J Senthilvelmurugan , Mjp Publishers (7 August 2013)

Web Links

https://dov.gov.in/clearance-procedure

https://gstguntur.com/custom-act-1962-cs-executive-tax-laws-mcqs/

Unit 09: Harmonized Systems

CONTENTS

Objectives

In this unit, student will be able to understand:

- harmonized Systems
- importance of harmonized system
- carnets
- new developments in customs clearance procedure

Introduction

The import and export business are very old and with the rolling over of time there has emerged on the scene showcasing the wisdom of all the participants at the global level.

The harmonized system has emerged on the scene in the sense that: -

1. there is a consensus through international body viz. World Customs Organization (WCO), for the adoption of **common nomenclature** of the goods and there is uniform code applicable to all of the participating countries.
2. also, there is the provision of **carnets** which is the system of entry of goods into the territory of participant country without paying any levy or charge, the reason being that the goods are temporarily staying in the jurisdiction of the country and will be leaving the territory of the concerned country withing twelve months,

Of course, the harmony amongst the nations is creeping in through the above state two important innovations and being harmonious means, it is easy, comfortable, less cumbersome and facilitates the trade amongst the nations.

9.1 Harmonized Systems

The Harmonized Commodity Description and Coding System generally referred to as "Harmonized System" or simply "HS" is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).Comprises more than 5,000 commodity groups; each identified by a six-digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification.

The system is used by more than 200 countries and economies as a basis for their Customs tariffs and for the collection of international trade statistics. Over 98 % of the merchandise in international trade is classified in terms of the HS.

The HS contributes to the harmonization of Customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures, thus reducing the costs related to international trade.

It is also extensively used by governments, international organizations and the private sector for many other purposes such as internal taxes, trade policies, monitoring of controlled goods, rules of origin, freight tariffs, transport statistics, price monitoring, quota controls, compilation of national accounts, and economic research and analysis. The HS is thus a universal economic language and code for goods, and an indispensable tool for international trade.

The Harmonized System is governed by "The International Convention on the Harmonized Commodity Description and Coding System". The official interpretation of the HS is given in the Explanatory Notes (5 volumes in English and French) published by the WCO. The Explanatory Notes are also available online subscription, as part of the HS Database (WCO Trade Tools) which groups all the available HS Tools, including the information on the HS Nomenclature, the Compendium of Classification Opinions, the Explanatory Notes, the Alphabetical Index, and the Brochure on Classification Decisions taken by the Harmonized System Committee.

The maintenance of the HS is a WCO priority. This activity includes measures to secure uniform interpretation of the HS and its periodic updating in light of developments in technology and changes in trade patterns. The WCO manages this process through the Harmonized System Committee (representing the Contracting Parties to the HS Convention), which examines policy matters, takes decisions on classification questions, settles disputes, and prepares amendments to the Explanatory Notes. The HS Committee also prepares amendments updating the HS every 5 – 6 years.

Decisions concerning the interpretation and application of the Harmonized System, such as classification decisions and amendments to the Explanatory Notes or to the Compendium of Classification Opinions, become effective two months after the approval by the HS Committee. These are reflected in the amending supplements of the relevant WCO Publications also available on WCOTradeTools.org.

9.2 Importance of Harmonized System/The HS: a Multi-Purpose Tool

It may be hard to imagine what effect a small six-digit code could have on international efforts to reduce global warming; or in suppressing the activities of a criminal syndicate involved in the manufacture of synthetic drugs; or on the capacity of a developing country to provide basic health care for its people.

Yet since the early 1970's, a group of highly skilled international experts at the World Customs Organization in Brussels created and continue developing a goods nomenclature system that enables nations to monitor goods passing across their borders for these purposes and more. Without it, many national regulations and international conventions would be unable to be enforced and considerable guesswork would surround bi-lateral and multi-lateral trade negotiations.

As international trade became more complex and governments around the world demand greater effectiveness from their Customs Administrations, nations turned toward the WCO's Harmonized Commodity Description and Coding System (Harmonized System or HS) to be a central pillar of their requirement for fiscal and regulatory compliance. The HS has neared universal coverage, providing the strongest globally unifying trade classification tool in history.

The sophistication of international trade and the increasing concern at cross-border crime has seen the Harmonized System evolve into a multi-purpose tool – a veritable Swiss Army knife - that provides much more than ensuring that what are "apples" in one country are not "oranges" in another.

To a customs official at a frontier post checking a road transport consignment, it provides vital information to assist them to carry out their duties. Without the vital HS code there would be confusion, lengthy searches, and delays. To other officials coping with waves of sea cargo, airfreight consignments or express mail, it has become a vital partner. We can expect that this dependence will increase as 21st century commercial and social demands evolve.

At the international level, the Harmonized System is based on a hierarchy of Sections, Chapters, headings, and subheadings. This has given the WCO the framework to respond to the concerns of many governments and international organizations who want to take steps to counter newly emerging problems. The creation of HS codes for ozone depleting substances, precursor chemicals to manufacture illicit drugs, hazardous wastes, endangered species, chemical weapons and narcotics and psychotropic substances are examples of this responsiveness to international concerns. Multiple international conventions, agreements and initiatives rely on the HS for practical implementation at the borders.

The WCO updates the Harmonized System through a five-year review cycle. The latest version of the Harmonized System was approved in June 2019, and entered into force on 1 January 2022. In addition to input from the Members, the Harmonized System Committee and the Harmonized System Review Sub-Committee also receive input from partnerships maintained by the WCO with diverse international organizations, such as the Food and Agricultural Organization of the United Nations, and from international industry bodies. This regular renewal allows for the HS to change as new issues are raised requiring clear and appropriate responses.

9.3 Carnet Definition

A Carnet or ATA Carnet (pronounced kar-nay) is an international customs and temporary export-import document. It is used to clear customs in 87 countries and territories without paying duties and import taxes on merchandise that will be re-exported within 12 months. Carnets are also known as Merchandise Passports or Passports for Goods. "What is a Carnet?" Video

The ATA Carnet System is a perfect illustration of how close co-operation between business and customs can facilitate and stimulate international trade. The ATA Carnet operates under International Customs Conventions administered by the World Customs Organisation (WCO). A World ATA Carnet Council manages the system in cooperation with the WCO.

Within the ICC World Chambers Federation, the World ATA Carnet Council (WATAC) runs the ATA system and its international guarantee chain. The Council is made up of representatives from the countries and territories where Carnets are issued and accepted.

Each country in the system has a single guaranteeing body approved by the national customs authorities and the ICC World Chambers Federation (Until June 2001, the International Bureau of Chambers of Commerce). The WCF is sponsored by the International Chamber of Commerce (ICC) in Paris.

FICCI India's Sole National Issuing & Guaranteeing Association (NIGA) for ATA Carnet

Why ATA Carnet?

The ATA Carnet is a simple customs document which is readily made out by the holder and checked by the customs.

For businesspeople the ATA Carnet provides a simple and speedy way to travel abroad with business materials. It saves both time and money and this is a very important factor in international competition.

Trade circles, guaranteeing associations and customs administrations all acknowledge the excellent operation of the ATA Carnet System.

For the customs, the use of the ATA Carnet entails less administrative work and increased customs safety since the payment of import duties and taxes is guaranteed by the guaranteeing association affiliated to the WCF/ATA guarantee chain in the territory of the temporary admission.

The guarantee is automatic, and the customs need not check its validity for each Carnet. In addition, the system does not affect the revenue of the nation since the goods covered by the ATA Carnets are intended for re-exportation and not at all for sale in the country of temporary admission. The system is "self-policing" in that should the Carnet holder fail to re-export the goods within the period of validity of the Carnet, duties become payable.

9.4 New Developments in Customs Clearance Procedure

Import and export of goods into and outside a country should undergo a customs clearance process. The importer and exporter of the goods should submit valid documents to clear this process. In this article, we look at some of the major steps and processes in clearing customs in India.

1. Calling of Vessels

Once the vessels carrying the goods reaches the country, the person who carried the vessels should make sure that the calling of vessels is done at the customs port. For instance, if goods are imported via aircraft, the pilot is responsible for call of the vessels at the customs airport. There is no requirement for the importer to get involved in this process and will be done by the airline or shipping line.

2. Filing Import General Manifest (IGM)

The person-in-charge of the vehicle should file an Import General Manifest electronically before the goods arrive. This file would include the details of all the goods imported by the vessel.

3. Post Verification Operations

On review of the Import General Manifest and post verification of documents, the customs authorities will grant entry inwards to the vessel, assign an IGM number to the manifest and permit the master of the vessel to land and unload the cargo.

4. Custody of Custodian

On arrival of the vessel, the goods would remain in the custody of the Custodian until it clears the customs process. A custodian may be a person approved by Principal Commissioner or Commissioner of Customs for this purpose. Imported goods can be unloaded subject to the following conditions:

- A note to unload the goods should be mentioned on the manifest report.
- Could be unloaded only at the approved places in the customs port.
- Under the supervision of the approved authorities.
- Should be unloaded only during working hours.

5. Filing Bill of Entry

The importer of the goods should file a bill of entry (customs copy) electronically for the clearance of the goods, before or on arrival of the goods. In the bill of entry, the duty and taxes to be paid is assessed by the importer himself and this is called self- assessment.

Delivery of Goods

On showing the customs clearances to the port authorities, the importer can take the delivery of his goods. In case of cargo deposited in a warehouse, the importer would use another bill of entry called the ex-bond bill of entry to clear the whole or part of the warehoused cargo.

Summary

Harmonized System

The Harmonized Commodity Description and Coding System generally referred to as "Harmonized System" or simply "HS" is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).

It comprises more than 5,000 commodity groups; each identified by a six-digit code, arranged in a legal and logical structure, and is supported by well-defined rules to achieve uniform classification.

Carnet System

The ATA Carnet System offers advantages to all concerned: the customs authorities and the trading community, i.e., individuals, enterprises, trade organizations who need temporary duty-free importation facilities to prospect outlets for their products on foreign markets.

By replacing the national customs declaration normally required for the temporary duty-free admission of goods in any given country the ATA Carnet does away with the need for a customs document at each border point. This means less paperwork for customs officials and Carnet holders.

Since all goods accompanied by an ATA carnet are thus covered by the international surety furnished by the guaranteeing/issuing Chambers, no further action regarding the guarantee needs to be taken, either by the customs or by the importer at the time of temporary admission.

Thus, for businessmen the ATA Carnet does away with the need for the deposit of a personal or real guarantee at the border point of each country of temporary admission.

As the ATA Carnet constitutes at the same time the temporary admission document and the proof of the customs security for temporary admission it considerably simplifies and expedites the accomplishment of the formalities for temporary admission for both the Carnet holder and the customs: no further customs document needs to be completed nor any other security produced upon arrival in the territory of temporary admission.

Another advantage greatly appreciated by the trading community is that the ATA carnet is valid for one year. During this period its holder can use it- and abroad the goods covered- for as many trips as he wishes from his home country to one or more of the other countries applying the ATA System, provided the ATA Carnet contains the appropriate number of sheets required for each trip.

This is particularly useful if the holder of the ATA Carnet intends to import goods temporarily into various countries in the course of the same journey (e.g. if a commercial traveler wishes to show samples to a number of potential buyer in different countries).

There are many other cases where this facility is of advantage to the holder of an ATA Carnet.

For the customs, the use of the ATA Carnet entails less administrative work and increased customs safety since the payment of import duties and taxes is guaranteed by the Guaranteeing Association affiliated to the ATA guarantee chain in the territory of temporary admission. The guarantee is automatic, and the customs need not check its validity for each carnet.

In addition, the system does not affect revenue of the nation since the goods covered by the ATA Carnets are intended for re-exportation and not at all for sale in the country of temporary admission. The system is "self-policing" in that, should the Carnet holder fail to re-export the goods within the period of validity of the Carnet, duties become payable.

Import Export Code

The Import Export Code is a primary document necessary for commencing Import-export activities. The IE code is to be obtained for exporting or importing goods or services. IEC has numerous benefits for the growth of the business. Indeed, you cannot ignore the necessity of IE code registration, as it is mandatory.

Keywords

Carnet: A document allowing goods in the course of export and import to be temporarily staying in the jurisdiction of carnet agreement participating country.

Harmonized System: The system adopting common names/nomenclature for the items involved in the course of export and import amongst the member countries.

Calling of Vessels: The process when the person Incharge of ship of aircraft responsible for information to custom authorities that the vessel has reached at the particular import destination.

Custodian: The official person, with whom the imported goods are kept under custody.

Import Export Code: a primary document to be necessarily obtained for commencing Import-export activities.

Self Assessment

1.Which of the following International Organization has designed and developed the Harmonized Commodity Description and Coding System?

A. World Customs Organization

B. World Trade Organization

C. United Nations Office on Drug and Crime

D. American Chemical Society

2.The HS Coding System is subjected to revision periodically after how many years?

A. Five

B. Ten years

C. Never revised

D. Two years

3.The Harmonized Commodity Description and Coding System is based on which of the following International Conventions?

A. Kyoto Convention

B. HS Convention

C. Nairobi convention

D. Basel convention

4. Which one or more of the following are the basic objectives of Harmonized System (HS)?

A. Trade Facilitation

B. Collection, Comparison and analysis of International Trade Statistics.

C. Identification of hazardous chemical substance

D. both (a) and (b) above

5. The total period of levy of safeguard duty is restricted to years.

A. 5

B. 10

C. 6

D. 7

6. When the export price of a product imported into India is less than the Normal Value of 'like

articles 'sold in the domestic market of the exporter, it is known as

A. dumping
B. Quota
C. IPR
D. Tarif

7. Which one of the following is an objective of CAS coding system?

A. Identification of Chemical Substances
B. Identification of Hazardous Chemicals
C. Identification of Dangerous Goods
D. Identification of any internationally traded goods

8. With reference to Chemicals, the Acronym "CAS" Stands for?

A. Chemical Abstracts Service
B. Chemical Abstracts Society
C. Chemical Abstracts System
D. Chemical Absolute Society

9. Harmonized System of Nomenclature Code (HSN)

A. It is a six-digit identification code. Of the six digits, the first two denote the HS Chapter, the next two give the HS heading, and the last two give the HS subheading.
B. It helps in systematic classification of goods across the globe.
C. It was developed by the World Customs Organization (WCO) and it came into effect from 1988. India has been a member of the WCO (World Customs Organization) since 1971. Also called the "universal economic language" for goods.
D. All of the above

10. Importance of the HSN Code

A. It helps in systematic classification of goods, it can also be used to gather data and solve problems that would otherwise be difficult to obtain.
B. Over 200 countries use the system as a basis for their customs tariffs, gathering international trade statistics, making trade policies, and for monitoring goods.
C. HSN numbers exist for each commodity in every country, and the number remains the same for almost all goods. The system helps in harmonising customs and trade procedures, thus reducing costs in international trade.
D. All of the above

11. The -------- schedule of the Customs Act, enlist the goods liable to import.

A. First
B. Second
C. Third
D. Fourth

12. The -------- schedule of the Customs Act, enlist the goods liable to export.

A. First
B. Second
C. Third
D. Fourth

13. . ----------are intended to give protection to indigenous industries. If resort to protective duties is not made there could be a glut of cheap imported articles in the market making the indigenous goods

unattractive.

A. Revenue duty
B. Protective duty
C. Specific duty
D. Ad valorem duty

14. The protective duties are levied by the upon the recommendation made to it by the Tariff Commission and upon it being satisfied that circumstances exist which render it necessary to take immediate action to provide protection to any industry established in India

A. board
B. Supreme Court
C. Central Government
D. None of the above

15. The safeguard duty is imposed for the purpose of protecting the interests of any domestic industry in India aiming to make it more competitive

A. Revenue duty
B. Protective duty
C. Specific duty
D. Safeguard duty

Answer for Self Assessment

1.	A	2.	A	3.	B	4.	D	5.	B
6.	A	7.	A	8.	A	9.	D	10.	D
11.	A	12.	B	13.	B	14.	C	15.	D

Review Questions

1. What is harmonized system? Discuss what it has got in it?
2. Carnet is the vital part of harmony. Discuss.
3. What is the Indian system of customs clearance?
4. Write a detailed note of Import and Export Code (IEC)?
5. Write a detailed note on World Customs Organization (WCO)?

Further Readings

Export Import Management by Justin Paul & Rajiv Aserkar, Oxford Publisher,2013

Export and import documentation and procedures, by S Mahalakshmi , J Senthilvelmurugan , Mjp Publishers (7 August 2013)

Web Links

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Unit 10: Logistics

CONTENTS

Objectives

In this unit, student will be able to understand:

- Logistics
- Planning physical distribution
- Benefits of an efficient logistic system

Introduction

Logistics are the movement of resources in terms of goods, people, equipment from one place called the origin to another place called the destination. The term logistic is coined from the terminology of the defence forces where, it meant, to move the resources concerning the troops, from one place to another.

In business terms logistics can be understood to move the goods to and from the place of manufacture to the place of customer.

In export and import management logistics can be understood to supply the goods from one country called, the exporting country to the other country, where there is the customer called, the importer, situated.

Logistic and supply chain management are the two terms that are used interchangeably. There is thin line of difference between these two terms, in the sense, that the logistic is especially related to specific business and the supply chain management is the outer broader macro infra, related to the movement of goods and service, in terms of larger network, of outside organizations that work together to deliver products to customers, including vendors, transportation providers, call centers, warehouse providers, and others.

10.1 Meaning of Logistic

Logistic is all about movement of goods, equipment, manpower of a particular business. The components of logistic are:

The management of logistics can involve some or all of the following business functions, including:

- Inbound transportation

Inbound transportation is related to the movement of inputs or enterprising factors inside the organisation. The enterprising factors are the men, material, machines, equipment etcetera.

- Outbound transportation

Outbound transportation is related to the supply of finished goods or if intangible, then the services which may be the objective function of a specific business.

- Fleet management

Fleet management is the management of the transport and system related to the transportation for example, when a factory manages its lorry of trucks, or a school or a college manages the fleet of buses it has purchased for the facility of students and staff, then it is called the fleet management. It is not only that the buses are managed but the system in the offing to manage the vehicles has to be included in the definition of fleet management.

- Warehousing

Warehousing is related to the storge aspects of inventory of a business. The godowns, the buildings used for the storage of goods or raw materials etc. are included in the category of warehousing.

- Materials handling

Material and handling of material is an important aspect of every business. Material handling is the art as well as science to manage the material, so that there is no wastage or pilferage or obsolescence of the stocks of a business.

- Order fulfillment

Order fulfilment means that the business is manufacturing or producing the objects subject to order in terms of demand forecasting. It would be totally unwise to manufacture without due consideration to orders of the customers. It is why the companies are doing detailed technical analysis of the demand. The reason being the inventory is costing a business and the stock which a business possesses at a particular time is unproductive investment and business needs to care for this aspect.

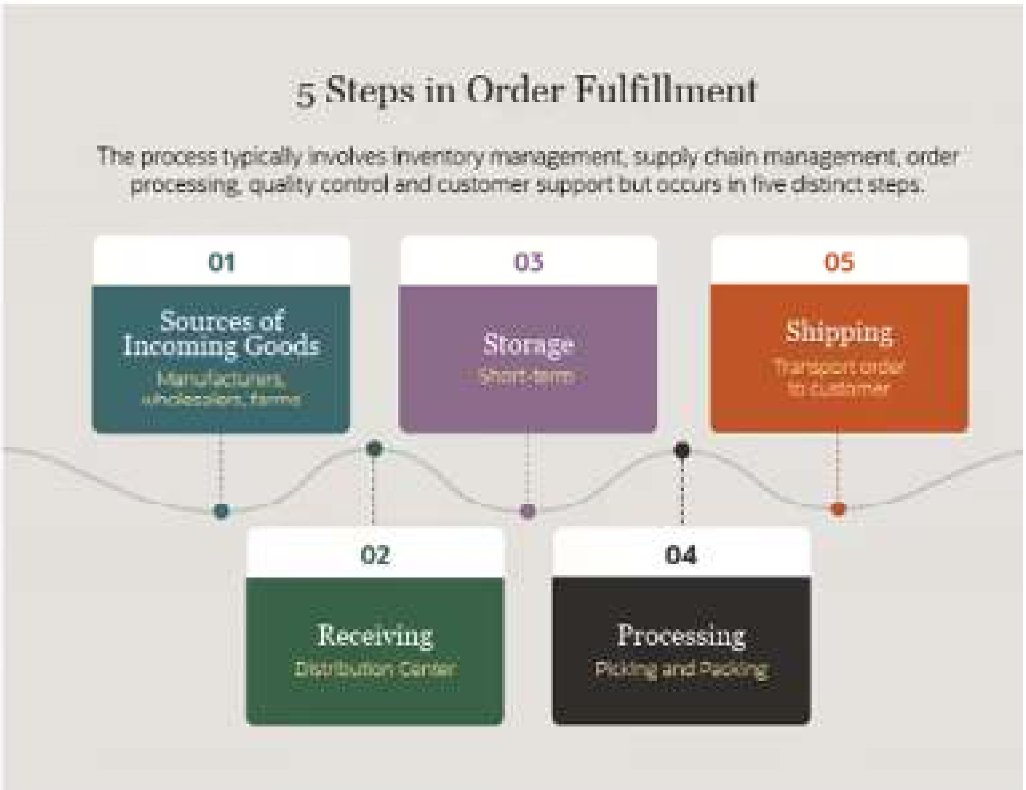


Figure 1 : Steps in order fulfillment

Example:

The Royal Enfield is most loved vehicle of contemporary times and how Eicher Group (who acquired Enfield India Limited and later renamed it as Royal Enfield Motors Limited) makes and market this machine/gadget. There are got orders in terms of advance booking. The sense in getting the advance bookings is to manage the inventory concerned with the making as week as stocking of motorcycles. The company understood that the idle form of working capital in terms of stocks is unproductive (except when mandated by the circumstances of the business). But the situation of market scenario of this brand is so good that the company leverages in terms of capitalizing on the factor that there is no need to pile inventory to make a good sale. It has already got confirmation through advance bookings, for motorcycles to be produced and sold. Is this not a wonderful idea when there is done, reverse innovation of production and sales to be made!

- Inventory management

  As discussed in the above paragraph that the inventory of a business means having a particular level of stock to meet the demand, changes in the demand or to have a reserve for contingency. For two given businesses of same capacity, the one having the lower inventory is deemed to be the best due to the reason that the ***quantum of working capital has got inverse relationship with profitability.***

- Demand planning

Predicting the demand of the goods of a business is demand forecasting and manufacturing to cater to the projected demand is production planning. **Whereas demand planning considers the available resources and capacities required to meet the demand.**

The operating cycle of a business encompasses all of the above-said propositions. Simply, operating cycle is the time needed to make a finished good. The operating cycle starts from the time when the raw material is purchased, stored, issued to the process, work in progressing time, making the finished goods, and stocking till there is made the sales of the said goods. The longer the operating time cycle the longer is the deployment of the resources and longer the deployment of resources means there is involve the higher cost in terms of resources being staying for a longer period.

10.2 What is Physical Distribution Management?

Physical distribution management is the process of planning, implementing, and controlling the efficient and effective storage and movement of goods between the point of origin and the point of consumption. It is a core element of supply chain management and involves managing all aspects of the flow of products and services, including inventory, transport, warehousing, packaging, and order tracking.

An example of physical distribution is a company transporting goods from a warehouse to a retail store. The company could use a fleet of trucks to make the deliveries or could outsource the transportation to a third-party logistics provider. It is very truly stated that the "Superior sales and distribution by itself can create a monopoly, even with no product differentiation," writes venture capitalist and billionaire Peter Thiel in his renowned book, Zero-to-One. "The converse is not true."

In the contemporary times the news of supply chain crisis amid clogged waterways, trade wars, economic sanctions certainly disturb the distribution of goods, It is therefore very important that the business model has to be redefined to give due importance to supply chain and its management.

It should also not be forgotten that, howsoever the quality goods are there but if the delivery of wonderful goods is not perfect, then it is enough to disturb the business in context. In simple terms, the goods manufacturing without due care for the delivery is just an incomplete attempt. The business suffers from this dysfunctional aspect and there has to be awareness that the distribution of goods should be a prime concern for management.

Importance of physical distribution

- Increased sales

- Faster shipping
- Reduced costs
- Supports price stabilization.

Distribution is something of a catchall term. It essentially refers to how you get a product out to consumers.

Peter Thiel, venture capitalist and author of Zero-to-One

Investing in a physical distribution system is the most surefire way to shorten shipping times and keep customers happy.

Dan Potter, Head of Digital at CRAFTD

Transportation

Transportation is the most critical function of physical distribution. It involves moving products from production to warehouse to end user. Transportation ensures products are delivered to the correct destination at the right time.

There are a few common types of transportation:

- **Road.** Moving products by truck or vehicle. It's the most efficient way to move goods in a supply chain. The US transportation moved a daily average of about 55.2 million tons of freight, valued at more than $54 billion, in 2019.
- **Rail.** Moving goods by train. It's cheaper to transport long distance by train, costing about $70.27 per net ton compared to trucking. which costs around $214.96 per net ton.
- **Air freight**. Moving goods by airplane. Air transportation is ideal for moving freight around the world quickly and safely. However, it can be more expensive than other modes of transportation.
- **Water.** Moving products by boat. Ideal for moving bulk products at a low cost, with extensive coverage in the US and around the world. Ships transport more than 80% of world trade volume.
- **Pipeline.** Moving product by system of pipes. Ideal for moving large quantities of liquids like gas to an area for consumption.

Logistics is key to a successful transportation system. A logistics system makes certain that products follow the correct schedule, shipping routes, and transportation modes. An effective logistics system can also help you choose the right method of transportation based on speed, availability, reliability, and cost.

Warehousing

A physical distribution system usually has one or more warehouses to store goods. Retailers take two approaches to warehousing:

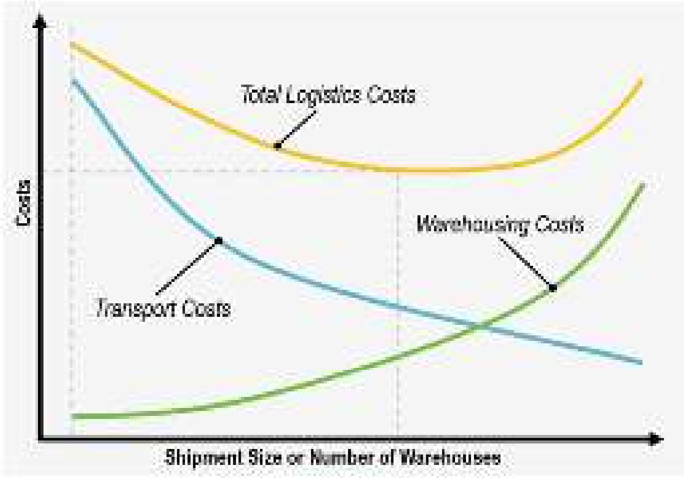
Traditional warehouse storage.

In this type of warehousing, stock is sent by the manufacturer to the warehouse, and from there it is processed, stored, and shipped to the desired destinations.

Third party logistics (3PL).

It is long term outsourcing commitment of an organisation. In this deal there is third party that undertakes the distribution of goods in terms of logistic service.

For example, company A has outsourced its distribution services to another company called B Company. Now B company is the outsourced logistics company, and company A is the outsourcing company.



Source

Figure 2: Optimized Logistics Cost

10.3 Benefits of Logistics Management

Given that the movement of goods is what drives cash flow, it stands to reason that managing that movement—logistics management—is a core business concern. Indeed, logistics management impacts a company's bottom line for better or worse. It is best not to leave that impact to chance.

The following are six major benefits of effective logistics management.

Visibility:

Logistics management affords greater visibility into the supply chain. This enables businesses to better control costs, tease out efficiencies, spot supply chain problems, conduct demand planning and gain insights into opportunities.

Reduced overhead:

Logistics management enables companies to reduce overhead in areas from cutting shipping costs to shrinking how much warehouse space they need by proactively controlling inventory levels.

Improved customer experience:

Excellent customer experience (CX) is the driving factor behind repeat sales. By delivering orders accurately and quickly, you improve the customer experience, which in turn increases brand loyalty and future sales.

Preventing loss:

Logistics management helps prevent loss in several ways. One is by true inventory accounting, so your company knows exactly how much stock it has on hand at any given time. Companies can also track movement and current location so stock won't be misplaced or diverted without notice. In addition, by ensuring optimal storage and transport conditions, such as temperature and moisture management, solid logistics prevent spoilage and damage.

Support expansion:

Demand forecasting supports expansion by realistically calculating inventory needs and ordering, transporting, and stocking accordingly. Further, logistics management best practices help companies scale to fulfill more customer orders on time.

Competitive edge:

Delivering orders correctly and on time is a foundational element in the customer experience—and good CX is key to repeat orders as well as solid brand reputation and net promotor scores, which in turn help a company acquire new buyers. Logistics management helps a company consistently deliver, or over deliver, on promises and sharpen its competitive edge.

Summary

Logistics management is a necessity for every business. The enterprising factors are to be approaching well in time plus the movement of the finished goods has to be streamlined for very necessary reasons that there has to be delivery of goods in the timelines for greater customer experience. It is customer experience which is the key achievement and a driving force for every business. The logistics management is dependent on the cost benefit analysis in terms of transportation cost and storge costs optimized (figure 2).

Keywords

Logistics: The movement of enterprising factors inside and movement of finished goods outside the factory, also called supply chain management.

Warehousing Cost: The cost of holding the Inventory of a business.

Transportation Cost: The cost of moving the inventory.

Total Logistics Cost: The total cost where the warehousing cost and cost of transportation is minimum (figure 2).

Self Assessment

1.The system of distribution of finished goods and services of a company is called:

A. Supply of Goods

B. Inbound Logistics

C. Outbound logistics

D. Transportation

2. Which is true about supply chain management?

A. There is physical movement of goods towards the end of the chain.

B. Flow of cash backward of the chain.

C. Exchange of the information towards both ends.

D. All the above

3. The major decision in supply chain management are:

A. Location

B. Inventory

C. Production

D. All the above

4.Logistics is the part of supply chain related with the forward and reverse flow of:-

A. Goods

B. Services

C. Cash

D. All the above

5. Reserve logistics are required because

A. Goods are defective.

B. Goods are unsold.

C. Customers may change their mind.

D. All the above

6. 3-PL stands for

A. Three points logistics

B. Third party logistics

C. Three points location

D. None of the above

7. The supply chain emerged in ----discipline.

A. Operations

B. Logistics

C. Marketing

D. Finance

8. The supply chain emerged in____

A.19970's

B. 1940's

C. 1990's

D. 2010's

9. Positive long-term relationships amongst the supply chain participants is called

A. Co-operation

B. Logistics tailoring

C. Partnership

D. Supply Chain Management

10. The input in transformation process has got all except

A. People

B. Material

C. Information

D. Assembly

11. Zero Defects in manufacturing is

A. Readily achievable

B. Is unobtainable.

C. TQM

D. All the above

12. Which is not the area of logistic manager

A. Marketing

B. Purchasing

C. Inventory

D. Warehousing

13. The following in not the member of supply chain?

A. Retailer

B. Producer

C. Wholesaler

D. Customer

14. KAIZEN is a Japanese word meaning?

A. Total Quality Management (TQM)

B. Just in Time (JIT)

C. Continuous Improvement

D. A Fishbone Diagram

15. The most common form of quality control is

A. Planning

B. Studying

C. Organizing

D. Inspection

Answer for Self-Assessment

1.	C	2.	D	3.	D	4.	D	5.	D
6.	B	7.	C	8.	C	9.	D	10.	D
11.	C	12.	B	13.	D	14.	C	15.	D

Review Questions

1. "It is just impartial to make a wonderful product without due caring for logistics". Discuss

2. Write a note on inbound logistics and outbound logistics?

3. What do you understand by customer experience CX?

4. What is 3PL?

5. Differentiate between KAIZEN and Total Quality Management (TQM).

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Unit 11: Characteristics of Modes of Transportation

CONTENTS

Objectives

After this lecture students will be able to understand:

- Characteristics of modes of transport system
- Marketing logistic system
- Critical elements of marketing logistic system
- International transport system

Introduction

Transportation has got a vital role to play when it comes to export import business. Both exporter and importer need to understand the role which a transportation system adopted can play. The important variables which are the concern of particular trader, especially when it comes to transportation aspects, are the **cost, time, lot size. value of the consignment, possibility, options**, etcetera.

Cost: The ultimate aim of every trader is to have possible low cost. The transportation of goods and services involves cost. If the cost is high, then naturally the price will be high. If the price is high, then it would be challenging for the trader to face the competition.

How to reduce the cost: The cost reduction can be done by adopting the following two strategies:

Expend Less: If the amount expended is less, then automatically the cost results will be less.

Economize: To reduce the per unit cost, the best strategy is to have a smart relationship between the expended amount and value got.

Example:

The cost of single unit= Total cost/ Number of units.

Simple the Number of units transported have to be managed.

Finally, one reaches the conclusion that cost management is a relationship between the cost and the units involved.

Time: The available time is another aspect in the discussion of transportation of goods and service. If the time is short then the Air mode can be the best option and if the time is not an issue, then any of the modes can be accepted as the mode viz. the Road, the Rail, the Waterways etc.

Lot Size: The physical shape of the consignment matters for a mode to be adopted. If the load for example is a big tank, then road mode is okay and if the consignment can be loaded in containers, then the shipping (water ways) or Roadways can be the preferred way.

Value of the consignment: Interestingly if the goods are low volume and costly then the airways can be the preferred mode. Otherwise, if the value of goods in question is not so much then the railways or waterways can be the preferred choice. Finally, it depends on the traders which mode he or she selects for the consignment to be moved.

Possibility/Options: If the scene is like that there is no other option except the one given, then this thing has to be appreciated and the available mode is the right choice. If there are options available, then cost benefit analysis can be done to select the one.

11.1 Characteristics of Different Means of Transport

Type of transport	Characteristics	Advantages	Disadvantages
Air (airplanes)	• Urgent need • In case of emergency • No other way to reach the area. • High value low weight freight • Starting up large-scale operation • When there are no other means	• Quick and reliable • Can reach far away areas. • Makes it possible to come closer to the area of operations	• High cost • Depending on size of plane, cargo capacity may be small. • Subject to weather conditions • Requires special fuel and safe conditions to operate
Air helicopters	• Much more versatile than planes	• Can land in difficult areas	• Has limited cargo space
Land (motor vehicle)	• Use depends on the physical and safety conditions of the access routes to the delivery points.	• Highly flexible • Inexpensive and readily available • Given its availability, cargo space increases	• Routes might be in bad shape, impassable or simply not exist. • May be dangerous (floods, armed

	• Within a region or country		conflict, bandits, etc.)
Land (rail)	• Use depends on existence, route, and conditions. • Not used much	• Large load capacity • Operating costs are generally low	• Limited network • Need to use other transport to take the supplies to the warehouse or operations sites
Maritime (sea)	• Large lower value freight, less urgent • More and more used during the second phase of a crisis, whenever possible • Used mostly for transportin g supplies from abroad. • Need access to a harbour or pier	• Large load capacity • Economical	• Slow • Need to use other transport to take the supplies to the warehouse or operations sites
River	• Useful for supplying riverside and nearby communitie s with moderate amounts of aid, for moving people or supplies in the event of a flood	• Low cost • Access to areas hard to reach by other forms of transport	• Limited load capacity depends on size of the vessel. • Use depends on the characteristics of the river and waterways

Human and animal	• Small loads, generally in remote areas where vehicles can't reach	• Low operational cost • Access to difficult areas	• Limited load capacity • Slow

11.2 Marketing Logistic System

Marketing logistics is the process of planning, implementing, and controlling the movement of materials and components from the suppliers to the customers. It also includes transferring all relevant information throughout the supply chain from manufacturing and origin up to final consumption.

Marketing logistics is the process of planning, implementing, and controlling the movement of materials and components from the suppliers to the customers. It also includes transferring all relevant information throughout the supply chain from manufacturing and origin up to final consumption.

Marketing logistics includes distributing goods and services from the producer to the final customer at the right place, time, and price.

Marketing logistics aims to create a systematic and planned ecosystem that guarantees that goods ordered by the customer will be delivered on time, with proper transportation, in the fastest and cheapest way.

11.3 Functions of Marketing Logistics

The following are the four function so marketing logistics:

1. **Delivery of the Product:**
2. **Price of the delivered Product**
3. **Promotion**
4. **Place**

Figure 1: The four functions of Marketing Logistics.

1. **Product Delivery:** The first function of marketing logistics is product delivery. This includes researching where your customers live and how you plan to transport the product.
2. **Price:** The following function of marketing logistics is the price. The price of the products must be set, keeping in mind the logistics involved in procuring and delivering the product.
3. **Promotion:** Promotion is essential to increase sales of your business. When a new product is being introduced in marketing logistics, communication is the key to ensuring that suitable materials are being used and communicated to the customers as feedback.
4. **Place:** Marketing logistics ultimately aims to deliver the product to the customer efficiently and safely. The distribution of the products should be done at the right place, i.e., the customer's address. This means sharing the tracking details with the customers, verifying their delivery details, etc.

11.4 What Are the Elements of a Logistics System?

Logistics management refers to planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption. Hence, there are multiple elements involved in managing the transportation, inventory, warehousing, and other related activities to ensure timely and cost-effective delivery to customers. The following are the elements of logistic marketing system.

Storage, Warehousing, and Materials Handling: The logistic system is all about moving the goods from the place of manufacture to the place of destination of the customer. It has got elements like storage of the goods to be moved as per the needs of the business.

Packaging and Labeling: It is also necessary that the goods to be marketed are packed and labelled as per the standards and law of the countries involved.

Inventory: The exporters need to understand that sufficient inventory is available at all times to cater to the need of the customer (as per order placed).

Transportation: The relevant mode of transportation facility has to be selected to move the goods from the place of origin to the final place.

Delivery: Delivery involves the transportation of goods from a warehouse or distribution center to the end customer. It encompasses various activities, including order processing, packaging, shipping, and tracking, and it can have a significant impact on customer satisfaction and loyalty.

Reverse Logistics: Reverse logistics is an essential element of logistics systems that deal with the handling of products and materials after they have been delivered to customers. It involves activities such as returns management, product repair or refurbishment, movement to origin or warehouse, etc.

11.5 International Transport System

International transportation is the movement of goods or people from one country to another. That means, when goods pass through the borders of a specific country into another by air, land or sea, the method of transportation is regarded as international transport.

International transportation system is the system which governs the international movement of goods or people.

International transport works worldwide and goes beyond national borders. It is carried out by forwarding agents and transport companies who ensure safe and fast shipping.

The mode and means of transport in international transport depends highly on the timing of goods to be shipped. For example, transporting food or fruit requires fast delivery. Therefore, speed and distance must be considered when choosing a transport mode.

The four main modes of international transport are road, sea, rail, and air. Each mode has its perks, drawbacks and conditions pertaining to the type of goods being exported or imported.

1. International Air Transport:

Although air transport dates back to world war-11 but the origin of mass air travel dates back no earlier than 1960. Since then, the growth rate of air transportation is quite high. The aggregate growth in the air transportation is factored as follows:

- The growing disposal incomes of the developed nations.
- The changing geopolitics of industry.
- The acts of the various governments, when the regulations are being replaced by ethos of deregulations, privatization, and competition.

2. International Maritime Transport:

Maritime or sea transport carries on average 75 % of the world trade by tonnage and 80% of this is in the form of bulk transport. Petroleum is 32%, dry bulk cargo like iron ore, chemical, grains are the main items. Important routes are:

- The North Atlantic Route
- The Mediterranean Asiatic Route
- The Cape of Good Hope Route
- The European Eastern South American Route

3. The International Surface Passenger Transport (ISPT)

The most of international transport is done by sea and air routes. But when it comes to surface route there are not seen any substantial advances. The reason being the political constraints. There are agreements amongst the nations for sea and air routes but very less is seen as far as surface transportation is concerned. If there is any best example of the international surface passenger transport (ISPT), it is Europe. This happened after the formation of European Union (EU).

Summary

The transportation of goods or people amongst the nations is called international transportation and the system which governs this international transportation is called international transportation system.

It is pertinent to note that the movement of the goods or people (in case of services) is a prime concern area. Every exporter and importer need to understand the best logistics are the prime essentials for the success of the business.

Logistics can be understood in terms of a concept which is related to the movement of the goods from the point of origin to the last end, the customer. In between there may be emerging on the scene, various allied activities like storage, order placing, packing, inventory, selecting the right mode of transport on the basis of cost benefit analysis. All this is understood in terms of marketing logistics system (Figure 1).

Keywords

Marketing: The term used to cover the sales and allied activities like advertisement, promotion, after sales service, guarantee, warranty, research etc.

Maritime: Pertaining to sea.

Surface: Pertaining to land

Logistics: Movement of the goods including all allied activities like transport, warehouse, inventory, input, suppliers, customers etc.

Promotion: An initiative or tact adopted by a business to increase sales.

3PL: Third Party Logistics

Self Assessment

1. Means of land transport are provided by

A. bullock carts

B. pack animals

C. motor vehicles

D. all of the above

2. A 3PL firm performs activities like

A. Transportation

B. Product Development

C. Security

D. HRD

3. Navigation through sea is known as

A. Indian water transport

B. river transport

C. océan transport

D. sea transport

4. AAI stands for

A. Airways Agreement of India

B. Airport Authority of India

C. Agreement on Airports of India

D. Airways Authority of India

5. Which of the following is the demand character of Transport Services?

A. Pure demand

B. Auxiliary demand

C. Derived demand

D. Mixed demand

6. Who of the following is responsible for creation of trained personnel for merchant fleet of India?

A. DG Shipping

B. West Bengal University of Technology

C. IIT, Kanpur

D. Naval Headquarters, New Delhi

7. The largest commodity carried through major ports is

A. Iron Ore

B. Coal

C. Fertilizers

D. Petroleum

8. In case of loss of Railway Receipt, the consignee can take the delivery of goods by

A. Indemnity bond

B. Forwarding note

C. Consignment note

D. none of these

9. The longest National Highways in India is

A. NH 3

B. NH 44

C. NH 7

D. NH 32

10……….helps in reaching?

A. Air ways

B. Roadways

C. Waterways

D. All of the above

11. The Authority for National Highways is

A. State Government

B. Local body

C. Central Government

D. rural authorities

12. Which is outland water transport?

A. river

B. canal

C. ocean/sea

D. all of the above

13. What is (are) the benefit(s) of outsourcing?

A. Improvement of productivity and HR

B. Increase revenue and capability

C. Saving cost

D. All of these

14. If the consignee does not arrange to receive the goods on arrival, he is charged an amount per day of delay, which is known as

A. leverage

B. demurrage

C. both (a) and (b)

D. none of these

15.The UNCTAD stands for

A. United Nations Consumers Trade and Development

B. Urban National Congress for Tariff and Diversification

C. United Nations Conference on Trade and Development

D. none of these

Answer for Self Assessment

1.	D	2.	A	3.	C	4.	B	5.	C
6.	A	7.	D	8.	A	9.	B	10.	D
11.	C	12.	C	13.	D	14.	B	15.	C

Review Questions

1. The marketing of logistics is a vital essential in International Trade. Discuss
2. What are the various modes of transportation?
3. Discuss why the surface transportation system did not develop so much in comparison to the other modes of transportation like the air mode and the sea mode?
4. Write a detailed note on Reverse Logistics?

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Unit 12: Characteristics of Shipping Industry

CONTENTS

Objectives

After this lecture students will be able to understand:

- History of Shipping Industry
- Roles of Intermediaries in Shipping Industry
- Latest trends in logistics operations
- Ocean freight structure

Introduction

The shipping and logistics industry was not always as large and intricate as it is today. In fact, logistics first began in the military and was not used by businesses until after World War II. However, with a dramatic increase in globalization due to modern technology and transportation, businesses today need efficient shipping and logistics services in order to succeed. So, how did the shipping and logistics industry enter the world of business?

12.1 History of Shipping Industry

Before the 3rd Century B.C., merchants, shop owners, farmers, and craftsmen often sold or traded their products and goods locally. During the 3rd Century B.C., shop owners and merchants discovered that transporting their products by sea was much faster, cheaper, and more efficient than by land. In those times, there were no standardized containers, and goods were packed into sacks, crates, and barrels of all sizes and then placed below deck. There was no guarantee that your products would reach their destination, however, and fortunes were often lost due to pirates, storms, thieves, and rough seas.

The Beginning of Shipping

Shipping as we know it today came into being around the 1900s. Before this time, businesses relied on local transportation and simple supply chains. These simple supply chains used very few steps to transport the product to the end consumer. For instance, a farmer who harvested wheat would transport it to a mill, then after it was turned into flour, the mill would send it to a pastry chef, who would bake pastries to sell locally to people near his shop. It was a very simple method of shipping involved very few steps, meaning very little logistics and planning.

The Creation of Logistics

As previously stated, logistics was created by the military, the Roman and Greek militaries. Rome, in particular, had a complex logistics system that they used to support their troops and transport food, weapons, and other equipment during wars and military campaigns. In fact, Rome had special personnel called "logistakas" whose main duties were to allocate and transport resources for the legions. Although logistics was used by the military for many years, especially during World War I and World War II, it wasn't until the 1960's that businesses began to use logistics with shipping. For businesses, logistics involved filing orders, production planning, distributing products, warehousing, storing, and even customer service. They discovered that logistics made their shipping process much more streamlined, cost-efficient, and allowed them to transport goods quickly to their customers.

The Effects of Globalization on Transportation

One of the main reasons why businesses began to focus more on shipping and logistics in the mid-20th century is because of globalization. During this period, more advanced vehicles, railroads, planes, and ships made it possible for businesses to ship their products quickly, not only in their local areas, but also worldwide. Additionally, machinery such as forklifts played important roles in warehousing and transporting items. Globalization at this time allowed businesses to increase their customer base and success, but in order to do that, they needed fast and cost-effective ways to get their products to consumers.

The Standardization of Containers

In 1956, an American truck driver by the name of Malcolm McLean developed the first metal shipping containers. Shipping containers completely revolutionized the transportation industry and are still used to this day. Not long after they were invented, shipping containers were standardized to make transportation easier and more efficient. Businesses today use these containers to both ship and store their products in large quantities. Today, there are a few different grades of shipping containers, and each one is made for shipping specific types of products. For instance, if you need to transport food items, you'll need a food-grade container.

12.2 Roles of Intermediaries in Shipping Industry

Some large firms have the resources, skills, and expertise to handle all kinds of supply chain activities, including logistics and purchasing, by themselves, whereas others do not. If the firm does not have such resources, skills, and expertise, it should no doubt outsource some of the supply chain activities by hiring intermediaries. Generally speaking, an intermediary is an individual or a business entity that facilitates business transactions between two or more trading partners as a mediator and is put in contact with those trading partners as a conduit for various supply chain activities. Examples of intermediaries are agents, brokers, wholesalers, distributors, third-party logistics providers (3PLs), and retailers, which help make a product or service available for the end customer's use or consumption.

The use of these intermediaries is more common in international trade because they can help the multinational firm (MNF) navigate through uncharted territory in the foreign market and identify any potential business opportunities there with their connections and expertise in local sales and distribution. Sometimes the use of intermediaries is mandatory for business transactions under local jurisdictions (e.g., restriction on the number of expatriates to be hired). For example, some Middle Eastern countries such as Saudi Arabia require the foreign MNF to hire a local intermediary to do business in those countries.

Freight Forwarder – The freight forwarder is one of the most frequently used forms of logistics intermediaries. Freight forwarders organize and arrange shipping activities encompassing the booking of cargo space, freight consolidation, documentation, insurance coverage, language translation, freight rate negotiation, and freight charge payment.

Overseas Distributor – When selling products to an unfamiliar overseas market, the MNF can utilize an overseas distributor who purchases products from an original equipment manufacturer (OEM) as the middleman and then takes full responsibility for distributing and selling them to ultimate foreign customers

Non-Vessel-Operating Common Carrier (NVOCC) – A non-vessel-operating common carrier (NVOCC) is a modified form of a foreign freight forwarder that does not own or operate its own vessel; however, the NVOCC issues its own bills of lading or airway bills to provide a variety of (ocean) transportation services for point-to-point movement of goods.

Shipping Agent – A shipping agent is a local licensed intermediary that arranges for the ship's arrival, berthing, and customs clearances, including imported goods inspection, insurance, loading/unloading, cargo claims settlement, cargo related document preparation/delivery, and the payment of all fees when the ship is in the port's dock on behalf of the ship's owner.

Container Leasing Company- it is worth considering a container leasing company, which has the experience and expertise to reposition empty containers and recycle damaged containers. Some container leasing companies can offer ship finance services for container shipping and provide a lease/purchase option.

Customs (House) Broker – A customs (house) broker is an agent who clears shipments through the importing nation's customs, prepares and submits the documents necessary for customs clearance, estimates taxes and duties, pays the smallest applicable duty, and facilitates communication between the importer and the government.

Export Packer – An export packer provides packaging (including moisture-resistant packaging) and protection services for all types of goods, including hazardous products.

Export Management Company – An export management company (EMC) assists noncompeting firms in marketing their products overseas.

Export Trading Company – The role of an export trading company (ETC) is very similar to that of an EMC in that both of them handle nearly all facets of export operations, including sales, marketing, promotion, documentation, transportation, warehousing, insurance, and communication.

12.3 Latest trends in Logistics Operations

The Introduction of Technology

During the 1980's, businesses began to use computers to handle their logistics and shipping procedures. Computers became smaller and more accessible with the invention of the personal computer during this time. Then, with the emergence of the internet in 1990, companies began to use spreadsheets and map-based interfaces to improve their logistics procedures. Today, the shipping and logistics industry relies heavily on technology, allowing businesses to plan, track, and organize their shipments all with a few clicks of the mouse.

The Integration of Supply Chain Management

Due to all this technology, businesses needed someone who knew how to manage their supply chain and shipping processes. Thus, supply chain management was born, and this job involves handling the entire flow of a product or service. To be concise, a supply chain manager monitors the entire journey of a product, from its beginning as raw components to its end with consumers. A supply chain manager must be familiar with all stages of transportation, supply chain and logistics technology, and strategies to make shipping processes more efficient.

The Shipping and Logistics Industry Today

As you can see, the shipping and logistics industry that we know today would not exist without the discoveries and inventions of the past. Shipping containers, machinery, and technology all allow businesses to ship their products anywhere around the world. Today, shipping processes are so fast and streamlined that you can ship your products to another country within a single day. As technology continues to grow in the upcoming years, the shipping and logistics industry will change as well. Here are some new technologies that may impact this industry in the future:

Autonomous vehicles

Artificial intelligence

Cloud-based systems

Machine learning

Blockchain technology

The Internet of Things (IoT)

Big Data

In this article, we cover 11 major logistics trends that leaders are addressing as we approach 2024:

Supply Chain Agility

companies and their supply chains must be nimble if they wish to remain or become competitive in today's digital environment.

Global Labor Shortages

To combat the labor shortage, manufacturers and logistics providers turn to automation. Warehousing processes witness increasing automation, with machines now responsible for picking products and initiating packing. Transportation is also embracing automation.

Automation Complexity

Automation is a key resource for modern businesses since it reduces costs and increases efficiencies, plus it frees your staff to do other, more productive activities. Logistics companies can harness the power of automation by implementing end-to-end integrations between backend WMS/ERP systems and the many eCommerce solutions that are growing in popularity.

Demands for Real-Time Data

Trading partners and consumers now expect constant updates on order location and delivery windows.

Supply Chain Transparency for Critical Collaborations

Logistics companies work with countless moving parts daily. Real-time visibility into supply chains is essential for logistics companies to stay organized and manage their business. One way for them to achieve this is through integrating their Electronic Data Interchange(EDI) and Application Programming Interfaces (APIs).

Less Than Truckload Demand

With the rise in eCommerce popularity and the demand for faster shipping, logistics companies are being asked to make smaller shipments more frequently.

Digitally Evolving Business

End-to-end automation and EDI modernization can greatly increase the productivity of event-based workflows. When events are mapped to an automated workflow, humans are removed from the equation. This means that there is no waiting for a human to complete a task before the next step in the process can occur. Rather, technology is utilized to quickly and accurately perform each step in the workflow.

API-Based Integrations

logistics companies can strategically incorporate Application Programming Interfaces (APIs) to receive near-instantaneous data and updates regarding customer orders and shipments.

Demand Forecasting

In particular, demand forecasting can occur at a variety of phases in the logistics supply chain. This includes the pickup, shipping, and delivery of the actual goods. The more accurate the demand forecast is for each of these stages, the greater a company can optimize its operations to fit demand levels.

Digital Freight Marketplaces

Digital freight marketplaces are digital networks where shippers and carriers can connect and arrange for transportation. They help shippers to find carriers more easily and help carriers find more business opportunities—all while helping both parties negotiate the best price for the project.

Ecosystem Integration Implementation

Ecosystem integration is a strategy that connects and integrates a company's key revenue-generating business processes with those of its ecosystem partners by combining B2B and EDI, data and application integration, and secure file transfer technologies into a single software platform.

12.4 Ocean Freight Structure

One of the common methods of international shipping is ocean freight. Considering the ease and cost factor, many Indian exporters choose to transport their shipment by sea. Ocean freight, as the term suggests, is transportation and movement of goods or products by sea to international markets.

This is an important step in export trade, which helps exporters ship products in bulk to different countries from India. Sellers usually choose from five types of ocean transport – bulk carriers, cargo ships, container ships, tankers, and barges. Considering the relatively lower costs involved, international shipping by sea is increasing and, in turn, boosting export-import activities across the world. In this blog, we'll help you understand the advantages of ocean freight and how you can ship your products by sea.

What are the steps involved in ocean freight?

Export Haulage

(Haulage means commercial transport of goods)

A key step in the initial process of exports, at this stage, goods are transported from a seller's warehouse to a freight forwarder's location. Freight forwarder is an agent or business that organizes shipment and inventory from your warehouse to the respective port1.

Export Customs Clearance

This step is at the origin country. For instance, any product that needs to be shipped via ocean from India needs to go through customs clearance. In this step, a shipping bill, Certificate of Origin and AD code are required.

(An AD Code is a 14-digit code, which is given by the bank where the exporter maintains a business current account. This code, printed with the bank letterhead, can be obtained after the exporter has registered for an Import Export Code (IEC) by the Director General of Foreign Trade (DGFT). It has lifetime validity. Here's why an AD code is necessary in an export process) among other documents.

Import Customs Clearance.

Once the goods arrive at the destination port, for instance the USA, they need to be cleared by the respective country and authorities. This is referred to as import clearance, which might require fees and regulations.

Destination Handling

This covers all the activities at the destination country including confirming the shipment, checking the necessary documents, transporting the container to the freight forwarders warehouse, etc.

Import Haulage

This is the final step of ocean freight where goods are transported, usually by road, to the final destination depending on the customer's shipping address. In regular terms, this is the delivery stage.

Advantages and disadvantages of ocean freight

Advantages

- Ocean freight is highly suitable for bulk shipments owing to its high shipping capacity.
- Shipping via ocean costs lesser than other methods.
- Ocean freight produces lower emissions than air freight, leading to a lower carbon footprint.

Disadvantages

- Compared to air freight, shipping via ocean is slower in terms of timelines.
- Products shipped by ocean freight are at higher risk in regard to misplacement and damage.

Key export organizations for ocean freight

GST Council

The GST Council in India provides a LUT (Letter of Undertaking), which declares that the goods will be exported once they are dispatched from the location. This is an important document in international shipping. This government authority also provides a GST certificate.

Customs Department

The Indian Customs Department regulates shipping bills – a key document in international shipping. It also handles the disbursement of export benefits like GST on IGST paid invoices and duty drawback, which is the benefit offered against a component of import.

DGFT

The Directorate General of Foreign Trade provides benefits and subsidiaries to exporters including incentives. It is also the regulatory authority for various important export licenses like IEC.

Summary

In the import and export of goods and people the oceanic routes have become dear due to the inherent advantages. The oceanic route is cheaper and enables the movement of bulky goods easier and convenient except some dangers from robbery, pirates, or natural calamities. The sea routes have arisen to such a level that whole world is increasingly using these modes of transport. It is therefore that the all the nations have evolved detailed norms to be mandatorily executed by the exporter or importer. The intermediaries who are a link between the exporter and final customer, overseas help in making the procedure lesser cumbersome due the expertise. In addition, the use of information technology is revolutionizing the scene of foreign trades.

Keywords

Pirate: The sea robbers

Intermediaries: The agents who act as a link between the buyers and sellers.

Haulage: Commercial transport of goods

IEC: Import Export Code

Self Assessment

1. RO-RO concept means:

A. Roll On - Roll Off

B. Ride On-Ride Off

C. Roll Off-Roll On

D. None of the above

2. LASH means

A. . Lighter Aboard Ship

B. . Last Aboard Ship

C. Lighter Aboard System

D. All of the above

3. A type of logistics costing

A. Consumer costing

B. Employee costing

C. Activity costing

D. None of the above

4. The fastest and most costly mode of transport.

A. Rope ways

B. Railways

C. Air ways

D. Oceanic freight

5. Demand forecasting techniques involve

A. FSN analyst

B. VED analysis

C. ABC analysis

D. None of the above

6. A network of highways connecting India's four metropolitan cities.

A. . Golden Quadrilateral

B. Logistics parks

C. Deep water ports

D. NH 14

7. A kind of transportation where no empty wagons or containers are bought back:

A. Rail

B. Road

C. Truck

D. Pipeline

8. Inter modal transportation which combines air

A. Birdy back

B. Fishy Back

C. . COF

D. COA

9. Corrugated Fiberboard is commonly known as

A. Corrosive Board

B. Card board

C. Case board

D. Show piece

10. Select the correct statement(s):

1. Reduction of inventory is a key objective of logistics management.

2. Logistics packaging helps in reducing transit damage.

3. Conveyors are required where a continuous flow of material over a long period is required.

4. Distributers are the middlemen in a supply chain.

A. 1

B. 1,2

C. 1,2,3

D. 1,2,3,4

11. . Select the correct statement(s):

1.Supply chain management is a narrow concept than logistics management.

2.Air transport is one of the oldest modes of transportation.

3. Outbound logistics is also called upstream logistics.

4. Waterways are natural highways.

A. 1,3

B. 1,2,4

C. 2,3

D. 4

12 Select the correct statement(s):

1.Rail transport is most suited for rural areas.

2.Cardboard is also known as corrosive board.

3. Railways is the cheapest mode of transport in India.

4. Waterways is the cheapest mode of transport in the world.

A. 1,4

B. 2,3

C. 3,4

D. 1,2,4

13. Select the statement(s) best fitting to the definition of Supply Chain Management (SCM) rather than to the definition of logistics

1.Narrow Concept

2.Conducted within the organisation.

3.Functions in outer environment

4.2 flows product and information and originated from Military.

A. 3

B. 2,3

C. 4

D. 1,2,3,4

14. Select the statement(s) best fitting the definition of Logistics rather than the definition of Supply Chain Management (SCM).

1. Broader concept
2. Focus on cost reduction.
3. Focus on profitability
4. 3 flows-product, information, and finance

A. 1,2

B. 2

C. 3

D.3,4

15. Find the economic order quantity from the following data: -

Annual demand: 6000 units; Cost of 10 orders: Rs.100; Cost of 1 Unit: Rs.60; Annual Carrying cost=5%

A. 300

B. 200

C. 400

D. 500

Answer for Self Assessment

1.	A	2.	A	3.	C	4.	C	5.	D
6.	A	7.	D	8.	A	9.	B	10.	D
11.	D	12.	C	13.	A	14.	B	15.	B

Review Questions

1. Write a detailed note on Oceanic Freight
2. What is meaning of intermediary? Discuss various types of intermediaries in the oceanic freight?

3. How is technology helping oceanic freight?
4. What are the steps involved in ocean freight?
5. List Key export organizations for ocean freight in India.

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Unit 13: World Shipping

CONTENTS

Objectives

After this lecture students will be able to understand:

- world shipping
- overview of ports
- shipping conferences
- freight methods

Introduction

What is international shipping? International shipping is a means of transport used for conveying goods (mostly) using sea routes rather than roads (road transport) or air channels (air transport). As, in most cases, its goal is to link two countries separated by a sea or ocean, shipping is by definition international.

Domestic shipping occurs when a business is performed within a country's borders. Although there are many distinctions between international and domestic shipping, the fundamental principles remain the same.

13.1 World Shipping

World shipping or international shipping is the exchange of goods or people between two Countries using sea routes. Simply world shipping involves economic transaction between two countries in terms of cross border transactions.

The speed is lesser or more time is needed in international shipping, in comparison to domestic shipping. The reason being the long distance, stoppages in routes for custom formalities, the natural hindrances in -route to a longer journey.

International shipping is a complex process of moving freight over borders, accompanied by many rules and regulations. As international shipments occur between two countries, it has to follow different rules since every country has specific regulations and laws.

Carrying out international shipping activities and managing them is significantly more challenging than running domestic shipment activities. Most businesses and people find it challenging to grow their business globally or send something internationally due to changes in their respective country's laws, regulations, and economic and socio-cultural environments.

To be a successful player in the worldwide market, businesses must organise their business strategies according to the needs of the foreign market.

13.2 Overview of Ports

Introduction to Major Ports in India

All ports in India are situated in the 9 coastal states of India namely Kerala, Karnataka, Maharashtra, Goa, Gujarat, West Bengal, Odisha, Andhra Pradesh, and Tamil Nadu. India's extended coastline forms one of the major portions of land that juts out into a water body. Thirteen major ports in the country handle a lot of volume of container and cargo traffic.

On the west coast, there are the ports of Mumbai, Kandla, Mangalore, JNPT, Mormugao, and Cochin. The ones on the east coast are the ports at Chennai, Tuticorin, Visakhapatnam, Paradip, Kolkata, and Ennore. The last one, Ennore is a registered public company with the government owning a 68% stake. In Andaman and Nicobar Islands, there is Port Blair. Mumbai is the largest natural port in India.

Major Ports of India:

Zone	State	Port	Features
Eastern Coast	Tamil Nadu	Chennai	Artificial Port Second busiest port
Western Coast	Kerala	Kochi	Sited in the Vembanad lake Exports of spices and salts
Eastern Coast	Tamil Nadu	Ennore	India's First corporatized port
Eastern Coast	West Bengal	Kolkata	India's only major Riverine port Situated on Hugli river Known as Diamond Harbour
Western Coast	Gujarat	Kandla	Known as Tidal Port Acknowledged as Trade Free Zone Largest port by volume of cargo handled.
Western Coast	Karnataka	Mangalore	Deals with the iron ore exports
Western Coast	Goa	Mormugao	Situated on the estuary of the river Zuari
Western Coast	Maharashtra	Mumbai Port Trust	Largest Natural Port and harbour in India The busiest port in India
Western Coast	Maharashtra	Jawaharlal Nehru Port Trust (JNPT) also known as Nhava Sheva, Navi Mumbai	Largest Artificial Port It is the Largest Container Port in India.
Eastern Coast	Odisha	Paradip	Natural Harbor deals with the export of iron and aluminium
Eastern Coast	Tamil Nadu	Tuticorin	A major port in south India deals with the fertilizers and petrochemical products
Eastern Coast	Andhra Pradesh	Visakhapatnam	Deepest port of India deals with the export of iron ore to Japan. Amenities for building and fixing of ships are available
Bay of Bengal	Andaman & Nicobar Islands	Port Blair	The port connected to the mainland of India through ship and flight. This port is situated in between two international shipping lines namely Saudi Arabia & US Singapore.

The classification of ports into major, minor, and intermediate has administrative significance.

The Union Shipping Ministry handles the major ports, the minor and intermediate ports are administered by the relevant departments or ministries of the respective coastal states.

Government Initiatives for Port Sector

Drawing from the government's Blue Economy policy, the Union Budget 2021 makes allocations for expansion of shipping and inland waterways infrastructure along with ₹2,000 crores for PPP model in all major ports.

Make in India – In line with this initiative, Ministry of Shipping amended the guidelines of Right of First Refusal (ROFR) licensing conditions. Chartering of vessels priority is given to the vessels built in India, flagged in the country and owned by the Indians.

National Logistics Portal (Marine) will be developed to help exporters, importers and service providers.

SAROD-Ports' (Society for Affordable Redressal of Disputes – Ports) is a dispute redressal portal developed by Ministry of Shipping for the private players.

Major Port Authorities Bill 2020 has been passed by the Parliament that aims to repeal Major Ports Trust Act, 1963. It will establish a Board of Major Port Authority for each major port.

TOP 20 seaports in the world

The world's busiest ports continue to grow larger and more efficient every year. It is estimated that 90% of world trade is facilitated by maritime shipping

Here are the world's 20 largest ports, using the most recent data from the World Shipping Council:

1. **Port of Shanghai:**

Shanghai remains the undisputed no. 1 container port in mainland China and the world, with over 42 million TEU in 2018 (+4.4%). The port is considered the world's fastest-growing economy.

2. **Port of Singapore:**

Port of Singapore is currently the world's second-busiest port in terms of total shipping tonnage. According to data, around 80% of the containers that arrive in Singapore are transhipped to other ports. The port handles around one-fifth of global container transshipment throughput.

3. **Port of Shenzhen:**

The Port of Shenzhen is one of the busiest and fastest-growing ports in the world. It is located in China and serves as a base for trade between Hong Kong and Mainland China (it is located about 37.04 km from Hong Kong to the south and 111.12 km from Guangzhou to the north).

4. **Port of Ningbo-Zhoushan:**

It is another Chinese port that has great growth potential. Ningbo Zhoushan Port is considered the busiest port in China. The port operates 246 shipping routes at the end of 2018.

5. **Port of Guangzhou:**

Port of Guangzhou commands the number 5th Slot on the Top Global Ports with a 2018 record-breaking performance of 21.92 Million TEUs (up 7.6% vs. 2017).

6. **Port of Busan:**

The Port of Busan (also called Pusan) is located at the mouth of the Naktong River in South Korea. Container throughput at the port grew 5.8% year on year to 21.67 million TEUs, clearing its goal of handling 21.5 million TEUs and establishing a new yearly record.

7. **Port of Hong Kong:**

For the year 2018, the port of Hong Kong handled 19.60 million TEUs of containers.

8. **Port of Qingdao:**

The Port of Qingdao is a seaport located on the Yellow Sea in the vicinity of Qingdao in Shandong Province in China. The Port of Qingdao trades with more than 450 ports in 130 countries and regions.

9. **Port of Tianjin:**

The Port of Tianjin is also known as the Port of Tanggu. It is the largest port in Northern China and the main maritime gateway to Beijing.

10. **Port of Jebel Ali:**

It is also sometimes written "Mina Jebel Ali." Port of Jebel Ali is a deep port located in Dubai, United Arab Emirates.

11. Port of Rotterdam:

The port of Rotterdam is Europe's largest seaport.

12. Port of Port Klang:

Port of Port Klang is located about 6 kilometers southwest of the town of Klang and 38 kilometers southwest of Kuala Lumpur.

13. Port of Antwerp:

It is one of the fastest-growing ports in Northwestern Europe.

14. Port of Kaohsiung:

It is the largest harbor in Taiwan.

15. Port of Xiamen:

Port facilities are located in and around Xiamen Island in Fujian Province.

16. Port of Dalian:

Port of Dalian is the most northern ice-free port in China and the second-largest container transshipment hub in mainland China.

17. Port of Los Angeles:

The Port of Los Angeles is America's premier gateway for international commerce. It is located in San Pedro Bay, 25 miles south of downtown Los Angeles.

18. Port of Tanjung Pelepas:

The Port of Tanjung Pelepas (PTP) is Malaysia's most advanced container terminal, and it is strategically located at the confluence of the main east-west shipping lanes, which is why it is easily accessible from the Straits of Malacca.

19. Port of Hamburg:

The Port of Hamburg is the largest German port. It is also often referred to as the "Gateway to the World." Container terminals allow about 12 million TEU to be reloaded every year.

20. Port of Long Beach:

The port's second range in North America content is about 30 km south of Port Los Angeles

13.3 Shipping Conference

A group of shipping lines which have associated to offer regular service on specific routes at publicly announced prices. Conferences generally offer specific rebates for regular or high-volume shipments. Shipment by conference lines is sometimes referred to as liner shipping and the freight rates are referred to as liner terms. Shipping lines which are not members of a conference for a particular route are known as outsiders, independent lines, or non-conference lines. Also called steamship conference. See liner terms.

13.4 Freight Methods

Various freight methods are available to companies shipping goods domestically or internationally. The most common freight methods are air, ocean, and ground transportation.

Several specialized freight methods, such as rail, pipeline, and intermodal transport, also exist. Air freight is the fastest way to ship goods but is also the most expensive.

Air freight is typically used for high-value or time-sensitive shipments. Ocean freight is the most economical way to send large volumes of goods, but it takes the longest time. Ground transportation is the middle ground, offering a balance of speed and cost. Specialized freight methods have their advantages and disadvantages.

Rail transport is slower than air but faster than the ocean and can be less expensive than both. Pipeline transport is the least costly way to ship oil and other liquids, but it is not suitable for different types of freight. Intermodal transport is a combination of two or more freight methods, which can offer the benefits of each.

When choosing a freight method, companies must consider many factors, including cost, transit time, shipping volume, and the type of goods shipped. The most suitable freight method will vary depending on the company's specific needs. Each approach has its characteristics; one company is concerned with delivery time, while the other is concerned with cost. The environment is essential to one organization, while cargo security is Vital.

Air Freight

Air freight is defined as the carrying and shipping of goods via any flight or aircraft, and it is an essential sector of freight in this industry.

It has numerous advantages over other modes of transportation. Air transportation is faster than different modes of transportation and can transport goods to remote locations that are difficult to reach by other means. Air freight is also more dependable than other modes of transportation, as it is less likely to be damaged or lost in transit. It is a safe and efficient freight method of transporting goods worldwide. There are also some drawbacks to air freight. Air freight is more expensive than other modes of transportation, and tracking shipments can be difficult. Air freight is also subject to delays, cancellations, and weather conditions.

Ocean Freight

Ocean freight is the process of shipping goods by sea. This type of transportation is often used for large shipments or when goods need to be shipped over long distances. Ocean freight is a popular choice for businesses because it is a reliable and efficient way to move goods. There are many benefits to using ocean freight to transport goods. One advantage is that it is a cost-effective option for shipping large quantities of goods. Ocean freight is also a reliable option for businesses that need to send goods over long distances. This type of transportation is also a safe option for companies that are shipping fragile or valuable items.

Summary

From the pros and cons, it is evident that there is no one-size-fits-all solution when choosing between ocean freight and air freight. The best mode of transport depends on the specific needs of the shipper. If time is of the essence, then air freight is the obvious choice. However, ocean freight is the way to go if cost is the primary concern. Each mode of transportation has its own set of benefits and drawbacks. Customers choose each of these routes based on cargo priorities. Airfreight is the fastest way, and ocean freight is the most cost-effective way.

Keywords

Port: The place in coastal areas, where ship arrives at or leaves from.

Freight Method: The option of using sea, land, or air ways for transportation.

Shipping Conference: Associated shipping lines offering services to various routes at specific prices, publically announced.

World Shipping: The use of sea routes for international trade.

Self Assessment

1. Who oversees the daily operations of the engine room and communicates to the office between department on ship and concerned/ engine department?

A. First Engineer

B. Second Engineer

C. Third Engineer

D. Chief Engineer

2. Rail coach factory is situated at:

A. Chennai

B. Kolkata

C. Kapurthala

D. Phagwara

3. AAI stands for:

A. Air force authority of India

B. Air force agreement of India

C. Airways agreement of India

D. Airport authority of India

4. _______ is the time that elapses between issuing replenishment order and receiving the material in stores.

A. Replenishment time

B. Idle time

C. Lead time

D. None of the above

5. ________ is the task of buying goods of right quality, in the right quantities, at the right time and at the right price.

A. Supplying

B. Purchasing

C. Scrutinizing

D. None of the above

6. Place utility is created by _____

A. Logistics function

B. Distribution function

C. Procurement function.

D. Operation function

7. EDI stands for _____

A. Electronic Distribution Intermediary.

B. Electronic Documentation Interchange

C. Electronic Data Interface

D. Electronic Data Interchange

8. OBO stands for ______ carriers

A. Ore Bulk Oil

B. On Bulk Order

C. Over Bulk Order

D. Ore Bulk Order

9. Form utility is created by _____

A. Logistics function

B. Procurement function

C. Operation function

D. Distribution function

10. Pepper was as valued in Roman empire that it was called:

A. Black Money

B. Magic Black

C. Black Diamond

D. Black Gold

11.Kabul and Qandahar were linked to which route?

A. Cap Route

B. Silk Route

C. Suez Canal Route

D. Cotton Route

12. Vasco-da- Gama came to India and landed at:

A. Kozhikode

B. Gujarat

C. Patna

D. More than one of the above

13. The backbone of the ship is

A. Bottom

B. Keel

C. Bilge Keel

D. Frame

14. Who is at the top of shipboard organisation?

A. Owner

B. Superintendent

C. Master

D. Manning Agent

15. Who is responsible for the safe operations of the ship including cargo operations, navigation, crew management and ensures that the vessel complies with the international and state laws as well as company and stage policy?

A. Chief Office

B. Captain

C. Chief Steward

D. Chief Engineer

Answer for Self Assessment

1.	D	2.	C	3.	B	4.	C	5.	B
6.	A	7.	D	8.	A	9.	C	10.	D
11.	B	12.	A	13.	B	14.	C	15.	B

Review Questions

1. What is world shipping?
2. Write a detailed note on “Shipping Conference”.
3. Do descriptive analysis of any five ports of the world.
4. What is freight method? Compare air and sea freight methods.
5. List any of the five major ports of India.

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Unit 14: Conference

CONTENTS

Objectives

After this lecture students will be able to understand:

- United Nations code of conduct for liner conferences
- liner and tramp operations
- types of ship in international trade

Introduction

International business has got an important aspect in it i.e the transportation of goods or people. With the advancements at global level, it becomes vital for all to have some common rules and regulations universally applicable to all. In this direction when it comes to voyages there has come consensus in terms of member countries through a treaty called the liner conference. There has emerged on the scene, liner code. The United Nation is the interlocutor for this cause.

In this chapter it is interesting to note that a detailed commentary is done to cover the meaning of United Nations code of conduct for liner conference, the liner and tramp operations, which respectively means that if the routes are strictly followed for a timeline, then it is called liner operation and if nothing like strict routes and timelines then it is called tramp operations. Also there is discussion on the types of ships used in international trade.

14.1 Liner Code Meaning

The Convention on a Code of Conduct for Liner Conferences (Liner Code or Code) is an international treaty drafted under the auspices of the United Nations Conference on Trade and Development (UNCTAD).

Objective of Liner Conference:

Liner conferences are essentially trade agreements between shipping lines, which could legally fix prices and coordinate capacity on their respective trade lanes.

Meaning of Liner Conference:

Conference liners: Association of fleet owners which has a definite route of sailing and definite days of touching a particular port, whether the vessel is fully loaded or not vessel will sail in pre-determined route and itinerary.

D-4: CONVENTION ON A CODE OF CONDUCT FOR LINER

CONFERENCES

Name of the convention: Convention on a Code of Conduct for Liner conferences

Acronym or short name: Code for Liner conferences

International organisation in charge of it: United Nations Conference on Trade and Development (UNCTAD)

Summary description (in plain language): This convention recognizes the need for a universally. acceptable code of conduct for liner conference. It aims to facilitate the expansion of world. sea-borne trade, to stimulate the development of regular and efficient liner services, to ensure a balance of interests between suppliers and users of liner shipping services.

This convention deals with the group of vessel-operating carriers providing international liner. services for the carriage of cargo on particular routes (art.1). They are binding by agreement. of which they operate under common freight (art.7). This conference is composed of member lines, they shared trade between national shipping lines and practiced preferential freight. between members (art.12-15). A procedure of conciliation (an international mandatory conciliation: art.28) is instituted at the request of one of the parties to the dispute relating to membership of conference, to general freight-rate increase, or surcharges.

Date of first approval: 6 April 1974

Date of coming into force: 6 October 1983

Dates of revision: no

Reasons of revisions: no

Applicability (situation of ratification): This convention shall enter into force 6 months after the date on which not less than 24 States, the combined tonnage of which amounts to at least 25 per cent of world tonnage, have become Contracting Parties to it in accordance with article 48 (art.49).

Stakes for ports: This convention is relevance of ports concerning the liner conference system. Ports "appropriate authority" which belong to a liner conference are subjected to specific rules. (Chapter I): Ports have the right to participate fully in the consultations, but they don't play a decision. making-role, and also, they have to co-operate with shipper's organization (Chapter III, art.11). So, ports may be consulted for the changes in the tariff classification of ports (art.11 (f)). Ports belonging to a same liner conference apply the same freight rate (art.12).

14.2 Difference Between A Liner and Tramp Service

The Liners

The name liners have been derived from the word 'Line Voyages' which means a voyage or trip that follows a set schedule and route. The ships that move shipments across the routes are called liners, following strict routes, and schedules and delivering on time under all circumstances unless there is a delay caused by natural events.

Types of liner services are available:

- Independent service
- Conference service
- Consortia service
- Alliance service

Tramp Service

A tramp service, also called a tramper, is a service that is even available at a short notice, so it does not follow any strict schedule or routes. With tramp service, goods can be on and offloaded at any port. Trampers are also used to carry bulk cargo, apart from usual cargoes.

Difference between Liner service and Tramp Service

Liner Service	**Tramp Service**
Liner service follows a fixed route and schedule as well as the destination.	Tramp service does not have a fixed schedule or route and is even available at a short notice. It is less expensive and even has the capability to fit in ships with lesser speed.
The liner owners follow pre-defined rules, terms, and conditions related to the carriage and delivery of the cargo.	There are no such conditions for tramp services.
The liners have modern equipment through which loading and unloading can be faster.	Trampers generally do not take a huge load; they prefer to transport one or two shippers' consignments and limit their loading and loading to a lesser number of ports.
The freight rates are fixed	The freight rates are negotiable
The liner ship is huge enough with many facilities to carry even refrigerated items. They can carry a variety of goods. As the liner has many cabins and compartments, it has the capability to contain consignments from multiple shippers and can place them accordingly.	Tramps are a little smaller and can carry only simple and uniform cargo in larger quantities. It can carry only one kind of specific goods at a time.

14.3 Types of Ship and International Trade

1. Container ships: It is the most common mode of sea freight transport. As the name suggests, these vessels are designed to carry standard 20′, 40′ and 45′ containers.

2. General cargo ships : They mostly carry packaged goods but do not have space for containers. They use their own built-in cranes for loading and unloading operations at ports.

3. Tankers: They are designed for the transport of a large number of liquid cargoes like petroleum products (oil, gas), chemicals, wine, juice, etc. in bulk. They are further subdivided into different types based on the cargo carried.

- Oil tankers: for carrying raw oil and its by-products. These ships can hold up to two million barrels.
- Liquefied gas tankers: for LPG (liquid petroleum gas), LNG (housing liquid natural gas) or liquefied chemical gases;
- Chemical and product tankers: for chemicals and different liquid products. These ships have several tanks to avoid mixing different substances.

- Other types of tankers for juice, wine, etc.

4. Dry bulk carriers: They are structured specifically to transport solid non-packaged loose dry cargo in bulk quantities. Such carriers are then used for bagged cargo (cement, wheat, sugar…), palletized cargo (paints, chemicals…), but also for minerals (coal, iron ore…), food grains, timber … and other similar products. They are equipped with spoon-shaped cranes that allow loading and unloading and their decks have specific areas dedicated to this activity.

5. Multi- purpose vessels: They can carry a combination of all kinds of goods (general cargo, liquid), thanks to separate containers and storage systems. They are mainly used along routes that require self-geared ships and have no shore-handling facilities available.

6. Reefer ships: They are designed for the carriage of frozen/temperature-controlled cargoes, mainly in refrigerated containers. Food and perishable goods (fruits, vegetables, meat, fish…) are transported on board such vessels where they are kept at a very low temperature in order to ensure their good condition during the voyage.

7. Roll-on/roll-off vessels: Ro-Ro is an acronym for Roll-on/roll-off. Using ramps and platforms, these ships are made for the carriage of wheeled cargo, from private cars to industrial vehicles or lorries, including buses, trucks, construction equipment, excavators, etc**.**

Summary

It is very necessary in context of international trade that the exporter or importer must acquaint themselves with the transportation modes, especially the shipping mode of transport. The reason being the sea voyages are most effective means of transport. It is economical and has got a lot many other advantages like safety of goods *en-route*. There are coming on the scene regional sect enabling better coordination amongst the member nations. The relevance of liner conference is coming to the fore in a better way when there is heard a lot about globalization.

Keywords

Liner Operation: The voyages with strict routes and timelines.

Tramp Operation: The sea voyages with optional sea routes and timelines**.**

Plenipotentiary: A person, especially diplomat invested with full power of independent action.

Container: A cubical vessel with space to carry loads.

Tanker: A vessel to carry liquid loads like petroleum or gas.

Self Assessment

1. Conference system is an association of

A. Tramp

B. Liners

C. Tankers

D. Containers

2. Is a ship that has no fixed routing and itinerary or schedule and is available at short notice

A. Liner service

B. Tramp service

C. Shipping service

D. Voyage

3. Is usually to follow a schedule when moving the product.

A. Tramp

B. Liner

C. Voyage

D. Cargo

4. Usually liners are discussing the rates with their member of

A. Liner Conference

B. Tramp Conference

C. IATA

D. None of these

5. Service price of liner are----

A. High

B. Low

C. Medium

D. Fixed

6.---------is the association of airlines

A. Conference

B. Tramp

C. BSRB

D. IATA

7. JIT stands for

A. Joint Investigation Team

B. Just in time

C. Joint International team

D. None of the above

8. When a person who has chartered a ship does not use entire cargo spaceship, the owner of the ship is entitled to freight called……. freight.

A. Lump Sum

B. Advance

C. Dead

D. Net

9.----------freight is paid when a substantial part of goods arrives at destination place.

A. Net Freight

B. Dead Freight

C. Lump sum Freight

D. Advance Freight

10. Transportation provides----utility to goods.

A. Time

B. Place

C. Promotion

D. Price

11. The price paid for the delivery of certain cargo from one point to another.

A. Freight

B. Shipping Fees

C. Chart Fee

D. Demurrage

12. Containers used for carrying cargo using respiration.

A. RO RO

B. Ventilated Containers

C. Oil Containers

D. Refere Containers

13. FCL stands for

A. Full cargo load

B. Full container load

C. Freight container load

D. Freight cargo load

14. Vessels designed to carry cars.

A. SD14

B. RO RO

C. PANAMAX

D. OBO

15. It occurs when demand exceeds product availability

A. Order level

B. Stock out

C. Sales

D. Purchase

Answer for Self Assessment

1. B	2. B	3. B	4. A	5. D
6. D	7. B	8. C	9. C	10. B
11. B	12. B	13. B	14. B	15. B

Review Questions

1. What is United Nations code of conduct for liner conferences?
2. Differentiate between liner and tramp operations?
3. List various types of ships used in international trade.
4. Write a detailed note on Container vessels.
5. Discuss relevance of supply chain management.

Further Readings

Export Import Management by Justin Paul & Rajiv Aserkar, Oxford Publisher,2013

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Unit 15: Containerization

CONTENTS

Objectives

After this lecture students will be able to understand:

- Containerization
- History of containerization
- Types and benefits of containerization
- The practice of leasing a container
- Inland container depot

Introduction

Containerization is a system of intermodal freight transport using intermodal containers (also called shipping containers, or ISO containers). Containerization, also referred as container stuffing or container loading, is the process of unitization of cargoes in exports.

15.1 Containerization

Containerization is the predominant form of unitization of export cargoes, as opposed to other systems such as the barge system or palletization. The containers have standardized dimensions. They can be loaded and unloaded, stacked, transported efficiently over long distances, and transferred from one mode of transport to another—container ships, rail transport flatcars, and semi-trailer trucks—without being opened. The handling system is mechanized so that all handling is done with cranes and special forklift trucks. All containers are numbered and tracked using computerized systems.

15.2 History of Containerization

Containerization originated several centuries ago but was not well developed or widely applied until after World War II, when it dramatically reduced the costs of transport, supported the post-war boom in international trade, and was a major element in globalization. Containerization eliminated manual sorting of most shipments and the need for dock front warehouses, while displacing many thousands of dock workers who formerly simply handled break bulk cargo. Containerization reduced congestion in ports, significantly shortened shipping time, and reduced losses from damage and theft. Containers can be made from a wide range of materials such as steel, fiber-reinforced polymer, aluminum or a combination. Containers made from weathering steel are used to minimize maintenance needs.

Container Loading

Full container load

A full container load (FCL) is an ISO standard container that is loaded and unloaded under the risk and account of one shipper and one consignee. In practice, it means that the whole container is intended for one consignee.

Less-than-container load

Less-than-container load (LCL) is a shipment that is not large enough to fill a standard cargo container.

Groupage

It is the process of filling a container with multiple shipments for efficiency.

15.3 Types of Containers

Types of containers 20ft and 40ft:

1) ***Standard container-*** general purposes.
2) ***Garmentainers containers*** – created specifically for garments on hanger shipments created with special system by using string or bar system.
3) ***High Cube containers –*** suitable for voluminous or bulky cargo, and light.
4) ***Open top –*** ideal particularly for machinery or bulky freight which loaded from the top.
5) ***Super Rack-*** the most flexible container with adjustable height which is suitable for drilling machinery or helicopters.
6) ***Refrigerated container*** created for products which should be moved with controlled temperature containers.
7) ***Flat rack container*** is suitable for bulky machinery or pipes or heavy loads which should be loaded from the top or sides.
8) ***Tank container*** for transferring heavy products with special attention which does not fit into the rest of containers.
9) ***Dry ventilated containers*** are ideal for goods which should be naturally ventilated. These types of containers are so-called coffee containers. Suitable for organic goods or cocoa beans, coffee beans.

Container Types

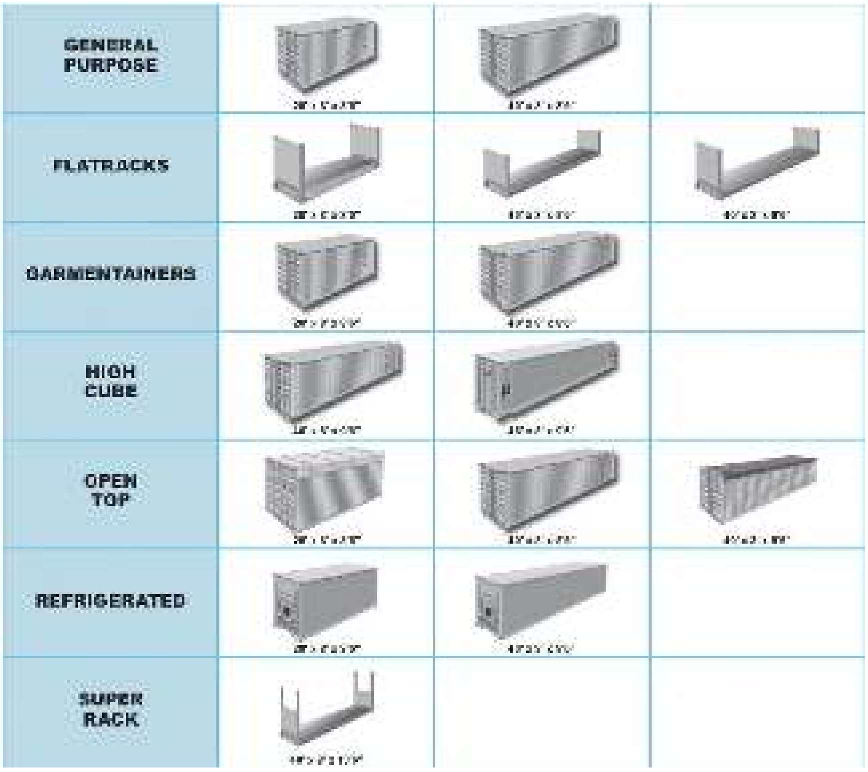

Table: Types of Containers

15.4 Benefits of Containerization

The globally growing demand for containerization among customers and stakeholders is due to its myriad benefits. Let's take a look at a few of them.

1. Efficiency and Versatility: Technology has made the shipping process cost-effective and feasible. Reduced manual labour and lower damage risks help cut costs and increase profitability. With intermodal transport, containerization offers versatility through multiple modes of transport. Once loaded in containers, the consumer or stakeholder can ship the cargo through any desired method.

2. Fast Delivery: Containerization has reduced the risk of damage and, as a result, ramped up and simplified the delivery of goods. With fully integrated advanced technologies, the shipping time has been cut down to half. Packaging, loading, and paperwork that are well-organized saves time. Shipping routes support international trade by offering quick sailing times and preparing for incoming traffic to reduce congestion.

3. Easy Management and Transparency: Since the administration of the shipping containers is the responsibility of the businesses that offer container shipping services, they are simple to handle. The repair and management of container fleets are totally up to the container leasing companies. Handled through IoT and AI technologies, containerization allows greater transparency and transit visibility of cargo containers. The number of trips required to carry cargo can be decreased by containerization, which may reduce carbon emissions.

4. Guidelines and Security: Container ships are checked for documentation and clearances by customs at ports or container depots. If they fail to produce them, it leads to delays in transit and heavy fines. The procedure complies with legal and regulatory requirements to transfer cargo without difficulty. If everything is legal, it is secure. Containerization provides absolute safety and allows for easier tracking of cargo, which can improve the overall supply chain.

5.Reliability: Containerization reduces intermediate or third-party involvement, resulting in quality packaging and delivery. In cases of tampering or theft from cargo, the sender is alarmed through the mobile app. The cargo is responsibly always handled to cut down risks of damage.

Hazards of Containerization

1. Containers have been used to smuggle contraband or stolen cars. The vast majority of containers are never subjected to scrutiny due to their large numbers. In recent years there have been increased concerns that containers might be used to transport terrorists or terrorist materials into a country undetected.
2. Empty containers: Containers are intended to be used constantly, being loaded with new cargo for a new destination soon after emptied of previous cargo. This is not always possible, and in some cases, the cost of transporting an empty container to a place where it can be used is considered to be higher than the worth of the used container.
3. Loss at sea: Containers occasionally fall from ships, usually during storms. According to media sources, between 2,000 and 10,000 containers are lost at sea each year.
4. Trade union challenges: The extensive use of containers displaced a lot of dock workers and in that way there is opposition to the advent of containerization when machines are replacing manual workers. Some of the biggest battles in the container revolution were waged in Washington, D.C.. Intermodal shipping got a huge boost in the early 1970s, when carriers won permission to quote combined rail-ocean rates. Later, non-vessel-operating common carriers won a long court battle with a US Supreme Court decision against contracts that attempted to require that union labor be used for stuffing and stripping containers at off-pier locations.
5. As pest vector: Containers are often infested with pests.[90][91] Pest introductions are significantly clustered around ports, and containers are a common source of such successful pest transfers.

15.5 The Practice of Leasing Containers

What is container leasing?

Container leasing is the process of acquiring containers from leasing companies on rent for a specific time frame in exchange for a predetermined payment.

- Lessor is the party who is providing the asset on lease.
- Lessee is the party who is getting the asset on lease.
- Lease Rental is the consideration involved where one party (lessor) is receiving the rent from other party(lessee), who has acquired a ship on lease rental basis.

What are the different types of container leasing agreements?

The different types of container lease agreements are

1) Master lease: The lessor is responsible for the full management of the container fleet, and this includes maintenance and repair. This also means that when you need an empty container, the lessor will make all the arrangements to ensure you get what you need. The agreement is also the most flexible and offers numerous pickup and drop-off locations. You also have the option to store your container at the lessor’s depot, saving you storage fees.
2) Long term lease: Through the long-term container leasing agreement, you sign a contract that extends from 5 to 7 years for new containers and 1 to 5 for used containers. You can agree upon a fixed amount of time and a delivery schedule. And you can decide the number of containers you want to lease.
3) Short term lease: You can sign this agreement for a brief period of time. The duration of this container lease agreement is more than six months.

4) One way lease: Do you want a container just for a one-way trip? Then a one-way container is the most ideal agreement

15.6 What is the role of Inland Container Depot?

An Inland Container Depot (ICD) is a container storage facility situated in the hinterlands, away from any major port. Shipping companies use ICDs to store and move shipping containers before and after transporting them to the seaport.

As they are located away from the sea or any major river routes, Inland Container Depots are also sometimes referred to as the 'Dry Ports.'

Why is Inland Container Depot important?

At an ICD, the sea custodians, freight forwarders, customs brokers as well as officials from the customs department provide their services to the importers and the exporters. They process their shipment near their godowns and factories, away from the far-off ports. ICDs help de-stressing and decongesting the ports where the storage spaces are limited due to the land's judicious use.

Functions of Inland Container Depot

As Inland Container Depots act as a makeshift warehousing storage-

ICDs are physical facilities that store the containers temporarily before they are moved to the port and loaded on the ships. Exporters can also place their cargo inside the containers at an ICD.

Along with being a storage facility, ICDs can also provide export and import customs clearances. All the services that are provided at a port, can also be availed at the ICD situated far away from the port.

ICDs also act as servicing and repair facilities for containers and other moving equipment.

Where is the major inland container depot in India?

Delhi has the largest ICD in India, namely ICD Tughlakabad.

Summary

Containerization originated several centuries ago but was not well developed or widely applied until after World War II, when it dramatically reduced the costs of transport, supported the post-war boom in international trade, and was a major element in globalization. Containerization eliminated manual sorting of most shipments and the need for dock front warehouses, while displacing many thousands of dock workers who formerly simply handled break bulk cargo. Containerization reduced congestion in ports, significantly shortened shipping time, and reduced losses from damage and theft. Containers can be made from a wide range of materials such as steel, fiber-reinforced polymer, aluminum or a combination. Containers made from weathering steel are used to minimize maintenance needs.

Keywords

ICD: In land Container Depot

Lessor : Lessor is the party who is providing the asset on lease

Lessee : Lessee is the party who is obtaining the asset on lease

Container: a box, bottle, packet, etc. in which something is kept

FCL: Full container load

LCL: Less-than-container load

Self Assessment

1. For shipment of 1, 00,000 pairs of shoes from Indonesia to landlocked country like Switzerland and Nepal which of the following mode of transport is most economical?

A. Air

B. Multimodal Sea / Air

C. Rail7D

D. Multimodal Sea/Land

2. Out of following, which port is handling highest number of containers in the world?

A. Shanghai

B. Hong Kong

C. Antwerp

D. Los Angeles

3. Which of following port is on extreme east of India?

A. Chennai

B. Paradip

C. Kochi

D. Ennore

4. In sea transport bulk cargo means ……… (find correct answer)

A. Packed cargo loaded on vessel.

B. Cargo shipped without any packing.

C. Containerized cargo shipped in large quantities.

D. Refrigerated Cargo

5. In deciding modes of Transportation, the important consideration is given to

A. Value-to Volume Ratio

B. Perishability

C. Cost of Transportation

D. All above factor

6. Intermodal transportation success in USA is due to

A. Very large distance between the W Coast & E Coast and A very reliable rail service

B. The possibility to serve all inland points in the USA via the WC without crossing the Panama Canal (which is expensive &time consuming)

C. Good buying power of people situated in cities and towns in interior part of USA

D. All the above factors

7. For transportation of one transformer weighing 25 metric ton, measurement 9’ W / 21’ L-- what type of container should be used?

A.20′

B.40′ Open top

C.40′

D.20′ flat rack

8. For transportation of one boiler weighing 25 metric ton, measurement 7′6″ W / 19′ L and 9′10″ H freight quoted by shipping line is \$1200 D20′/ \$3300 D40′ flat rack / \$3500 20′ Flat rack /\$3000 D20′ Open top -- what type of container you will use?

A.20′

B.40′ Flat rack

C.20′ Open top

D.20′ flat rack

9. Out of following which is not "non-tariff barrier"?

A. Import license

B. Import Duty

C. Quota system

D. Free and Preferential Tariff Treatments

10. To keep cost of inventory low, which of the following products will be air freighted?

A. Costume jewelry nonprecious

B. Precious stone jewelry.

C. Hair clips

D. Bracelets made of wood.

11. Coir, tea and coffee is exported from……………in large quantity (Find correct answer to complete the sentence)

A. Kochi Port

B. Mumbai Port

C. Chennai Port

D. Paradip Port

12. The problem of double taxation can be eliminated by:

A. Group Negotiation
B. Unilateral agreement
C. Bilateral Agreement
D. Market Agreement

13. Charter party is used in--------trade?

A. Export
B. Import
C. Internal

D. State

14. Maximum international trade is------canal.

A. Suez
B. Panama
C. English
D. Kiel

15. Working capital to exporter is provided by?

A. Ministry of foreign affairs
B. Ministry of home affairs
C. Export Credit Guarantee Corporation
D. Commercial Banks

Answer for Self Assessment

1.	D	2.	A	3.	B	4.	B	5.	D
6.	D	7.	D	8.	C	9.	B	10.	B
11.	A	12.	C	13.	A	14.	B	15.	D

Review Questions

1. What is containerization? Discuss how this innovation has revolutionized the EXIM trade?
2. Discuss containerization of lease?
3. What is understood by the term Inland container Depot (ICD)? What are advantages of it?
4. Write a detailed note on Hazards of containerization?
5. What are the various types of containers used in EXIM?

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Unit 16: Export Procedures and Documents

CONTENTS

Objectives

After this lecture students will be able to understand:

- Export Procedures and Documents:
- Processing an export order,
- Negotiation of documents
- Role of banks in export import transaction

Introduction

Indian export and import of goods are governed by the foreign trade policy of the country. Foreign Trade (Development and Regulation) Act,1992 given power to the central government to notify the respective foreign trade policy. The present trade policy 2023 is effective from April01,2023 and shall continue to be in operation till time except when amended or modified.

16.1 Starting Export

Export means any act of sending goods out of India using land, sea, or airways. There has to be proper transaction of money. To set an export business the following steps are to be taken:

1.Setting up a business entity

To start export business, a business entity with attractive name and logo has to be established viz. a sole proprietorship, or a firm or a company.

2.Opening a bank account

There has to be opened an account with any of the banks authorized to deal with foreign exchange.

3. Obtaining permanent account number (PAN)

It is necessary to obtain a permanent account number from the Income tax department.

4. Obtaining exporter and importer code (IEC) number

It is necessary to obtain exporter and imported code (IEC) numbers by following a due procedure.

5. Registration cum membership certificate

For obtaining the benefits and concessions there has to be obtained registration cum membership certificate (RCMC) by becoming member of the Export Promotion Councils/ Federation of Indian Export Organisations (FIEO)/Commodity Boards/Authorities.

6. Selection of product

There has to be selection of the product from the list of items the export of whom is allowed and not prohibited.

7. Selection of market

There has to be done detailed research while selecting the export market. The market size, competition, quality requirements, payment terms, special benefits available for the export done to specific countries under foreign trade policy (FTP) are some of the variables to be pondered over.

8. Finding a buyer

Trade fairs, buyer seller meets, exhibitions, B2B Portals, web browsing Indian mission abroad, overseas chamber of commerce etc. can be helpful in finding a buyer.

9. Sampling

Providing good samples to the overseas buyers is an essential condition and it is due to this reason that the samples are freely exportable items.

10. Pricing and costing

There has to be proper costing using cost sheets to find the cost for pricing the product. All the expenses from free sampling till the proceeds are received are to be considered. Ther terms of sales like Free on Board (FOB), Cost Insurance and Freight (CIF), Cost& Freight(C&F) must be considered while setting the price of the items.

11. Negotiation with buyer

Finding the future prospects with the concerned buyer is also a vital necessity and, in this way, the necessary terms of sales can be discussed for the discount and allowances to help boost the trade.

12. Covering risk through Export Credit Guarantee Corporation Limited (ECGC)

The oversea trade poses a challenge in terms of risk in collecting the payments. The letter of credit(L/C), Advance payments or if the Letter of credit or proper advance is not received then there has to be taken guarantee from Export Credit Guarantee Corporation (ECGC) in term of credit limits to lessen the risk of nonpayment.

With that in mind, here are 11 standard shipping documents for export that you need to understand in order to be successful.

16.2 Documents in Exporting

1. Proforma Invoice : In an international transaction, quote would be provided as a proforma invoice. International prospect may need a proforma invoice to arrange for financing, to open a letter of credit, to apply for the proper import licenses and more.

A proforma invoice specifies the following:

- The buyer and seller in the transaction.
- A detailed description of the goods.
- The Harmonized System classification of those goods.
- The price.
- The payment term of the sale, which would typically be expressed as one of the 11 current Incoterms.

- The delivery details, including how and where the goods will be delivered and how much that will cost.
- The currency used in the quote, whether it's U.S. dollars or some other currency.

2. Commercial Invoice: The commercial invoice includes most of the details of the entire export transaction, from start to finish.
3. Packing List: The packing list identifies items in the shipment and includes the net and gross weight and dimensions of the packages.
4. Certificates of Origin: Some countries require a certificate of origin to identify in what country the goods originated.
5. Certificate of Free Sale: Sometimes called a "Certificate for Export" or "Certificate to Foreign Governments," a Certificate of Free Sale is evidence that goods—such as food items, cosmetics, biologics, or medical devices—are legally sold or distributed in the open market, freely without restriction, and approved by the regulatory authorities in the country of origin.

6. Shipper's Letter of Instruction (SLI): Shipper's Letter of Instruction (SLI) may include a limited Power of Attorney, providing authority like freight forwarder, to act on exporter's behalf for this shipment.
7. Inland Bill of Lading: An inland bill of lading is often the first transportation document required for international shipping created for the export.
8. Ocean Bill of Lading: If goods are shipped by ocean vessel, there will be needed an ocean bill of lading. An ocean bill of lading can serve as both a contract of carriage and a document of title for the cargo.
9. Air Waybill: Goods shipped on a plane require an air waybill.
10. Dangerous Goods Forms: If products are considered dangerous goods by either the International Air Transport Association (IATA) or the International Maritime Organization (IMO), there is needed the appropriate dangerous goods **form** with your shipment.
11. Bank Draft: A bank draft is an important part of the international sales process for transferring control of the exported goods from the seller in exchange for funds from the buyer. It is often called a documentary collection because the seller attaches various documents to a bank draft and a cover letter.

16.3 Processing of an Export Order

1. Confirmation of order
2. Procurement of goods
3. Quality Control
4. Finance
5. Labeling, packaging, packing, and marking.
6. Insurance
7. Delivery
8. Customs procedure
9. Custom House Agents

10. Documentation
11. Submission of document to bank
12. Realization of proceeds

16.4 Negotiation of Documents

After shipment or export of goods, exporter has to negotiate the documents through a bank within a period of 21 days from the date of shipment. Submission of relevant documents to the advising bank and the process of obtaining payment is called "Negotiation of Documents

16.5 Role of Banks in Export Import Transaction

Banks play a critical role in cross-border trade. They provide financial services and reduce the risk associated with exports and import.

Banks can help with export-import transactions in the following ways:

Foreign exchange: Commercial banks can help provide foreign exchange to individuals and organizations that export or import goods from overseas.

Pre-export and pre-import loans: Banks can provide loans to firms before they export or import.

Instruments that reduce risk: Banks can provide instruments that reduce the risk of a transaction.

Trade financing: Banks can provide trade financing across intercontinental space.

Foreign branch banking: Banks can provide foreign branch banking and ease of payment.

Guarantees: Banks can provide guarantees to importers and exporters.

The Export-Import Bank of India (EXIM Bank) is a bank that helps with the financial export and import of services and goods from the country. It helps in financing the export and import of machines. It also helps to refinance bank services as well as other institutions for foreign financing trade.

Summary

Exports and imports are part of international trade. There are detailed rules and regulations governing export and import. The reason being the great potential of export and import to set the pace of development of a particular nation.

Every country of the world has greater influence from international transactions and it is to be remembered that there has to be co-operation amongst the nations on the planet earth to help the flourishing of trade.

Keywords

EXIM Bank: Export Import Bank

Freight Forwarder: a person that receives and ships goods on behalf of another person.

CIF: Cost, insurance, and freight are to be paid by the seller. The seller takes care of everything up to delivery at the buyer's destination port.

FOB: Free on board means the buyer is responsible for the transportation etc. the goods are considered delivered once they are cleared for export and loaded onto the shipping vessel.

Self Assessment

1. Exporter has to register with one of the following authorities.

A. RBI

B. EXIM bank
C. DGFT
D. ECGC

2. The exporter gets _______ from DGFT.

A. IEC number
B. PAN number
C. Aadhaar number
D. Credit number

3. Let export order is received from the Customs _______ .

A. Preventive Officer
B. Examiner
C. Superintendent
D. Custom officer

4. Mate's Receipt is issued by _______.

A. Customs
B. Captain of the Ship
C. Importer
D. Inspection agency

5. The CHA is also known as _______.

A. C&F agent
B. Consignor
C. Customs official
D. Shipping company

6. The CHA submits the relevant export documents to the _______ for the purpose of verification.

A. RBI
B. SIDBI
C. Customs house
D. Shipping company

7. The CHA has to obtain ______ from the Port Trust Authorities.

A. Commercial invoice
B. Let Export order
C. Let Ship order
D. Carting order

8. Customs Preventive Office issues _______ order.

A. Let Export
B. Let Ship
C. Carting
D. Mate's

9. The shipping bill is made in ______ copies.

A. one
B. three
C. five
D. seven

10. Bill of lading is issued by _______ company.

A. transport
B. shipping
C. warehousing
D. outsourcing

11. The main function of EXIM bank

A. Granting of direct loan in India and outside for the purpose of Import & Export

B. Granting of loan for Industrial houses established aboard

C. Granting license for import and export

D. None of the above

12. Government of India had set up EXIM Bank with an objective

A. Provides Lines of Credit (LOC) to enable Indian exporters to enter new geographies

B. To enhance exports from India, and to integrate the country's foreign trade and investment with the overall economic growth.

C. Enhanced export opportunities for India and driven the economic growth of the nation.

D. None of the above

13. The headquarter of EXIM Bank is in:
A. Mumbai
B. Kolkata
C. Chennai
D. Delhi

14. Consider the following statements.

1.The office of the DGFT (Director General of Foreign Trade) is responsible for formulating & execution of Exim policy.

2.The E-Biz project was launched in 2009.

Which of the above statements is/are true.

A. Both 1 & 2

B.1 only

C.2 only

D. Neither 1 nor 2

15. EXIM Bank is wholly owned by

A. Government of India

B.RBI

C. subsidiary of Industrial Credit & Investment Corp of India Ltd

D. None of the above

Answer for Self Assessment

1.	C	2.	A	3.	B	4.	B	5.	A
6.	C	7.	D	8.	B	9.	C	10.	B
11.	A	12.	B	13.	D	14.	A	15.	A

Review Questions

1. What are CIF and FOB delivery terms?
2. Discuss the role of banks in export and import transactions?
3. Discuss the process of exporting an order?
4. What are the various documents in exporting?

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Unit 17: Information Technology and International Business

CONTENTS

Objectives

After this lecture students will be able to understand:

- Information Technology and International Business
- Electronic Procurement
- Electronic Marketing
- Electronic Logistics

Introduction

Information technology has changed how businesses around the world communicate, hire employees, conduct foreign trade, market their products, perform research and manage global supply chains. It has particularly opened up opportunities for businesses of all sizes to expand the reach of their products and services, choose the best suppliers from around the globe and take advantage of advanced manufacturing solutions.

Understanding the role of information technology in international business can give insight on how your small business can leverage technology to improve operational efficiency and gain a global competitive advantage.

Businesses and customers around the world can now communicate easily regardless of location thanks to the use of technologies such as online chat, email, texting, social media, video conferencing and Voice over Internet Protocol.

17.1 Information Technology and International Business

No longer do you need to spend time and money to physically travel internationally for a business deal or meeting since you can simply arrange an appropriate time and communicate in the convenience. One can also stay in better contact with international customers to hear how they feel about your products as easily as reading their reviews or messages.

At the same time, technologies like automatic translation software have helped make communication easier when doing business with professionals and customers who don't speak English. There are even automated chat bots you can use to respond in the local language to common questions your customers might have. Automated options particularly help with providing 24/7 customer service when you and your customers are several time zones apart.

Global Human Resources

Technologies like cloud computing and web conferencing make it possible to hire employees who live in other countries. As a result, companies have more options for finding key talent and saving money since they won't need to build a physical office for these remote employees.

International employees hired directly can often do their work from home as long as they have a connection to the internet. Companies also have the option to hire remote staff through outsourcing centers that provide a workspace and the common equipment needed.

When hiring a global remote workforce, companies can also benefit when they have employees in a country where they have suppliers, vendors and customers. Not only does a global workforce add to the company's diversity but it also provides the company with some staff who can speak the language and understand the customs there. These remote employees can assist you with meetings and business processes locally as needed.

Advancements in Manufacturing

Developments such as 3D printing and robotics have transformed how companies around the world manufacture products. These technologies make it easier to produce products quickly with fewer mistakes so that global businesses can meet customer demand as well as potentially save money. In the case of robotics, this technology can help produce products as complex as vehicles and gadgets alongside human workers. You can expect advancements in artificial intelligence to lead to even higher efficiency and quality when it comes to 3D printing and robotics-aided manufacturing.

Manufacturing technologies can also influence business decisions about whether to produce products in house or overseas. For example, the need for less labor and the improved capacity with these technologies might encourage a U.S. company to stop producing overseas if it looks more financially feasible.

On the other hand, a business in a country where technological developments happen slowly or where costs run high might opt to outsource its production to a technologically advanced manufacturer overseas. Some companies may find that a mix of in-house and offshore manufacturing gives them the most advantage.

Supply Chain Management

The use of sophisticated supply chain management software has made it easier to manage a global supply chain rather than just source products and supplies domestically. Companies may do this to take advantage of lower costs and improved efficiency as well as to have more variety in what they can purchase from international companies.

Supply chain management software can help companies strategically source their goods internationally for the best value and view real-time inventory reports. Such software also integrates with e-commerce platforms so that global customers' orders get fulfilled seamlessly using the most efficient route and postal service.

Along with being able to easily place and ship orders from around the world, companies also benefit from electronic tracking systems that help with managing the supply chain. These keep them informed of their shipments throughout the transportation process so they can detect and respond to issues like delays.

E-Commerce and Digital Payment Systems

Thanks to e-commerce, small businesses can now more easily do business with customers and other companies around the world. Rather than having to set up multiple shops for customers to visit, you can take orders from around the world by easily setting up an online store that customers can visit through their web browser or a mobile app. At the same time, you can use e-commerce to order supplies and inventory from overseas where you might save money.

Along with using regular payment systems, businesses can now use technologies like PayPal, Alipay and cryptocurrency platforms. These systems make it easier to handle transactions in different currencies and allow customers and companies to make and receive payments right from their phones or computers.

Role in Information Gathering

Another important role of information technology in foreign trade includes how it's made it easier for companies around the world to research each other and make more informed international business decisions. Tech companies in Asia can simply go online to learn about their American competitors' products, financial standing, and marketing reach to better assess their strengths and weaknesses. At the same time, American companies can do research about foreign markets for their products and assess where expanding would make financial sense.

In the end, online research abilities can help companies more easily gain a competitive advantage against global competitors. It can also help boost innovation when it leads to ideas on how to improve an existing product or service to meet a specific market's need.

Information Technology and International Marketing

The importance of information technology and international marketing is seen in how the internet allows companies to reach customers in any country. Rather than relying on costly print, TV and radio advertising, businesses can pay for cheaper online ads through global search engines, get listed in global business directories and advertise on social media sites. They can even hire remote marketing specialists in the targeted locale.

Companies can also use tools like customer relationship management software to customize their marketing campaigns to fit each market's culture and customer preferences. This software helps with tracking marketing analytics to understand customers' impressions of products and services, and it can also streamline communications with global customers through automated emails and response tracking.

Efficiency of Global Business Operations

Information technology has improved how efficiently international businesses can operate across various business sectors. Whether companies need to find the best trade routes, research a foreign competitor, dispense digital services, find remote staff, or mass-produce products, they can do so quickly with a search on the internet or a few clicks within some enterprise software.

Tools like supply chain management, customer relationship management and business intelligence software can even help automate common business processes to free up managers' time for more important tasks, such as crafting an international product strategy or seeking new market opportunities.

17.2 Electronic Procurement

Electronic procurement, also known as e-procurement, is the process of buying and selling goods and services online. It can be a business-to-business, business-to-consumer, or business-to-government process.

E-procurement uses a supplier's closed system, which means that only registered users can access it. It can automate bidding, ordering, and invoicing, and can reduce transaction costs and make purchasing faster.

E-procurement can help organizations:

- Streamline the purchasing process.
- Reduce transaction costs.
- Increase teams' speed and efficiency.
- Reduce the rate of error by an average of 30-50%
- Focus on more complex or strategic procurement tasks.
- Some common challenges with manual procurement include:
- Poor data management
- Supplier management issues
- Non-compliance / legal risks
- Poor transparency

Benefits of e-procurement

There are many benefits you can gain from using e-procurement, such as:

- **Creates information transparency:**

  E-procurement makes the transference of information and data more transparent to the company and its supplier. You can use this information to view purchasing behaviors, leverage buying power, control non-compliant spending, and identify opportunities to consolidate suppliers.

- **Helps companies save money:**

  E-procurement can help a company save substantial amounts of money because it eliminates costly errors that may occur when handling manual orders and paperwork. The company can then use the money they save for other initiatives, like marketing and advertising.

- **Automates procurement processes:**

  By automating your procurement processes, you're able to sustain more consistent and cost-effective operations. There's a diverse range of procurement software that you can use to help you achieve this goal, helping lower the need to perform monotonous activities, like data entry and analytics.

- **Shortens procurement and purchasing cycles:**

  The benefit of shorter process cycles is that you're able to obtain the goods and services that you need at a much faster rate. This helps to limit operation downtime, which ultimately helps to increase productivity, save costs and increase profits.

- **Improves inventory management and control:**

  It's important for a company to better manage their inventory because it enables them to gather accurate information about their current supply of goods. They can then use this information to make more informed business decisions.

- **Streamlines operations:**

  This is an essential benefit of using e-procurement because it helps you save time and increases productivity. Having all of your online purchasing and selling processes functioning seamlessly creates a more uniform system and makes it easier to identify and resolve problems before they escalate.

- **Larger product and service selection:**

  Because all the transaction and procurement processes occur online, you have access to a broader range of products and services to choose from. This variety enables you to make comparisons between what's available and select the goods that are best for your company and most cost-effective.

- **Limits maverick spending:**

Maverick spending describes when an individual procures products that aren't within the parameters of the designated contract and negotiations. Limiting these types of actions helps to ensure that all procurement processes meet compliance regulations set between the company and supplier.

17.3 Electronic Marketing

Electronic marketing, or e-marketing, is a type of advertising that uses the internet and other digital technologies to promote products and services. E-marketing can include:

- Email or social media advertising
- Web banners
- Mobile advertising
- Content marketing

E-marketing is also known as online or internet advertising. It can work 24 hours a day, 7 days a week, and 365 days a year.

E-marketing is the marketing of goods and services through the internet.

It makes it easy for businesses to reach a wide range of potential customers due to the large number of people using the internet today.

E-marketing is crucial for business for a few reasons, as it:

- Allows you to find and target potential customers online.
- More efficiently communicate with your audience
- Personalize your marketing strategy based on customers' interests.
- Increase brand's visibility.
- Get quality leads actually interested in your product.
- Various technologies are used in e-marketing, allowing shoppers to read ads, use/receive coupons, view pictures of products, compare prices, and make purchases with a few clicks of a mouse. Which saves time and money.

Types of E-Marketing

E-marketing can be broken down into eight main categories:

- Search engine optimization (SEO)

SEO helps you achieve organic (non-paid) traffic from search engines like Google

- Pay-per-click (PPC)

  Pay-per-click advertising is a digital method where an advertiser pays a publisher every time the ad is clicked. What differentiates pay-per-click from SEO is that you have to pay for the results.
- Social media marketing

Social media marketing includes everything a business does through its social media channels to promote its products or services.

- Content marketing

Content marketing is a type of e-marketing that focuses on creating, publishing, and distributing content for an online targeted audience.

- Email marketing

In email marketing, businesses send out emails to contacts informing them about products, services, sales, content, etc.

- Mobile marketing

In mobile marketing, websites, e-mail, SMS, MMS, social media, and apps are used to reach a target audience through smartphones, tablets, and other mobile devices.

Some examples include:

Promotions sent through text messages (SMS marketing)

Promotions sent through instant messaging or chat platforms.

Promotions sent through push notifications.

In-app advertisements

Mobile banner ads

- Affiliate marketing

Affiliate marketing is a marketing agreement between a web retailer and an external website in which the retailer pays the external website a commission for the site visitors or sales generated by its referrals.

- Influencer marketing

Influencer marketing refers to the partnership between a brand and an influencer. Influencers receive payment and/or products in exchange for creating or sharing content about a brand with their followers.

17.4 Electronic Logistics

E-logistics is defined as the management of all the physical flows of an organisation that sells goods on an online platform (website, marketplace, etc.). E-logistics is opposed to the traditional logistics set up by retailers, although the two can be complementary. Because of its many particularities, e-logistics represents a crucial issue for e-merchants and requires the deployment of specific actions and processes in order for an e-merchant to benefit from an optimal flow management.

Several factors explain this:

Buying online has become an increasingly important part of buyers' consumption habits in recent years. In 2020, online purchases have raised of +32% according to FEVAD (Fédération des Entreprises de Vente a Distance *(French: Federation of Mail Order Sales Companies)*. Having a dedicated logistics specific to this sales channel is therefore no longer an option for e-merchants.

Internet users are becoming increasingly demanding when buying on the internet. E-commerce offers future buyers the opportunity to compare offers on the market in just a few clicks, which means that e-merchants need to stand out from the crowd, and this largely involves the buying experience, and therefore the delivery process.

The withdrawal period is also much longer in e-commerce than in traditional commerce. It is way more likely that the product received will not ultimately meet the customer's expectations, hence the importance of implementing a returns management policy for online merchants.

In view of these observations, it is understandable that logistics management is of particular importance and represents a front-line issue in the success of an e-commerce business**.**

Summary

The Information technology have opened many opportunities for businesses to expand their reach of products and services abroad. Businesses can leverage technology to improve operational efficiency and gain global competitive advantage. Use of technology has made the business and customers close in many areas. Information Technology has transformed the world business unit to great heights using which the world commutation, hiring the employees, conducting world trade management, marketing products and manage the supply chain management made more effortless.

Technology seems to be no longer limited to specific regions of the world or populations. Even the moderate individual now has access to some sort of technology that has aided this same technological and global business.

Keywords

Information Technology: Use of electronic hardware with supporting computer software programme for flow of information.

SMS: Short message service

MMS: Multimedia messaging service

FEVAD: (Fédération des Entreprises de Vente a Distance (French: Federation of Mail Order Sales Companies.

SCM: Supply chain management

PPC: Pay-per-click.

Self Assessment

1. The process of introducing gaming ambience to increase the involvement of the customers and thereby sales is called by what name? It is online technique today:

A. Games people play.

B. Game theory

C. Game sell

D. Gamification

2. Which is not true about web marketers:

A. Attract customers through digital modes.

B. Offers lot of discounts.

C. Ask for personal details to help.

D. None of the above

3. In the world of marketing, SMM stands for:

A. Social marketing media

B. Social management and marketing

C. Social marketing media

D. Social media marketing

4. The paid advertising programme of Google is called:

A. Google scholar

B. Google ads console

C. Google ads

D. Google Ads

5. Efforts of the company to inform, communicate, promote, and sell its products and services using internet is called:

A.E-Commerce

B.E-Business

C.E-Marketing

D.E-Selling

6. ---------are discussion group available on commercial online services:

A. Buddy lists

B. Forums

C. Chat-lines

D. News group

7.Which one of the followings is not an offer of B2B marketers online:

A. Product information

B. Customer purchasing

C. Customer support services

D. Open trading networks

8. OLX is a platform?

A.B2B

B.B2C

C.C2C

D.C2B

9. The delivery of goods or services ordered on e-shop does not depend on:

A. Size

B. Cost

C. Nature

D. Urgency

10. The following is not amongst the three phases of e-commerce?

A. Réinvention

B. Préservation

C. Globalisation

D.E-Commerce

11. The following is not the advantage of e-commerce?

A. Cost economy

B. Wider choice

C. Late response

D. Improved customer service

12. "Shopsy" is the online free shops app launched by:

A. Google

B. Amazon

C. Flipkart

D. Paytm

13. A company engaged in the online selling of its product is called…….company ?

A. Internet

B. Extranet

C. e-business

D. Intranet

14. What is EOQ Inventory control?

A. Economic occurring quantity

B. Economic ordering quantity

C. Economic optimized quantity

D. Economic order quantity

15.The reservation system of Indian railways is an example of?

A. Transaction processing system

B.ERP

C.SAP

D.FOXPRO

Answer for Self Assessment

1.	D	2.	C	3.	D	4.	D	5.	C
6.	B	7.	D	8.	C	9.	B	10.	B
11.	C	12.	C	13.	C	14.	D	15.	A

Review Questions

1. What is the meaning of use of information technology in international business?
2. Differentiate between electronic procurement and electronic marketing?
3. Write a detailed note on:
   A. Search engine optimization
   B. Influencer marketing
4. What is electronic logistic and how it is different from traditional logistics?
5. What are various types of electronic marketing?

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Unit 18: Incoterms

CONTENTS

Objectives

After this lecture students will be able to understand:

- Incoterms
- purpose and scope of incoterms
- structure of incoterms
- incoterm groups

Introduction

What does Incoterms means?

Incoterms Explained

International commercial terms—Incoterms for short—clarify the rules and terms that buyers and sellers use in international and domestic trade contracts. The International Chamber of Commerce (ICC) developed Incoterms in 1936 and updates them periodically to conform to changing trade practices.

18.1 Incoterms

To facilitate commerce around the world, the International Chamber of Commerce (ICC) publishes a set of Incoterms, officially known as international commercial terms. Globally recognized, Incoterms prevent confusion in foreign trade contracts by clarifying the obligations of buyers and sellers.

The International Chamber of Commerce (ICC) developed Incoterms in 1936 and updates them periodically to conform to changing trade practices.

The ICC's mission is to promote open markets and ensure global economic prosperity through trade.

Because the ICC is a networked business organization that reaches more than 45 million companies in more than 100 countries, it is seen as having unparalleled expertise in establishing rules to guide international trade.

While adherence to its Incoterms is voluntary, the ICC-established rules are commonly used by buyers and sellers as a regular part of trade transactions.

18.2 Purpose and Scope of Incoterms

Parties involved in domestic and international trade commonly use Incoterms as a kind of shorthand to help understand one another and the exact terms of their business arrangements. Some Incoterms apply to any means of transportation, while others apply strictly to transportation across water.

Incoterms provide a universal set of rules and guidelines that help facilitate trade. In essence, they provide a common language that traders can use to set the terms for their trades. Buyers and sellers can use Incoterms in a variety of activities necessary to conduct business. Typical activities that call for the use of Incoterms include filling out a purchase order, labeling a shipment for transport, completing a certificate of origin, or documenting a free carrier agreement (FCA).

Advantages and Disadvantages of Incoterms

The single greatest advantage of using Incoterms is the standardization and specificity of complicated international trade aspects. Having a system that eliminates ambiguity between nations has made trading much simpler, especially when negotiating terms. This saves time and money that would have previously been spent on lawyers, who would draft terms basically breaking down Incoterms into different languages.

A notable disadvantage of Incoterms is that buyers and sellers often have different preferences when using them. Sellers, for example, may choose CIF because they understand their shipments better than buyers do. Buyers, in contrast, may prefer FOB for the same reasons. However, the terms themselves are not the issue, and it becomes more a matter of negotiation over which terms to use vs. the clarity of the terms themselves.

Incoterms 2010 vs. Incoterms 2020

Although the 2010 Incoterms were updated in 2020, there are no significant differences in the naming conventions between the two. There was only one change in terminology: the 2010 term Delivered at Terminal (DAT) was clarified to the 2020 term Delivered at Place Unloaded (DPU). This was done to include all places of unloading, not just those in terminals. In both instances, there are 11 terms.

Can one still use Incoterms 2010 after Jan. 1, 2020?

Yes, it is still acceptable to use the 2010 Incoterms. However, both buyer and seller should agree in writing to use either the 2010 or 2020 Incoterms version.

Pros

- Easily understood terms.
- International standardization
- Updated and clarified by an international body (ICC)

Cons

- Differences between buyer and seller preferences when choosing terms.
- Certain terms can expose one party to inflated costs.

18.3 Structure of Incoterms

The 11 Incoterms are:

1. Ex Works (EXW)

An EX Works (EXW) Incoterm is an agreement that maximizes the buyer's risk and responsibility, by requiring the seller to only make the goods available for the buyer at their warehouse or dock.

2. Free Carrier (FCA)

Under the shipping terms for the FCA Incoterms (short for "Free Carrier"), the seller is responsible for export clearance and delivery of goods to the carrier at the named place of delivery.

3. Carriage Paid to (CPT)

Carriage Paid To (CPT) is an international commercial term (Incoterm) denoting that the seller incurs the risks and costs associated with delivering goods to a carrier to an agreed-upon destination. With multiple carriers, the risks and costs transfer to the buyer upon delivery to the first carrier.

4. Carriage and Insurance Paid to (CIP)

CIP (or Carriage and Insurance Paid To) is an Incoterm where the seller is responsible for the delivery of goods to an agreed destination in the buyers' country and must pay for the cost of this carriage.

5. Delivered at Place (DAP)

Under the Delivered At Place (DAP) Incoterms rules, the seller is responsible for delivery of the goods, ready for unloading, at the named place of destination. The seller assumes all risks involved up to unloading. Unloading is at the buyer's risk and cost. DAP can apply to any—and more than one—mode of transport.

6. Delivered at Place Unloaded (DPU)

With the DPU Incoterm, the seller assumes all costs and risks until the goods are unloaded at the agreed named place at destination. In this case, the buyer is responsible for import customs formalities. DPU can apply to any mode of transport or multiple modes of transport.

7. Delivered Duty Paid (DDP)

Under the Delivered Duty Paid (DDP) Incoterm rules, the seller assumes all responsibilities and costs for delivering the goods to the named place of destination. The seller must pay both export and import formalities, fees, duties and taxes.

8. Free Alongside Ship (FAS)

In a contract for international trade, free alongside ship means the goods will be delivered right next to the buyer's ship, ready for reloading. It is one of a number of so-called incoterms, rules issued by the International Chamber of Commerce governing international transactions.

9. Free on Board (FOB)

The FOB Incoterm indicates that the seller will be responsible for getting the product to the port. Once the cargo is loaded onto the ship, the risk transfers from the seller to the buyer. The buyer assumes responsibility for the rest of the product's journey.

10. Cost and Freight (CFR)

Under CFR terms (short for "Cost and Freight"), the seller is required to clear the goods for export, deliver them onboard the ship at the port of departure, and pay for transport of the goods to the named port of destination. The risk passes from seller to buyer when the seller delivers the goods onboard the ship.

11. Cost, Insurance, and Freight (CIF).

an international shipping agreement, which represents the charges paid by a seller to cover the costs, insurance, and freight of a buyer's order while the cargo is in transit.

Incoterms 2020 are divided into four groups*:*

Group E: (Ex-works)

Group F: (FCA, FAS, and FOB)

Group C: (CFR, CIF, CPT, and CIP)

Group D: (DPU, DAP, and DDP)

The groups are determined by the delivery location and who is responsible for covering the cost of each part of the journey.

The groups are then split into sub-categories which refer to various scenarios. For example, under FCA, the buyer will handle many of the aspects of the shipment, while under DAP the seller will handle all except import duties and taxes.

Incoterms are a set of rules widely used in international shipments, which defines the point of delivery and also the point where the risk is transferred to buyer from seller.

Summary

Incoterms are international commercial terms and the purpose of formatting the eleven terms is to help buyers and sellers in trading internationally. How wonderful it would be if there is common vocabulary to be used by the concerned parties in the international trade. It is worth mentioning that the incoterms are not to be mandatorily followed meaning that the incoterms are optional. The reason being standard terms may sometimes create confusion. Yet it is good to have incoterms used in international trade.

Keywords

Incoterms: International commercial terms.

CIF: Cost, insurance, and freight.

EXW: Ex Works

FOB: Free on Board

CFR: Cost and Freight

Self Assessment

1. Which incoterms has the condition wherein the buyer absorbs all the risk, insurance and cost?

A.EXW

B.FCA

C.FOB

D.CIF

2.If all the goods to be transported are accommodated in one single container, it is called

A.FCL (Full Container Load)

B.LCL (Less than Container Load)

C.CL (Consolidated Load)

D. None of the above

3. _____ are common terms and rules developed to mitigate language barriers in international shipping.

A. MARITIME Laws

B. INCOTERMS

C. STEERAGE Laws
D. MARITIME Codes

4.What is the meaning of Incoterm CPT?

A. Carriage Ported Towards
B. Carriage Paid To
C. Carriage Processed To
D. Can Proceed to

5. What is the meaning of Incoterm CIP?

A. Cost & Insurance Paid To
B. Cost & Interest Procured
C. Carriage & Insurance Paid To
D. Can I Proceed

6.What is the meaning of Incoterm FAS?

A. Free Alongside Ship
B. Forward Along Shipment
C. Free Allotted Ship
D. Free and Smile

7.FAS (Free Alongside Ship) and FOB (Free On Board) are rules for which kind of transport?

A. Any kind of transport - sea, land or air
B. Inland waterway or sea transport
C. Rail transport only
D. Air transport only

8. A Shipment has been ordered from China, via maritime transportation using CPT Incoterm. What is NOT covered under CPT Incoterm?

A. Packing
B. Transportation
C. Insurance
D. Loading at departure

9. Under FOB Incoterms (Free on Board), who bears the cost of Customs & Clearance

A. Seller
B. Buyer
C. Insurer
D. Shipper

10. You quote only for the product, to make your offer comparable with competition, and remove all logistic expenses. Which INCOTERM have you assumed in the proposal:

A. FOB

B. FCA

C. EXW

D. CFR

11. You ordered your favorite product on AMAZON and paid for it. The website offers free delivery at your address and has issued a final invoice. What would be INCOTERM that applies in this case:

A. DDP

B. CPT

C. DAT

D. CIP

12. NCOTERMS is an abbreviation that stands for:

A. Invoice & Contracting Terms

B. International Collaboration Terms

C. International Commercial Terms

D. International Contracting Terms

13.Into how many major Categories, is INCOTERMS 2010 grouped:

A. 2

B. 4

C. 5

D. 3

14. When the Incoterm is Ex-Works, the buyer's nominated freight forwarder must arrange for the loading of the goods into the truck at the factory. In practice, the seller assists in this task.

A. True

B. False

C. May be

D. Not Necessarily

15. Which INCOTERM, of the following, is NOT EXCLUSIVE for Maritime Transport?

A. FOB

B. CIF

C. FAS

D. DDP

Answer for Self-Assessment

1.	A	2.	A	3.	B	4.	B	5.	C
6.	A	7.	B	8.	C	9.	B	10.	A
11.	A	12.	C	13.	B	14.	A	15.	D

Review Questions

1. What is understood by the term" Incoterm"? How is it helping in the subject of export and import management?
2. Discuss the pros and cons of incoterms?
3. What are the incoterms group? Also discuss the basis of formulating the incoterm group.
4. Differentiate between Ex-works (EXW) and Cost, Insurance and Freight (CIF) with special focus on seller's and buyer's rights and duties?
5. Is it mandatory to accept incoterms? Discuss

Further Readings

Export Import Management by Justin Paul & Rajiv Aserkar, Oxford Publisher,2013

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