Unit IB12: International Trade
Part 2

Name: ____________________

Date: __/__/__

Export Procedure

The procedure generally adopted for exporting goods to a foreign country is as follows:

1. Receipt of enquiry and sending quotations: The importer of goods first sends an enquiry to different exporters requesting them to send information about price, quality, terms of payment etc. In reply to the enquiry, the exporters then send the quotation mentioning details about the products, price, and quality, mode of delivery, terms, and conditions if any.
2. Receipt of an indent or export order: If the prospective importer finds the terms and conditions acceptable, then he places an order for export of goods which is known as indent. An indent contains a description of the goods ordered, price to be paid, terms and conditions of delivery, packing of goods and other details. On receipt of indent if the exporter finds it satisfactory, then he forwards his acceptance to export the goods.
3. Credit Enquiry: The exporter must ensure that there is no risk of default in payment. He should verify the credit worthiness of the importer. For this purpose he may ask the importer to send a letter of credit, bank guarantee or any other guarantee.
4. Obtaining export license: Each and every country has its own import and export policy for free goods and restricted goods. An exporter in India has to complete various formalities and apply for export license to the appropriate authority. If the authority is satisfied it will issue the export license. To get an export license, the exporter must have (i) an IEC (Importer Exporter Code) number (ii) RCMC from appropriate export promotion council and (iii) Registration with Export Credit and Guarantee Corporation (ECGC). The registration with ECGC safeguards against risk of non-payments.
5. Production or Procurement of goods: The exporter has to produce the goods or buy them from the market. The goods must be in accordance with the instructions given in the indent regarding the quality, quantity, price, etc.
6. Pre-shipment Inspection: To ensure that only good quality products are exported from our country, the Government of India has made compulsory pre-shipment inspection of goods by certain authorized agencies.
7. Excise Clearance: In India, manufactured products are subject to excise duty under the Central Excise Act. Therefore, excise clearance certificate is a must for the goods to be exported. It may be noted here that the Government of India has exempted excise duty in many cases if the goods are manufactured exclusively for export.

8. Packing and marking of the goods: Packing should be done strictly per the instructions given in the indent. If loss arises due to defective packing, the exporter may have to bear it. If necessary, grading should be done before packing. The packages should be properly marked per instructions, if any, so that they may be easily recognized.
9. Appointment of forwarding agent: Packed goods may be dispatched to the port directly by the exporter or through a forwarding agent. If the goods are stored in any location, the exporter may appoint a forwarding agent who will perform all the formalities on behalf of the exporter before shipping the goods. The forwarding agent will charge commission for this work.
10. Dispatch of goods by rail/road: The exporter has to dispatch the goods by rail/ road to the port town. He will send the R/R (railway receipt) to the forwarding agent along with other instructions. The agent will take delivery of the goods and complete other formalities before shipping them to the importer.

Import Procedure

Import Procedure

1. Obtaining import license and quota: In all countries there are many government regulations to be followed. Sanction of government is necessary. Importer has to apply to the controller of imports for getting necessary permission.
2. Obtaining foreign exchange: Before placing any order, the importer must apply to the Exchange Control Department (ECD) of RBI (India's Central Bank) for the release of requisite foreign exchange. The importer should forward the application through his bank. The ECD verifies the application of the importer, and if found valid, sanctions the foreign exchange for the transaction.
3. Placing an order: The importer may either place the order directly or through the indent house (Agent). In case of canalized items, he obtains the imports through the canalizing agency. (Canalization means channelization of goods through a government agency like MMTC). The importer cannot directly import such canalized items. They have to place an order with the canalizing agency that shall import and supply the same.
4. Dispatching letter of credit: After getting the confirmation from the supplier regarding the supply of goods, the importer requests his bank to issue a Letter of credit in favor of supplier. It can be defined as "an undertaking by importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank".
5. Appointing clearing and forwarding agents: The importer makes arrangement to appoint clearing and forwarding agents to clear the goods from the customs. Since clearing of goods is a specialized job, it is better to appoint C & F agents.
6. Receipt of shipment advice: The importer receives the shipment advice from the exporter. The shipment advice states the date on which the goods are loaded on the ship. The shipment advice helps the importer to make arrangement for clearance of goods.
7. Receipts of documents: The importer's bank receives the documents from the exporter's bank. The documents include bill of exchange, a copy of bill of lading, certificate of origin, commercial invoice, consular invoice, packing list, and other relevant documents. The importer makes payment to the bank (if not paid earlier) and collects the documents.
8. Bill of entry: This is a document required in case of import of goods. It is like shipping bill in case of exports. A Bill of Entry is the document testifying the fact that goods of the stated value and description in specified quantity are entering the country from abroad. The customs office supplies this form which is prepared in triplicate. Three different colors are used to prepare bill of entry. Custom department retains one copy, other is retained by port trust and the third is kept by the importer.
9. Delivery order: The clearing agents obtain the delivery order from the office of the shipping company. The shipping company gives the delivery order only after payment of freight, if any.

10. Clearing of goods: The clearing agent pays the necessary dock or port trust dues and obtains the port Trust Receipt in two copies. He then approaches the Customs House and presents one copy of Port Trust Receipt and two copies of Bill of Entry to the customs authorities. The customs officer endorses the Bill of Entry Forms and one copy of Bill of Entry is handed back to the importer. The importer then pays the customs duty and clears the goods. In case, the customs duty is not paid, then the goods are stored in the bonded warehouses. As and when the duty is paid, the goods are cleared from the docks.
11. Payment to clearing and forwarding agent: The importer then makes the necessary payment to the clearing agent for his various expenses and fees.
12. Payment to exporter: The importer should make payment to exporter. Usually, the exporter draws a bill of exchange. The importer must accept the bill and make payment.
13. Follow up: The importer then informs the exporter about the receipt of goods. If there are any discrepancies or damages to the goods, he should inform the exporter.

Foreign Trade Promotion

(i) Duty drawback scheme: Since goods meant for exports are not consumed domestically, these are not subjected to payment of various excise and customs duties. Any such duties paid on export goods are, therefore, refunded to exporters on production of proof of exports of these goods to the concerned authorities.

(ii) Export manufacturing under bond scheme: This facility entitles firms to produce goods without Usance draft: It is a type of bill of exchange wherein the drawer of the bill of exchange instructs the bank to hand over the relevant documents to the importer only against acceptance of the bill of exchange.

(iii) Exemption from payment of sales taxes: Goods meant for export purposes are not subject to sales tax. Even for a long time, income derived from export operations had been exempt from payment of income tax. Now this benefit of exemption from income tax is available only to 100 per cent Export Oriented Units

(iv) Advance licence scheme: It is a scheme under which an exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. As such the exporter is not required to pay customs duty on goods imported for use in the manufacture of export goods.

(v) Export Promotion Capital Goods Scheme (EPCG): The main objective of this scheme is to encourage the import of capital goods for export production. This scheme allows export firms to import capital goods at negligible or lower rates of customs duties subject to actual user condition and fulfilment of specified export obligations.

(vi) Scheme of recognising export firms as export house, trading house and superstar trading house: With an objective to promote established exporters and assist them in marketing their products in international markets, the government grants the status of Export House, Trading House, Star Trading House to select export firms.

(vii) Export of Services: To boost the export of services, various categories of service houses have been recognised. These houses are recognised based on the export performance of the service providers.

Organizational Support

Indian Trade Promotion Organisation (ITPO): Indian Trade Promotion Organisation was setup on 1st January 1992 under the Companies Act 1956 by the Ministry of Commerce, Government of India. Its headquarter is at New Delhi. ITPO was formed by merging the two erstwhile agencies viz., Trade Development Authority and Trade Fair Authority of India. ITPO is a service organisation and maintains regular and close interaction with trade, industry and Government.

Indian Institute of Foreign Trade (IIFT): Indian Institute of Foreign Trade is an institution that was setup in 1963 by the Government of India as an autonomous body registered under the Societies Registration Act with the prime objective of professionalising the country's foreign trade management. It has recently been recognised as Deemed University. It provides training in international trade, conduct researches in areas of international business, and analysing and disseminating data relating to international trade and investments.

Indian Institute of Packaging (IIP): The Indian Institute of Packaging was set up as a national institute jointly by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966. Its headquarters and principal laboratory is situated at Mumbai and three regional laboratories are located at Kolkata, Delhi and Chennai. It is a training and research institute pertaining to packaging and testing.

World Bank

Meaning

The International Bank for Reconstruction and Development (IBRD), commonly known as World Bank, was result of the Bretton Woods Conference. The main objectives behind setting up this international organisation were to aid the task of reconstruction of the war-affected economies of Europe and assist in the development of the underdeveloped nations of the world.

Functions

- World Bank is entrusted with the task of economic growth and widening of the scope of international trade.
- During its initial years of inception, it placed more emphasis on developing infrastructure facilities like energy, transportation, and others.
- Assistance is extended to different countries for raising cash crops so that their incomes rise and they may export the same for earning foreign exchange.
- The bank has also been providing resources for education, sanitation, health care and small-scale enterprises.

International Development Association

Meaning

International Development Association (IDA) was set up in 1960 as an affiliate of the World Bank. IDA was established primarily to provide finance to the less developed member countries on a soft loan basis.

Objectives

(i) To provide development finance on easy terms to the less developed member countries,
(ii) To aid with poverty alleviation in the poorest countries,
(iii) To provide finance at concessional interest rates in order to promote economic development, raise productivity and living standards in less developed nations
(iv) To extend macroeconomic management services such as those relating to health, education, nutrition, human resource development and population control.

International Finance Corporation (IFC)

Meaning

IFC was established in July 1956 to provide finance to the private sector of developing countries. IFC is also an affiliate of the World Bank, but it has its own separate legal entity, funds, and functions. All the members of the World Bank are eligible to become members of IFC

Multinational Investment Guarantee Agency

Meaning

The Multinational Investment Guarantee Agency was established in April 1988 to supplement the functions of the World Bank and IFC.

Objectives

(i) To encourage flow of direct foreign investment into the less developed member countries;
(ii) To provide insurance cover to investors against political risks;
(iii) To provide guarantee against non-commercial risks (like dangers involved in currency transfer, war and civil disturbances and breach of contract);
(iv) To insure new investments, expansion of existing investments, privatisation and financial restructuring;
(v) To provide promotional and advisory services;
(vi) To establish credibility.

International Monetary Fund (IMF)

Meaning

International Monetary Fund (IMF) is the second international organisation next to the World Bank. IMF which came into existence in 1945 has its headquarters located in Washington DC.

Objectives

(i) To promote international monetary cooperation through a permanent institution,
(ii) To facilitate expansion of balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income,
(iii) To promote exchange stability with a view to maintain orderly exchange arrangements among member countries
(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members.

Functions of IMF

(i) Acting as a short-term credit institution;
(ii) Providing machinery for the orderly adjustment of exchange rates;
(iii) Acting as a reservoir of the currencies of all the member countries, from which a borrower nation can borrow the currency of other nations;
(iv) Acting as a lending institution of foreign currency and current transaction;
(v) Determining the value of a country's currency and altering it, if needed, so as to bring about an orderly adjustment of exchange rates of member countries;
(vi) Providing machinery for international consultations.

World Trade Organization

Meaning

Like on the lines of IMF and the World Bank, it was initially decided at the Bretton Woods conference to set up the International Trade Organisation (ITO) to promote and facilitate international trade among the member countries and to overcome various restrictions and discriminations as were being practiced at that time.

Objectives

(i) To ensure reduction of tariffs and other trade barriers imposed by different countries;
(ii) To engage in such activities which improve the standards of living, create employment, increase income and effective demand, and facilitate higher production and trade;
(iii) To facilitate the optimal use of the world's resources for sustainable development;
(iv) To promote an integrated, more viable and durable trading system

Benefits

(i) WTO helps promote international peace and facilitates international business.
(ii) All disputes between member nations are settled with mutual consultations.
(iii) Rules make international trade and relations very smooth and predictable.
(iv) Free trade improves the living standard of the people by increasing the income level.
(v) Free trade provides ample scope of getting varieties of qualitative products.
(vi) Economic growth has been fastened because of free trade.
(vii) The system encourages good government.
(viii) WTO helps fostering growth of developing countries by providing them with special and preferential treatment in trade related matters.

Functions of WTO

(i) Promoting an environment that is encouraging to its member countries to come forward to WTO in mitigating their grievances;
(ii) Laying down a commonly accepted code of conduct with a view to reducing trade barriers including tariffs and eliminating discriminations in international trade relations;
(iii) Acting as a dispute settlement body;
(iv) Ensuring that all the rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes;
(v) Holding consultations with IMF and IBRD and its affiliated agencies to bring better understanding and cooperation in global economic policy making;
(vi) Supervising on a regular basis the operations of the revised Agreements and Ministerial declarations relating to goods, services, and Trade Related Intellectual Property Rights (TRIPS).

Agreements of WTO

(i) Agreement on Textile and Clothing (ATC): This agreement was evolved under WTO to phase out the quota restrictions as imposed by the developed countries on exports of textiles and clothing from the developing countries.

(ii) Agreement on Agriculture (AoA): It is an agreement to ensure free and fair trade in agriculture. Though original GATT rules were applicable to trade in agriculture, these suffered from certain loopholes such as exemption to member countries to use some nontariff measures such as customs tariffs, import quotas and subsidies to protect interests of the farmers in the home country.

(iii) General Agreement on Trade in Services (GATS): Services means acts or performances that are essentially intangible and cannot be touched or smelt as goods. GATS is regarded as a landmark achievement of the Uruguay Round as it extends the multilateral rules and disciplines to services.

(iv) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS): The WTO's agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) was negotiated in 1986-1994. It was the Uruguay Round of GATT negotiations where for the first time the rules relating to intellectual property rights were discussed and introduced as part of the multilateral trading system.