CHAPTER 12

INTERNATIONAL BUSINESS - II

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- discuss important steps and documents involved in executing export transactions;
- explain major steps and documents involved in carrying out import transactions;
- identify various incentives and schemes available to international firms;
- identify and state the role of various organisations that have been set up in the country to promote foreign trade; and
- list major international institutions and agreements existing at the global level and discuss their role in promoting international trade and development.

After deliberations with his friend and son, Mr. Sudhir Manchanda feels convinced that this is the right time for him to step into international markets. This will enable him not only to tide over the problems of demand saturation for his automotive parts in the domestic market, but would also help him reap various benefits that accrue to international firms.

Since he has limited capital available with him right now and does not have any past experience of overseas operations, he has decided to opt for exporting as the mode of entry into international markets.

But the problem with him is that he does not know as to how to get into export business. His friend in the tyre business tells him that exporting and importing is not that simple an activity as operating domestically.

A number of formalities are needed to be performed and documents to be filled in before goods are finally dispatched to export markets. A similar and somewhat tedious process is needed in case he desires to import some of the tools and raw materials for producing export quality products. Mr. Manchanda is once again in a fix. He does not have any idea of what the various formalities and documents involved in exporting and importing are.

Mr. Manchanda is also wondering as to how he will protect himself against export risks. He is, moreover, worried about the additional costs that he would have to incur in making goods export worthy. He is contemplating making use of some imported machines and raw materials.

But would not the import duties on such imports substantially increase his product cost? In addition, he will be incurring additional costs on transportation, packaging and insurance as required in connection with export to foreign destinations.

Mr. Manchanda's friend in the tyre business tells him he need not worry that much about these problems. After all, so many firms from India are already engaged in export business and have soaring exports.

He should have patience and not get disturbed by these hiccups. He can seek advice from some trade expert for faimiliarising himself with the export import procedures and documentation. He also tells him that though he does not have any specific details with him, he is aware there exist various foreign trade promotion measures and organisations that can be helpful to him in overcoming his problem and making his products more competitive in the world markets!

12.1 Introduction

Exporting goods to foreign countries is quite different from marketing products domestically. One needs to be familiar with various procedural formalities that need to be complied with before goods are actually shipped to foreign destinations or imported from overseas suppliers. In order to facilitate and promote trade, government provides several incentives schemes for international firms to import goods at zero or concessional rates of customs duty for use in manufacture of products meant for exports; exempt them from payment of various other duties and taxes; and carry out their import-export transactions in a less cumbersome environment. The government has also set up a wide variety of organisations to collect and disseminate information about international markets, promote exports of specific products, train executives of international business firms, and ensure proper quality and packaging of export goods. At the international level, various organisations such as the World Bank, International Monetary Fund (IMF) and World Trade Organisation (WTO) exist for accelerating the pace of development and trade amongst the nations.

This chapter is devoted to the discussion of major steps and documents involved in foreign trade. The chapter also identifies and examines the role of various trade promotion measures and organisations set up for promotion of international business. The concluding section of the chapter is devoted to an analysis of major international institutions that operate at the global level to promote world development and trade.

12.2 Export-Import Procedures and Documentation

A major distinction between domestic and international operations is the complexity of the latter. Export and import of goods is not that straight forward as buying and selling in the domestic market. Since foreign trade transactions involves movement of goods across frontiers and use of foreign exchange, a number of formalities are needed to be performed before the goods leave the boundaries of a country and enter into that of another. Following sections are devoted to a discussion of major steps that need to be undertaken for completing export and import transactions.

12.2.1 Export Procedure

The number of steps and the sequence in which these are taken vary from one export transaction to another. Steps involved in a typical export transaction are as follows.

(i) Receipt of enquiry and sending quotations: The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer. The exporter sends a reply to the enquiry in the form of a quotation — referred to as *proforma invoice*. The proforma invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms.

(ii) Receipt of order or indent: In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, it places an order for the goods to be despatched. This order, also known as *indent,* contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

(iii) Assessing importer's credit-worthiness and securing a guarantee for payments: After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risks of non payment by the importer once the goods reach the import destination. To minimise such risks, most exporters demand a *letter of credit* from the importer. A letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions

(iv) Obtaining export licence: Having become assured about payments, the exporting firm initiates the steps relating to compliance of export regulations. Export of goods in India is subject to custom laws which demand that the export firm must have an export licence before it proceeds with exports. Important pre-requisites for getting an export licence are as follows:

- Opening a bank account in any bank authorised by the Reserve Bank of India (RBI) and getting an account number.
- Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.
- Registering with appropriate export promotion council.
- Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments.

An export firm needs to have the Import Export Code (IEC) number as it needs to be filled in various export/ import documents. For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as exporter/importer profile, bank receipt for requisite fee, certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of the non-resident interest and declaration about the applicant's non association with caution listed firms.

It is obligatory for every exporter to get registered with the appropriate export promotion council. Various export promotion councils such as Engineering Export Promotion Council (EEPC) and Apparel Export Promotion Council (AEPC) have been set up by the Government of India to promote and develop exports of different categories of products. We shall discuss about export promotion councils in a later section. But it may be mentioned here that it is necessary for the exporter to become a member of the appropriate export promotion council and obtain a Registration cum Membership Certificate (RCMC) for availing benefits available to export firms from the Government.

Registration with the ECGC is necessary in order to protect overseas payments from political and commercial risks. Such a registration also helps the export firm in getting financial assistance from commercial banks and other financial institutions.

(v) Obtaining pre-shipment finance: Once a confirmed order and also a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production. Pre-shipment finance is the finance that the exporter needs for procuring raw materials and other components, processing and packing of goods and transportation of goods to the port of shipment.

(vi) Production or procurement of goods: Having obtained the pre-shipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer. Either the firm itself goes in for producing the goods or else it buys from the market.

(vii) Pre-shipment inspection: The Government of India has initiated many steps to ensure that only good quality products are exported from the country. One such step is compulsory inspection of certain products by a competent agency as designated by the government. The government has passed Export Quality Control and Inspection Act, 1963 for this purpose. and has authorised some agencies to act as inspection agencies. If the product to be exported comes under such a category, the exporter needs to contact the Export Inspection Agency (EIA) or the other designated agency for obtaining inspection certificate. The pre-shipment inspection report is required to be submitted along with other export documents at the time of exports. Such an inspection is not compulsory in case the goods are being exported by star trading houses, trading houses, export houses, industrial units setup in export processing zones/special economic zones (EPZs/SEZs) and 100 per cent export oriented units (EOUs). We shall discuss about these special types of export firms in a later section.

(viii) Excise clearance: As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise Commissioner is satisfied, he may issue the excise clearance. But in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports. The idea underlying such exemption or refund is to provide an incentive to the exporters to export more and also to make the export products more competitive in the world markets. The refund of excise duty is known as *duty drawback*. This scheme of duty drawback is presently administered by the Directorate of Drawback under the

Ministry of Finance which is responsible for fixing the rates of drawback for different products. The work relating to sanction and payment of drawback is, however, looked after by the Commissioner of Customs or Central Excise Incharge of the concerned port/ airport/land custom station from where the export of goods is considered to have taken place.

(ix) Obtaining certificate of origin: Some importing countries provide tariff concessions or other exemptions to the goods coming from a particular country. For availing such benefits, the importer may ask the exporter to send a *certificate of origin*. The certificate of origin acts as a proof that the goods have actually been manufactured in the country from where the export is taking place. This certificate can be obtained from the trade consulate located in the exporter's country.

(x) Reservation of shipping space: The exporting firm applies to the shipping company for provision of shipping space. It has to specify the types of goods to be exported, probable date of shipment and the port of destination. On acceptance of application for shipping, the shipping company issues a *shipping order*. A shipping order is an instruction to the captain of the ship that the specified goods after their customs clearance at a designated port be received on board.

(xi) Packing and forwarding: The goods are then properly packed and marked with necessary details such as name and address of the importer, gross and net weight, port of shipment and destination, country of origin, etc. The exporter then makes necessary arrangement for transportation of goods to the port. On loading goods into the railway wagon, the railway authorities issue a 'railway receipt' which serves as a title to the goods. The exporter endorses the railway receipt in favour of his agent to enable him to take delivery of goods at the port of shipment.

(xii) Insurance of goods: The exporter then gets the goods insured with an insurance company to protect against the risks of loss or damage of the goods due to the perils of the sea during the transit.

(xiii) Customs clearance: The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the *shipping bill.* Shipping bill is the main document on the basis of which the customs office gives the permission for export. Shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc.

Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:

- Export Contract or Export Order
- Letter of Credit
- Commercial Invoice
- Certificate of Origin
- Certificate of Inspection, where necessary
- Marine Insurance Policy

After submission of these documents, the Superintendent of the concerned port trust is approached for obtaining the *carting order*. Carting order is the instruction to the staff at the gate of the port to permit the entry of the cargo inside the dock. After obtaining the carting order, the cargo is physically moved into the port area and stored in the appropriate shed. Since the exporter cannot make himself or herself available all the time for performing all these formalities, these tasks are entrusted to an agent— referred to as Clearing and Forwarding (C&F) agent.

(xiv) Obtaining mates receipt: The goods are then loaded on board the ship for which the mate or the captain of the ship issues *mate's receipt* to the port superintendent. A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, descripton of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The port superintendent, on receipt of port dues, hands over the mate's receipt to the C&F agent.

(xv) Payment of freight and issuance of bill of lading: The C&F agent surrenders the mates receipt to the shipping company for computation of freight. After receipt of the freight, the shipping company issues a *bill of lading* which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination. In the case the goods are being sent by air, this document is referred to as *airway bill.*

(xvi) Preparation of invoice: After sending the goods, an invoice of the despatched goods is prepared. The invoice states the quantity of goods sent and the amount to be paid by the importer. The C&F agent gets it duly attested by the customs.

(xvii) Securing payment: After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared. The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit. The exporter sends these documents through his/her banker with the instruction that these may be delivered to the importer after acceptance of the *bill of exchange*—a document which is sent along with the above mentioned documents. Submission of the relevant documents to the bank for the purpose of getting the payment from the bank is called 'negotiation of the documents'.

Bill of exchange is an order to the importer to pay a certain amount of money to, or to the order of, a certain person or to the bearer of the instrument. It can be of two types: document against sight (sight draft) or document against acceptance (usance draft). In case of sight draft, the documents are handed over to the importer only against payment. The moment the importer agrees to sign the sight draft, the relevant documents are delivered. In the case of usance draft, on the other hand, the documents are delivered to the importer against his or her acceptance of the bill of exchange for making payment at the end of a specified period, say three months.

On receiving the bill of exchange, the importer releases the payment in case of sight draft or accepts the usance draft for making payment on maturity of the bill of exchange. The exporter's bank receives the payment through the importer's bank and is credited to the exporter's account.

The exporter, however, need not wait for the payment till the release of money by the importer. The exporter can get immediate payment from his/ her bank on the submission of documents by signing a *letter of indemnity*. By signing the letter, the exporter undertakes to indemnify the bank in the event of non-receipt of payment from the importer along with accrued interest.

Having received the payment for exports, the exporter needs to get a bank certificate of payment. Bank certificate of payment is a certificate which says that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

12.2.2 Import Procedure

Import trade refers to purchase of goods from a foreign country. Import procedure differs from country to country depending upon the country's import and custom policies and other statutory requirements. The following paragraphs discuss various steps involved in a typical import transaction for bringing goods into Indian territory.

(i) Trade enquiry: The first thing that the importing firm has to do is to gather information about the countries and firms which export the given product. The importer can gather such information from the trade directories and/or trade associations and organisations. Having identified the countries and firms that export the product, the importing firm approaches the export firms with the help of a *trade enquiry* for collecting information about their export prices and terms of exports. A trade enquiry is a written request by an importing firm to the exporter for supply of information regarding the price and various terms and conditions on which the latter is ready to exports goods.

After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer. The quotation is known as *proforma invoice*. A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

Major Documents needed in Connection with Export Transaction

A. Documents related to goods

Export invoice: Export invoice is a sellers' bill for merchandise and contains information about goods such as quantity, total value, number of packages, marks on packing, port of destination, name of ship, bill of lading number, terms of delivery and payments, etc.

Packing list: A packing list is a statement of the number of cases or packs and the details of the goods contained in these packs. It gives details of the nature of goods which are being exported and the form in which these are being sent.

Certificate of origin: This is a certificate which specifies the country in which the goods are being produced. This certificate entitles the importer to claim tariff concessions or other exemptions such as non-applicability of quota restrictions on goods originating from certain pre-specified countries. This certificate is also required when there is a ban on imports of certain goods from select countries. The goods are allowed to be brought into the importing country if these are not originating from the banned countries.

Certificate of inspection: For ensuring quality, the government has made it compulsory for certain products that these be inspected by some authorised agency. Export Inspection Council of India (EICI) is one such agency which carries out such inspections and issues the certificate that the consignment has been inspected as required under the Export (Quality Control and Inspection) Act, 1963, and satisfies the conditions relating to quality control and inspection as applicable to it, and is export worthy. Some countries have made this certificate mandatory for the goods being imported to their countries.

B. Documents related to shipment

Mate's receipt: This receipt is given by the commanding officer of the ship to the exporter after the cargo is loaded on the ship. The mate's receipt indicates the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The shipping company does not issue the bill of lading unless it receives the mate's receipt.

Shipping Bill: The shipping bill is the main document on the basis of which customs office grants permission for the export. The shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc.

Bill of lading: Bill of lading is a document wherein a shipping company gives its official receipt of the goods put on board its vessel and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

Airway Bill: Like a bill of lading, an airway bill is a document wherein an airline company gives its official receipt of the goods on board its aircraft and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

Marine insurance policy: It is a certificate of insurance contract whereby the insurance company agrees in consideration of a payment called premium to indemnify the insured against loss incurred by the latter in respect of goods exposed to perils of the sea.

Cart ticket: A cart ticket is also known as a cart chit, vehicle or gate pass. It is prepared by the exporter and includes details of the export cargo in terms of the shipper's name, number of packages, shipping bill number, port of destination and the number of the vehicle carrying the cargo.

C. Documents related to payment

Letter of credit: A letter of credit is a guarantee issued by the importer's bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions

Bill of exchange: It is a written instrument whereby the person issuing the instrument directs the other party to pay a specified amount to a certain person or the bearer of the instrument. In the context of an export-import transaction, bill of exchange is drawn by exporter on the importer asking the latter to pay a certain amount to a certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

Bank certificate of payment: Bank certificate of payment is a certificate that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

(ii) Procurement of import licence: There are certain goods that can be imported freely, while others need licensing. The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he or she wants to import are subject to import licensing. In case goods can be imported only against the licence, the importer needs to procure an import licence. In India, it is obligatory for every importer (and also for exporter) to get registered with the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority, and obtain an Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents.

(iii) Obtaining foreign exchange: Since the supplier in the context of an import transaction resides in a foreign country, he/she demands payment in a foreign currency. Payment in foreign currency involves exchange of Indian currency into foreign currency. In India, all foreign exchange transactions are regulated by the Exchange Control Department of the Reserve Bank of India (RBI). As per the rules in force, every importer is required to secure the sanction of foreign exchange. For obtaining such a sanction, the importer has to make an application to a bank authorised by RBI to issue foreign exchange. The application is made in a prescribed form along with the import licence as per the provisions of Exchange Control Act. After proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

(iv) Placing order or indent: After obtaining the import licence, the importer places an import order or indent with the exporter for supply of the specified products. The import order contains information about the price, quantity size, grade and quality of goods ordered and the instructions relating to packing, shipping, ports of shipment and destination, delivery schedule, insurance and mode of payment. The import order should be carefully drafted so as to avoid any ambiguity and consequent conflict between the importer and exporter.

(v) Obtaining letter of credit: If the payment terms agreed between the importer and the overseas supplier is a letter of credit, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier. As stated previously, a letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secured method of payment adopted to settle international transactions. The exporter wants this document to be sure that there is no risk of non-payment.

(vi) Arranging for finance: The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary so as to avoid huge demurrages (i.e., penalties) on the imported goods lying uncleared at the port for want of payments.

(vii) Receipt of shipment advice: After loading the goods on the vessel, the overseas supplier dispatches the *shipment advice* to the importer. A shipment advice contains information about the shipment of goods. The information provided in the shipment advice includes details such as invoice number, bill of lading/airways bill number and date, name of the vessel with date, the port of export, description of goods and quantity, and the date of sailing of vessel.

(viii) Retirement of import documents: Having shipped the goods, the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit. The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.

The bill of exchange accompanying the above documents is known as the documentary bill of exchange. As mentioned earlier in connection with the export procedure, documentary bill of exchange can be of two types: documents against payment (sight draft) and documents against acceptance (usance draft). In the case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment. But in the case of usance draft, the drawer instructs the bank to hand over the relevant documents to the importer against acceptance of the bill of exchange. The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as *retirement of import documents.* Once the retirement is over, the bank hands over the import documents to the importer.

(ix) Arrival of goods: Goods are shipped by the overseas supplier as per the contract. The person in charge of the carrier (ship or airway) informs the officer in charge at the dock or the airport about the arrival of goods in the importing country. He provides the document called *import general manifest.* Import general manifest is a document that contains the details of the imported goods. It is a document on the basis of which unloading of cargo takes place.

(x) Customs clearance and release of goods: All the goods imported into India have to pass through customs clearance after they cross the Indian borders. Customs clearance is a somewhat tedious process and calls for completing a number of formalities. It is, therefore, advised that importers appoint C&F agents who are well versed with such formalities and play an important role in getting the goods customs cleared.

Firstly, the importer has to obtain a *delivery order* which is otherwise known as endorsement for delivery. Generally when the ship arrives at the port, the importer obtains the endorsement on the back of the bill of lading. This endorsement is done by the concerned shipping company. In some cases instead of endorsing the bill, the shipping company issues a delivery order. This order entitles the importer to take the delivery of goods. Of course, the importer has to first pay the freight charges (if these have not been paid by the exporter) before he or she can take possession of the goods.

The importer has to also pay dock dues and obtain *port trust dues receipt.* For this, the importer has to submit to the 'Landing and Shipping Dues Office' two copies of a duly filled in form — known as 'application to import'. The 'Landing and Shipping Dues Office' levies a charge for services of dock authorities which has to be borne by the importer. After payment of dock charges, the importer is given back one copy of the application as a receipt. This receipt is known as 'port trust dues receipt'.

The importer then fills in a form *'bill of entry'* for assessment of customs import duty. One appraiser examines the document carefully and gives the examination order. The importer procures the said document prepared by the appraiser and pays the duty, if any.

Major Documents used in an Import Transaction

Trade enquiry: A trade enquiry is a written request by an importing firm to the exporter for supply of information regarding the price and various terms and conditions on which the latter exports goods.

Proforma invoice: A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

Import order or indent: It is a document in which the buyer (importer) orders for supply of requisite goods to the supplier (exporter). The order or indent contains the information such as quantity and quality of goods to be imported, price to be charged, method of forwarding the goods, nature of packing, mode of payment, etc.

Letter of credit: It is document that contains a guarantee from the importer bank to the exporter's bank that it is undertaking to honour the payment up to a certain amount of the bills issued by the exporter for exports of the goods to the importer.

Shipment advice: The shipment advice is a document that the exporter sends to the importer informing him that the shipment of goods has been made. Shipment of advice contains invoice number, bill of lading/airways bill number and date, name of the vessel with date, the port of export, description of goods and quantity, and the date of sailing of the vessel.

Bill of lading: It is a document prepared and signed by the master of the ship acknowledging the receipt of goods on board. It contains terms and conditions on which the goods are to be taken to the port of destination.

Airway Bill: Like a bill of lading, an airway bill is a document wherein an airline/ shipping company gives its official receipt of the goods on board its aircraft and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

Bill of entry: Bill of entry is a form supplied by the customs office to the importer. It is to be filled in by the importer at the time of receiving the goods. It has to be in triplicate and is to be submitted to the customs office. The bill of entry contains information such as name and address of the importer, name of the ship, number of packages, marks on the package, description of goods, quantity and value of goods, name and address of the exporter, port of destination, and customs duty payable.

Bill of exchange: It is a written instrument whereby the person issuing the instrument directs the other party to pay a specified amount to a certain person or the bearer of the instrument. In the context of an export-import transaction, bill of exchange is drawn by the exporter on the importer asking the latter to pay a certain amount to a certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

Sight 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 payment.

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.

Import general manifest. Import general manifest is a document that contains the details of the imported good. It is the document on the basis of which unloading of cargo takes place.

Dock challan: Dock charges are to be paid when all the formalities of the customs are completed. While paying the dock dues, the importer or his clearing agent specifies the amount of dock dues in a *challan* or form which is known as dock *challan*.

After payment of the import duty, the bill of entry has to be presented to the dock superintendent. The same has to be marked by the superintendent and an examiner will be asked to physically examine the goods imported. The examiner gives his report on the bill of entry. The importer or his agent presents the bill of entry to the port authority. After receiving necessary charges, the port authority issues the release order.

12.3 Foreign Trade Promotion: Incentives and Organisational Support

Various incentives and schemes are operational in the country to help business firms improve competitiveness of their exports. From time-to-time, the government has also setup a number of organisations to provide infrastructural support and marketing assistance to firms engaged in international business. Major foreign trade promotion schemes and organisations are discussed in the following sections.

12.3.1 Foreign Trade Promotion Measures and Schemes

Details of various trade promotion measures and schemes available to business firms to facilitate their export and import operations are announced by the government in its export-import (EXIM) policy. Major trade promotion measures (especially those related to exports) are as follows:

(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. Such refunds are called duty draw backs. Some major duty draw backs include refund of excise duties paid on goods meant for exports, refund of customs duties paid on raw materials and machines imported for export production. The latter is also called customs drawback.

(ii) Export manufacturing under bond scheme: This facility entitles firms to produce goods without payment of excise and other duties. The firms desirous of availing such facility have to give an undertaking (i.e., bond) that they are manufacturing goods for export purposes and will export such products on their production.

(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 (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) for select years. We shall shortly discuss about the 100 per cent Export Oriented Units (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) in the succeeding paragraphs.

(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. The advance licences are available to both the types of exporters — those who export on a regular basis and also to those who export on an adhoc basis. The regular exporters can avail such licences against their production programmes. The firms exporting intermittently can also obtain these licences against specific export orders.

(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. If the said conditions are fulfilled by the manufacturers, then they can import the capital goods either at zero or concessional rate of import duty. Supporting manufacturers and service providers are also eligible to import capital goods under this scheme. This scheme is especially beneficial to the industrial units interested in modernisation and upgradation of their existing plant and machinery. Now service export firms can also avail of this facility for importing items such as computer software systems required for developing softwares for purposes of exports.

(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. This status is granted to a firm on its achieving a prescribed average export of performance in past select years. Besides attaining a minimum of past average export performance, such export firms have to also fulfill other conditions as laid down in the import-export policy. Various categories of export houses have been recognised with a view to building marketing infrastructure and expertise required for export promotion. These houses are given national recognition for export promotion. They are required to operate as highly professional and dynamic institutions and act as an important instrument of export growth.

(vii) Export of Services: In order to boost the export of services, various categories of service houses have been recognised. These houses are recognised on the basis of the export performance of the service providers. They are referred to as Service Export House, International Service Export House, International Star Service Export House based on their export performance.

(viii) Export finance: Exporters require finance for the manufacture of goods. Finance is also needed after the shipment of the goods because it may take sometime to receive payment from the importers. Therefore, two types of export finances are made available to the exporters by authorised banks. They are termed as pre-shipment finance or packaging credit and post-shipment finance. Under the pre-shipment finance, finance is provided to an exporter for financing the purchase, processing, manufacturing or packaging of goods for export purpose. Under the post-shipment finance scheme, finance is provided to the exporter from the date of extending the credit after the shipment of goods to the export country. The finance is available at concessional rates of interest to the exporters.

(ix) Export Processing Zones (EPZs): Export Processing Zones are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA). These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international markets. These zones have been set up at various places in India which include: Kandla (Gujarat), Santa Cruz (Mumbai), Falta (West Bengal), Noida (Uttar Pradesh), Cochin (Kerala), Chennai (Tamil Nadu), and Vishakapatnam (Andhra Pradesh).

Santa Cruz zone is exclusively meant for electronic goods and gem and jewellery items. All other EPZs deal with multifarious items. Recently the EPZs have been converted to Special Economic Zones (SEZs) which are more advanced form of export processing zones. These SEZs are free from all rules and regulations governing imports and exports units except relating to labour and banking

Government has also permitted development of EPZs by private, state or joint sector. The inter-ministerial committee on private EPZs has already cleared proposals for setting up of private EPZs in Mumbai, Surat and Kanchipuram.

(x) 100 per cent Export Oriented Units (100 per cent EOUs): The 100 per cent Export Oriented Units scheme, introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime, but offers a wider option in location with reference to factors like source of raw materials, ports, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. EOUs have been established with a view to generating additional production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives.

12.3.2 Organisational Support

Government of India has also set up from time-to-time various institutions in order to facilitate the process of foreign trade in our country. Some of the important institutions are as follows:

Department of Commerce: Department of Commerce in the Ministry of Commerce, Government of India is the apex body responsible for the country's external trade and all matters connected with it. This may be in the form of increasing commercial relations with other countries, state trading, export promotional measures and the development, and regulation of certain export oriented industries and commodities. The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.

Export Promotion Councils (EPCs): Export Promotion Councils are non profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of the export promotion councils is to promote and develop the country's exports of particular products falling under their jurisdiction. At present there are 21 EPC's dealing with different commodities.

Commodity Boards: Commodity Boards are the boards which have been specially established by the Government of India for the development of production of traditional commodities and their exports. These boards are supplementary to the EPCs. The functions of commodity boards are similar to those of EPCs. At present there are seven commodity boards in India: Coffee Board, Rubber Board, Tobacco Board, Spice Board, Central Silk Board, Tea Board, and Coir Board.

Export Inspection Council (EIC): Export Inspection Council of India was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection. The council is an apex body for controlling the activities related to quality control and pre-shipment inspection of commodities meant for export. Barring a few exceptions, all the commodities destined for exports must be passed by EIC.

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. It serves the industry by organising trade fairs and exhibitions—both within the country and outside, It helps export firms participate in international trade fairs and exhibitions, developing exports of new items, providing support and updated commercial business information. ITPO has five regional offices at Mumbai, Bangalore, Kolkata, Kanpur and Chennai and four international offices at Germany, Japan, UAE and USA.

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-cum-research institute pertaining to packaging and testing. It has excellent infrastructural facilities that cater to the various needs of the package manufacturing and package user industries. It caters to the packaging needs with regard to both the domestic and export markets. It also undertakes technical consultancy, testing services on packaging developments, training and educational programmes, promotional award contests, information services and other allied activities.

State Trading Organisations: A large number of domestic firms in India found it very difficult to compete in the world market. At the same time, the existing trade channels were unsuitable for promotion of exports and bringing about diversification of trade with countries other than European countries. It was under these circumstances that the State Trading Organisation (STC) was setup in May 1956. The main objective of the STC is to stimulate trade, primarily export trade among different trading partners of the world. Later the government set up many more organisations such as

Metals and Minerals Trading Corporation (MMTC), Handloom and Handicrafts Export Corporation (HHEC).

12.4 International Trade Institutions and Trade Agreements

The First World War (1914-1919) and the Second World War (1939-45) were accompanied by massive destruction of life and property the world over. Almost all the economies of the world were adversely affected. Due to scarcity of resources, countries were not in a position to take up any reconstruction or developmental works. Even the international trade amongst nations got adversely affected because of the disruption of the world's currency system. There was no system of generally accepted exchange rate. It was at that juncture that representative of forty-four nations under the leadership of J.M. Keynes — a noted economist joined together at Bretton Woods, New Hampshire to identify measures to restore peace and normalcy in the world.

The meeting was concluded with the setting up of three international institutions, namely the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and the International Trade Organisation (ITO). They considered these three organisations as three pillars of economic development of the world. While the World Bank was assigned with the task of reconstructing war-torn economies — especially the ones in Europe, the IMF was entrusted with the responsibility of ensuring stabilisation of exchange rates to pave way for the expansion of world trade. The main objective of the ITO as they could foresee at that time was to promote and facilitate international trade among the member countries by overcoming various restrictions and discriminations that were being practiced at that time.

The first two institutions, viz., IBRD and IMF, came into existence immediately. The idea of setting up of ITO, however, could not materialise due to stiff opposition from the United States. Instead of an organisation, what eventually emerged was an arrangement to liberalise international trade from high customs tariffs and various other types of restrictions. This arrangement came to be known as the General Agreement for Tariffs and Trade (GATT). India was one of the founding members of these three international bodies. The major objectives and functions of these three international institutions are discussed in more detail in the following sections.

12.4.1 World Bank

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. For the first few years, the World Bank remained preoccupied with the task of restoring war-torn nations in Europe. Having achieved success in accomplishing this task by late 1950s, the World Bank turned its attention to the development of underdeveloped nations. It realised that by investing more and more in these countries, especially in social sectors like health and education; it could bring about the needed social and economic transformation of the developing countries. To give shape to this investment aspect in the underdeveloped nations, the International Development Association (IDA) was formed in the year 1960. The main objective underlying setting up IDA has been to provide loans on concessional terms and conditions to those countries whose per capita incomes are below a critical level. Concessional terms and conditions mean that (i) repayment period is much longer than the repayment period of IBRD, and (ii) the borrowing nation need not pay any interest on the borrowed amount. IDA, thus, provides interest free long-term loans to the poor nations. IBRD also provides loans but these carry interest charged on commercial basis.

Over the time, additional organisations have been set up under the umbrella of the World Bank. As of today, the World Bank is a group of five international organisations responsible for providing finance to different countries. The group and its affiliates headquartered in Washington DC catering to various financial needs are listed in the Box A on World Bank and its affiliates.

Functions of the World Bank

As mentioned earlier, the 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. No doubt all this has benefited the under-developed nations too, but the results were not found to be very satisfactory due to poor administrative structure, lack of institutional framework and non-availability of skilled labour in these countries. Moreover, since the underdeveloped

Box A
World Bank and its Affiliates

Institution	*Year of establishment*
International Bank for Reconstruction and Development (IBRD)	1945
International Financial Corporation (IFC)	1956
International Development Association (IDA)	1960
Multilateral Investment Guarantee Agency (MIGA)	1988
International Centre for Settlement of Investment Disputes (ICSID)	1966

countries depend heavily on agriculture and small industries, the attempt to develop infrastructure had hardly any effect on these two sectors. Realising these problems, the World Bank later decided to divert resources to bring about industrial and agricultural development in these countries. 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.

Today, the services provided by the World Bank have increased manifold. The World Bank is no longer confined to simply providing financial assistance for infrastructure development, agriculture, industry, health and sanitation. It is rather significantly involved in areas like removal of rural poverty through raising productivity, increasing income of the rural poor, providing technical support, and initiating research and cooperative ventures.

12.4.2 International Development Association

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. It is due to its objective of providing soft loans that it is called the *Soft Loan Window* of the IBRD.

Major objectives of IDA include

- To provide development finance on easy terms to the less developed member countries,
- To provide assistance for poverty alleviation in the poorest countries,
- To provide finance at concessional interest rates in order to promote economic development, raise productivity and living standards in less developed nations, and
- To extend macro economic management services such as those relating to health, education, nutrition, human resource development and population control.

12.4.3 International Finance Corporation (IFC)

IFC was established in July 1956 in order 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.

12.4.4 The Multinational Investment Guarantee Agency (MIGA)

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

Major objectives of MIGA are

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

12.4.5 International Monetary Fund

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. In 2005, it had 191 countries as its members. The major idea underlying the setting up of the IMF is to evolve an orderly international monetary system, i.e., facilitating system of international payments and adjustments in exchange rates among national currencies.

Major objectives of IMF include

- To promote international monetary cooperation through a permanent institution,
- 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,
- To promote exchange stability with a view to maintain orderly exchange arrangements among member countries, and
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members.

Functions of IMF

Various functions are performed by the IMF to achieve the aforesaid objectives. Some of the important functions of IMF include:

- Acting as a short-term credit institution;
- Providing machinery for the orderly adjustment of exchange rates;
- Acting as a reservoir of the currencies of all the member countries, from which a borrower nation can borrow the currency of other nations;
- Acting as a lending institution of foreign currency and current transaction;
- 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; and
- Providing machinery for inter-national consultations.

12.4.6 World Trade Organisation (WTO) and Major Agreements

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. But the idea could not materialise due to stiff opposition from the United States. Instead of altogether abandoning the idea, the countries that were participants to the Bretton Woods conference agreed upon having some arrangement among themselves so as to liberalise the world from high customs tariffs and various other types of restrictions that were in vogue at that time. This arrangement came to be known as the General Agreement for Tariffs and Trade (GATT).

GATT came into existence with effect from 1st January 1948 and remained in force till December 1994. Various rounds of negotiations have taken place under the auspices of GATT to reduce tariff and non-tariff barriers. The last one, known as the Uruguay Round, was the most comprehensive one in terms of coverage of issues, and also the lengthiest one from the point of view of duration of negotiations which lasted over a period of seven years from 1986 to 1994.

One of the key achievements of the Uruguay Round of GATT negotiations was the decision to set up a permanent institution for looking after the promotion of free and fair trade amongst nations. Consequent to this decision, the GATT was transformed into World Trade Organisation (WTO) with effect from 1st January 1995. The head quarters of WTO are situated at Geneva, Switzerland. Establishment of WTO, thus, represents the implementation of the original proposal of setting up of the ITO as evolved almost five decades back.

Though, WTO is a successor to GATT, it is a much more powerful body than GATT. It governs trade not only in goods, but also in services and intellectual property rights. Unlike GATT, the WTO is a permanent organisation created by an international treaty ratified by the governments and legislatures of member states. It is, moreover, a member driven rule-based organisation in the sense that all the decisions are taken by the member governments on the basis of a general consensus. As the principal international body concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations, it has a global status similar to that of the IMF and the World Bank. India is a founding member of WTO. As on 11th December 2005, there were 149 members in WTO.

Objectives of WTO

The basic objectives of WTO are similar to those of GATT, i.e., raising standards of living and incomes, ensuring full employment, expanding production and trade, and optimal use of the world's resources. The major difference between the objectives of GATT and WTO is that the objectives of WTO are more specific and also extend the scope of WTO to cover trade in services. WTO objectives, moreover, talk of the idea of 'sustainable development' in relation to the optimal use of the world's resources so as to ensure protection and preservation of the environment. Keeping in view the above discussion, we can state more explicitly the following as the major objectives of WTO:

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

Functions of WTO

The major functions of WTO include:

- Promoting an environment that is encouraging to its member countries to come forward to WTO in mitigating their grievances;
- Laying down a commonly accepted code of conduct with a view to reducing trade barriers including tariffs and eliminating discriminations in international trade relations;
- Acting as a dispute settlement body;
- Ensuring that all the rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes;
- Holding consultations with IMF and IBRD and its affiliated agencies so as to bring better understanding and cooperation in global economic policy making; and
- 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).

Benefits of WTO

Since its inception in 1995, WTO has come a long way in constituting the legal and institutional foundation of the present day multilateral trading system. It has been instrumental not only in facilitating trade, but also in improving living standards and cooperation among member countries. Some of the major benefits of WTO are as follows:

- WTO helps promote international peace and facilitates international business.
- All disputes between member nations are settled with mutual consultations.
- Rules make international trade and relations very smooth and predictable.

- Free trade improves the living standard of the people by increasing the income level.
- Free trade provides ample scope of getting varieties of qualitative products.
- Economic growth has been fastened because of free trade.
- The system encourages good government.
- WTO helps fostering growth of developing countries by providing them with special and preferential treatment in trade related matters.

WTO Agreements

As against GATT which covered only rules relating to trade in goods, the WTO agreements cover trade in goods, services as well as intellectual property. The agreements contain the procedure for settling disputes and also have provisions for special treatment to developing countries. The agreements require the governments to make their trade policies transparent by notifying to the WTO office about the laws and measures adopted towards trade liberalisation. Major WTO agreements are discussed below:

Agreements Forming Part of GATT: The erstwhile General Agreement on Tariffs and Trade (GATT) after its substantial modification in 1994 (effected as part of the Uruguay Round of negotiations) is very much part of the WTO agreements. Besides the general principles of trade liberalisation, GATT also includes certain special agreements evolved to deal with specific non-tariff barriers. Some of the specific agreements contained in the GATT are listed in the bank on GATT 1994 major agreements.

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. The developed countries were imposing various kinds of quota restrictions under the Multi-Fibre Arrangement (MFA) that itself was a major departure from the GATT's basic principle of free trade in goods. Under the ATC, the developed countries agreed to remove quota restrictions in a phased manner during a period of ten years starting from 1995. ATC is considered as a landmark achievement of the WTO. It is due to the ATC that the world trade in textile and clothing has become virtually quota free since 1st January 2005, thus, benefiting immensely the developing countries to expand their textiles and clothing exports.

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 non-tariff measures such as customs tariffs, import quotas and subsidies to protect interests of the farmers in the home country. Trade in agriculture became highly distorted especially due to use

GATT 1994: Major Agreements

- Agreement on Customs Valuation i.e., Agreement on Implementation of Article VII (Customs Valuation) of GATT 1994
- Agreement on Pre-shipment Inspection
- Agreement on Technical Barriers to Trade
- Agreement on Import Licensing Procedures
- Agreement on Application of Sanitary and Phytosanitary Measures
- Agreement on Safeguards
- Agreement on Subsidies and Countervailing Measures
- Agreement on Anti-dumping Duties, i.e., Agreement on Implementation of Article VI (Anti-dumping) of GATT 1994
- Agreement on Rules of Origin

of subsidies by some of the developed countries. AoA is a significant step towards an orderly and fair trade in agricultural products. The developed countries have agreed to lower down the customs duties on their imports and subsidies to the exports of agricultural products. Due to their higher dependence on agriculture, the developing countries have been exempted from making similar reciprocal offers.

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. It is because of GATS that the basic rules governing 'trade in goods' have become applicable to 'trade in services'.

Three major provisions of GATS governing trade in services are as follows:

- All member countries are required to remove restrictions on trade in services in a phased manner. The developing countries, however, have been given a greater freedom to decide about the period by which they would liberalise and also the services they would like to liberalise by that period
- GATS provides that trade in services is governed by 'Most Favoured Nations' (MFN) obligation that prevents countries from discriminating among foreign suppliers and services.
- Each member country shall promptly publish all its relevant laws and regulations pertaining to services including international agreements pertaining to trade and services to which the member is a signatory.

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. Intellectual property means information with commercial values such as ideas, inventions, creative expression and others. The agreement sets out the minimum standards of protection to be adopted by the parties in respect of seven intellectual properties, viz., copy rights and related rights, trade marks, geographical indication, industrial designs, patents, layout design of integrated circuits, and undisclosed information (trade secrets).

Key Terms

- Proforma invoice
- Order or intent
- Export licence
- IEC number
- Registration cum membership certificate
- Pre-shipment finance
- Pre-shipment inspection
- Export inspection agency
- Excise clearance
- Certificate of origin
- Customs clearance
- Letter of credit
- Shipping bill
- Mate receipt
- Bill of lading
- Airway bill
- Invoice
- Bill of exchange
- Sight draft
- Usance draft
- Negotiation of bills
- Marine insurance policy
- Cart ticket
- Bank certificate of payment
- Certificate of inspection
- Trade enquiry
- Shipment advice
- Import general manifest
- Delivery order
- Bill of entry
- C&F agent
- Port trust dues receipt
- Duty drawback scheme
- Export manufacturing under bond scheme
- Advance licence scheme
- Export Promotion Capital Goods Scheme (EPCG)
- Export finance
- Post-shipment finance
- Export processing zone (EPZ)
- 100% Export Oriented Unit (100% EOU)
- Department of Commerce
- Export promotion council
- Commodity boards
- IIFT
- Indian Institute of Packaging
- ITPO
- Export Inspection Council
- State trading organisations

SUMMARY

Introduction: Exporting and importing are not such straight forward activities as buying and selling in the domestic market. Since foreign trade transactions involve movement of goods across frontiers and use of foreign exchange, a number of formalities are needed to be performed before the goods leave the boundaries of a country and enter into that of another.

Export Procedures: The starting point in an export transaction is the receipt of an enquiry from the overseas buyer. In response, the exporter prepares an export quotation — called proforma invoice, giving details about the export goods and the terms and conditions of export. In case the importer finds the quotation acceptable, he places an order or indent and gets a letter of credit issued from his bank to the exporter. The exporter then proceeds with the formalities related to obtaining an export licence from the Director General of Foreign Trade and getting a registration-cum-membership certificate from the export promotion council looking after the export of the concerned product. In case the exporter requires funds, he/she can avail of pre-shipment finance from a bank. The exporter then proceeds with the production or procurement of the goods and gets them inspected from Export Inspection Council. If required by the importer, the exporter approaches the foreign consulate for obtaining the certificate of origin to enable the importer to claim tariff or quota concessions at the time of clearance of cargo at the import destination. The exporter then makes arrangement for reserving space on the ship and insuring goods against transit perils. After obtaining the excise clearance, goods are sent to the concerned port for customs clearance. Since customs clearance is a tedious process, exporters often employ C&F agents for availing their services in preparation of various customs documents and getting the goods customs cleared.

After customs clearance and payment of dock charges to the port authorities and freight charges to the shipping company, goods are loaded on the ship. The captain of the ship issues a mate's receipt. This mate's receipt is submitted to the shipping company's office for payment of freight. After receiving the freight charges, the shipping company issues a bill of lading which is a document of contract relating to shipment of the goods by the shipping company. Once the goods are despatched, the exporter prepares an invoice and sends the necessary documents such as certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin, letter of credit and bill of exchange to the importer through his/her bank. The bank presents these documents to the importer. On getting acceptance of the bill of exchange by the importer, the documents are handed over to the importer to enable him/her to claim the imported goods. Once the payment is received, the exporter requests his/her bank to release a certificate of payment. Certificate of payment is a document that certifies that the export transaction is over and the payment has been received.

Import Procedure: The procedure to import is also beset with several formalities. The process starts with a search for export firms and making a trade enquiry about the product, its price and terms and conditions of exports. Having selected an export firm, the importer asks the exporter to send him/her a formal quotation — called *proforma invoice*. The importer then proceeds to obtain the import licence, if required, from the office of the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority. The importer also applies for the Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents. Since payment for imports requires foreign currency, the importer has to also make an application to a bank authorised for sanction of the necessary foreign exchange.

After obtaining an import licence, the importer places an import order or indent with the exporter for supply of the specified products. If required as per the terms of contract, the importer arranges for the issuance of a letter of credit to the exporter from the bank. Having shipped the goods under shipment advice to the importer, the exporter sends a set of necessary documents containing bill of exchange, commercial invoice, bill of lading/ airway bill, packing list, certificate of origin, marine insurance policy, etc., to enable the importer claim title to the goods on their arrival at the port of destination. The exporter sends these documents through his/her bank to the importer. The bank presents these documents to the importer and after obtaining his/her acceptance of the bill of exchange, delivers the documents to the importer.

After the arrival of the goods in the importing country, the person in charge of the carrier (ship or airway) prepares import general manifest to inform the officer in charge at the dock or the airport that the goods have reached the ports of the importing country. The importer or his/her C&F agent pays the freight (if not already paid by exporter) to the shipping company and obtains delivery order from it which entitles the importer to take the delivery of the goods at the port. At this time, port dock dues are also paid and a port trust dues receipt is obtained. The importer then fills in a form *'bill of entry'* for assessment of customs import duty. After payment of the import duty, the bill of entry has to be presented to the dock superintendent for physical examination of the goods. The examiner gives his report on the bill of entry. The importer or his agent presents the bill of entry to the port authority for issuance of the release order.

Foreign Trade Promotion: A number of schemes such as duty drawback, export manufacturing under bond, exemption from payment of sales tax, advance licence, Export Promotion Capital Goods (EPCG), 100 per cent Export Oriented Units (100 per cent EOUs) and Export Processing Zones (EPZs)/ Special Economic Zones (SEZs) are in operation in the country to help the export firms compete more effectively in world markets. The schemes permit the exporters either to make outrightly duty free imports of raw materials and machinery as needed for producing goods and services for exports or to later claim refund of duties, if already paid, on such imports. The exporters are, moreover, either outrightly exempted from payment of excise duties and other taxes or else they can later claim refund of such duties on submitting proof of export to the concerned authorities.

There also exist in the country the scheme of recognising certain firms as export house, trading house and super star trading house, and bestowing upon them certain advantages such as permission to maintain offices abroad, liberal grant of foreign exchange to enable them to meet the expenses of participating in international trade fairs and exhibitions and travel abroad. As of today, even the firms engaged in exports of services are entitled to such recognition subject to attaining a minimum of past average export performance and fulfilling other conditions as laid down in the import-export policy. Exporters are also entitled to pre-shipment and post-shipment finance to meet their financial requirements relating to export transactions.

International Trade Institutions: The Government of India has side-by- side setup various organisations to facilitate and promote the country's foreign trade. While the Department of Commerce in the Ministry of Commerce is the apex body responsible for regulation and administration of the country's external trade, other organisations like export promotion councils, commodity boards, Export Inspection Council (EIC), Indian Institute of Foreign Trade (IIFT), India Trade Promotion Organisation (ITPO), Indian Institute of Packaging (IIP) help exporters by way of promotion of specific export products, quality inspection, participation in trade fairs and exhibitions, conducting training programmes, carrying out overseas researches, disseminating product and market information, and providing packaging consultancy and testing. The government has also set up state trading organisations such as STC, MMTC and HHEC for trading in different commodities and promotion of country's exports.

Trade Agreements: At the global level, there exist various international organisations such as the World Bank, IMF and WTO for fostering economic cooperation, trade and investments among the countries. While the World Bank and its four affiliates, viz., IDA, MIGA, IFC and ICSID, are concerned with providing long term finance and finance related assistance such as protection from risks to the member countries, IMF is devoted to maintenance of exchange rates and providing short term loans to the countries facing short term foreign exchange problems. In matters relating to trade, it was originally conceived at the Bretton Woods conference to establish International Trade Organisation (ITO). But the idea somehow could not materialise. Instead an arrangement called General Agreement for Tariffs and Trade (GATT) was evolved to promote trade through reduction of tariff and non-tariff barriers. GATT came into existence with effect from 1st January 1948 and remained in force till December 1994. Since 1st January 1995, GATT has been transformed into World Trade Organisation (WTO). Unlike GATT, WTO is a permanent body and has a global status similar to that of IMF and World Bank. WTO agreements cover trade in not only goods but also in services and intellectual property through various agreements such as Agreement on Textiles on Clothing (ATC), General Agreement on Trade in Services (GATS), Agreement Relating to Trade in Intellectual Property (TRIP) and Agreement on Agriculture (AoA).

EXERCISES

Multiple Choice Questions

1. Which of the following documents are not required for obtaining an export license?
   - a. IEC number
   - b. Letter of credit
   - c. Registration cum membership certificate
   - d. Bank account number

2. Which of the following documents is not required in connection with an import transaction?
   - a. Bill of lading
   - b. Shipping bill
   - c. Certificate of origin
   - d. Shipment advice

3. Which of the following do not form part of duty drawback scheme?
   - a. Refund of excise duties
   - b. Refund of customs duties
   - c. Refund of export duties
   - d. Refund of income dock charges at the port of shipment

4. Which one of the following is not a document related to fulfill the customs formalities
   - a. Shipping bill
   - b. Export licence
   - c. Letter of insurance
   - d. Proforma invoice

5. Which one of the following is not a part of export documents?
   - a. Commercial invoice
   - b. Certificate of origin
   - c. Bill of entry
   - d. Mate's receipt

6. A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as
   - a. Shipping receipt
   - b. Mate receipt
   - c. Cargo receipt
   - d. Charter receipt

7. Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shippers name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo?

   a. Shipping bill
   b. Packaging list
   c. Mate's receipt
   d. Bill of exchange

8. The document containing the guarantee of a bank to honour drafts drawn on it by an exporter is

   a. Letter of hypothetication
   b. Letter of credit
   c. Bill of lading
   d. Bill of exchange

9. Which of the following does not belong to the World Bank group?

   a. IBRD
   b. IDA
   c. MIGA
   d. IMF

10. TRIP is one of the WTO agreements that deal with

    a. Trade in agriculture
    b. Trade in services
    c. Trade related investment measures
    d. None of these

Short Answer Questions

1. Discuss the formalities involved in getting an export licence.
2. Why is it necessary to get registered with an export promotion council?
3. What is IEC number?
4. What is pre-shipment finance?
5. Why is it necessary for an export firm to go in for pre-shipment inspection?
6. Discuss the procedure related to excise clearance of goods.
7. Explain briefly the process of customs clearance of export goods.
8. What is bill of lading? How does it differ from bill of entry?
9. What is shipping bill?

10. Explain the meaning of mate's receipt.
11. What is a letter of credit? Why does an exporter need this document?
12. Discuss the process involved in securing payment for exports.
13. Differentiate between the following
    (i) Sight and usance drafts (ii) Bill of lading and airway bill
    (iii) Pre-shipment and post-shipment finance
14. Explain the meaning of the following documents used in connection with import transactions
    (i) trade enquiry (ii) Import licence (iii) Shipment of advice
    (iv) Import general manifest (v) Bill of entry
15. List out major affiliated bodies of the World Bank.
16. Write short notes on the following
    (i) UNCTAD (ii) MIGA (iii) World Bank
    (iv) ITPO (v) IMF

Long Answer Questions

1. Rekha Garments has received an order to export 2000 men's trousers to Swift Imports Ltd. located in Australia. Discuss the procedure that Rekha Garments would need to go through for executing the export order.
2. Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing.
3. Discuss the principal documents used in exporting.
4. List and explain various incentives and schemes that the government has evolved for promoting the country's export.
5. Identify various organisations that have been set up in the country by the government for promoting country's foreign trade.
6. What is World Bank? Discuss its various objectives and role of its affiliated agencies.
7. What is IMF? Discuss its various objectives and functions.
8. Write a detailed note on features, structure, objectives and functioning of WTO.