T.Y.B.A. COMMERCE PAPER – VI

EXPORT MANAGEMENT

REVISED SYLLABUS FROM THE ACADEMIC YEAR 2011-12

1. Introduction to Export Management — 10 lectures

Definition, Need-for export management, Nature of export management, Features of export management, Process of export management, Functions of an export manager, Organisation structure of an export firm.

2. India's Export Trade — 10 lectures

Trends in India's export trade since independence, Composition of India's export trade, Direction of India's export trade, India's share in world trade, Reasons for India's poor share in world trade, Export of services.

3. International Trading Environment — 15 lectures

Meaning and definition of international trade, Factors influencing international trade, Problems in international trade, Regulations in international trade, Trade barriers, Role of WTO in international trade, Implications of Uruguay round for world trade. Trade blocs and their effects on world trade, Major trade blocs – EU, ASEAN and NAFTA.

4. Organising an export firm and developing an export marketing plan — 10 lectures

Nature of export firm, Setting up of an export firm, Registratin formalities, Need for export marketing plan, Contents of export marketing plan, Developing an effective export marketing plan.

5. Foreign Trade Policy and Export Promotion — 10 lectures

Foreign Trade Policy – 2009-14, Objectives of Foreign Trade Policy, Main highlights of Foreign Trade Policy, Main Export Promotion Organisations in India – EPCs, Commodity Boards, STC, FIEO, Chambers of Commerce, IIP, ITPO.

6. Export Product Planning — 10 lectures

Modes of entry in foreign markets, Criteria for selection of products for exports, Steps in new product development process, identifying foreign markets for export of products, Product Life Cycle, Product mix, Product Branding, Product packaging and labeling.

7. Export Pricing and Finance **15 lectures**

Export Pricing – Factors determining export price, Export pricing objectives, Export pricing quotations, Marginal cost pricing, Break even pricing, Export pricing strategies.

Export Finance – Types of export finance, Features of pre-shipment and post-shipment finance, Methods of payment, Role of commercial banks and EXIM bank in export finance, Role of ECGC in export cover.

8. Export Procedure and Incentives **10 lectures**

Stages in export procedure, Shipping and Customs formalities, Banking procedure, Procedure for realization of export incentives, Main export incentives available to Indian exporters.

SUGGESTED REFERENCES :

1. Export Management – P. K. Khurana – Galgotia Publishing Company, New Delhi.
2. Export Management – T. A. S. Balagopal – Himalaya Publishing House, Mumbai.
3. Export Management – D. C. Kapoor – Vikas Publishing House Pvt. Ltd., New Delhi.
4. Export Management – Francis Cheruuilam – Himalaya Publishing House, Mumbai.
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6. International Marketing Management – An Indian Perspective – R. L. Varshney and B. Bhattacharya, Sultan Chand & Sons.
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EXPORT MANAGEMENT

Unit Structure

1.0 Objectives
1.1 Introduction
1.2 Definition of the Export management
1.3 Need for Export Management
1.4 Nature /Features of Export Management
1.5 Functions of an Export Manager
1.6 Export Organization Structural Designs
1.7 Summary
1.8 Questions

1.0 OBJECTIVES

After studying the unit the students will be able to

- Understand the meaning of Export Management
- Know the need for Export Management
- Discuss the nature of Export Management
- Explain the functions of Export Manager
- Understand the concept Export organizational structural design.

1.1 INTRODUCTION

Management is a term commonly used in every activity. It means planning, organizing, directing, controlling and coordinating the specific activity so as to achieve its objective. Such activity may be related to purchase, production, and marketing and as well export.

Export management means conducting the export activity in an orderly, efficient and profitable manner. Since the heart of each business is marketing, export management can be termed as export marketing management. Because if needs to be managed efficiently so that the export should increase and exporter should get more profit and importer should get more satisfaction. Therefore export management activity is growth oriented and dynamic in nature.

Export marketing management and domestic marketing management are two aspects of the same coin i.e. total marketing management.

However export marketing management is more difficult and complicated as compared to domestic marketing due to several factors such as, three faced competition, varied regulations of different countries, language, etc. If requires systematic approach for comprehensive oversea, marketing research: therefore export management involves the study of foreign markets, requirements, of foreign buyers, potential marketing opportunities and using and them tactfully for large-scale exporting.

Export management is basically planning, organizing, coordinating and controlling all activities relating to export of goods and services to other counties. It involves various activities such as production of exportable good, collection of orders from foreign buyers and their execution, publicity in abroad, adoption of sales promotion techniques, price fixation and looking after various procedures and formalities relating to exporting of goods.

It is rightly said that export management involves functions and activities undertaken by the department/ division of a large manufacturing enterprise. The scope of export management is vast as everything concerned with exporting comes within the scope of export management. It is also argued that export management means what an export manager does.

1.2 DEFINITIONS OF THE EXPORT MANAGEMENT

The term export of management is rather difficult to define precisely as it is dynamic in scope. Secondly, standard definition of the term export management is not available as it is an applied subject. Here, the principles of management are applied to the management of export trade/ marketing activities. However, it is possible to note some simple definition of export management. Such definitions are as noted below:

1. Export management means managing export marketing activity efficiently, smoothly and in an orderly manner.

2. Export management means finding at opportunities for marketing goods & services in foreign markets and exporting such opportunists for the benefit of an exporting firm, subject to existing export rules and regulations.

3. Export management is one specific area of business management and it is concerned exclusively with exporting goods abroad. It is concerned with international marketing activities and operations.

4. Export Management means planning, organizing, coordinating and control export efforts or activities to achieve desired export objectives smoothly and with continuance.

5. According to B. S. Bathor, “Export Marketing includes the management of marketing activities for products across the national boundary or a country”.

1.3 NEED FOR EXPORT MANAGEMENT

Increase in exports provides several benefits to exporter as well as the Nation, Export sector has been termed as a priority sector for Indian Economy. It is treated as an engine of economic growth and an instrument for employment generation. Government has made every effort to increase export, and raise the volume and value of exports. Better export, performance leads to do industrial development, economic development, foreign Exchange reserves, favorable balance of payment etc. All these benefits will be available only when exports are made at large scale.

In the early 1960s the slogan “Export or Perish” was coved by the then Prime Minster of India Pandit Jawaharlal Nehru. It is applicable even to present economic condition of India with a little change i.e. “Globalization or Perish”. Therefore export promotion is rightly heated as a national challenge.

Therefore export management is receiving top priority in the country to take effective steps in the right direction for economic growth and prosperity.

We can discuss the need for export management at two different levels.

(A) At the National level.

(B) At the Business level.

- **Need For Export Or Export Management At The National Level**

Earning foreign Exchange-

Export management enables the country to earn foreign exchange. The foreign exchange can be utilised for following purposes.

Import of consumer good

Imports of Raw materials, spares and components

Import of capital goods and technology

Servicing of External Debts.

International Relations-

Export helps to develop international ties with importing countries due to the following reasons.

a) The international trade brings together the exporters and importers of various countries.
b) Trade talks take place between nations at international forums like WTO.
c) Also, trade agreements are singed between Governments of participating counties.

Balance of payments-

A country's external economic strength depends upon its balance of payment position. Naturally, every country would like to have a strong and favorable balance of payments position since exports bring in foreign exchange, it helps a country to solve and improve its Balance of payments position.

Reputation in the World-

Exports bring reputation and goodwill for a nation in the international markets. For instance:

a) Japan commands reputation for electronic products.
b) India has goodwill for handicrafts including germs and jewellery.
c) Germany is famous for engineering of goods.

Employment-

Exports help to generate employment in the country Export facilitates.

a) Direct Employment in the export sector
b) Indirect Employment in the supporting sectors such as banking, insurance, transport etc.

Research and Development-

In international markets, quality of products is of at most importance. Therefore, government provides assistance to exporters to undertake R&D. R&D helps to:

a) Reduce costs
b) Develop new products
c) Improve quality of existing products

The fruits of R&D benefit the consumers not only in the overseas markets but also in the domestic market.

Regional Development-

Exports facilitate regional development of instance, about 1/3rd of India's exports are from small sector. The small units are located throughout India. (for instance, in India, The maximum number of small units, is located in the industrially backward state of Uttar Pradesh). Therefore, export sector contributes, towards regional development of a nation.

Optimum use of Resources-

Exports facilitate, optimum use of resources in the country, such as

a) Physical resources such as materials, machines, etc.
b) Capital resources
c) Man power

For instance, Gulf countries have enough supply of petroleum, which is exported, thereby making optimum use of resources.

Standard of Living-

Exports increase demand, which leads to higher production and distribution. Increase in production and distribution generates more employment. Increase in employment leads, to higher purchasing power with the people. Therefore, people can enjoy new and better products, which improves standard of living

Economic Growth-

Due to export, the demand increases. Increase in demand leads to higher production. Higher production increases the GDP of the country which leads to economic growth.

Spread Effect-

Due to increases in export trade in the country service sector also expand, like banking, transport, etc. Similarly other ancillary industries are established to support the export activities.

- **Need For Export Or Export management At Business Level**

1. Export Obligation

It means the firm which intends to import capital goods at concessional rates has to export the goods, under EPCG scheme. Thus the firm can fulfill its export obligation. In India, units operating in the SEZ are expected to honour export obligation against special concession offered to them. Therefore every business unit has to export first in order to import goods.

2. increase Production Capacity

For every business unit increase production is necessary, in order to meet domestic demand and export order. Exports are possible when surplus production is available after meeting domestic demand.

3. Organizational Efficiency

Export management enables a firm to improve its organizational efficiency. E.g. firms have to emphasize on training and development of employees. This helps to improve knowledge, attitudes, skills and social behaviors. Therefore, the over all efficiency of the organisation improves due to training, research and other much activities which are encouraged by export management.

4. Higher Profits

Export management enables a business unit to export quality goods at higher prices and there by raise the profit margin.

5. Reputation and Goodwill

Exports bring reputation to the export firm in international market as well as in the domestic market. It is assumed that export firms. Produce quality goods which help to develop goodwill. e.g. some of the world famous firms include-

- Microsoft for computer and Nike for Sports.
- Sony for Electronics etc.

6. Economies of Scale

Because of increase in export there will be large scale production and distribution. This will result in-

I. Economies of large scale production like discount in bulk purchase of material and reduce cost.

II. Economies of large scale distribution such as freight concession on bulk shipment of goods.

7. Technological Up gradation

Continuous research and development activities lead technological development and improvement in other organisational activities which help in improvement in quality standards which is beneficial to the form and customers both.

8. Imports are liberalized

Business organisations exporting on a large scale collect huge foreign exchange which can be utilised for the import of new technology machinery and component. This also raises their competitive capacity.

9. spreading of Marketing Risk

A firm engaged in domestic as well as export marketing activities can spread its marketing risk. The loss in domestic market can be compensated by the profit, earned in export market and vice versa.

10. Government Incentives

Exporter gets various assistances and incentives for export promotion. These are Duty Drawback, Octroi exemption, Excise duty exemption, Income tax exemption, liberal finance etc. These incentives make export marketing attractive and profitable.

In present global trade, all countries developed as well as developing take special interest and initiative in making export trade at a very large scale. Thus large scale exports are necessary for survival and growth of developed as well as developing countries. Presently U.S.A., European counties, China, Japan, India, and many other countries, take special measure, for promoting export. This suggests the significance of exports to all counties developed, developing and even to poor counties. Therefore it is correct to say that, “Exports are necessary not only for developed counties but also for developing countries like India”.

1.4 NATURE /FEATURES OF EXPORT MANAGEMENT

The main features of export management are as follows-

1. Large scale operations

Export management involves large scale marketing and production operations of goods and services. Because of large scale business operation the firm gets the benefit of economics of scale and increase profit margin. Import, of other counties also prefer in placing large orders. Exporters get advantage of reduce cost and quoting competitive prices in the increase market.

2. Systematic Process

It is a systematic process became the export manager under takes various marketing activities such as marketing research, product design, branding, packaging, pricing, promotion etc. All these aspects require collection of data, analysis of data, then in perpetration of data in order to take systematic export marketing decisions.

3. Three faced Competition

Foreign trade market is highly competitive in nature. The competition is three dimensional i.e.

I. Competition from Indian exporters
II. Competition from local producers of Importing country.
III. Competition from exporter of other nations

4. Trade Barriers

Export trade is subject to trade barriers tariff and nontariff barriers. The trade barriers are the restrictions on free movement of goods between countries. Normally countries impose trade barriers in order to restrict import. The export marketing manager must have a good knowledge of trade barriers imposed by importing counties.

5. Domination of MNC

Multinational Corporation has huge investment and conduct business operation all over the world. Major share of foreign trade is captured by MNCs, and TNCs, (Transnational corporations). Therefore they dominate in export management activities of the world. Due to large scale business they get the benefit of economies of scale.

6. Domination of Development counties

Most of the MNCs belong to industrially developed countries. Such countries like USA, Japan, Germany etc. produce and sell good quality of goods at low cost on massive scale with the help of advanced technology. In this way rich and developed countries always dominate in international business activities.

7. Foreign Exchange Regulation

Export trade is subject to foreign exchange regulations imposed by countries. These foreign exchange regulations relate to payment and collection of export proceeds. In addition, export marketing is subject to other rules and regulations relating to health and safety, environment protection, etc. All such regulation affect free movement of good among the countries.

8. Documentation formalities

Export marketing is subject to various documentation formalities. Exporters require various documents to submit them to various authorities including customs, port trust, etc. The documents include Bill of lading, Commercial consular invoice, Shipping bill, Certificate of origin etc.

- Shipping Bill
- Consular Invoice
- Certificate of Origin etc.

9. Marketing Mix

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

10. International Marketing Research

Knowing more about customers, dealers, and competitors is a must not only in the domestic markets but also in the export markets. Marketing research is a must in export business due to various factors, such as diversities on social, economic, and political environments of distant markets.

11. Advance Technology

Export marketing is highly competitive. An exporter should be able to sell quality articles at competitive price. Use of advanced computer – oriented technology is a must for making the goods globally competitive. World markets are dominated by developed countries due to intensive use of computer technology.

12. Globalise or perish

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

13. Subject to Regulation

Foreign exchange regulation may be imposed by importing countries. These may relate to payment and collections of export proceed. Similarly export trade is subject to other rules and regulations relating to health and safety, environment protection etc. All such regulations affect free movement of goods among the countries.

14. Diverse customs and Traditions

The export markets differ in languages, customs and traditions. The exporter may not be able to cope up with these diversities. Therefore, he has to be selective, he should be deal in only such markets where he can easily handle or overcome such differences or diversities.

15. High Amount of Risk

Export business is profitable than domestic business. But it is more risky also. Such as cancellation of order, non collection of document, non payment, transport risk, foreign regulation risk etc. these risk can be reduced by taking various insurance cover form ECGC and insurance agents. Risk can be spread also by exporting goods to many countries, so that loss in one market is compensated by the project other market.

16. Sensitive and Flexible Character

An exporter has to identify the specific requirement or foreign buyers and design the goods accordingly, but some times because of technological development new design of good may be supplied by other exporters due to which demand for this goods may go down. Therefore exporter has to offer continuous support and loyalty.

CHECK YOUR PROGRESS

Enlist the main features of Export management.

“Export is treated as an engine of economic growth and an instrument for employment generation”. Explain.

Define the term Export Management.

1.5 FUNCTIONS OF AN EXPORT MANAGER

To decide export objectives of the organization and prepare comprehensive short term and long term plans and progammes to achieve such objectives.

To conduct marketing research so that export efforts will be concentrated on certain commodities and on foreign markets which are highly promising.

To introduce product development and to produce quality goods as per specific needs of foreign markets/buyers.

To execute long-term export promotion programmes for the products with promising overseas demand.

To fix up the prices of exportable items with proper care.

To find out new designs for packaging of export items.

To look after the advertising and publicity abroad and to maintain effective communication with prospective buyers.

To look after prompt execution of export orders so as to avoid inconvenience to foreign buyers.

To analyze the EXIM policy of the government and the current export regulations and procedures.

To look after the opening of new branches/offices aboard.

To face the challenges of international competition and changing marketing environment.

To evaluate export incentives/facilities offered by the government and to secure benefits from them.

To look after the accounting and financial aspects of export transactions.

To look after the training of staff working in the export division, to motivate them and to develop human relations.

In brief the functions of an export manager are to develop export markets for which he should plan, organize, direct and control the export marketing activities.

Therefore the export manger should have a clear understanding of there major export marketing functions. Planning the export marketing activities is very important in order to avoid bottleneck, which may be proved expensive in foreign market. Organizing expert marketing system requires and understanding of fundamental organizational concepts.

1.6 EXPORT ORGANIZATION STRUCTURAL DESIGNS

Marketing system required an understanding of fundamental organization concepts and basic organizational principle. The organisational system must be capable of carrying out the export marketing plan, while the plans can be easily adjusted, taking into consideration the latest development most organizations are not that flexible while in the U. S. A. adjustments all made much more easily, these are almost impossible in Europe. This is even more true in Japan the organizational export marketing system might be viewed as a legal organizational structure, a formal organizational structure, formal organizational structure and an informal organizational. The foreign legal aspects and cultures setting of the export firm play an important role here. The export manager may also keep in mind the following basic ways or organizing export marketing operations.

1. Organizing the export marketing operations by sub-functions such as pricing, promotion and transportation.
2. Organizing the export marketing activities by product groups.
3. Organizing the export of marketing effort according to the uses of he product, the customer.
4. Organizing the export marketing systems geographically.

Export organizations very often use a combination of these basic methods. Once the export marketing activities are planned and the export marketing system is organized the export manager faces the task of direction the export marketing operations and controlling the export marketing efforts. Directing sales forces in Kuwait is quite different from directing a sales force in the U.S.A. understating of foreign culture and sociological structure is vital. While autocratic approach might work in federal republic of Germany, it is the motivation, approach which is successful in U.S.A A well developed marketing plan might serve as a controlling device.

Probably, the most important task for the export manger is the development of an export marketing strategy. If we define strategy as a system of plans, then it requires a careful co-ordination and integrations of the various sub-plans must be developed for each major export marketing instrument. These sub plans must be co-ordinate and integrated into an export marketing plan for a given market abroad. Besides horizontal integration, a vertical co-ordinate sub-plans and area marketing plans must be brought together in an overall global marketing plan for the company.

An exporter can adopt any of the following types of organizational structural designs-

In-built Export Department –

In this type, organization's activities are divided into various units like purchase, production, finance, domestic marketing and export marketing also. The export marketing unit is headed by export manger. He explores export opportunities, for the organization. He can also take helps of other departments for arranging the good in export market like production, finance, advertising, distribution etc. Since this structure is at the initial stage of export, the organization does not have adequate and efficient staff for export.

Independent Export Division

This may be second stage or organize structure for export. In this case the business organization may have a separate export division. It will have its own full fledged competent staff. All the activities of export are handled by the export division. The export division may be located near the port so that all the necessary formalities like clearing forwarding of documents can be easily done. The export division can also take help from export promotion organisations and other government officers.

Export Subsidiaries In Several Markets

Where the exports are on a large scale and more of long term nature, then the exporter may start an export subsidiary to undertake export activities in connection with marketing research, product planning and development, pricing, promotion, physical distribution as well as marketing of export goods. However a subsidiary can be introduced only for the purpose of export marketing.

Export Subsidiary In Importer's Country

When the organization has been developed in MNC. It has large investment and technology then it will be suitable to establish an export subsidiary in the foreign country to undertake export marketing. The foreign subsidiary may undertake production and marketing activities or only export marketing which ever is suitable.

Geographic Structure Of Export Organization

This is again one step forward. The export organization can be divided into various department e.g. there can be departments looking after export marketing in specific export areas, like departments looking after export to ASEAN countries EEC countries, Middle East countries etc.

Product Organization Structure

In this case the export organization can be decided on the basis of product levels. Thus there can be separate, department for each product line. E.g. there can be a department monitoring exports of engineering goods, readymade garments etc.

1.7 SUMMARY

Export management means conducting the export activity in an orderly, efficient and profitable manner. Exports provide several benefits to the exporter and the Nation. Export is essential for the Nation for: Earning foreign exchange, developing international relations, Balance of payment, reputation, employment, research and development, regional development, optimum use of resources, standard of living, economic growth etc. Export is essential at business level also for: increases production capacity, improve organizational efficiency, higher profit, reputation and goodwill, large scale of production and distribution, technical up gradation, spreading of marketing risks, getting government incentives etc.

The main features of Export management are: large scale operations, systematic process, three faced competition, trade barriers, domination of MNCs, domination of developed countries, foreign exchange regulation, various documentation formalities, right marketing mix, international research, advance technology, globalize or perish, diverse customs and traditions, high amount of risk sensitive and flexible character etc.

There are different organization structures such as In-built export department, Independent export division, Export subsidiaries in several markets, Export subsidiaries in Importer’s country, Geographic structure of Export organization, Product organization structure.

1.8 QUESTIONS

1. Define the term Export management. Explain the main features of it.
2. Explain the need of Export management.
3. Write short notes:
   a. Need of export at business level
   Features of Export management
   Functions of an Export manager
   Export organization structural design
4. Define the following terms
   a. In-built export department
   b. Independent export division
   c. Product organization structure
   d. Export subsidiaries in several markets

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INDIA'S EXPORT TRADE

Unit Structure

2.0 Objectives
2.1 Introduction
2.2 Trends in India's Export Trade since Independence
2.3 Composition f Foreign Trade
2.4 Direction of India's Foreign Trade
2.5 Service Sector Export
2.6 Reasons for Poor Share of India's Export
2.7 Summary
2.8 Questions

2.0 OBJECTIVES:

After reading this unit, the student will be able to understand

- Trends in India's export trade since independence
- Composition of India's export trade
- Direction of India's export trade
- India's share in world trade
- Reasons for India's poor share in world trade
- Exports of services
- Discussion Questions

2.1 INTRODUCTION

Export means the transferring of any good from one country to another country in a legal way for the purpose of trade. Export is the sales of goods from domestic seller to the foreign buyer.

On the eve of Independence in 1947, India's trade relations were mainly confined to Britain and other Commonwealth countries. Exports consisted chiefly of raw materials and plantation crops while imports composed of light consumer goods and other manufactures. Imports have exceeded exports showing trade deficit.

The deficit in balance of trade in our country has been generally increasing, even though our foreign trade has been getting much more broad based. Only two financial years i.e., 1972-73 and 1976-77 were exceptional in showing favourable balance of trade worth Rs.104 crore and Rs.68 crore respectively. The Government has introduced a number of measures for reducing deficit in the balance of trade. The main objective was to control imports on the one hand and to promote exports on the other. The basic reason of increasing deficit in balance of trade in India has been the high import bill of petroleum products. Since July 1991, the government adopted the policy of economic liberalisation and series of economic reforms were adopted in the country.

2.2 TRENDS IN INDIA'S EXPORT TRADE SINCE INDEPENDENCE

In 1950, the Indian share in the total world trade was 1.78%, which came down to 0.6% in 1995. According to the Economic Survey 2002-03 this percentage share of 0.6% continued in years 1997 and 1998. In 1999 this share has increased to 0.7% which clearly indicates that India has failed to increase its share in the total world trade.

Table 1 contains data on foreign trade of India from 1950-51 to 2002-2003 which shows unfavourable state of our balance of trade. Our imports have exceeded exports, showing a trade deficit.

Table indicates the volume of Indian trade deficit.

Table 1 : Foreign Trade in India

Trade deficit has gone upto Rs. 2 Crore in 1950-51 to Rs. 28014 Crore in 2002-2003 (in Crore Rs.)

Year	Import	Export	Trade Deficit
1950-51	608	606	2
1960-61	1122	642	480
1970-71	1634	1535	99
1980-81	12549	6711	5838
1990-91	43198	32553	10645
1996-97	138920	118817	20103
1997-98	154176	130101	24075
1998-99	178332	139753	38579
1999-2000	215236	159561	55675
2000-2001	230873	203571	27302
2001-2002	245199	209018	36181
2002-2003	213225	185211	28014

India's balance of payments in 2001-2002 exhibited mixed developments. While exports, on BOP basis, remained stagnant at previous year's level, imports declined by 2.8 per cent, thus resulting in a decline in merchandise trade deficit, as percent of GDP, from 3.1 per cent in 2000-01 to 2.6 per cent in 2001-02. Given the buoyancy in invisible flows, which reached a level of 2.9 per cent of GDP, the current account turned into a surplus in 2001-02, after a gap 24 year (current accounts surplus was last recorded in 1977-78). The net capital flows also improved during the year, thus resulting in largest reserves build-up in a single year. With the current account in surplus and fairly improved capital inflows, the net accretion to foreign exchange reserves in 2001-02 was all-time high in the past decade.

Stagnation in export growth in 2001-02 as compared with an increase of 19.6 per cent in 2001-01 was partly due to weak external demand, which seems to have affected India's export performance. The decline in imports, on BOP basis, was mainly due to lower oil imports. However, the non-oil and non-gold imports, on customs basis, grew at moderate rate of 8.9 per cent in 2001-02. The consequential trade deficit came down from US $14.37 billion in 2000-01 to US $12.70 billion in 2001-2002, representing 2.6 percent of GDP. The net inflows of invisibles at US $14.05

billion, not only covered the entire trade deficit, but also resulted in a surplus in current account by US $1.35 billion, representing 0.3 per cent of GDP. However, the current account surplus achieved with stagnant exports and a negative growth in imports may be a temporary feature for the economy as a sustainable current account surplus must be based on reasonable export and import growth, consistent with the rising development needs and export competitiveness of Indian products abroad.

2.3 COMPOSITION OF FOREIGN TRADE

- **FOLLOWING POINTS EXPLAINS THE COMPOSITION OF FOREIGN TRADE**

1. Beginning in 1991, the government of India has introduced a series of reforms to liberalize and globalize the Indian economy. Reforms in the external sector have helped to integrate India into the world economy. In recognition of the growing importance of foreign trade in the Indian economy, this book provides a comprehensive description and analysis of post-independence developments in India's foreign trade and allied sectors with focus on the post-1991 period.

2. Since the early 1990s, world economies have witnessed a paradigm shift towards market-oriented economic policies, as well as a careful dismantling of obstacles in international trade. This has helped developing countries like India gain access to world markets, modern technologies, and collaborations. This has also given these countries a window to the developed world, helping them to understand the significant role of foreign trade as an effective instrument of economic growth and employment generation.

3. Over the last 60 years, India's foreign trade has undergone a complete change in terms of composition and direction. The exports cover a wide range of traditional and non-traditional items while imports consist mainly of capital goods, petroleum products, raw materials, and chemicals to meet the ever-increasing needs of a developing and diversifying economy. India’s Traditional exports consists of raw jute, tea, cotton textile, cashew kernels, oil cakes, tobacco (unmanufactured), spices, coffee, hides and skins, etc.

4. The nontraditional exports are sugar, engineering goods, iron, ore, clothing (including readymade garments), leather and leather manufactures, fish and fish preparations, pearls and precious stones, iron and steel, chemicals, handicraft, silver etc.

5. For about 40 years (1950-90), foreign trade of India suffered from strict bureaucratic and discretionary controls. Similarly, foreign exchange transactions were tightly controlled by the Government and the Reserve Bank of India.
6. From 1947 till mid-1990s, India, with some exceptions, always faced deficit in its balance of payments, i.e. imports always exceeded exports. This was characteristic of a developing country struggling for reconstruction and modernization of its economy. Imports galloped because of increasing requirements of capital goods, defense equipment, petroleum products, and raw materials. Exports remained relatively sluggish owing to lack of exportable surplus, competition in the international market, inflation at home, and increasing protectionist policies of the developed countries.

7. In order to study the composition of India's export trade, it is necessary to analyse the changing pattern of different items of India's exports. Number of items in export trade and their trend has changed considerably since independence. On the basis of nature of goods, the export items can be classified into three categories – (a) Food beverages and tobacco; (b) Raw materials; and (c) Manufactured goods. Food beverages and tobacco group includes tea, coffee, black paper, tobacco, cashew kernel, oil cakes etc. Raw materials group includes raw waste, mica, iron-ore, manganese ore, lad, minerals and some fuel etc. Manufactured goods include jute manufactures, cloth, leather, woolen carpets and rugs, cement, chemicals, animals and vegetable oils and fats, art silk manufactures etc., machinery and transport equipment, iron and steel and engineering goods.

2.4 DIRECTION OF INDIA'S FOREIGN TRADE

By direction of trade we mean the countries with which India keeps international trade relations. It also helps us to understand the diplomatic relations maintained by India with other countries in direction of trade.

For the purpose of direction of trade, the countries to which India exports are broadly divided into following five groups.

The group of countries to which India Exports are :-

1. Organisation for Economic Co-operation & Development (OECD) : The OECD group accounted for a major portion of India's exports. The share of this group was 56.4% in 1990-91 & 44.3% in 2005-06. About 45% of these exports have been to European Union (EU) countries.

2. Organisation of Petroleum Exporting Countries (OPEC) : The share of OPEC which was 5.6% in 1990-91. In 2005-06 it has increased to 14.8% i.e. share of OPEC has been showing an upward trend since 1990-91.
3. Eastern Europe : There was a rapid decrease in the share of Eastern Europe particularly U.S.S.R. Due to political problems & disintegration of the U.S.S.R, the share of Eastern Europe decreased from 17.9% in 1990-91 to 1.9% in 2005-06.

4. Developing Countries : The share of developing nations increased from 17.1% in 1990-91 to 38.7% in 2005-06. Asian countries now account for 1/4th of India's export earnings. Among the Asian countries the major export destinations have been Hong Kong, Singapore & Thailand.

5. Other Countries : The share of other countries has declined from 3.00% in 1990-91 to 0.3% in 2005-06.

Important Facts of India's Country Wise Exports

1. The share of U.K in India's exports declined from 26.9% in 1960-61 to 4.5% in 2004-05.
2. The share of USA in India's exports was 16% in 1960-61 and it rose to 16.7% in 2004-05. India was dependent on U.K and U.S.A for 43% of its export earnings in 1960-61. US to be the single largest trading partner for India but with a declining trend.
3. The share of U.S.S.R. (Russia) rose from 4.5% in 1960-61 to 18.3% in 1980-81 but declined to 0.8% in 2004-05 due to the disintegration of U.S.S.R. Between 1986-90, the first position was occupied by U.S.A, second position by U.S.S.R and the third position by Japan. The position changed markedly after the disintegration of U.S.S.R.
4. In the recent years, export to East Asian Countries has increased, mainly Hong Kong, Singapore and Thailand.
5. There has been a healthy growth of bilateral trade between India and China. China is the second largest trading partner for India next to USA.
6. Trade in services in India has been growing rapidly since beginning of the last decade, following significant domestic liberalization on one hand, and access to a growing overseas market for services, on the other hand. By not only growing more rapidly than the country's merchandise exports, India's services export grew much faster than that recorded by the world during the past decade and a half. India's services trade currently constitutes about 32 per cent of the country's total trade.

7. The maximum foreign trade in India is done with United States of America, though Indo-American trade relations have been adversely affected due to imposition of American trade laws like Super-301 and Special-301 during past few years. The Government of India has, however, not made any change in its trade policy with USA. According to the data available during 2001-2002, India had the export worth Rs.40,602 crore with USA while the total imports from USA were estimated to be about Rs.15,021 crore.
8. India is having the maximum trade with OECD countries in which EEC registers the maximum trade with India.
9. The direction of Indian trade registered a change during recent past years. Indian trade has been partially shifted from West-Europe to East-Asia and OECD countries. The high growth rate in Japan and ASEAN countries gave a high demand and favourable market to Indian exports. This has been one of the major reasons responsible for increasing Indian exports to East-Asian region of the world. Contrary to it, the countries of West-Europe (France, Spain, Portugal etc.) registered the phase of depression in their economies. That is why Indian exports to these countries got reduced over the past recent years.
10. USA is India’s largest trading partner accounting for nearly 19.4% of our exports and 6.1% of the imports. The share of non-traditional items and value added products have been increasing in our exports to USA while one imports comprised mostly on engineering products and chemical product.
11. Till 1991, 18% of the total Indian exports were exported to USSR and other socialist countries of East-Europe. Due to division of USSR and strutural changes in economies of East-Europe this export percentage got reduced to 1.8% only during 2001-2002. However, exports to Russia have shown an increasing trend during past two years.

2.5 SERVICE SECTOR EXPORT

Services are important for the developed as well as for developing country economies. The rapidly expanding services sector is contributing more to economic growth and job-creation worldwide than any other sector. India's services trade currently constitutes about 32 per cent of the country's total trade. Due to such rapid growth in services exports, India has succeeded in raising its penetration in global markets more rapidly for services than for goods. In 2006, its share in world services trade was around 2.52 per cent compared with a 0.9 per cent share in world merchandise trade. Today, the services sector is the single largest sector in India, accounting for more than 50 per cent of domestic production, 32 per cent of international trade, and some 33 per cent of employment in the organized sector (2006). Yet, a large part of India's services sector is untapped and rarely explored in the international market.

The expansion of India’s services sector has been attributed to demand as well as supply factors. Demand for many services has become highly income elastic; that is, as people grow richer, their consumption of services such as education and health expands more rapidly than their demand for manufactures and agricultural products. To a certain degree, the growing share of services in gross domestic product (GDP) and the rising services trade also reflect the dynamism of the Indian economy, where an efficient services sector is not only crucial to the country’s economic growth but also crucial to its competitiveness in the current era of globalization. Therefore, the liberalization of the services trade is quite appealing as it is likely to exert an economy-wide influence in providing strong inputs to all other economic activities, including poverty reduction.

India is one of the leading exporters of services in the world. At present, India ranks 9th in the world for overall services exports. Currently, India ranks 2nd in the world for computer and information services exports. The trend towards globalization has resulted in steady growth of trade in services. Probably the fastest growing sector of world trade is trade in services. Services include travel and entertainment, education, business services such as engineering, accounting and legal services. Following table given clear idea about the India’s export of services.

India’s export of services

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

Source:- economic survey 2009-10

(a) Software Services

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

(b) Business Services

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

(c) Transportation

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

(d) Travel

The share of travel services has declined considerably since 2000-02. The fall in travel services is a reflection of the decline in tourist arrivals in India. This fall is mainly on account of terrorist activities in India. In 2008-09, it contributed about 10-9 US $ billion worth of foreign exchange.

(e) Financial Services

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

(f) Communication Services

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

(g) Insurance Services

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

(h) Other Services

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

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

2.6 REASONS FOR POOR SHARE OF INDIA'S EXPORT

The main reasons for the poor share of India's export are as follows :

(1) Gap in the Export-Import Performance : Exports are increasing since 1950-51. The rate of increase is also reasonably good after 1985-86. Along with this, the imports are increasing and that too at a faster rate. Imports have increased substantially bulk of which comprises items such as petroleum, oil and lubricants. The higher exports are siphoned off by higher imports and the balance of trade and payments position has remained more or less the same. Imports include precious and semi-precious stones, capital goods, raw materials and consumables and intermediates for industrial production and technological up gradation. As a result, the balance of trade remains unfavourable for more than forty years. The trade deficit continues thereafter also. This suggests that the benefits of better export performance have not given the net benefit to Indian economy. This gap in the export-import trade puts a severe strain on our foreign exchange reserves.

(2) Declining Share-world Trade: India's exports are increasing but our performance in the world export trade is not satisfactory as compared to smaller countries in the world. Export trade is increasing while our share is reducing in the world export trade. India's share in the world export trade was 1.05 per cent in 1960-61 but has gone down to 0.64 per cent in 1970-71 and 0.42 in 1980-81. Even in 1992-93 this percentage was 0.52 and increased to 0.64 per cent in 1994-95. This situation is certainly disturbing. It suggests that though exports are increasing, the country's performance in the world export trade is not at all satisfactory. India is in a very critical position in this regard when compared even with smaller countries. India's total export earnings still remain low as compared to most of the major players in the Asian region. It is necessary to raised India's share in world export trade from the current level of 0.6 per cent to at least one per cent due to liberalised EXIM Policy..

(3) Exports as Percentage of GNP : It is observed that exports as percentage of GNP is nearly 20 percent for several European countries. However, exports in India's GNP come to around 4 and 5 per cent since 1950. It reached to 10.0 per cent in 1993-94. This situation is undesirable and also suggests that considerable improvement in the field of export trade is urgently required.

(4) Impact of Incentives and Assistances: Government has been providing liberal assistances and incentives to boost exports. Further, EXIM policy has made export procedures more simple. However, the impact of all such measures is not clearly visible in the export performance of the country. Some countries have shown better export performance even without the introduction of such export promotion measures.

(5) Forex Reserves : It is an accepted fact that export promotion and large scale exports are considered necessary for increasing foreign exchange earnings, repayment of foreign loans and reducing the dependence on foreign loans and advances. Exports on massive scale are essential. However, the actual progress and position in this regard is not at all satisfactory.

2.7 SUMMARY

For the purpose of direction of trade, the countries to which India exports are broadly divided into following five groups. These groups of countries are: Organisation for Economic Co-operation & Development (OECD), Organisation of Petroleum Exporting Countries (OPEC), Eastern Europe, Developing Countries and Other Countries.

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

The main reasons for the poor share of India's export are: Exports are increasing since 1950-51but there is a Gap in the Export-Import Performance, India's exports are increasing but our performance in the world export trade is not satisfactory as compared to smaller countries in the world, Exports as Percentage of GNP come to around 4 and 5 per cent since 1950, the impact of Incentives and Assistances is not clearly visible in the export performance of the country.

2.8 QUESTION

1. Briefly examine the trends in India's export trade since independence and explain the need for its further expansion and diversification.
2. Briefly examine the trends in India's export trade since independence.
3. Critically examine the trends in India's export trade in the last decade.
4. Comment on the present position of India's export trade and explain the need for its expansion and diversification.
5. Analyse India's share in world trade. Examine the reasons for India's poor share on in world trade.
6. Comment on the composition and direction of India's export trade.
7. Write detailed note on export of services.

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3

INTERNATIONAL TRADING ENVIRONMENT I

Unit Structure

3.0 Objectives
3.1 Introduction
3.2 Definitions of International Marketing / Trade
3.3 Importance of International Trade / Marketing
3.4 Factors Influencing International Trade / Marketing
3.5 Problems in International Trade / Marketing
3.6 Regulations in International Trade
3.7 TRADE BARRIERS
3.7.1 Tariff Barriers
3.7.2 Non-Tariff Barriers
3.8 World Trade Organisation (WTO)
3.9 Implications of WTO Agreements / Uruguay Round
3.9.1 Negative Impact
3.9.2 Positive Implications
3.10 Summary
3.11 Questions

3.0 OBJECTIVES

The main vision of this chapter is to

- Define international marketing
- Explain the features and importance of international marketing
- Understand Trade Berries

- Know about WTO and its objectives, functions and implications

3.1 INTRODUCTION

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

3.2 DEFINITIONS OF INTERNATIONAL MARKETING / TRADE

DEFINITION

According to Hess and Eateorq

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

According to Subhash c. Jain

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

3.3 IMPORTANCE OF INTERNATIONAL TRADE / MARKETING

The important benefits of international marketing are explained as follows:

1. Lowers prices

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

2. Increases the real income and national well being

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

3. Furthers technological development

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

4. Provides higher standard of living

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

5. Reduces dangers of monopolistic exploitation

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

6. Ensures optimum use of resources

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

7. Builds cultural relations

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

8. Bridges the technological gap

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

9. Bring international co-operation and world peace

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

10. Brings about rapid industrialization

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

3.4 FACTORS INFLUENCING INTERNATIONAL TRADE / MARKETING

International trade is the exchange of commodities, products, services, capital between people and companies in different countries. It forms a significant part of many counties' Gross Domestic Product, GDP. International trade has existed for a long time, but trade has increased hugely in the past few hundred years and has a major impact on the economies of many countries.

1. Exchange Rate

The exchange rate is the price of one currency in terms of another. Exchange rates fluctuate depending on the demand for a particular currency. If there is a high demand for a country's currency then its price will tend to rise. Because currencies fluctuate in price it can often be cheaper to buy goods in one country and sell them in another. Because of this exchange rates have a major impact on international trade.

2. Competitiveness

Competitiveness is a measure of the relative ability of different countries to provide different products or services. Competitiveness takes into account the efficiency, costs of employment, level of government regulation and the ease of doing business. Competitiveness effects international trade because the more competitive countries will tend to attain a higher level of global trade.

3. Tariffs and Trade Barriers

Sometimes governments enact trade barriers to limit trade with foreign countries. Sometimes these can take the form of quotas, where only a limited amount of a certain product or service can be purchased from businesses in foreign countries. Tariffs have been a common trade barrier in history. A tariff is a tax paid on imported

4. Rate of profit –

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

5. Sales and production stability –

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

6. Inadequate domestic demand –

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

7. Economic growth –

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

8. Reducing business risks –

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

9. Information and media Revolution –

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

10. Strategic vision –

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

11. Accepting social responsibility –

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

12. Government policies –

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

13. W. T. O.

Due to WTO, member nations have reduced a number of restrictions on foreign investment, and trade in goods and services. For example, the custom duties have been reduced worldwide. This has motivated business firms to enter in the global markets to a greater extent.

14. Benefit of bulk selling –

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

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

3.5 PROBLEMS IN INTERNATIONAL TRADE / MARKETING

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

a) Recession in world market

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

b) Technological differences

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

c) Reduction in export Incentives –

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

d) Several competitions in global marketing –

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

e) Problem of product standards –

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

f) Fluctuations in Exchange Rate –

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

g) Problems of Sea Pirates Attacks –

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

h) Problem of subsidies by Developed countries –

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

i) Problem in preparing Documents –

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

j) Government restrictions and foreign exchange regulations –

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

k) High risk and Uncertainties –

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

l) Competition from China

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

3.6 REGULATIONS IN INTERNATIONAL TRADE

Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in the United Kingdom, a belief in free trade became paramount. This belief became the dominant thinking among western nations which is the origin of several regulations in International trade.

1. After the Second World War, controversial multilateral treaties like the General Agreement on Tariffs and Trade (GATT) and World Trade Organization have attempted to promote free trade while creating a globally regulated trade structure. These trade agreements have often resulted in discontent and protest with claims of unfair trade that is not beneficial to developing countries.

   Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe. The Netherlands and the United Kingdom were both strong advocates of free trade when they were economically dominant, today the United States, the United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves.

2. As tariff levels fall there is also an increasing willingness to negotiate non tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

3. Traditionally agricultural interests are usually in favour of free trade while manufacturing sectors often support protectionism. This has changed somewhat in recent years, however. In fact, agricultural lobbies, particularly in the United States, Europe and

Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services.

4. During recessions there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the Great Depression. Many economists have attempted to portray tariffs as the underlining reason behind the collapse in world trade that many believe seriously deepened the depression.

5. The regulation of international trade is done through the World Trade Organization at the global level, and through several other regional arrangements such as MERCOSUR in South America, the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, and the European Union between 27 independent states.

3.7 TRADE BARRIERS.

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

- Tariff Barriers.
- Non-Tariff barriers.

3.7.1 TARIFF BARRIERS

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

1. Specific duty

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

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

2. Ad-valorem duty

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

3. Compound duty

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

4. Sliding scale duty/Seasonal duties

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

5. Countervailing duty

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

6. Revenue tariff

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

7. Anti-dumping duty

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

8. Protective tariff

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

9. Single column tariff

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

10. Double column tariff

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

11. Triple column tariff

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

3.7.2 NON-FRAFIFF FARRIERS

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

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

1. Quota System

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

(a) Tariff/Customs Quota: - A tariff quota combines the features of the tariff as well as the quota. Here, the imports of a commodity up to a specifically volume are allowed duty free or at a special low rate duty. Imports in excess of this limit are subject to a higher rate of duty.

(b) Unilateral Quota: - The total import quantity is fixed without prior consultations with the exporting countries.

(c) Bilateral Quota:- In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.

(d) Mixing Quota :- Under the mixing quota, the producers are obliged to utilized domestic raw materials up to a certain proportion in the manufacturing of a finished product.

2. Prior Import Deposits

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

3. Foreign Exchange Regulations

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

4. Consular Formalities

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

5. State Trading

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

6. Export Obligation

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

7. Preferential Arrangements

Some nations form trading groups are preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.

8. Other Non-tariff Barriers

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

Check Your Progress

1. Define the terms:
   a. Tariff
   b. Trade Barriers
   c. Revenue Tariff
   d. Anti-dumping duty
   e. Specific Duty

2. “Free and Fair International Trade is an ideal situation.” Discuss.

3.8 WORLD TRADE ORGANISATION (WTO)

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

The following table provides a summary of GATT rounds.

Year	Place	Matters Covered	Counties participated
1947	Geneva	Tariff Reduction	23
1949	Annecy	Tariff Reduction	13
1950	Torguay	Tariff Reduction	38
1956	Geneva	Tariff Reduction	26
1960	Geneva	Tariff Reduction	26
1964	Geneva	Tariff and Anti- dumping	62
1973	Tokyo/Geneva	Tariff and Non-tariff	102
1986	Uruguay/Geneva	Tariff, Non-tariff, TRIPs,TRIMs	123

FUNCTIONS OF WTO

Following are the main functions of WTO:

1. Administration of agreement-

It looks after the administration of the 29 agreements (signed at the conclusion of Uruguay round in 1994), plus a number of other agreements, entered into after the Uruguay round.

2. **Implementation of reduction of trade barriers-**
   It checks the implementation of the tariff cuts and reduction of non-tariff measures agreed upon by the member nations at the conclusion of the Uruguay round.

3. **Examination of Members' Trade Policies-**
   It regularly examines the foreign trade policies of the member nations, to see that such policies are in line with WTO guidelines.

4. **Collection of foreign trade information-**
   It collects information in respect of export-import trade, various trade measures and other trade statistics of member nations.

5. **Settlement of disputes-**
   It provides conciliation mechanism for arriving at an amicable solution to trade conflicts among member nations. The WTO dispute settlement body adjudicates the trade disputes that cannot be solved through bilateral talks between member nations.

6. **Consultancy services-**
   It keeps a watch on the development in the world economy and it provides consultancy services to its member nations.

7. **Forum for negotiation-**
   WTO is a forum where member nations continuously negotiate the exchange of trade concessions. The member nations also discuss trade restrictions in areas of goods, services, intellectual property etc.

8. **Assistance of IMF and IBRD-**
   It assists IMF and IBRD for establishing coherence in universal economic policy administration.

3.9 IMPLICATIONS OF WTO AGREEMENTS / URUGUAY ROUND

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

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

3.9.1 Negative Impact-

1. Impact of TRIPS-

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

The agreement on TRIPS extends to agriculture through the patenting of plant varieties. This may have serious implications for developing countries agriculture including India. Patenting of plant varieties may transfer all gains in the hands of MNCs which will be in a position to develop almost all new varieties with the help of their huge financial resources and expertise.

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

2. Impact of TRIMS-

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

3. Impact of GATS-

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

4. Impact of reduction of tariffs-

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

5. Impact on small sector-

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

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

6. Impact on agriculture-

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

3.9.2 Positive Implications

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

1. Growth in merchandise exports-

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

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

2. Growth in services exports-

The WTO has also introduced an agreement on services called GATS. Under this agreement, the member nations have to liberalise the services sector. Certain developing countries like

India would benefit form such an agreement. For example India's services exports have increased from about 5 billion US $ in 1995 to 76 billion US $ in 2006-07. The software services accounted for about 40% of the services exports of India.

3. Foreign Investment

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

4. Textiles and clothing-

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

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

3.10 SUMMERY

International marketing is important because of the reasons like: By specialization, international marketing lowers the prices of goods and services, it increases the real income and national well being of all the participating countries, specialization and technological developments, it provides better life and welfare to people in different countries, it reduces dangers of monopolistic exploitation, it ensures optimum use of resources, it develops closer social and cultural relations between different nations, it narrows the gap between the developed and developing countries, it brings international co-operation and world peace, it brings about rapid industrialization.

International trade is the exchange of commodities, products, services, capital between people and companies in different countries. The factors affecting on International trade are: Exchange rate, Competitiveness, Tariffs and Trade Barriers, Rate of profit, Sales and production stability, Inadequate domestic demand, Economic growth, Reducing business risks, Information and media Revolution, Strategic vision, Social responsibility, Government policies and Regulations, WTO, the benefits of selling in bulk

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

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

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

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

The world trade organization (WTO) started functioning from 1st January 1995. WTO is the result of Uruguay Round of negotiations. Administration of agreement, Implementation of reduction of trade barriers, Examination of Members' Trade Policies, Collection of foreign trade information, Settlement of disputes, Consultancy services, Forum for negotiation, Assistance of IMF and IBRD etc are the main functions of WTO.

3.11 QUESTIONS

1. What is international marketing & explain the importance of international marketing?
2. Discuss the various tariff barriers on international trade?
3. What are the various non-tariff barriers on international trade?
4. Evaluate briefly the various trade barriers?
5. Explain the features of international marketing?
6. What are the main objective and functions of WTO? Discuss?
7. Discuss the positive and negative impact of WTO and developing nations?

8. Define the terms within 30 words:

   a. International Marketing

   b. Specific Duty

   c. Ad- Valorem Duty

   d. Compound Duty

   e. Countervailing Duty

   f. Protective Duty

   g. Quota System

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4

INTERNATIONAL MARKETING- II

Unit Structure

4.0 Objectives
4.1 Introduction
4.2 Trading Blocs
4.3 Implication of Trading Blocs
4.4 European Union (EU)
  4.4.1 Introduction
  4.4.2 Objectives (EU)
  4.4.3 Policies of European Union
4.5 North American Free Trade Agreement (NAFTA)
4.6 Association of South East Asian Nations (ASEAN)
4.7 Summary
4.8 Questions for Self-Assessment

4.0 OBJECTIVES

The main purpose of this chapter is to:

- Understand the meaning of Trading blocks
- Know in detail about the trading blocs- (EU, NAFTA, ASEAN)
- Understand the implications of trade blocs for international marketing

4.1 INTRODUCTION

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

4.2 TRADING BLOCS

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

The main objective of trading blocs' are-

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

4.3 IMPLICATION OF TRADING BLOCS

Trade blocs and free international trade do not go together. In fact, trade blocs are against the growth of free global/international trade. They adversely affect the process of trade liberalization at the global level. However, trade blocs are also useful for integration of economies of member countries. EU is one popular and successful trade blocs which has brought the integration of economies of member countries. All member countries are getting benefits from this trade bloc. In brief trade blocs have positive and negative aspect. It is a mixed blessing. Let us, now briefly note the implication of trade blocs.

- **Positive Implications**

1. Trade Creation

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

2. Competition

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

3. Economies of large scale

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

4. Economic growth

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

5. Employment

Due to large scale production and distribution of goods, the employment also increases. There can be direct and indirect effect on employment. The direct effect in the industries producing goods and services. The indirect effect is due to the increase in employment in the supporting industries such as ancillary units, banking, insurance etc.

6. Technological development

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

7. Investment

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

8. Social and cultural relations

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

9. Better utilization of resources

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

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

10. Consumer welfare

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

- **NEGATIVE IMPLICATIONS**

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

1. Common external barriers

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

2. Collective bargaining by member nations

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

4.4 **EUROPEAN UNION (EU)**

4.4.1 Introduction

This was originally established as European Common Market by the treaty of Rome in 1957, and came into operation in 1959. The founder members of the community were France, West

Germany, Italy, Belgium, Netherlands and Luxembourg. In 1973 UK joined the community. Today it is known as EU, and comprises Belgium, Denmark, France, Greece, Ireland, Italy, Netherlands, Portugal, Spain United Kingdom, Germany, Luxembourg, Finland, Austria and Sweden.

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

They have a common currency which is the Euro.

4.4.2 Objectives of EU

The main objectives of European Unions are as follows-

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

4.4.3 Policies of European Union:

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

1. Common Agriculture Policy-

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

2. Common Fisheries Policy-

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

3. Common Transport Policy-

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

4. Fiscal Policy-

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

5. Industrial Policy-

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

6. Competition Policy-

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

CHECK YOUR PROGRESS:

1. Explain the following terms briefly:
   a. Trading Blocs
2. Fill in the blanks:
   a. Some of the prominent trading blocs include European Union are---.
   b. European Economic Community (EEC) got converted into -----------------------------in 1993.
   c. European Union has a common currency which is --------------
   d. Today European Common Market is known as---------.

4.5 NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

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

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

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

- **Objectives of NAFTA:**

The main objectives of NAFTA are as follows

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

- **MEASURES UNDERTAKEN BY NAFTA.**

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

4.6 ASSOCIATON OF SOUTH EAST ASIAN NATIONS (ASEAN)

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

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

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

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

- **OBJECTIVES OF ASEAN**

The main objectives of ASEAN are as follows-

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

4.7 SUMMERY

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

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

4.8 QUESTIONS FOR SELF-ASSESSMENT

1. "Trading blocs are harmful for the growth of world trade." Discuss.
2. Explain the implications of trading blocs on international marketing?
3. "Trade Blocs and free International Trade do not go together." Explain.
5. Write short motes on-
   (a) EU
   (b) NAFTA
   (c) ASEAN
6. Give full forms of and explain the terms briefly.
   (a) EU
   (b) NAFTA
   (c) ASEAN

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5

ORGANISING AN EXPORT FIRM

Unit Structure

5.0 Objectives
5.1 Introduction
5.2 Setting up of an Export Firm
5.3 Registration Procedure
5.4 Process of Execution of an Export Order
5.5 Types of Export Organisations
5.6 Summary
5.7 Questions

5.0 OBJECTIVES :

After reading this unit, the student will be able to understand :

- Organising an export firm and developing an export marketing plan
- Nature of export firm
- Setting up of an export firm
- Registration formalities
- Need for export marketing plan, Contents of export marketing plan, developing an effective export marketing plan.
- Discussion Questions

5.1 INTRODUCTION

Every business enterprise is interested to do export as it is more profitable than doing business in the domestic market. Before entering into export marketing the firm should prepare its own export policy covering various aspects of export business such as product planning and development, sales promotion, pricing and so on. The basic objective of the firm is to earn profit, and to do business on large scale in the overseas market. In order to accomplish its desired objectives the firm prepares long terms policy called the Export Policy of the firm.

5.2 SETTING UP OF AN EXPORT FIRM

The setting up of an export firm is completed in two stages. These stages are as follows:

(I) Establishing a business firm and

(II) Obtaining Importer-Exporter Code Number in the name of the business firm.

- **Establishing a Business Firm :**

The procedure for the establishment of a business firm involves the following steps:

1. Selection of the name of the firm : An entrepreneur has the freedom to select any name for his proposed business firm. However, since it is proposed to start export business, it is desirable that the name should convey the meaning that this firm is engaged in export/import business. The name should be simple, short and precise. Various words like global, world ways, overseas, international etc. can be used as a part of the name to convey this meaning. One may even start export business under the name and style of an existing firm operating in the domestic market.

2. Obtaining approval of the name of the firm : There is no requirement to obtain prior approval for the proposed name of the business firm for carrying the export-import business. However, prior approval of the proposed name would be required from the other authorities if the proposed form of ownership organisation is a joint stock company or a cooperative society or registered partnership firm.

3. Selection of the form of ownership organisation : The next step is to decide the form of ownership organisation for the proposed business firm. An entrepreneur can select the form of ownership organisation from amongst the following options :

(a) Sole Proprietorship

(b) Partnership firm

(c) Joint Stock Company

(d) Cooperative Society

4. Deciding location of the firm : The next steps is to decide the location of the firm. It should be ensured that the firm is located at proper and easily accessible location. A good location in fact lends credibility to the status of the firm. However, it is not a prerequisite that one must have an office at some central location, particularly if one proposes to start as a merchant exporter. In the latter case, one can even start the business from one’s own residence.

5. Developing trade name and logo : It is very advantageous to create a trade name and a logo for the proposed firm. Its design should be such that it will create a favourable impact on the prospective buyers for the firm's products. A dynamic entrepreneur can use it as an effective marketing tool for the promotion of his products.

6. Creating the necessary infrastructure : The basic infrastructure one needs would depend upon the type of export business one plans to start-merchant exporter or manufacturer-exporter or service provider. In the case of manufacturer-exporter, a proper project report will have to be prepared to establish the manufacturing unit and a supporting office set-up. There are, however, a few things that are common to all kinds of businesses, namely, minimum stationery in the form of letter heads, visiting cards and envelopes. There is no need to print any other stationery because an export firm has to use the standard stationery for sending shipment of goods. The various documents used in the export-import business are available from the market from any shop selling government publications. Besides stationery, the firm also needs to have a computer with internet facility, a fax machine and at a later stage, a website needs to created for the firm. This has assumed importance in view of the revolution in the field of information technology making it imperative for every business firm to take advantage of the facilities offered by advancements in the area of information technology (one has to be part of e-business operations) in order to be competitive in the international market.

7. Applying for the grant of permanent account number (PAN) of income tax : The next step is to the income tax department for the grant of permanent account number (PAN) of income tax. This is a requirement to open the current account in the name of the proposed business firm and to apply for the allotment of the Importer-Exporter Code Number.

8. Opening current account with the bank : The entrepreneur should now open an account with a scheduled commercial bank. Initially, one may open an account with the branch of the bank where the requirement of minimum balance is the minimum. It is however, important to open the account with the branch that deals in foreign exchange and also accepts the export-import documents for negotiation and other related dealings.

After the bank account has been opened, the business firm is established. The next step is to apply for the grant of Importer-Exporter Code number.

5.3 REGISTRATION PROCEDURE

Business firms can enter into foreign trade only if they have been allotted importer-exporter code number by the competent licensing authority. The chief licensing authority of India is the office of the Director General Foreign Trade (DGFT) under the Ministry of Commerce, Government of India, with its head quarters located at Udyog Bhavan, New Delhi. The regional offices of the DGFT (known as Regional Licensing Authority) are located at different parts of India.

The registration procedure involved in export business is as follows:

1. To Obtain Code Number : Every exporter is required to obtain a code number from RBI. The exporter must quote income-tax number allotted to him by the income tax authorities on the CNX form which is used for obtaining code number. The exporter must collect two copies of code number application form the Exchange Control Department (Exports) of RBI. In a sealed envelope the exporter is required to put two copies of CNX form, a copy of income tax number certificate and a confidential report about the financial standing from the bank and forward it to RBI. After checking the relevant documents, the officials will send a copy of CNX form to the exporter with a code number written on the back page. The exporter must make use of this code number while corresponding with RBI. As per the EXIM policy exporters are required to apply to the DGFT to obtain Importer's Exporter's Code Number (IEC) code number. This will entitle to import or export any item of non-prohibited goods. This code number is made compulsory.

2. To Apply for Exemption from Sales Tax : The goods meant for exports are eligible for exemption from both state and central sales taxes. The export firm should be registered with sales tax authorities and follow the necessary procedure laid down by them. In the State of Maharashtra the exporters are required to use Form No. 14.

3. To Register with ECGC : Export Credit and Guarantee Corporation (ECGC) which is a division of Ministry of Commerce provides credit insurance to exporters against commercial and political risks which may arise while collecting payments from abroad. By filling up a proposal form, the exporter must apply to the nearest office of ECGC. This form should be accompanied by a confidential bank report, along with the prescribed amount of fee and a detailed report about the business. The ECGC policy helps to overcome the non-payment risks from the foreign buyers. A policy with ECGC also helps to get liberal credit from the bank. This is because ECGC gives various kinds of pre-shipment and post-shipment financial guarantees to the bank on behalf of the exporter.

4. To Register with Export Promotion Council : There are different export promotion Councils for different types of business like Engineering Export Promotion Council, Chemical Export Promotion Council, Textile Export Promotion Council etc. The council issues three forms, viz., (a) Application for Registration (b) Application for Membership and (c) Registration cum Membership Certificate. After filling up these forms, the exporter will submit the same with prescribed fee to the export promotion council. After verifying the documents, the council will return a copy of Registration cum Membership Certificate to the exporter. With the Receipt of this certificate, the exporter will now be known as "Registered Exporter". A registered exporter becomes eligible to get export incentives and benefits offered by the Ministry of Commerce. A registered exporter receives ocean of literature pertaining to export business from the council. At the same time, the council can also guide the exporter regarding market informations.

In case the export unit is to be located in Export Processing Zone (EPZ) or as Export Orient Unit (EOU); the exporters are advised to go through the provisions in the Foreign Trade Policy.

5. To Become Member of Chamber of Commerce and Productivity Councils : The exporter must take up the membership of local chamber of commerce, Productivity council and any other trade promotion organisation recognised by the Ministry of Commerce. These bodies often provide the much needed recommendations on behalf of exporters to the Govt. The Chamber of Commerce is the most representative body of business community. It is authorised to issue an important document known as "Certificate of Origin" to the members. Bodies like National Productivity Council (NPC) and Mumbai Productivity Council help exporters to improve product quality and control the cost of production. They also provide short-term training courses for exporters.

6. To Become Member of IIFT : Indian Institution of Foreign Trade (IIFT) provides invaluable source of information regarding markets and products having export potential. IIFT is an autonomous body. It conducts residential, short-term and long-term training programmes for exporters. It is advisable to take membership of IIFT, when the business is well established. This institute is located in New Delhi.

5.4 PROCESS OF EXECUTION OF AN EXPORT ORDER

Export trade is governed by legal controls and therefore, every function of it is carried out under definite procedures. The various steps involved in the process of execution of an export order are as follows:

1. Quotation and Indent : An exporter gives a quotation or an offer for sale to the foreign buyer. It is usually in the form of a Proforma Invoice. Proforma invoice or quotation gives : 1. Name and address of the buyer or consignee, 2. Description of goods to be sold, 3. Price, 4. Conditions of sale, and 5. Other provisions such as delivery schedules, payment terms, escalation clause due to rising prices/costs, etc.

In the export trade it is essential to have a clear understanding as to where the responsibilities of the seller end. The seller would like to quote his price ‘ex-works’ in his own currency and leaves the rest to the foreign purchaser. On the other hand, the buyer or importer would always prefer to have the goods delivered to his own warehouse free of all charges, at an inclusive price quoted in his own currency. The first type of the price quotation is called ‘ex-factory’ or ‘loco’ while the second type is called ‘franco’ quotation. In a competitive world, the exporter must go as far as he can to meet importer’s wishes.

The quotation is an offer of sale made by the seller to the buyer and it must include in a clear-cut manner all terms and conditions on which the goods are offered for sale. These relate to quantity, quality, prices, terms of delivery, discounts, payment, etc.

2. Receipt of Order : Receipt of Confirmed Order: When the exporter's offer or proforma invoice is accepted by the overseas buyer, he sends a confirmed order called “indent” to the exporter. The indent contains all important particulars of the transaction such as description and price of goods, instructions for packing, marking, insurance, mode of payment to be adopted by exporter, methods or time of delivery of goods, details of import license, etc. After acceptance of the order, he sends an acknowledgment of the same to the importer and informs him that the goods will be sent as per the terms and conditions of the order.

3. Receiving Letter of Credit : When a proforma invoice is accepted by the buyer, it becomes a confirmed order. An export order is usually treated as confirmed order when L/C is established in favour of the exporter.

4. Shipping and Credit Enquiry : The exporter has to arrange for booking of shipping space in advance of actual sending of goods. Usually exporters pass on this responsibility to some shipping and freight broker who is specialised in this work. He possesses full knowledge of the various shipping lines and gives export advice to which line is cheaper.

The shipping company issues a shipping order to the exporter when it agrees to carry the exporter's goods. The shipping order is a document containing instructions to the captain of the ship to accept goods on board the ship from the exporter or his agent.

Similarly, creditworthiness of the importer should be thoroughly verified. He may be requested to open an account in the form of a letter of credit with a bank having branches in both exporting and importing countries. If the reputation of importers is high, ordinary bank reference may be enough for the purpose of granting credit.

5. Arrangement for Shipment : The manufacturer exporter or merchant exporter can get exemption from the sales tax and refund of excise duty and customs duty. Certain legal formalities have to be performed before the goods are released for shipment. 'Form 14' is required for sales tax exemption and 'AR-4' form is needed for exemption or refund of excise duty.

6. Pre-Shipment Inspection : Export Inspection Council (EIC) is responsible for pre-shipment inspection and quality control for export of goods. Emphasis is on quality control and not on inspection for export. EIC gives an Inspection Certificate in triplicate to the exporter.

7. Packing : Packing may be done by the manufacturer himself or may be entrusted to the packing agents. Packing for export is a highly specialised work. Firstly, packing must provide adequate protection the goods, and must also be in accordance with the requirements of the shipping company and of the customs authorities. Secondly, the goods must be packed strictly as per contract, otherwise the buyer may perhaps refuse to take delivery. The forwarding agents know the special requirements of the importing country with reference to packing etc.

8. Marking : Each package should be stamped with a distinct mark pointing out the name of the importer and port of destination. The gross weight, and the net weight along with measurements should be marked on the package.

9. Clearing and Forwarding Agent : In order to look after all shipping and customs formalities and actual loading of the goods on board the ship, a specialist called forwarding agent may be appointed by the experts. These forwarding agents are exports in their line of business and on nominal commission offer valuable services to the exporter. In particular, they perform the following functions: (1) Negotiations of shipping contract, (2) Customs formalities, (3) Marine Insurance Policy, and (4) Loading of goods and securing of Bill of Lading. Sometimes, the forwarding agents may also be entrusted with the work of packing, marking, etc., of the goods to be exporter.

10. Dispatch of Documents to the Exporter : The C&F agent is required to submit the necessary documents to the exporter for further action. These document include: (a) Commercial Invoice, attested by Customs. (b) Shipping Bill or (export promotion copy). (c) Original L/C or contract order. (d) Customs Invoice. (e) Bill of Lading in appropriate copies. (f) GR Form (duplicate copy attested by customs) (g) Form AR-4/AR-4A (duplicate copy). (h) Railway Freight rebate form, attested by customs.

11. Shipment Advice to Importer : The exporter then issues shipment advice to the importer, indicating the date of shipment, the name of the vessel and so on. A few documents are also enclosed such as; (a) A non-negotiable copy of B/L. (b) Packing List, (c) Commercial Invoice.

12. Presentation of Documents to the Bank : All the required documents are submitted to the bank by the exporter for processing. The bank then sends a set of documents to the importers, which normally includes Commercial invoice, Customs invoice, Consular Invoice, Certificate of origin, Packing list, Bill of exchange, Negotiable copy of B/L and Insurance policy. The Bank then sends a copy of Bank Certificate and attested copies of commercial invoice to the exporter.

13. Realisation of Export Proceeds : After the receipt of bank certificate and commercial invoice, the exporter will collect the export proceeds from the importer through his bank. Generally, export proceeds, in India, must be realised within 180 days from the date of shipment, otherwise, special permission must be obtained from RBI.

14. Follow-up of Export Sales : It is necessary thus the exporter should have a follow-up after sales i.e. he should provide necessary after sales service, find out buyer’s opinion towards the product and so on, which will help him to generate more and more sales in the international market.

CHECK YOUR PROGRESS:

1. Enlist the points involve in the procedure for the establishment of a business firm.
2. Fill in the blanks
   a. An exporter gives a quotation or an offer for sale to the foreign buyer which is usually in the form of -------------------------------.
   b. Every exporter is required to obtain a code number from --------
   c. In the State of Maharashtra the exporters are required to use Form ---------------------------for exemption from sales tax.
   d. Generally, export proceeds, in India, must be realised within ------------days from the date of shipment.
   e. Each package should be stamped with a distinct mark pointing out --------------------------------and------------------------.
   f. ----------------- is required for sales tax exemption and ----------- form is needed for exemption or refund of excise duty.
   g. IIFT is located in -----------------------.
   h. After receiving the Registration cum Membership Certificate to the exporter the exporter will be known as -----------------------
3. Define the terms:
   a. Quotation
   b. Indent
   c. Forwarding agent
   d. Importer's Exporter's Code Number (IEC)
4. Enlist the necessary documents to be dispatched to the exporter for further action.

5.5 TYPES OF EXPORT ORGANISATIONS

The various types of exports organisations that exits in India are as follows :

1. Merchant Exporter
2. Manufacturer Exporter
3. Entrepreneur Merchant Exporters (EMEs)
4. Canalising Agencies
5. State Corporations
6. Star Export House

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

- **Advantages :**

The main advantages of a merchant-exporter are as follows:

(i) Specialisation in Marketing : Merchant exporter can concentrate on marketing instead of manufacturing. He can develop skill in marketing.

(ii) Higher Profit : Merchant exporter earns more profit from overseas operations as compared to domestic business.

(iii) Export Incentives: Merchant exporter enjoys exemption of the income tax on export income.

(iv) Less Investment : Merchant exporter requires less investment as he need, not maintain manufacturing network.

(v) Less Risk : The degree of risk in marketing is relatively low as compared to the possibilities of risk in manufacturing business.

- **Disadvantages :**

(i) Urgent Order : Merchant exporter is not in a position to execute urgent orders. He has to depend on the supply of manufacturer.

(ii) Last Minute Change : Merchant exporter is unable to incorporate last minute change in production design.

(iii) Lack of Incentives : Merchant exporters become entitled to claim incentives which are available to manufacturer exporter. They also become entitled for advance against international price reimbursement (IPR) scheme.

(iv) Unsuitable to Large Buyer : Industrial buyer especially assembly prefers to buy from manufacturer directly.

A merchant exporter makes purchase from the local producers and sells them abroad. He includes a profit calculated from his knowledge of the market. His profits are derived from a mark up on sales and from commission. Merchant exporters thus get profit from trading activities. A merchant exporter mainly concentrates on trading side of business. A merchant exporter has to be a man with vision and dedication to come up in export business. As such, the exporter must be well aware of the sources of supplies and the various formalities and procedures relating to export trade. It is possible for a merchant exporter to develop close ties with the foreign buyers.

2. Manufacturer Exporter : Manufacturer exporters are those who undertake manufacturing and marketing activities simultaneously. These activities may be carried out by owner-manager of a small unit or by a large manufacturing organisation such as corporate undertaking. Manufacturer exporters are in a better position to enter into the export market in a successful manner as compared with the merchant exporters. Manufacturer exporters are able to design products as per the requirements of the buyers. They are also in a better position to adopt suitable technology, and apply cost reduction techniques in order to bring down cost to suit the marketing needs. They are able to execute orders in time by following planed production schedule. A manufacturer exporter usually maintains separate departments for domestic sales and export sales. The basic advantage of maintaining a separate export division is to avoid the possibilities of clash between the export and domestic sales of the firms.

3. Entrepreneur Merchant Exporters : In order to create linkage between domestic production and export marketing and also to support entrepreneur initiative in export from Small Scale Industries Sector, a new scheme for granting certain special facilities for introduce by the Ministry of Commerce form 1984. Entrepreneur Merchant Exporters-(EMEs) will be eligible for additional license on the basis of 5% of the F.O.B. value of their exports of select product manufactured by SSI/Cottage Sector Units subject to the following conditions:

(a) The Entrepreneur Merchant Exporter must be a manufacturer.

(b) Minimum F.O.B. value of eligible exports of select products manufactured by SSI/Cottage Sector Units should not be less than Rs. 20 lakhs in the year before the preceding year and a minimum increase of 20% achieved in F.O.B. value of such exports in the year before the preceding year.

(c) The Entrepreneur Merchants Exporters should register themselves as ‘EME’s with the Export Promotion Council dealing with the concerned export product.

4. Canalising Agencies : Canalising agencies are notified agencies responsible to undertake export of commodities assigned to them. State Trading Corporation (STC) canalising agency setup to undertake exports from India of food grains. Some other canalising agencies are NAFED, Projects and Equipment Corporation of India Ltd., Cashew Corporation of India Ltd., Minerals and Metals Trading Corporation of India Ltd. Handicrafts and Handlooms Export Corporation. These canalising agencies provide specialised facilities and assistance to their exporting manufacturer suppliers who are called business associates.

5. State Corporations : State Government have taken interest in promoting exports of their state products though State Corporation. In some states, export promotion activities have been assigned to the State Small Scale Industries Development Corporation. As for example, MSSIDC, Uttar Pradesh Export Promotion Corporation, Bihar Export Promotion Corporation and Gujarat Export Promotion Corporation etc., have been setup to promote export of small-scale sector. Beside state level corporation, The National Small Industries Corporation has also been playing a key role in promoting and diversifying export of small scale sector.

6. Star Export House : The concept star export houses have been introduced in the Foreign Trade Policy (2004-2009). The Star Export Houses are also known as status holders. The position about eligibility of the various categories is exhibited in the table below :

Category	Total FOB/FOR export performance during the current licensing year and during the preceding 3 licensing years
One Star Export House	Rs. 15 crore
Two Star Export House	Rs. 100 crore
Three Star Export House	Rs. 500 crore
Four Start Export House	Rs. 1500 crore
Five Star Export House	Rs. 5000 crore

One Star Export House : The concept one star export house has been introduced in the Foreign Trade Policy (2004-2009). It has replaced the earlier concept of export house. ‘Export House’ is the registered export firm with sizable export performance. The Government of India had introduced a scheme to offer 'Export House Certificate' to established export firms in 1960. Recognisation to the export firm as “One Star Export House” is issued by the Director General of Foreign Trade on the basis of the following eligibility norms prescribed in the Foreign Trade Policy (2004-2009).

(a) The export firm must have RCMC.
(b) Export performance certificate.

Two Star Export Houses : The Government of India has introduced a new scheme of 'Two Star Export Houses' in Foreign Trade Policy (2004-2009). The objective of the scheme was to develop new products and new markets for export, of the Small-Scale and Cottage industry sectors. Export Houses which have demonstrated export capabilities and have facilities for testing and quality control will be eligible for recognition as Trading House provided it fulfills the following conditions.

(a) The applicant should be registered with Federation of Indian Export Organisation (FIEO).

(b) It should have been in the export field.

(c) It should have an average fob value of export during preceding three licensing years of Rs. 100 crores FOB. All these exports should be in the name of applicant ("direct" exports) and spread over at least three Product Groups.

Three Star Export House : The Government of Indian has recognized 'Star Export House' to facilitate global marketing activities In the Foreign Trade Policy (2004-2009). Exporters having exports during the preceding licensing year of Rs. 500 crores FOB shall qualify the exporter for the recognition as a Three Star Export House status. Further the exports should be spread over a minimum of two Export Product Groups and the earnings from one of these groups should not exceed 75% of the net foreign exchange earnings (NFE) prescribed for recognition.

Three Star Export Houses are entitled for some special benefits. They are eligible for special additional licence for import of raw materials and components on the basis of the admissible exports made in the preceding licensing year. These licence shall be non-transferable and the Star Export Houses will be eligible to dispose off the imported goods to the actual users only and thus they can maintain their links with the domestic industries.

Five Star Export House : A new scheme for recognition of Five Star Export House was introduced in Foreign Trade Policy (2004-2009). The purpose of this scheme was to encourage global market of a number of products both from India and abroad. Exporters having average fob value of export made during the preceding Three licencing year of Rs. 5000 crores during the preceding three licensing years are eligible for the recognition as Five Star Export House.

- **Facilities and Benefits :** Star Export Houses are entitled to the following benefits:

1. Import Facilities : Star Export Houses are granted the following facilities under the import policy.

(i) Special Import Licences : For such value or bearing such proportion to the FOB value of exports in the preceding licensing year, for the import of specified items.

(ii) Advance Licences and Advance Intermediate Licenses (as also Special Imprested Licences for supply of goods to EOUs, EPZ/EHTP/STP units) under 'Production Programme' of Duty Exemption Scheme.

(iii) Special Imports Licences (other than against export of telecommunication equipment).

2. Items of Import : The Special Import Licences will be issued for the items listed in Foreign Trade Policy. A Star Export House depending status is allowed to import one car, two cars, three cars and five cars respectively against its own Special Import Licence on the strength of a specific endorsement made by the licensing authority. The cars so imported shall not be sold or otherwise disposed off for a period of five years from the date of importation. Imports of a second hand car shall not be permittee. The payment for cars shall be from EEFC (Exchange Earners Foreign Currency Accounts) of the EH etc.

3. Marketing Development Assistance (MDA) : Large exporters are given marketing development assistance which ranges between 25% to 60% of the actual expenditure incurred. MDA is provided in respect of (a) conducting market surveys, (b) advertising and publicity abroad, (c) opening showrooms in India and abroad etc. (d) Participation in Trade fair and exhibitions abroad.

4. Foreign Currency Accounts : The facility of maintaining Foreign Currency (FC) Accounts has been introduced as a mechanism for settlement of payment for import, repayment of foreign currency loans and expenditure to be incurred for certain purpose approved by the RBI, out of export proceeds credited to such accounts. Such accounts can be maintained with any Authorised Dealer in Foreign Exchange in India but only at its designated branches. It can also be opened with a bank abroad.

The facility of maintaining FC accounts either in India or abroad will be available to Star Export House.

5. Training of Personnel : Preference may be given to personnel of Star Export House by selection of participants for training programmes organised in India and abroad by specialised institutions and organisations, where such participation is sponsored by the Government of India. This is to ensure that personnel of such Export Houses are in continuous touch with and possess knowledge of latest and sophisticated marketing techniques.

6. Trade Delegations : A number of trade delegations are sent abroad by the Government of India, FIEO and EPCs for exploiting foreign markets and exchange of information to develop trade. Representatives of Star Export Houses may be given preference for being included in these delegations.

7. Membership of Apex Bodies/Trade Delegations : Star Export House will be entitled to :

(i) Membership of Apex Consultative bodies like Board of Trade concerned with trade policy and promotion.

(ii) Preferential treatment for representation on important business delegations.

(iii) Permission for overseas trading.

5.6 SUMMARY

There are two steps in setting up of an Export firm: Establishing a business firm, Obtaining Importer-Exporter code number in the names of the business firm.

Business firms can enter into foreign trade only if they have been allotted importer-exporter code number. The registration procedure includes the particular steps like: to obtain the code number, to apply for exemption from sales tax, to register with ECGC, to register with EPCs, to become member of Chamber of Commerce, to become a member of IIFT.

While executing an Export order there also a definite procedure which involves the steps such as: Quotation and Indent, Receipt of order, Receiving letter of Credit, Shipping and Credit enquiry, Arrangement for shipment, Pre-shipment inspection, Packing, Marking, Clearing and forwarding agent, Dispatch of documents to the exporter, Shipment advice to Importer, presentation of documents to the bank, realization of export proceeds, follow-up of export sales etc.

The various types of Export organizations are: Merchant exporter, Manufacturer exporter, Entrepreneur merchant exporters, Canalising agencies, State Corporation, Star export house.

5.7 QUESTIONS

1. Write short note on Setting up of an Export Firm.

2. Explain the procedure for the establishment of a business firm.

3. What is the procedure involved in export business.

4. Briefly explain the various procedures to be followed in the export of goods from India.

5. What are the main export marketing organisations in India?

6. What are the Star Export House? What are the conditions for the eligibility? What facilities do they enjoy?

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6

FOREIGN TRADE POLICY AND EXPORT PROMOTION

Unit Structure

6.0 Objectives
6.1 Introduction
6.2 Objectives of Foreign Trade Policy
6.3 Foreign Trade Policy 2009-2014
6.4 Main Highlights of Foreign Trade Policy
6.5 Negative List of Exports
6.6 Summary
6.7 Questions

6.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the meaning and objectives of Foreign Trade Policy.
- Discuss the Foreign Trade Policy for the period of five years from 2009-14.
- Explain Negative list of exports.

6.1 INTRODUCTION

Foreign Trade Policy is also called EXIM POLICY, which means the guidelines relating to country exports, and imports. Foreign Trade Policy provides the details of various initiatives and steps taken to promote export in a country. There guideline are helpful for exporters and importers.

In India, Central Government renamed the EXIM POLICY as Foreign Trade Policy in 2004 for on five years basis. The policy contains various policy and procedural decision taken as per the prevailing internal and global marketing environment. F. T. P. suggests the manures adopted to achieve well –defined exports objectives. Certain concessions, incentives and facility also provided to exporter through foreign trade policy. Exporter is supposed to study the details of the EXIM policy, and adjust their export marketing activities accordingly. They have to follow certain rules and procedures as noted in the foreign trade policy for securing the benefit of concussion and incentives.

6.2 OBJECTIVES OF FOREIGN TRADE POLICY

Main objectives of Foreign Trade Policy as noted below:

1. To strengthen the base for export production for promoting exports.

2. To create sound and favourable situation for export promotion through diversification.

3. To facilitate technological up gradation of domestic production as to make Indian good globally competitive.

4. To reduce imports through import substitution and encouragement to indigenous production.

5. To simplify and stream line import, export procedures.

6. To enable exporters to draw long term export plans and strategies.

7. To provide necessary institutional support to export initiatives by exporters / export organizations.

8. To provide liberal import facilities to promote exports.

9. To offer different types of exports incentives, concessions and facilities so as to encourage manufactures and exporters to take more initiative in export promotion.

10. To facilities availability of necessary imported inputs for sustain industrial growth.

11. To establish the frame work for globalization of Indian's foreign trade.

12. To promote productivity, modernization and competitiveness of Indian industry and thereby to enhance its export capabilities.

13. To foster the country's Research and Development (R & D) and technological capabilities.

6.3 FOREIGN TRADE POLICY 2009-2014

Foreign Trade Policy for the period of five years from 2009-14 was announced on 27th August 2009. The policy 2004-09 was replaced by the new policy for 2009-14. There is continuity in the long term foreign trade policy of the country. The policy for 2009-14 is based on the achievements of previous policy. The new policy is for large scale exports, employment generation, growth of services sector and raising competitiveness of Indian industries. The stable policy environment is favorable to large scale export growth.

The UPA Government came to power at a time when the entire world was passing through economic meltdown. Practically every country is affected due this recession. All major economic indicators like trade, production, services, capital inflow, per capita investment and consumption have been adversely affected. The WTO estimated a decline global trade by 9% in volume terms and IMF estimated a decline of over 11% World Bank has forecasted very painful story which suggests that 53 million more people would be placed below poverty line and over a billion people would go hungry. Fortunately, India has not suffered as badly as the counties of the west; even then our exports have declined due to decline in demand.

Under all there adverse situations our government has dared to announce the Foreign Trade Policy of 2009-14. The latest policy is favorable to export promotion and Indian exporters.

6.4 MAIN HIGHLIGHTS OF FOREIGN TRADE POLICY

Following are the main highlight of the foreign trade policy 2009-14

1. **Continuity of the foreign trade policy**

   In order to provide stability and favorable environment for export growth, Duty Entitlement Pass Book scheme. (DEPB) is extended income tax exemption to 100%. EOUs and STPI has been extended for next financial year.

2. **Technological up gradation**

   Government has implemented export promotion capital (EPCG) scheme at zero duty in order to upgrade the technology in export sector. Under this scheme the exporter can import machine and other technologies in order to upgrade several sectors and the engineering and electronic product, basic chemical and pharmaceuticals, apparels, textiles, handicrafts, plastics, chemical, and allied products, leather and leather products.

3. **EPCG Relaxation**

   Under EPCG scheme export obligation has been reduced to 50% so that the life of existing plant and machinery should increase. In the high of economic recesses hitting export performance, the facility of re-fixation of Annual Average export obligation for the year in which there is decline in export from the country has been extended up to 31st March 2014.

4. Export promotion schemes

Export promotion schemes have been launched under the policy:-

a. Assistance to states for infrastructure Development of Exports (ASIDE)

b. Market Access Initiant (MAI)

c. Market Development Assistance (MAD)

d. Towns of export excellence (TEG)

e. Target plus scheme

f. Served from Indian scheme

g. Service export promotion council

5. Gems and Jewellery

Import of gold of 18 carat and above has bee permitted under the replacement scheme cutting and polishing of gems and jewellary has been treated as manufacturing for the purposes of exemption. Duty free import entitlement of commercial samples shall be up to Rs. 3 lakhs.

6. Status Holders

A new rationalised scheme of categorization of status holders as Star Export Houses has been introduced as under:-

Category	Total performance over 3 years (in Rupess)
One star export hours	15 crore
Two star export hours	100 crore
Three star export hours	500 crore
Four star export hours	1500 crore
Five star export hours	5000 crore

Star Export Houses shall be eligible for a number of principles including fast tracks clearance procedure, exemption from furnishing of bank guarantee, eligibility for consideration under Target Plus Scheme etc.

7. Agriculture sector

A new scheme called the Veshesh Kuishi Upaj Yojana has been introduced for promoting the export of fruits, vegetables, flower, minor forest produce and their value added products. Units in Agri Export Zones (AEZs) have been permitted duty free import of capital goods under the EPCG scheme.

8. Marine sector

The FTP 2004-09 provided a package for marine sector these are:-

a. Duty free import of specific imports to be allowed to the extent 1% for FOB value of previous financial year.

b. Concessional rate of duty for import of monofilament long line system for tuna fishing.

9. Leather sector

Duty free import entitlement of specified items shall be 5% of FOB value of exports during the preceding financial year. Duty free entitlement for the import of trimmings, embellishments and foot wear components for foot wear, glovers, travel bags, and hand bags, shall be 3% of FOB value of exports of the provisions financial year.

10. Tea sector

- Minimum value addition under advance authorization scheme for export of tea has been reduced from existing 100% to 50%.
- Export of tea has been covered under UKGOY scheme benefits.

11. Pharmaceutical Sector

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

12. Handloom sector

Specific fund has been earmarked under Market Access Initiatives (MAI)/ Market Development assistance (MDA) scheme for promoting handloom exports. It have been proposed to start new handicraft SEZs, which would procure products from the cottage sector and do the finishing for exports.

13. Export oriented units

- EOUs have been allowed to sell products manufactured by them in DTA up to a limit of 90% instead of existing 75%, within the overall entitlement of 50% for DTA sale.

- EOUs will now be allowed to procure finished goods for consolidation along with their manufactured goods, subjects to certain safeguards.
- EOUs will now be allowed CENVAT credit facility for the component of SAD and Education CESS on DTA sale.

14. Automobile sector

Automobile industry, behaving their own R&D establishment would be allowed free import of reference fuels (petrol and diesel) up to a maxi mum of 5 KL per annum which are not manufactured in India.

15. Duty entitlement passbook scheme

The duty free entitlement pass book scheme (DEPB) and interest subsidy have been extended till May, 2009. This popular export incentive will continue till May 2009, and the move is likely to provide relief to the exporters who have been it hard by the rupee appreciation in last one year.

16. Expansion of scope of "Focus products" and "Focus Market" Schemes

The scope of existing 'focus product' and 'focus market', schemes have been expanded. The new measures are expected to remove some of the anomalies in a market. Both the schemes would be calibrated so that some products of high export intensity, but which have low penetrating in other countries would be considered for export incentives as a focus product for that country. In short, under EPS, an enhanced duty free credit of 2.5% would be given for select new products to be notified later.

Ten new countries have been included in focus market scheme. The countries include Mongolia, Bosnia, Albania, Ghara, Colombia etc.

17. Simplification of foreign trade procedures and cut's transaction costs:

The government has unveiled a series of measures to simplify foreign trade procedures and cut transaction costs of the industry. All EDI equipped ports will be treated as a single port from January 2009 to reduce procedural delays for exporters and imports. This would mean that the treated would no longer requires the telegraphic release advice (TRA) from another port for moving products from one coast to another.

There is a promise of reducing procedural delays by brining the Advance Authorization Scheme and EPCG scheme under the EDI electronic data interchange system where documents will be processed on line from July, 1,2008. This is expected to reduce delays as well as physical conduct between officials and exporters importers (a constant source of both friction and corruption).

To facilitate clearance of deemed export benefits, a time frame of 21 days has been specified within which excise authorities will have to endorse invoices. It delays persist exporters will receive interest at 6% for the period of the delay.

6.5 NEGATIVE LIST OF EXPORTS

Negative list of exports contains those export items which are either banned or con not be freely exported. The negative list of exports consists of these parts.

I) Prohibited Items
II) Restricted Items
III) Canalised Items

I) Prohibited Items

The prohibited items are banned from exporting. The latest list of prohibited items as on 1st January, 1996 contains 10 items. There are us follows.

(a) All forms of wild animals
(b) Exotic birds
(c) All items of plants
(d) Human selection
(e) Tallow of and animal's origin
(f) Fat of any animal's origin
(g) Oils of any animal's origin
(h) Chemicals
(i) Sandal wood items
(j) Red sanders wood in any form

II) Restricted Items

The restricted items are allowed to be exported only with special licencing by the DGFT. At present, there are 31 items. Some of restricted export items are as follows.

(a) Beche-de-mer of sizes below 3 inches.
(b) Cattle
(c) Camel
(d) Chemical fertilizer and micronutrient fertilizers

(e) Fabrics/textile items with imprints of excerpts or verses of the Holy Quran

(f) Deoiled qrundnut cakes

(g) Fresh and frozen silver prmfrets of weight less than 300 gms.

(h) Fur of domestic animals, excluding lamb fur skin

(i) Fodder, including wheat and rice shraw

(j) Hides and skins as mentioned in the policy

III) Canalised Items

This list contains those items which are to be exported only through designated canalized agencies. At present there are five items which are canalized. They are as follows

Items	Canalised Agency
(a) Petroleum Products	Indian oil corporation ltd.
(b) Gum karaya	The tribal co-operative marketing federation of India ltd (TRIFED)
(c) Mica waste and scrap	MMTC and MITCO
(d) Mineral ores and scrap concentrates	Indian rare earths ltd, Kerala minerals & metals ltd. and MOIL
(e) Nigar seeds	NAFED, TRIFED and 2 others

6.6 SUMMARY

Foreign Trade Policy for the period of five years from 2009-14 was announced on 27th August 2009. The main highlight of the foreign trade policy are: Continuity of the foreign trade policy, Technological up gradation, EPCG Relaxation, Export promotion schemes have been launched under the policy, to promote export of gems & jewellery products, a new rationalised scheme of categorization of status holders as Star Export Houses, a new scheme called the Veshesh Kuishi Upaj Yojana has been introduced, Fisheries have been exempted from maintenance of overage annual export obligation under EPCG scheme, Leather sector Leather sector shall be allowed re-export of unsold imported new hides and skins and semi-finished leather, Export of tea has been covered under UKGOY scheme benefits, Pharma sector extensively covered under market linked FPS, Specific fund has been earmarked under Market Access Initiatives (MAI)/ Market Development assistance (MDA) scheme for promoting handloom exports, Automobile industry, behaving their own R&D establishment would be allowed free import of reference fuels, The duty free entitlement pass book scheme (DEPB) and interest

subsidy have been extended till May, 2009, Expansion of scope of "Focus products" and "Focus Market" Schemes, Simplification of foreign trade procedures and cut's transaction costs, to facilitate clearance of deemed export benefits.

6.7 QUESTIONS

1. Define Foreign Trade Policy. Discuss the objectives of Foreign Trade Policy.
1. Explain the highlights and implications of FTP 2009-14?
5. Write short notes on Negative list of exports

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7

MAIN EXPORT PROMOTION ORGANISATIONS IN INDIA

Unit Structure

7.0 Objectives
7.1 Introduction
7.2 Export Promotion Councils (EPCs)
  7.2.1 Meaning
  7.2.2 Role / Functions of EPCs
7.3 Commodity Boards
  7.3.1 Meaning
  7.3.2 Role /Function of Commodity Board
7.4 State Trading Corporation (STC)
  7.4.1 Meaning
  7.4.2 Objectives of STC
  7.4.3 Functions (Services) of STC
  7.4.4 Canalizing Agency
  7.4.5 Future Role of STC
7.5 Federation of Indian Export Organizations (FIEO)
7.6 Indian Institute of Packaging (IIP) Mumbai
7.7 Chambers of Commerce
7.8 India Trade Promotion Organization (ITPO)
  7.8.1 Meaning
  7.8.2 Objectives of ITPO
  7.8.3 Functions and Services of OTPO
7.9 Summary
7.10 Questions

7.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the meaning and functions of EPCs.
- Explain the meaning and functions of Commodity Board.

- Discuss the meaning and functions of State Trading Corporation.
- Understand the meaning and functions of FIEO.
- Discuss the functions of IIP.
- Explain the meaning and functions of Chamber of Commerce.
- Know the meaning, objectives and functions of ITPO

7.1 INTRODUCTION

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

7.2 EXPORT PROMOTION COUNCILS (EPCs)

7.2.1 MEANING

The EPCs are nonprofit organizations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of EPCs is to promote and develop the export of the country. Each EPC is responsible for the promotion of a particular group of products, projects and services.

At present, there are 24 EPCs operating in India. The various EPCS are as follows:

1. Apparels EPC
2. Basic Chemicals, pharmaceuticals & cosmetics EPCS
3. Chemicals and Allied products EPC
4. Cotton Textiles EPC
5. Carpet EPC
6. Cashew EPC
7. Engineering EPC
8. Germs & jewellery EPC
9. Hand loom EPC
10. Indian silk EPC
11. Council for leather export

12. Plastics and linoleum EPC
13. Synthetic and rayon textiles EPC
14. Sports goods EPC
15. Shellac EPC
16. Wool and wollens EPC
17. Electronics and computer software EPC
18. Handicrafts EPC
19. The power loom development and EPC (PDEXCIL)
20. Export promotion council for EOUs and SEZ units
21. Project export promotion council of India
22. Pharmaceutical export promotion council
23. Jute manufacturers development council
24. Wool industry EPC.

There are three organizations considered as EPCs

25. Agricultural and Processed Food Product Export Development Authority (APEDA)
26. Federation of Indian Export Organisations (FIEO) and
27. The Marine Products Export Development Authority (MPEDA)

7.2.2 ROLE / FUNCTIONS OF EPCS

The main role of EPC is to project good image of Indian products. The EPC performs its role by performing the following functions.

1. Issue of Certificate of Origin:

Certain counties demand certificate of origin from the exporters. In India EPCs can issue certificate of origin to the exporters certifying the origin of goods.

2. Collection of Information :

It collects valuable information on overseas imports, import regulations, about competitions, customer preferences, market demand and other developments in foreign trade

3. Supplying Information:

It provides information on latest developments in the field of export trade. It may relate to various aspects of foreign trade. Such information is vital to the exporters to take export marketing decisions.

4. Organizing Seminars:

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

5. Trade Fairs & Exhibitions :

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

6. Recommendations to Government:

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

7. Inviting Trade Delegations:

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

8. Sending Delegations Abroad:

It may undertake the responsibility of sending trade delegations abroad comprising Indian businessmen, Indian delegations, may visit abroad and enter into contracts with overseas buyers. Thus, foreign trade of India can be expanded.

9. consultancy Services:

It may offer professional advice to exporters in areas such as technology up gradation, quality and design improvement, innovation etc. Such advice goes a long way to improve product and organizational efficiency of the exporter.

10. Exploration of Overseas Markets:

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

11. Developing Export Consciousness:

This organization makes all the possible efforts to develop export consciousness in our country. This is because there is great need for a country like ours so as to earn foreign exchange.

12. Other Functions:

It may allocate or distribute quotas in respect of certain items.

It may fix minimum floor price or may advise the government in such fixation of floor prices.

EPC may undertake publicity through schemes like joint foreign publicity in export markets.

7.3 COMMODITY BOARDS

7.3.1 MEANING

CBs have been set up by GOI in order to organize, develop and promote production and exports of certain traditional commodities. At present there are about nine commodity boards namely:

1. Tea Board
2. Coffee Board
3. Rubber Board
4. Spices Board
5. Coir Board
6. Tobacco Board
7. Coconut Development Board
8. Central Silk Board
9. National Horticulture board

Although, CBs and EPCs look after registration and promotion, of exports of those products which come under their purview. The CBs perform additional tasks. They are responsible for the development of cultivation, increased productivity, processing, and so on. They also ensure adequate remuneration to growers by encouraging them to undertake cooperative cultivation and marketing.

The CBs look after the development of primary commodities, whereas EPCs mostly promote finished or manufactured items. Like EPCs some of boards have opened branches of their commodities.

7.3.2 ROLE /FUNCTION OF COMMODITY BOARD

The main role of Commodity Board (CB) is to projects good image of Indian products. The CB's performing the following functions:

1. Issue of certificate or origin

Certain countries demand certificate of origin to the exporters certifying the origin of goods.

2. Collection of information

It collects valuable information on overseas imports, import violations, about competitors' customers' preferences, market demand and other developments in foreign trade.

3. supplying information

It provides information on latest development in the field of export trade. it may relate to various aspects of foreign trade. Such information is vital to the exporters to take export marketing decisions.

4. Organizing Seminars

It organizes seminars, workshops discussions, meeting, and conferences on various aspect of foreign trade. Exporters are invited to take use of such participations to know the latest development in foreign trade.

5. Trade Fairs & Exhibitions

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

6. Recommendation to Government

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

7. Inviting Trade Delegations

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

8. Sending Delegations Abroad

It may undertake the responsibility of sending trade delegation abroad comprising Indian businessmen. Indian delegation may visit abroad and enter into contracts with overseas buyers. Thus, foreign trade of India can be expanded.

9. Consultancy Services

It may offer professional advice to exporters in areas such as technology up gradation quality and design improvement, standards and specification, product development, innovation, etc. Such advice goes a long way to improve product and organizational efficiency of the exporter.

10. Exploration of Overseas Markets

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

11. Developing Export Consciousness

This organization makes all the possible efforts to develop export consciousness in our country. This is because there is a great need for exports for a country likes so as to earn foreign exchange.

12. Other Functions

It may allocate or distribute quota/slips in respect of certain items.

It may fix minimum floor prices or may advise the government in such fixation of floor prices.

EPC may undertake publicity through schemes like joint foreign publicity in export markets.

7.4 STATE TRADING CORPORATION (STC)

7.4.1 MEANING

STC was established in May, 1956 as an autonomous corporation for diversifying foreign trade and supplementing efforts of the private trade and industry in developing India's foreign trade. STC is the first public sector organization which participates in foreign trade. It is a premier international trading house set up by the central government in 1956 and is operating for 45 years.

The institution of public sector commercial corporations was created in the fifties when India started developing trade exchanges with the East European countries. India was one of the few developing countries to have established trade with the East European countries. The Rupee payment Agreement was instrumental in improving trade with these countries. In the initial years of India's planning era, this agreement had helped the country to have access to capital goods and equipment as well as key inputs like fertilizers, non-ferrous metals and petroleum for which otherwise payment would have been made in hard earned foreign exchange, India was also able to develop some of its exports sectors, especially wool and woolen products, readymade garments and leather foot wear by exploring the market of East Europe. These exports and imports were undertaken by the state trading organizations like STC.

Over the years STC has become the premier international trading organization. If offers a wide range of services and handles exports of almost everything that India produces from coffee to compressors, tobacco to textile machinery and roses to rolling shock. It imports wide range of products from raw materials to equipment. The role of STC as path-finder for the Indian industry has been quite praise worthy. As international marketing agency, its services, relating to negotiating, contracting, financing, product development, quality control, market intelligence, shipment and settlement of trade disputes has been quite significant.

In addition to earning foreign exchange for the country, it has added stability to the industrial sector. STC continuously look for the new products and new markets. STC has excelled in marketing non-traditional commodities aboard. One of the major achievements of STC relates to formation of joint marketing groups of the manufactures of engineering equipment, drugs and pharmaceuticals to bid for international business. STC had done commendable work in promoting difficult to sell products overseas. STC imports scarce commodities through the foreign exchange earned under different marketing strategy. The Soyabean project of

STC aims at reducing dependence on traders or processors and to have its own supply base for export of Soyabean meal.

After the introduction of the policy of economic liberalization in 1991, STC has reoriented its strategies by putting emphasis on:

1. To provide new areas of exports for diversification.

2. To achieve economies of scale through high volume exports.

3. To buy and sell directly to cut down overhead costs and achieve competitiveness

4. To practice professionalism and specialization in its operation by employing best talents.

5. To upgrade information technology to obtain latest commercial intelligence.

6. To undertake financial planning and result oriented trade investment.

7.4.2 OBJECTIVES OF STC:

1. To organize and affect export from and imports into India of all such goods and commodities, as the corporation may from time to time, determine.

2. To organize and affect the purchase, sale and transport of such general trade in such goods and commodities in India and abroad.

3. To do all such other acts and things, which may be help but in achieving the above objectives.

4. Exploration of new markets for existing and new products, expansion of long term export operations and of difficult to sell items the specific objectives in relations to export promotion

7.4.3 FUNCTIONS (SERVICES) OF STC:

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

2. To promote the production of nontraditional items and opening up new fields for the export of traditional items.

3. To provide development finance for the production of export oriented goods and boost export of small scale sector.

4. To facilitate bulk purchasing for bulk selling abroad.

5. To undertake internal trades as and when the situation warrants it and to ensure adequate and regular supplies at reasonable prices of essential commodities to meet local demand.

6. To facilitate the implementation of trade agreements and bilateral deals.

7. To organize production to meet export demands and to help production unit to overcome difficulties of raw materials and other essential requirements.

8. To act as vehicles for the implementation of Governments trade policies and trade plans.

9. To undertake price support operations to protect the interest of growers.

10. To look after buffer stocking to ease the problem of shortage of some essential items.

7.4.4 CANALIZING AGENCY

STC is operating as an important canalizing agency for the export and import of certain items. Canalization means that the item can be exported or imported through the concerned state agency like STC or its subsidiaries. Such canalized items account for a major part of STC or its subsidiaries. Such canalizing items for export include sugar, castor, oil, molasses, and groundnut extractions, canalized items include edible oil, writing and printing paper, non-edible oil etc.

Associates desiring to take help from STC can obtain marketing assistance in the form of distribution of samples, market surveys, product design, tender, packaging advice, assistance in participation and general sales promotion. Such associates must route their exports though STC.

For effective marketing STC has opened branch offices in many countries and has associates in other parts of the world. These offices and their services extend to Tehran, Sydney, Singapore, Paraguay, Paris, Colombo, Budapest, Berlin, Belgrade and Bangkok.

7.4.5 FUTURE ROLE OF STC

It is a fact that public sector trading organizations like the STC and MMTC have traditionally depended heavily on canalized trade. However, the list of canalized items has been drastically reduced in recent years. This suggests that in future, STC will have to take up new areas for its business activities. The STC will have to be reoriented to achieve the objective of emerging as International Trading House capable of operating in a competitive global environment of servicing an effective instrument of public policy and of providing adequate support services to the small/cottage sector. In short, STC needs to be given more purposeful role through suitable restructuring.

The following are the major State Trading Organizations in India.

- **I.** The STC of India.
- **II.** The Handicrafts and Handloom Export Corporation of India (HHEC), a wholly owned subsidiary of STC
- **III.** The Minerals and Metals Trading Corporation of India Ltd. (MMTC)
- **IV.** The projects and Equipment corporation (PEC) of India Ltd. a wholly owned subsidiary of STC.
- **V.** The Cashew Corporation of India Ltd. (CCI) a wholly owned subsidiary of STC.
- **VI.** Central Cottage Industries Corporation (CCIC) a subsidiary of STC.
- **VII.** The Tea Trading Corporation of India (TTCI) a subsidiary of STC.
- **VIII.** The Mica Trading Corporation of India (MITCO), a wholly owned subsidiary of MMTC.
- **IX.** Spices Trading Corporation
- **X.** The State Chemicals and Pharmaceuticals Corporation of India Ltd. (SCPC) a subsidiary of STC.

7.5 FEDERATION OF INDIAN EXPORT ORGANIZATIONS (FIEO)

It is a nonprofit institution set up jointly by the GOI, Trade and Industry. It was set up in 1965 as a common and co-coordinating platform for various export organization including commodity boards EPCs and the service institutions and organizations. It functions like EPCs.

The principal functions of FIEO are:

- **a.** To co-ordinate the export promotion activities of its members.
- **b.** To collect and forward all important commercial and market information to its members.
- **c.** To provide common services for the benefit of exporters and their organization.
- **d.** To conduct meetings, conferences, seminars and workshops on export trade.
- **e.** To arrange for buyer and seller meets

f. To project by way of advertising and publicity Indian goods and services abroad.

g. To sponsor study trams abroad.

h. To keep overseas liaison with international and UN agencies like GATT, UNCTAD, ESCAP, IMF, ILO etc.

i. To establish rapport with overseas chambers of commerce Trade Associations and Govt. Agencies.

j. To send Indian trade delegations abroad and to invite foreign trade delegations.

k. It is a registering authority for export houses/TH/STH/SSTH. It issues RCME to such houses.

Assistance to Exporters

a. It issues recommendatory letters to members for getting visa for export promotion tours.

b. It issues certificate of origin to recognized member export houses/ Trading houses / STH/SSTH.

c. It takes up cases of members with public grievance committees in the officers of it. DGFT, collector of customs or any other organization, like railways, telecommunications, P & T various ministries etc.

d. It circulates / disseminates trade information.

7.6 INDIAN INSTITUTE OF PACKAGING (IIP) MUMBAI

With a view to improve the packaging and packing standards, the IIP was set in 1966 at Mumbai. The main functions of IIP are:

1. training programme

IIP is primarily engaged in training programmes relating to packaging industry. This institute makes the trainees familiar with packaging technology, packaging materials and current trends in packaging in the world markets.

2. Improvement in quality of packaging

IIP makes constant efforts to up grade and improve the design and quality of packaging, so as to promote Indian products abroad.

3. collection of information

IIP collects information on latest trends in the packaging in respect of raw materials design etc.

4. Supply of information

The information collected on packaging is provided to the exporters by IIP, so that exporters can upgrade their packaging standards

5. organizing seminars and workshops

IIP organizes seminars and workshops on packaging designs and quality. Exporters can take the advantage of such seminars and workshops.

6. Consultancy services

It provides consultancy services to the exporters in the field of packaging.

7. Develops packaging consciousness

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

8. Publication

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

9. Testing facilities

It provides testing facilities in respect of packages and packaging material to the exporters.

The IIP is one of the founder members of the Asian packaging federation established for exchange of all information on packaging and for chalking out common programmes for the development of packing standards in the Asian region.

CHECK YOUR PROGRESS

1. Give the full forms of the following:
   a. EPCs
   b. CBs
   c. IIP
   d. EPCs
   e. FIEO
   f. STC

2. Fill in the blanks
   a. IIP was set in 1966 at---------------.
   b. IIP is primarily engaged in training programmes relating to --.
   c. FIEO was set up in --------------------.
   d. STC was established in ---------------------as an autonomous corporation.
   e. At present there are about ---------- commodity boards.
   f. The main role of Commodity Board (CB) is to -------------------- Indian products.
   g. The EPCs are nonprofit organizations registered under the -------------or-------------------------------Act.
   h. The basic objective of EPCs is to ------------------------the export of the country.
   i. At present, there are ---------EPCs operating in India.

7.7 CHAMBERS OF COMMERCE

The chambers of commerce and industry are established on regional basis. They assist export promotion in a number of ways. It's membership is open to all members of trade and industry, they provide suggestions and recommendations to the government on various issues concerning trade and industry including export marketing. The government while framing import and export policies does accept their suggestions. They help the exporters in issuing the certificates of origin and taking up specific cases of exporters to the government. The chambers of commerce also provide information and it provides a forum to their members to discuss the problems arising out of policy matters. They also organize workshops seminars and short training courses in order to guide their member on export aspect. They do sent trade delegations abroad and invite trade delegations from abroad.

- **Role /Functions of Chamber of Commerce**

The main role of Chamber of Commerce is to project good image of Indian products. The Chamber of Commerce performs in role by performing the following functions.

1. **Issue of certificate of origin**

Certain countries demand certificate of origin from the exporters. In India, EPCs can issue certificate of origin to the exporters' certificate the origin of goods.

2. **Collection of information**

It collects variable information on overseas imports, import regulations about competitors, customer preferences, market demand and other developments in foreign trade.

3. **Supplying information**

It provides information on latest development in the field of export trade. it may relate to various aspects of foreign trade. Such information is vital to the exporters to take export marketing decisions.

4. **Organising seminars**

It organizes seminars, workshops, discussion, meetings and conferences on various aspects of foreign trade exporters are invited take part in such seminars and workshops. The exporters can make use of such participations to know the latest development in foreign trade.

5. **Trade fairs & exhibitions**

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

6. **Recommendations to government**

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

7. **Inviting Trade delegations**

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

8. Sending delegation abroad

It may undertake the responsibility of sending trade delegations abroad comprising Indian businessmen. Indian delegation may visit abroad and enter into contracts with overseas buyers. Thus, foreign trade of India can be expanded.

9. Consultancy services

It may offer professional advice to exporters in areas such as technology up gradation, quality and design improvement, standards and specifications, product development, innovation etc. Such advice goes along way improve product and organizational efficiency of the exporter.

10. Exploration of overseas Markets

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

11. Developing export consciousness

This organization marks all the possible efforts to develop export consciousness in our country. This is because there a great need for country like our so as to earn foreign exchange.

12. Other functions

It may allocate or distribute quota/slips in respect of certain items. It may fix minimum floor price or may advise the government in such fixation of floor prices.

EPC may undertake publicity through schemes like joint foreign publicity in export markets.

7.8 INDIA TRADE PROMOTION ORGANIZATION (ITPO)

7.8.1 MEANING

The ITPO came into existence on 1st Jan, 1992, with the merger of Trade Fair Authority of India (TFAI) and Trade Development Authority (TDA). ITPO has set up five regional offices in Germany, Japan, UAE and USA.

ITPO acts as a publicity wing of Govt. of India for organizing and for participating in trade fairs and exhibitions in India and abroad.

ITPO has set up a Trade Information Centre at its headquarters in New Delhi, which is considered as the best source of information on import and export trade.

7.8.2 OBJECTIVES OF ITPO

1. To develop and promote export, import and upgradation of technology through fair to be held in India and abroad.

2. To undertake publicity through the print and electronic media and to assist Indian companies in product development.

3. To organize export development programmes buyer seller meets, contact promotion programmes and integrated marketing programmes for specific products in specific markets.

4. To provide information and market intelligence to the business community in India.

5. To organize visits of buyers and trade delegations to industry and trade establishments in India with a view to promoting business contacts.

7.8.3 FUNCTIONS AND SERVICES OF ITPO:-

1. **Organizing trade fairs and exhibitions in India and abroad**: ITPO organizes trade fair and exhibitions in India and abroad and to book stalls /space for India exporters to participate in over seas trade fair and exhibitions. ITPO acts as a publicity wing of Government of India for organizing trade fair and exhibition in Indian

2. **Giving publicity to trade fair and exhibition**: ITPO gives publicity to trade fair and exhibitions organized in India so as to encourage foreign buyers to visit stalls of Indian goods and place orders for the same. ITPO also participates in trade fair and exhibitions arranged in India and abroad.

3. **Booking of space in Overseas Trade Fairs:** ITPO books necessary space/stalls for Indian exporters. This enables Indian exporters to participate in overseas trade fair and exhibitions.

4. **Inviting Trade Delegations from Abroad and sending Indian Trade Delegation Abroad:** ITPO invites trade delegation from abroad in order to participate in trade fair and exhibitions and book orders for Indian goods. In addition, to send Indian trade delegation abroad for market survey and for signing contracts for the supply of Indian goods.

5. **Providing consultancy service to Indian exporters**: ITPO provides consultancy service to Indian exporters for participation and displays their products in trade fairs and exhibition held in India and abroad.

6. **Organizing seminars and workshops:** ITPO organizes seminars, workshops for giving information, guidance to exporters about fair and exhibitions arranged in India and abroad. ITPO has set up trade information centre at its head quarters in New Delhi. It is considered as the best source of information on import and export trade.

7. **Miscellaneous Functions**
   - **a.** Promotion of exports through specialized programmes.
   - **b.** Supply of trade information to Indian exporter and foreign importers.
   - **c.** Undertaking research activities relating to export promotion of Indian goods services abroad.
   - **d.** Membership of international organization such as WTO, etc.

7.9 SUMMARY

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

Commodity Boards have been set up by Government of India in order to organize, develop and promote production and exports of certain traditional commodities.

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

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

The chambers of commerce and industry assist export promotion in a number of ways. They provide suggestions and recommendations to the government on various issues concerning trade and industry including export marketing. They help the exporters in issuing the certificates of origin and taking up specific cases of exporters to the government, provide information, provides a forum to their members to discuss the problems arising out of policy matter, organize workshops seminars and short training courses in order to guide their member on export aspect.

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

7.10 QUESTIONS

3. Discuss the functions of Export Promotion Councils?
4. Write short notes
    a. Commodity boards
    b. Chamber of Commerce
    c. FIEO
    d. ITPO
    e. IIP
5. Discuss the activities of FIEO?
6. What are the functions of ITPO?
7. Discuss the role of Indian Institute of packaging?
8. Discuss the role of chambers of commerce in export promotions?

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8

EXPORT PRODUCT PLANNING

Unit Structure

8.0 Objectives
8.1 Introduction
8.2 Modes of Entry in Foreign Market
8.3 Criteria for Selection of Product for Export
8.4 New Product Development Process
8.5 Identifying Foreign Market for Export of Product
    8.5.1 Factors Affecting While Selecting Overseas Market
    8.5.2 Procedure pf Selecting Overseas Markets
8.6 Product Life Cycle
8.7 Summary
8.8 Questions

8.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the Modes of entry in foreign Market.
- Understand the Criteria for selection of product for export.
- Explain the Steps in New Product Development Process.
- Explain the procedure for identifying Foreign Market for export of product.
- Discuss the Product life cycle.
- Know the concept Product Mix
- Understand Product Branding.
- Discuss Product Packing and Labeling.

8.1 INTRODUCTION

Selectivity is the key to success in all spheres of life including export marketing. An exporter may wish to deal in all kind of products and to sell them anywhere in the world. However, it is not possible for him to do so due to the wide expanse and demand variations in different markets of the world. Therefore, an exporter has to select proper products and proper markets in order to operate at the international level.

8.2 MODES OF ENTRY IN FOREIGN MARKET

There are several options for a firm that decides to expand outside its domestic market and compete globally. However following may be various modes of entry

(a) Direct Exporting

Direct exporting means exporting the products by the manufacturer himself i.e. without using the services of middlemen like merchant exporters, Export houses etc. A manufacturer exporter can undertake direct exporting of his products in the target market through his export department or division.

(b) Indirect Exporting

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

(c) Joint Venture

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

(d) Franchising Strategy

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

(e) One Country Production Base

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

(f) Licensing

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

(g) Contract Manufacturing

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

(h) Acquisitions

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

(i) Turnkey Contracts

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

(j) Green-Field Development

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

8.3 CRITERIA FOR SELECTION OF PRODUCT FOR EXPORT

In order to select the right product and its adjustment as per the expectations of foreign buyers are necessary for large scale exporting. The product line to be introduced in the foreign market should be clearly decided. Here, the product includes the product plus packaging, branding, labeling, warranties and after sale service offered. In addition, decisions need to be taken on product mix and product positioning.

In general product offered to foreign customers should be unique in terms of quality, merits, colour, brand, package, label and warranties such features will motivate foreign buyers to purchase the same on preferential basis. The exporter should select the product on various considerations such as market demand. Nature of customers for the product degree of competition, import / export restrictions, future export potential, government incentives, domestic production capacity and servicing facilities required by actual users.

The following alternatives are available while offering product in the foreign markets.

a) Offering the same product in foreign markets as it is marketed in the domestic market.
b) Offering the same product but after modifying the contents as well as packaging, etc. (export quality product)
c) Offering completely new product as per the needs and requirements of customers in specific foreign markets.

The following guidelines can be suggested while selecting product for exporting / export business:

1) The selected product should have regular and continuous demand in the target export market selected.
2) It should be possible to manufacturer process the selected product at lower cost so that it can be offered to foreign buyers at competitive and attractive price.
3) The selected product should be available in sufficient quantity so that the supply will be maintained regularly. This means, the exporter needs to have adequate production capacity for meeting large scale exports.
4) Government regulations should be given due consideration while selecting the product for export.
5) The product selected for exporting should be adjustable as per market requirement through quick modification.
6) The product selected should have regular demand so that continuous and steady market will be available.

8.4 NEW PRODUCT DEVELOPMENT PROCESS

Most marketers agree that a firm’s long- run survival requires new product development because that is what consumers want, product life cycles are growing progressively shorter and as such companies spend heavily on R & D in order to bring out new products.

The new products from a company's point of view can be broadly divided into three groups:

1. New products arising out of technological innovation.
2. New products arising out of marketing oriented modifications.
3. New products arising out of imitation of existing (competitors) products.

- **NEW PRODUCT DEVELOPMENT PROCESS (STEPS)**

A new product development can pass through the following stages.

1) Idea Generation:

The first stage in new product development involves generation of new product ideas. New product ideas can be generated by:

- Conducting marketing research relating to consumer needs and wants
- Inviting suggestions from consumers.
- Inviting Suggestions from sales force and other employees.
- Internal research work done by R & D department.
- Brainstorming suggestions for new product ideas.
- Screening new products offered by competitors for further improved versions.
- Shopping in different markets or even in international markets for new ideas.
- Obtaining feedback from agents or dealers regarding services offered by competitors.

2) Idea Screening:

Critical appraisal of ideas occurs at this stage. This is required to weed out or reject not so feasible ideas. A firm may set up an idea committee to review and screen the ideas. The idea committee should consider how attractive the new product would be both in the short term and in the long term.

The idea committee may sort the ideas into three groups promising ideas, Marginal ideas and rejects. Each promising ideas is further screened or researched. The idea committee may seek answer to basic questions while screening the promising ideas.

- Is there a need to introduce a new product?
- Can the existing set-up or resources handle the new product?
- When will it be possible to achieve break even?

3) Concept Testing:

At this stage product concept is tested. A product concept is different from product idea. A product idea is a possible product the company might offer to the market. A product concept is an elaborate version of the idea expressed in meaningful consumer terms.

In concept testing the marketer may like to have proper answers to the following questions.

- Who will use this product?
- What main benefit should the product provide?
- When and how often the consumers will use the provide?
- What would be the impact on the profitability of the firm?

For instance, Product idea may be to introduce a new health drink with high nutritional value and taste. The product concept can be interpreted in several ways such as:

- Concept 1: An instant breakfast drink for the whole family.
- Concept 2: A health supplement to people recovering from incises.
- Concept 3: A health drink for growing children.

Concept testing involves presenting the product concept to selected potential consumers and getting their reactions. The concepts can be presented symbolically or physically. However the tested concepts resemble the final product the more reliable concept testing is.

4. Business Analysis:

Several vital decisions regarding new product development are taken at this stage. Each idea which comes out of concept and profit potential is analysed in terms of demand, cost, and profit potential.

5. Product Development :

Product ideas that survive the business analysis stage are transformed into actual product development. Prior to actual production, information must be gathered to decide whether to start, Postpone, or drop further development.

If it decided to start the development of the product, the manufacturing department plans for material procurement, production facilities and personnel. The marketing department prepares a final plan for introducing the product in the market.

6. Test Marketing :

Test marketing refers to testing the actual product in one or two test markets on a relatively smaller scale. Testing should not be confined to just one city or market.

Testing in two or more cities provides an opportunity to measure consumer response to different Marketing mixes. In one test city a particular Marketing mix can be offered, and in another test city, another marketing mix can be offered to judge the relative effectiveness of the marketing mixes Test marketing is an experiment that has to be carefully handled. The results must be closely monitored and scrutinized.

7. Commercialisation :

If the test results are positive, the marketer can go ahead with the production and Marketing on a larger scale in a number of potential markets. However, if the test results are negative, the idea of commercial production and Marketing of product is to be dropped.

8. Review of Marketing Performance :

The Marketing manager must monitor or review the product's sales performances in the market. He needs to analyse the reactions of the consumers' dealers and competitors in the market. For instance, the consumers may not be satisfied with after – scale- service in case of consumer durables) or they may not be satisfied with the price of the product or other features of the product also the competitor may react to the launch of the new product and may make necessary changes in their Marketing mix. The dealers may not promote or push properly the new product. Therefore, the marketing manager must make necessary changes in the marketing mix of the product as and when required.

CHECK YOUR PROGRESS:

1. Define the following terms
    a. Direct exporting
    b. Joint venture
    c. Franchising strategy
    d. Licensing
    e. Acquisitions
    f. Green field development
    g. Test Marketing
    h. Concept testing

2. Fill in the blanks
   a. Exporting without using the services of middlemen like merchant exporters, Export houses means----------------.
   b. A foreign company plans and constructs a project and hands it over to the government or a domestic private company for execution it means-------------------------.
   c. A possible product the company might offer to the market means----------------------------.
   d. An elaborate version of the idea expressed in meaningful consumer terms means---------------------------------------.
   e. Critical appraisal of ideas occurs at -------------------- stage.
3. Enlist the steps in new product development

8.5 IDENTIFYING FOREIGN MARKET FOR EXPORT OF PRODUCT

An exporter has to identify the most promising market for exporting. Such market will be treated as **target market**. For initial entry Target market should be selected carefully. Global Market Provides ample scope for such selection. Global market is extremely wide and includes 200 independent nations but it is not possible to export goods to all markets. Selection of most promising market is essential as this facilitates maximum sale at minimum cost. Selection of unsuitable Market is dangerous. This may lead to losses in export marketing.

8.5.1 FACTORS AFFECTING WHILE SELECTING OVERSEAS MARKET.

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

(a) Competition

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

(b) Demand

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

(c) Import Regulations

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

(d) Size of the Market

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

(e) Distribution Network

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

(f) After-Sale-Service

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

(g) Higher Productivity

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

(h) Social Responsibility

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

(i) Political Stability

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

(j) Reducing Business Risk

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

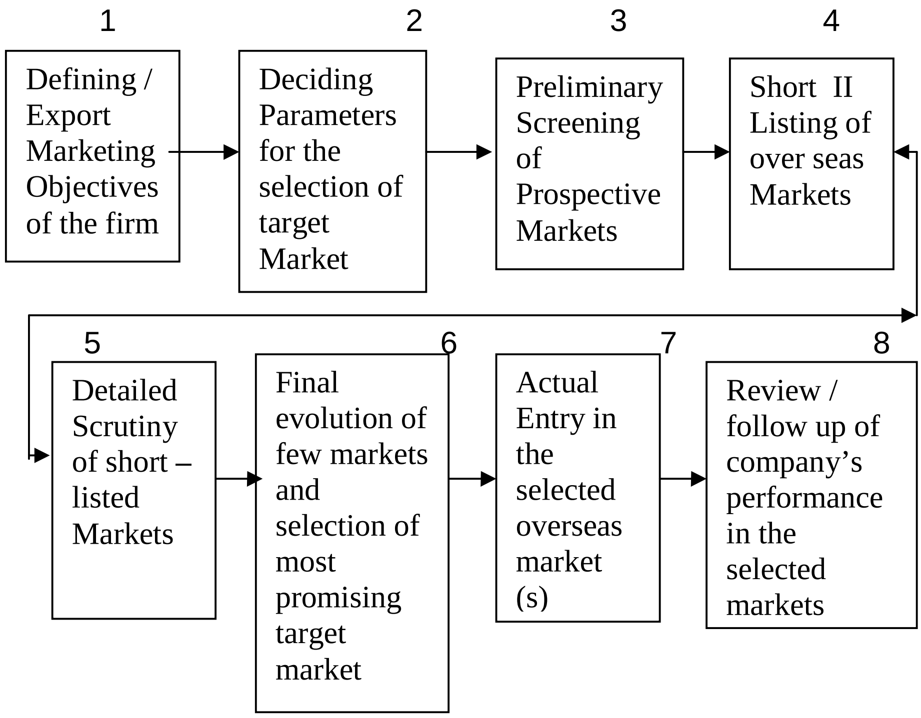
(k) Location

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

8.5.2 PROCEDURE OF SELECTING OVERSEAS MARKETS.

While selecting target Market for initial entry systematic procedure need to be followed. This includes various steps which need to be followed in a logical manner. All potential Markets should be considered for selection purpose, Preliminary study of potential Markets should be made for elimination of Markets which are unsuitable for initial study. There after detailed feasibility study of promising Markets should be made and only few promising foreign countries should be short listed. They should be studied more critically for the second time with stress on the weak points in the feasibility study already conducted even the export Marketing objectives of the firm and the overall political economic environment in the potential markets should be taken into consideration for final selection of most suitable and most promising export market.

The following chart shows the steps in the selection of target / overseas market –



Brief Details of steps in selecting overseas Markets:

1) Defining the Export Marketing Objectives:

Here, the exporter / exporting firm has to decide the marketing objectives to be achieved in the foreign / overseas market selected. The objective may be to earn more profit or to introduce the selected product in the foreign market or to build market good will / reputation in the selected overseas market. Even to sell excess/ surplus production or to compensate the sale reduction in other overseas market can be the export marketing objective of a firm.

2) Deciding parameters for selection of overseas Market:

Here, the exporting firm will decide some conditions / pre – requisites which must be available in the overseas market selected. This includes market demand, acceptability of product, intensity of market, competition, psychology of consumers and so on. Decision on Para meters makes the selection work uniform.

3) Preliminary Screening of Prospective Markets :

In this step the exporting firm collects required information about promising overseas markets in order to select the most promising markets. (one or more) for initial entry. Analysis of information will facilitate short listing of markets which need detailed scrutiny for actual entry. This initial screening is important and use full and also facilitates final selection of overseas Market quickly and reasonably correctly.

4) Short Listing of Overseas Markets:

In this stage, as per the scrutiny / analysis of information collected and also in the context of parameters decided, a short list of promising markets will be finalised. One or two markets from this list are to be selected after detailed scrutiny of few markets short listed. Short listing facilitates final selection of overseas market quickly and correctly. It is possible to select the most profitable and most promising overseas market through short listing technique.

5) Detailed Scrutiny of short listed Markets:

After short listing the prospective markets, detailed scrutiny of each market will be made. A comparative study of short listed markets will be undertaken for final selection of promising market. The final market selected should be promising and profitable over a long period. It should ensure attractive return on the initial investment made.

On some occasions, niche marketing concept is useful for promoting exports in a specific county. A niche is a small segment with in a segment useful for effective marketing. An exporter may select an important city in a foreign country for marketing purposes. Special efforts will be made for sales promotion within that city area. The sales performance may prove extremely satisfactory with in that city. Thereafter, the marketing area may be extended gradually and finally, the sales promotion will be possible in the whole country. Here, niche marketing strategy will prove useful for promoting exports in recent years, a number of small tea gardens in India have created their own niches in the world markets.

6) Selection of Most Promising Overseas Market:

In this step, the final selection of overseas market will be made through detailed scrutiny of promising Markets. The selected market should be promising in the short and long run. Such market should be useful for achieving export marketing objectives decided. It is a major decision and a correct decision on market selection will offer profit, increasing sales and goodwill to the exporting firm.

7) Actual Entry in selected Market :

In this stage arrangements will be made for actual entry in the selected market. Sales force, dealers' outlets, etc will be finalised. In addition all other formalities will be completed for actual sale in the overseas market. This includes production as per the need the selected overseas market, advertising in overseas market selected and establishing contacts and cordial relations with dealers, etc operating in the selected market.

8) Follow – Up / Review of Selected overseas Market:

Follow up will be necessary after the entry in the overseas market. This type of evaluation of performance in the selected overseas market should be under taken few months after the initial entry. The purpose is to study expected and actual performance of the firm in relation to sales, profit, market demand, consumer support and so on. If the market performance in the selected market is not satisfactory, suitable remedial measures should be taken quickly for improving the situation. If necessary, even exit from the market may be necessary to avoid losses over a longer period.

8.6 PRODUCT LIFE CYCLE

A product passes certain distinct stages during its life time. It is the progression or course that a products sales and profits take over its lifetime. A new product is introduced to consumers, it grows and when it losses appeal it declines and eventually is taken off market. Understanding the typical life cycle pattern helps business to manage profitable products and to know when it is time to terminate unprofitable ones. The distinct stages are

- Product development begins when the company finds and develops a new product idea during product development, sales are Zero and company's investment cost is high. (new product development stage)
- Introduction stage is a period of slow sales growth as the product is introduced in the market. Profits are non- existent in this stage because of the heavy expenses of product introduction.
- Growth stage is a period of rapid market acceptance and increasing profits.
- Maturity stage is a period of slow down in sales growth competition is high and profits decline due to marketing expenses to defend the product against competition.
- Decline stage is the period when sales fall off and profits drop.

1. PRODUCT DEVELOPMENT STAGE

The first stage begins when an idea is developed or conceived to launch a product, This stage is characterised by.

- No sales.
- Investment in Research and Development.
- No profits.
- Test marketing may be considered.

2. INTRODUCTION STAGE

The introduction stage of the product life cycle (PLC) also known as market pioneering stage begins when a new product is launched for the first time in the market.

Objective: To create product awareness and to gain trial.

The stage is characterized by :

- Low sales.
- Low Profit
- Demand low (to be created & developed)
- Promotional expenses are high
- Price strategy to be followed (Skimming or Penetration)

In this stage, the company must communicate the products features uses and advantages to potential buyers through. Advertisement. Introduction stage is crucial for some businesses. Which have limited resources, technological knowledge and understanding of market.

3. GROWTH STAGE

Meaning

Growth stage resets to the product life cycle period in which sales rise rapidly and profits are at the peak. Poring the growth stage. Demand for the product increases and size of market grows.

Objective : To maximize the market share and profits.

The growth stage is characterized by:

- Increase in sales
- Increase in profits
- Competitions entry the market
- Aggressive promotion and marketing.

Profit increases in growth stage. As promotion costs are spread over a large volume and manufacturing cost per unit fall. The firm uses several strategies to sustain rapid market growth as long as possible. It also exports new market segments, new distribution channels, and increase promotion and distribution.

4) MATURITY STAGE

Meaning

It is one of stages in the product life cycle during which the sales curve peaks and profits continue to decline

Objective : To maxima profits while defending market share mangers deal with the mature products.

This stage is characterized by :

- Declining profits
- Retentive or reminder advertising
- Intense competition
- Increase marketing costs
- High promotional expenses
- Declining market share

Strategies used in this stage is to build product awareness through heavy advertising and sales promotion to induce trials. In this stage the demand tends to reach a saturation point the product sales growth tend to slow down and profits starts declining most of the products are in the maturity stage of the life cycle and therefore most of the marketing mangers deal with mature products. During this stage some weaker competitors will drop out and only market will have well – established competitors. Organisation with mature products should consider modifying the marketing – mix.

5) DECLINE STAGE

Meaning
In this stage sales fall rapidly and profits decline.

Objective : To reduce the expenditure.

This stage is characterized by:

- Decline in sales
- Repositioning of product
- Decline in profits
- Withdrawal or modification in product
- Demand for product shrinks
- Competition declines
- Decline in Promotion Expenses

New technology or changes in buyer's preferences may cause product sales to decline. As sales and profits decline. Some firms withdraw the product from the market. Some may drop smaller market segments or they may cut promotion expenses and reduce their price further, some may phase out weak items.

8.7 SUMMARY

Selectivity is the key to success in all spheres of life including export marketing. There are several options for a firm to enter in the foreign market. These are: Direct exporting, Indirect Exporting, Joint ventures, Franchising, One country production base, Licensing, Production sharing, Acquisitions, Green field development.

The new products can be broadly divided into three groups: New products arising out of technological innovation, new products arising out of marketing oriented modifications, new products arising out of imitation of existing (competitors) products.

While developing a new product it passes through the several stages such as: Idea Generation, Idea Screening, Concept Testing, Business Analysis, Product Development, Test Marketing, Commercialisation and Review of Marketing Performance.

Competition, Demand, Import regulations, Size of market, Distribution network, After-sale-services, Higher productivity, Social responsibility, Political stability, Reducing business risk, Location etc are the factors which affects while selecting overseas market.

While selecting target Market for initial entry systematic procedure need to be followed. This includes Defining Export marketing objectives of the firm, Deciding parameters for the selection of target market, Preliminary screening of prospective markets, Short listing of overseas markets, Detailed scrutiny of short listed markets, Final evolution of few markets and selection of most promising target market, Actual entry in the selected overseas market, Review of company's performance in the selected markets.

A product passes certain distinct stages during its life time. The distinct stages are: Development stage, Introduction stage, Growth stage, Maturity stage and Decline stage.

8.8 QUESTIONS

1. What are the different modes of Entry in Foreign market? Explain with examples.
2. Discuss the criteria for selection of product for export.
3. What is new product development? Discuss its various steps.
4. Explain the procedure of Export Market selection.
5. What is the procedure in selecting overseas market?
6. Define Product Life Cycle. Explain its stages.
7. Write short notes:
   a. Product Life Cycle
   b. Procedure of selecting overseas markets.

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9

EXPORT PRODUCT PLANNING II

Unit Structure

9.0 Objectives
9.1 Introduction
9.2 Product Planning Strategies of Exports
9.3 Product Mix
9.4 Product Branding
 9.4.1 Meaning of Brand
 9.4.2 Methods of Branding
9.5 Product Packaging
9.6 Labelling
 9.61 Meaning
 9.6.2 Types of Label
 9.6.3 Label Design – Its Objectives
9.7 Summary
9.8 Questions

9.0 OBJECTIVES

After studying the unit the students will be able to:

- Discuss the product planning strategies of exports
- Explain the concept Product mix
- Know the meaning and Methods of Branding.
- Discuss the meaning and Importance of Packaging.
- Understand the meaning and types of Brand.

9.1 INTRODUCTION

Preliminaries for export business are related to different aspects of export management such as products, markets, buyers, marketing channels and the methods of exporting. Deciding preliminaries for export business is similar to broad decision to be taken while constructing a very big tower of 15 to 20 floors. Actual construction work will be as per the preliminary decision taken.

Similarly, export marketing activities of a firm will be conducted as per the preliminaries decided. The decision on preliminaries for starting export business is important as fault decisions may lead to difficulties while conducting export business.

9.2 PRODUCT PLANNING STRATEGIES OF EXPORTS

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

(a) PRODUCT DESIGN STRATEGIES

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

(i) Product Innovation Strategy-

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

(ii) Product Adaptation Strategy-

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

(iii) Product Standardization Strategy-

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

(b) PRICING STRATEGIES

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

(i) Skimming Pricing-

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

(ii) Differential Pricing-

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

(iv) Standard pricing-

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

(c) DISTRIBUTION STRATEGIES

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

(i) Direct Exporting-

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

(ii) Indirect exporting-

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

(d) PROMOTION STRATEGIES

The exporter also needs to adopt suitable promotion strategies-

(i) Standard Promotion Strategy

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

(ii) Differential Promotion Strategy

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

(e) AFTER-SALE-SERVICE STRATEGY

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

(f) PRODUCT POSITIONING STRATEGY

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

(g) PRODUCT LINE STRATEGY

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

9.3 PRODUCT MIX

A marketer needs to decide on the product mix and product line. Product mix refers to the complete set of products, which are offered for sale by a firm. For instance a product mix may consist of stationery, food product, beverages, cosmetics, detergents, etc. A product line is a good group of dated products for instance food products may include with providers confectionaries fruit juices, health drinks, breakfast cereals, and so on.

BREADH AND DEPTH OF PRODUCT MIX

A product mix has the structural dimensions of breadth and depth. Breadth refers to the number of product line in duded in the product mix for instance the company may deal in soaps, detergents toothpastes, shaving creams, and so on.

Depth refers to the number of product items (of different shape size, colour, etc) within each product line for instance, in the soup category, the product items can be of different colours, shapes, fragrances, and so on. For instance Hindustan lever produces Liril, Lifebualy, Lux and so on.

REASONS FOR PRODUCT MIX

Many marketers prefer to deals with on appropriate blend of product mix rather than concentrating on a single product. There are several reasons as to why companies prefer product mix. A Typical well established large firm's product mix includes new growing maturing and declining products. The main reasons as to why firms go for a product mix rather than concentrating on a single product are as follows.

- To use company resources and move effectively.
- To spread production and marketing costs over a wide product range.
- To become better knowing by middlemen and consumer
- To capitalise on brand loyalty of a particular brand.
- To balance out seasonal sales patterns.
- To offset the effects of the product life cycle of product on the firm.

- To meet the challenges of the competitors.
- To meet the demands of the customers.

9.4 PRODUCT BRNADING

9.4.1 MEANING OF BRAND

Brand is a name term, symbol and / or special design that are intended to identify the goods or services of one seller or group of sellers. A brand differentiates one seller's products from of competitors.

Branding is the management process by which a product is branded. It is a general term covering various activities such as giving ultimate name for a product, assigning a brand mark and establishing and populating it.

9.4.2 METHODS OF BRANDING

There are many ways of branding a product some of them are as following.

1) **Individual brand:-** A firm may decide upon a strategy of adopting. For example Proctor & Gamble, Hindustan Lever Limited etc., have adopted this strategy.

2) **Family brand: -** When a firm has various product lines and when each product line is given a particular brand name it is has called family brand. A company may produce different line of items like food items, health care products, and personal care products and so on. Each one of product line is given separate brand when used widely; a family brand strategy has considerable merit. It is much simpler and less expensive to introduce new related products to a line e.g. Maggi (noodles, Ketchup), Kissan (ketchup, jam) etc.

3) **Umbrella brand / company brand :** When all the products of a company have the name of the company as a brand name such brand name is known as umbrella brand or company brand. Companies like B.P.L. Videocon, Sony adopt only one brand name for their products.

4) **Combination of brand name and company's name :** under this method of branding each product of that company has an individual brand name but it also has the name of company brand to indicate the business house producing the product e.g. Tata Sault , Tata Tea, Amul butter, Amul Cheese, Amul Pizza etc.

5) **Private or middleman's brand**: Under this arrangement manufacture introduces his products under the distributers brand name the manufactures merely produces goods as per the specifications and requirements of distributors and the middlemen undertake marketing. Product like woolen, hosiery, Sport goods etc. normally are sold through private brands where they have more control over pricing and distribution.

6) **Multiple brand :** In order to increase the share of the market and profitability a company may use multiple brands for example, Watch are sold in two brand names one in the name of Titan itself and the other in the name of Sonata Ltd. Television are sold in the name of LG in the Urban Areas and as Sampoorna in the rural area.

7) **Symbols and marks :** Bands can be used in the form of symbols and marks. Such as camel for Camel ink. Tiger for Tiger cocks and so on.

8) **Special Names :** companies may use special name such as VXL, LUX, RIN and so on.

9) **Names of founders :** The company may also introduce the products with the name of founders or inventors examples are Dunlop, Colgate etc.

10) **Typical Numbers :** At times companies may follow certain numbers such as 555 (Cigarettes), 50 (Cake soap) and so on.

11) **Combination of Name and Numbers :** There can be a combination of names and numbers. This includes here Honda CD 100 perimeter, 118 NE, 7UP, 7 O'clock blades and so on.

CHECK YOUR PROGRESS

1. Define the following terms
    a. Product Mix
    b. Individual brand
    c. Family Brand
    d. Umbrella Brand
    e. Private brand
    f. Multiple brand
2. Enlist the reasons of Product mix

3. Fill in the blanks
   a. -----------------is a method of exporting goods directly to the foreign buyers by the manufacturer himself.
   b. Dunlop, Colgate are the examples of ------------------------
   c. Camel ink is a example of-----------------.
   d. Where the same promotion-mix is used in all the global markets and with the same promotional theme this strategy is called as--------------------------.
   e. Where the manufacturer exports through intermediaries it names as--.
   f. B.P.L. Videocon, Sony are the examples of -------------- brand.

9.5 PRODUCT PACKAGING

We define packaging as all the activities of designing and producing the container for a product. Packages might include up to three levels for material. Cool water bislery comes in a bottle in a card board box in a corrugated box containing six dozen boxes.

Well – designed package can build brand equity and drive sales. The package is the buyer's first encounter with the product and is capable of turning the buyer on or off packaging also affects consumers' later product experiences.

Various factors have contributed to the growing use of packaging as a marketing tool:

1) Self – Service :

An increasing number of products are sold on a self – services basis. In an average supermarket, which stocks 15,000 items, the typical shopper pusses by some 300 item per minute. Given that 50% to 70 % of all purchase are made in the store, the effective package must perform many of the sales tasks attract attentions, describe the products features create consumer confidence and make a favorable overall impression.

2) Consumer affluence :

Rising consumer affluence means consumers are willing to pay a little more for the convenience. Appearance, dependability, and prestige of better packages.

3) Company and brand image:

Package contributes to instant recognition of the company or brand. In the store, package for a brand can create a visible bill board effects such as Garnier Fructis and their bright green packaging in the hair care.

4) Innovation Opportunity :

Innovative packaging can bring large benefits to consumers and profits to producers. Companies are incorporating unique materials and features such as resalable spouts and openings. Heinz's unique colorful EZ squirt ketchup and upside down bottle have helped to revitalize the brand's sales.

From the perspective of both the firm and consumers packaging must achieve number objectives.

1. Identify the brand.
2. Convey descriptive and persuasive information.
3. Facilitate product transportation and protection.
4. Assist at – home – storage.
5. Aid product consumption.

To achieve the marketing objectives for the brand and satisfy the desires of consumers' marketers must choose the aesthetic and functional components of packaging correctly. Aesthetic considerations relate to a package's size and shape, material, color, text and graphics. Blue is cool and serene, red is active and lively, yellow is medicine and weak, postal colors are feminine and dark colors are masculine. Functionally, structural design is crucial. For example innovations with food products over the years have resulted in packages that are resalable, tamperproof, and more convenient use (easy to hold, easy to open or severable.) The packaging elements must harmonize with each other and with pricing, advertising and other parts of the marketing program.

After the company designs its packaging. It must test it Engineering tests ensure that the package stand up under normal conditions visual tests. That the script is legible and the colors harmonious, dealer tests so that dealer finds the packages attractive and easy to handle and consumer tests, that buyers will respond favorable Eye tracking by hidden cameras can assess how much consumers notice and examine packages.

IMPORTANCE OF PACKAGING

Proper packaging not only helps to protect and preserve the product, but also it serves a number of other purposes.

1) **Protection :** Packaging helps to protect the product from damage during transit or during its use, while packing the

product, the exporter need to consider the mode of transport, the channels the amount of handling and so on.

2) **Preservation :** Packaging helps to preserve the products quality from deterioration. The exporter need to consider climatic conditions, the transit coverage etc. Items such as spices and flavored food items need to be packed in moisture proof packs in order to preserve the quality.

3) **Promotion :** Packaging gives advertising value to the product. Attractive packages attract the attention of the shoppers and they buy such attractively designed products.

4) **Convenience to Consumer :** Packaging offers convenience to the customers in handing and using the product. Proper designed packages can be stored in the shelves or racks in the consumers' homes. Packaging also provides direction for use in respect of certain products.

5) **Benefit to retailers :** Packaging also benefits the retailers in handing and selling the products . They can display the product in the racks. Accordingly, Customers may demand those products which are prominently displayed in the shop. In self – service stores, proper write up on the package can facilitate customer's choice.

6) **After – use Value :** Certain packaging can offer after- use value to the customers and others. For instance, plastic cans used for packing oil can be used by the customers for some other purpose. Again, manufactures can be use certain packaging such as soft- drinks bottles.

7) **Identification :** Packaging helps to identify the product. This is because product picture is shown on the package and also due to the printed matter on the package.

8) **Develops Confidence :** Properly packed products develops confidence in the minds of the people. It builds good will for the Organisation. Again packaging may provide a reasonable degree of protection from being duplicated.

9.6 LABELLING

9.6.1 MEANING

The label is the printed material that appears on the package. A products label can be a strong selling tool. The labels illustration and copy should indicate clearly the content of the product, and the directions for use. The label contains the brand name and as such it assists in identifying the brand. The label should indicate the following information.

- Type of the product.
- Producer or processor's Name and Location.
- Net quantity.
- Production Batch Number and Date.
- Date of Expiry.
- Price, Wherever necessary.
- Directions for use if required.
- Other relevant information if any.

9.6.2 TYPES OF LABELS

There are three types of labels
(a) Brand Labels (b) Grade Labels, and (c) Informative Labels.

(a) Brand Labels : When only the brand name, appears on the product package or item. It is a brand label. This is mostly used incase of clothing, Stickers on fruits, and such other products.

(b) Grade Labels : At times the product package or item may have a grade indication by a letter number or word. Grade label indicate the quality standard of the product.

(c) Informative Labels : These labels give information in respect of the product's ingredients, use, care, performance, or expiry date, limitations, precautions, Nutrition value, price and such other details.

9.6.3 LABEL DESIGN – ITS OBJECTIVES

- An effectively designed label can enhance communication with large customers and build brand and company Images.
- Labels provide are a reasonable degree of protection from being duplicated.
- Labels comply with statutory requirements in case of food items such as the expiry date, or statutory warnings on cigarette packs and so on.
- It provides direction for use in respect of certain products.
- Labels facilitate brand comparisons on the part of the consumer and as such it facilitates the purchase decision.
- It creates confidence in the mind of consumers.

9.7 SUMMARY

Product planning involves a number of product related decisions. The exporter has to adopt various product planning strategies such as: Product design strategies, Pricing strategies, Distribution strategies, Promotion strategies, After-sale-service strategies, Product positioning strategy, Product line strategy etc.

Branding is a general term covering various activities such as giving ultimate name for a product, assigning a brand mark and establishing and populating it. The ways of branding a product are: Individual brand, Family Brand, Umbrella Brand, Combination of brand name and company's name, Private or middleman's brand, Multiple brand, Symbols and marks, Special names, Names of founder, Typical number, Combination of name and number etc.

Packaging includes all the activities of designing and producing the container for a product. Proper packaging not only helps to protect and preserve the product, but also it serves a number of other purposes such as: helps to protect the product from damage, helps to preserve the products quality, gives advertising value to the product, offers convenience to the customers in handing and using the product, benefits the retailers in handing, offers after- use value to the customers, helps to identify the product, develops confidence in the minds of the people.

The label is the printed material that appears on the package. There are three types of labels: Brand Labels, Grade Labels, and Informative Labels.

9.8 QUESTIONS

1. Define Product Branding. Explain the methods of Branding.
2. What is Product Packaging? Discuss its importance.
3. Define Labeling. Discuss the types of Labeling.
4. What are the objectives of Labeling?
5. Write short notes:
   a. Product mix
   b. Product Branding
   c. Product Packaging
   d. Product Labeling

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10

EXPORT PRICING

Unit Structure

10.0 Objectives
10.1 Introduction
10.2 Factors Determining Export Pricing
10.3 Export Pricing Quotations
10.4 Export Pricing Strategies
10.5 Marginal Cost Pricing
    10.5.1 Meaning
    10.5.2 Advantages of Marginal Cost Pricing
    10.5.3 Disadvantages of marginal cost pricing
10.6 Break-Even Pricing
    10.6.1 Meaning
    10.6.2 Formula to Calculate B.E.P.
10.7 Skimming the Cream Pricing Policy
10.8 Penetration Pricing Policy
10.9 Problems Solutions on Export Pricing
10.10 Summary
10.11 Questions

10.0 OBJECTIVES

After reading this unit, the student will be able to understand

- Factors determining export price
- Export pricing objectives
- Export pricing quotations
- Marginal cost pricing, Break even pricing, Export pricing strategies.
- Discussion Questions

10.1 INTRODUCTION

Every exporter has to fix the price of his good and the terms and condition of sales. This information is included in the export price quotations which are sent to prospective buyers for consideration and approval. A quotation is an offer made by an exporter in reply to an enquiry to the prospective overseas buyer. The quotation should clearly state the price and other terms and conditions. Price quotations are the bases for determining the amount to be paid by the buyer to the seller and they also provide guidelines as to who will bear the responsibility and cost of insurance, transport, damage to goods in transit, etc. Price quotations suggest the terms and condition under which the exporter is to export goods. They are actually term and conditions of sale.

10.2 FACTORS DETERMINING EXPORT PRICING

The main factors determining the pricing of an export product are as follows :

1. Cost: The most important determinant of price is the cost of production and other marketing expenses. The export price will be high if the production cost is high and vice versa. Export pricing is directly based on the cost of production. Cost of production is usually divied into two types: Fixed and Variable costs. It is desirable to consider only those costs which enter into export such as cost of material and factory overhead. Some administrative costs is also associated with exports such as local transport, shipping and forwarding charges, freight, insurance, packaging and cost of documentation and so on.

2. Demand: Pricing of a product is directly influenced by the market demand for the product. Price of a product may be considered as the outcome of a bargaining relationship. An increase in demand makes an increase in price possible, even when there is no increase in cost. Higher demand depends upon supplying goods at right time, at right price, prompt delivery, continuous supply, provisions of after-sales services, ready availability campaign and so on. These marketing factors directly influence the price of a product. Fixation of price has bearing on the consumers' behaviour. Pricing policies must be built on the basis of analysis of consumers' behaviour.

3. Substitute Product: Export prices are influenced by the availability of substitute product. If a substitute product is available at competitive price, in that case price strategy will have to 10be modified to suit the marketing needs. No product has enjoyed monopoly for indefinitely long period which may often proved to be uneconomical. Thus availability of substitutes directly influences the price of a product in the export market.

4. Quality of product: Quality of product and prices has positive relationship. High quality product carries high price and vice versa. High quality products have limited demand and do not enjoy mass appeal. Quality of product and pricing both are inter-related.

5. Competition: Pricing decisions also depend upon competition in the international market. It is difficult to have monopolistic conditions in the international market. In competitive market the exporters have no control over pricing decisions. Price of a product is influenced by the competitive forces of the market.

6. Tax Burden: Export prices are directly influenced by the taxation policy of the government. If the burden of taxes is low the exporters will be able to fix the price at competitive level. If the policy of the government is to have protective duties on the importers, naturally the exporters will be able to be benefited with such policy. Various incentives and rebates from the government help reducing cost and therefore exporters are able to lower down the price.

7. Composition of consumers: The types of consumers for whom marketing efforts are made play an important role in export pricing. A product for young people or fashion oriented goods will carry a high price. Further the composition of the customers in terms of their income and paying capacity play an important role in export pricing.

8. Product Differentiation and Brand Image: If products are well differentiated and if they have built up a brand image for themselves, manufacturers are in a position to charge comparatively higher prices. Brand names like Colgate, Bata etc. command higher prices due to their brand image.

9. Nature of Purchase : Price, at times, depends upon the frequency of purchase. In case of gift items, people may be willing to pay a high price, if the particular goods catch their fancy.

10. Quality and Price Relationship: Consumers tend to rely on price as an indicator of a product's quality, especially in the case of prestige products. Generally, it is believed that lower prices lead to higher sales, but it may not be the case. It is also to be noted that buyers in developed countries are willing to pay higher prices as compared to those from developing ones.

11. Trade Restrictions : The government policies in respect of import and export must be taken into account while fixing prices.

The importing as well as the exporting countries government plays a good role in export pricing.

The above factors influence the pricing decisions. The selling price of certain commodities likes antiques and handicrafts from India for example, depend little upon their cost because these commodities enjoy a fancy and prestige value.

10.3 EXPORT PRICING QUOTATIONS

The following are the Export Pricing Quotations:

1. Ex-works: Cost incurred by the seller within his own premises. The seller simply makes goods available to the buyer at his own premises/godowns. The buyer bears all cost including loading, at seller's factory.

2. FOR/FOT (Free on Rail/Free on Truck): Seller covers all costs upto the point of delivering and loading goods to the railway wagon/truck.

3. FAS (Free alongside Ship): The seller covers all cost upto the time goods are placed alongside ship/air-craft (excludes responsibility of loading).

4. FOB (Free on Board): Under FOB quotation, the seller quotes a price which includes all expenses incurred till the goods are actually loaded on board the ship. This means packing charges, local transport charges and dock dues are covered in the price quoted. Even the expected profit is included in the FOB price.

In short, FOB price can be summed up as follows

FOB price = cost of production + profit margin + expenses up to on board the ship - export incentives

5. C & F /CFR (Cost and Freight): The seller covers the costs plus carriage plus all costs including freight upto destination but not insurance. C&F means cost plus freight. The price quoted includes total cost of goods, packing, carriage, loading charges and the payment of freight up to the part of destination. The other expenses like cartage, unloading charges and expenses of carrying the goods from the part of delivery to the warehouse are to be borne by the importer. Insurance charges are also to be borne by the importer.

In short, C&F price can be summed up as-

C&F price = F.O.B. + freight

6. C & I (Cost and Insurance): The seller covers the FOB port/airport plus insurance costs.

7. CIF (Cost, Insurance, and Freight): The seller covers all costs mentioned under C & F plus additionally insurance cost also.

CIF means cost, insurance and freight. It includes FOB price plus freight plus marine insurance up to the part of destination. In other words, CIF price includes cost of production and all other expenses till the goods reach the port of destination in the buyer's country. The unloading charges at the buyer's port, custom duties etc, are to be paid by the importer.

In short, CIF price can be summed up as-

CIF price = FOB price + Freight + Insurance

8. Ex-Quay: The seller has to bear all costs to destination including loading at destination. It includes the term "duly paid" the seller has to pay custom duty and other costs of clearance also.

10.4 EXPORT PRICING STRATEGIES

Price fixation of a product is an important aspect of export marketing strategy. Every exporter has various alternative pricing policies suitable not only to the pricing objectives but also to its overall marketing strategy.

The following are some of the important pricing strategies.

1) Skimming pricing strategy –

A high premium price is charged when a product is launched in the market. This strategy aims at high profit margins in the early stages of product introduction. The skimming pricing strategy can be of two types i.e. –

a) Rapid skimming pricing –

When high prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow skimming pricing –

Where high prices are charged, and there is limited promotional effort to promote the product.

2) Penetration pricing strategy –

A strategy of charging law prices in the early stages of product introduction in the market is called “Penetration Pricing Strategy”.

The objective is to launch a new product at a lower price to capture as large a share of the market as possible within a short time.

This strategy can be of two types.

a) Rapid Penetration pricing strategy

Where low prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow Penetration pricing strategy

Where low price is charged, and there is limited promotional expenditure to promote the product.

3) Probe pricing strategy

The exporter may fix a higher price in the export market during the early stages of product introduction. This is done to find out or probe the reaction of the buyers towards the price. The prices are then adjusted accordingly. The exporter may follow this technique, especially, when sufficient information is not available in respect of competitors pricing, purchasing power of the buyers, and so on.

4) Follow the Leader Pricing Strategy

Under this strategy, several exporters may fix the price very close to the price charged by the leading competitor in the market.

5) Differential Trade margins pricing strategy

The exporter may adopt differential trade margins pricing strategy. He may allow various types of discounts or trade margins. The various discounts that can be offered includes, quantity discounts on bulk orders, seasonal discounts during off season to push up sales, cash discounts to encourage prompt payments, goodwill discounts, trade discounts etc. the price are accordingly adjusted depending upon the type of discount offered.

6) Standard export pricing strategy

In this case, an exporter may charge the same price in all the foreign markets, i.e. developed as well as developing countries. The pricing is based an average unit cost.

7) Differential pricing strategy

Under this strategy different prices are charged in different markets. There can be differential pricing between two or more overseas markets.

8) Market pricing strategy

If identical or homogeneous products are already exiting in the market, the standard approach is market pricing. This means, based on the competitor's prices, the final price is determined and production and marketing functions both are adjusted to the price.

9) Transfer pricing strategy

Transfer pricing refers to the pricing of goods or services among subsidiaries within a corporation. This strategy is adopted by a MNC (Multinational Corporation). The subsidiaries of a MNC trade among themselves or with the parent firm. It seems that any price charged by a subsidiary to another subsidiary or to the parent firm is acceptable as the sales are undertaken within the corporation.

10) Trial Pricing

In this case, a firm may launch a new product with low pricing, for a limited period of time. The purpose is to win customer acceptance first and make profits later. Often, trial pricing is seen as an alternative to giving away samples of a product in order to make people to have a trial of the product.

11. Flexible- Price Strategy

In this case, a firm offers the same product and quantities to different customers at different prices. For example, when a new product is introduced, a firm may sell it at a special price to its loyal customers. A retailer may offer special price to frequent shopper as compared to other customers, who do not buy frequently from that store. The special price is a reward for customer's loyalty.

CHECK YOUR PROGRESS

1. Define the terms
   a. FOB
   b. Ex-quay
   c. Differential trade margins pricing strategy
   d. Trial pricing
   e. Penetration pricing strategy
2. Enlist the main factors determining the pricing of an export product.

3. Fill in the blanks

   a. The skimming pricing strategy can be of two types----------------------and-----------------.

   b. ------------------------------ strategy is adopted by the Multinational Corporation.

   c. In case of-------------------strategy a firm offers the same product and quantities to different customers at different prices.

   d. Under -------------strategy several exporters may fix the price very close to the price charged by the leading competitor in the market.

   e. A high premium price is charged when a product is launched in the market it is called as ----------------------------------- strategy.

10.5 MARGINAL COST PRICING

10.5.1 MEANING

The use of marginal cost in the case of export market is advocated on the grounds that if the manufacturers are able to realise their direct costs or variable costs (known as marginal costs) they would be able to carry on their export obligations without any way affecting the overall profitability. The fixed costs is usually not taken into account, while computing prices for exports, as fixed cost remains unchanged upto a certain level of production. This fixed costs supposed to be realised from the domestic market operations. However, this concept works satisfactorily when: (i) the domestic market is big enough; (ii) the market can absorb the burden of fixed costs; (iii) large-scale production will reduce the gap between the total costs and marginal costs.

10.5.2 ADVANTAGES OF MARGINAL COST PRICING:

1. Price may be used as a weapon to penetrate into the overseas market.
2. This method may be used as an alternative to face competition effectively.
3. Fixed costs and sometimes, variable costs are realised from the home market.
4. By fixing a reasonably lower price, consumers from developing countries, with limited income, can be better attracted.

10.5.3 DISADVANTAGES OF MARGINAL COST PRICING:

1. When a price is fixed at reasonably lowest for the overseas market by reducing marginal costs, it becomes difficult to increase the price at a later stage when the total costs of production are increased.
2. This method of pricing is not at all advisable to a producer who mainly concentrates to export marketing.
3. The industry where the proportion of variable costs are on higher side, cannot afford to the marginal cost pricing.
4. The industry in which raw material constitutes a large proportion of the total costs, also cannot afford to such pricing.

10.6 BREAK-EVEN PRICING

10.6.1 MEANING

It is a technique commonly used in Costing to analyse the Cost - Volume Profit Relationship. Break Even technique is concerned with finding out that level of point at which the sales will break even (no profit no loss).

The point or the level at which the sales break even is called "breakeven point". The breakeven point is that point at which the firm's total sales revenue is equal to the total cost of goods sold. The BEP can also be called as "No Loss No profit Point" because at this point there is neither profit nor loss to the firm. In other words, it can be said that it is the first or the starting points towards profit. Anything that is sold over and above BEP level of output indicates profits to the firm. This an export firm will break even when the total export revenue (FOB price plus incentives) is equal to the total cost of goods sold.

Breakeven point may be expressed either in percentage of capacity utilisation or in terms of number of units of production it may also be expressed in volume of sales revenue. The difference between break even points and the expected capacity utilisation is known as "margin of safety".

10.6.2 FORMULA TO CALCULATE B.E.P.

$$BEP - \frac{FC}{SP - VC} \text{ OR } \frac{FC}{C}$$

Where, SP = Selling Price
VC = Variable Cost
FC = Fixed Cost
C = Contribution (i.e. profit)

For example-

Fixed cost = Rs. 3.00,000
Variable cost = Rs. 5 per unit
Selling price = Rs. 10 per unit
Production capacity – 1,50,000 units per year

Therefore

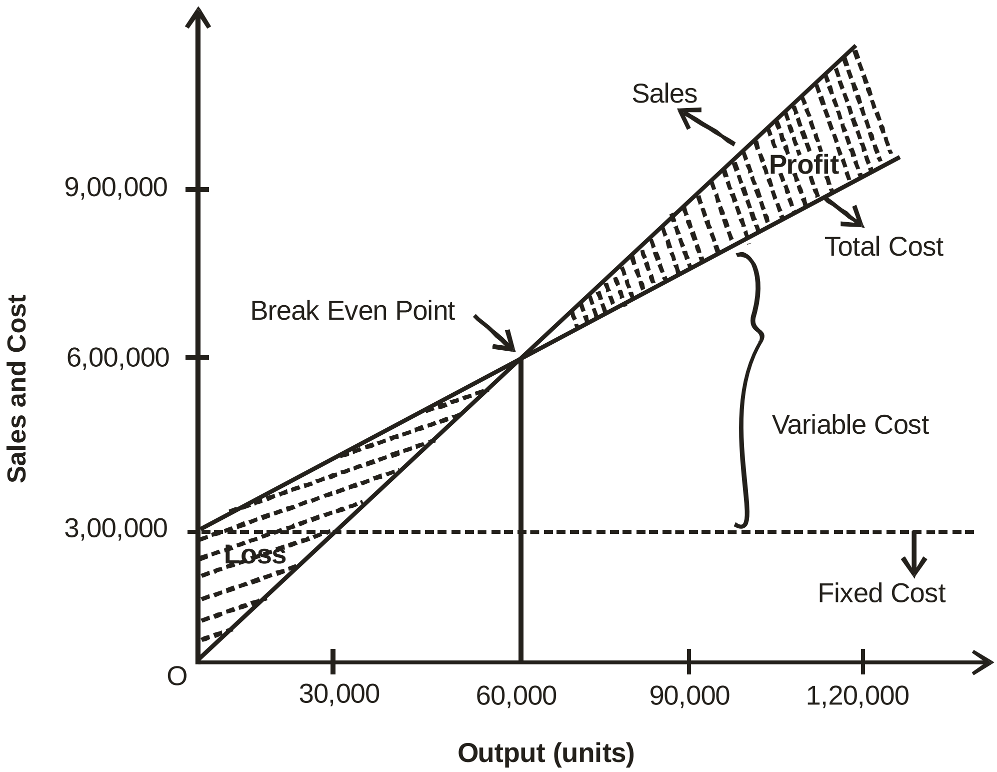
$$BEP - \frac{FC}{SP - VC}$$

$$= \frac{3,00,000}{10 - 5}$$

$$= \frac{3,00,000}{5}$$

$$= 60,000 \text{ units}$$

The break-even point can be illustrated in the following diagram



Thus, the firm will break even at 60,000 units. It the firm exports 40,000 units, it will not make any profit, but if it sells more than 60,000 units, it will make a profit.

An exporter has to fix up export price above the BEP to make profit. In difficult eventuality where there is intense competition, an exporter can settle down this price at BEP where though he will not be able to make profit but there will be no loss at least to him and he will be comfortable in the competitive market.

10.7 SKIMMING THE CREAM PRICING POLICY

Under this policy, a very high price is fixed by an export firm for its products at the very outset. This policy is adopted in case of specialty goods only, that too only when a new product is introduced into the market for very first time because the product will not face any competition at this stage and the manufacturer wants to recover the amount of capital invested by him quickly. This policy is also adopted in order to earn maximum profits at the earliest because of the possibilities of competition at a later stage. This policy is particularly desirable in the following circumstances:
(i) When it is felt that there will be very tough competition in the future and when the exporter wants to skim the cream before competitors enter the market. (ii) In the very beginning of the product introduction when there is a complete lack of competition.
(iii) When initial cost of production is very high which has to be recovered as easily as possible . (iv) In case of the products which are meant for the consumers who can pay high price, such as fashion oriented speciailty goods or low technology based consumer products.

Advantages: The main advantages of Skimming the Cream Pricing Policy are as following:

(a) Higher prices generates higher profits.

(b) Higher profits in the initial stages can cover up at least to a certain extent, the development expenses, such as cost of marketing research, testing and so on.

(c) Generally, it is easier to quote a higher price in the market and then gradually reduce it in order to capture the market, but if the price quoted was low in the initial stages and then raised subsequently, the demand may not increase.

(d) Skimming prices are essential in case of certain products which may become out of date due to changes in fashion, technology etc., and if the seller charges low price initially, and awaits for a rise in price at a later date, then he may not get enough revenue because of declining demand.

(e) High prices will bring income as such, funds will not be blocked and the exporter can use such funds in other areas of market development.

(f) Such prices may be useful when the exporter wants to stay in the market only for a short period of time and not interested in the long run business in export market.

(g) Only the elite or high class of the society can afford to pay high prices as such it brings prestige status to the users.

Disadvantages : The main disadvantages of skimming pricing policy are as follows:

(a) High prices may prevent quick sales.

(b) It may create problem of brand loyalty as very few people may buy such products.

(c) People may not buy such high priced goods in the long run.

(d) More competitors may be induced to enter the market because of high profit margins.

(e) Disadvantage of economies of large scale production and distribution due to low demand.

10.8 PENETRATION PRICING POLICY

This price policy is just opposite of 'Skimming the Cream Pricing Policy'. Under this policy price of a product is kept low so that a new product may create a demand in the export market and the existing product may maintain its demand. This policy is based upon the object of maximising profits through making maximum sales with a low margin of profit. This policy also aims at discouraging competitors from entering into the market.

Advantages:

(a) It enables the exporter to capture the market by quick sales.

(b) It creates brand loyalty due to mass demand.

(c) The firm can get the benefit of substantial economies of large scale production and distribution.

(d) Competitors may not be tempted to enter the market because of low profit margin.

(e) The company can establish as a brand leader in the market due to mass popularity and continue to do so even if the price is raised slightly as that of competitors.

Disadvantages :

(a) Low profit may not cover up the development expenses within a short period of time.

(b) The funds may be blocked if there are no quick sales.

(c) Buyers may doubt the quality of goods as people equate low prices to low quality.

(d) It may be difficult to raise prices in the later stages.

(e) The product may go out of date and the dreams of the seller to stay for a long period of time in the market will suddenly be shattered and he will suffer heavy loss.

10.9 PROBELMS SOLUTIONS ON EXPORT PRICING

This section contains selected problems with solution :

Problem 1. Calculate the minimum F.O.B. price which can be quoted by an exporter from the following details :

Ex-Factory cost	Rs. 15,000
Packing Cost	Rs. 300
Transport Cost	Rs. 200
Profit contribution at 10% of FOB cost	
Duty Drawback at 5% of FOB price.	

Solution :

Ex-factory cost	Rs. 15,000
Packing cost	Rs. 300
Transport cost	Rs. 200
FOB Cost	Rs. 15,500
Contribution towards profit @ 10%	1,550
FOB Revenue	17,050

The amount of assistances will be considered as follows:

Let minimum FOB price be Rs. x

Duty Drawback at 5% of FOB price be = 0.05x

Therefore, x + 0.05x = 17,050

1.5 x = Rs. 17,050

x = 17,050/1.05 = Rs. 16,238

Minimum FOB price is = Rs. 16,238.

Problem 2. From the following data calculate minimum FOB price in EURO:-

Material cost	Rs. 2,80,000/-
Labour Cost	Rs. 1,20,000/-
Transportation Charges	Rs. 16,000/-
Other expenses	Rs. 4,000/-
Profit contribution	20% of F.O.B. Cost.
Drawback of Duty	5% of F.O.B. price
Rate of exchange	1 EURO = Rs.50/-

Solution :

Calculation of minimum FOB price in EURO:

Material Cost	Rs. 2,80,000/-
Labour Cost	Rs. 1,20,000/-
Transportation Charges	Rs. 16,000/-
Other Expenses	Rs. 4,000/-
FOB Cost	Rs. 4,20,000/-
Contribution towards profit (20%)	Rs. 84,000/-
FOB Revenue	Rs. 504,000/-

The amount of assistance will be considered as follows :

Let minimum FOB Price be Rs. = x

Drawback duty at 5% of FOB price = 0.05

Therefore, x + 0.05 = Rs. 504,000

1.05 = Rs. 504,000

x = 504,000/1.05 = Rs. 480,000

Since 1 EURO = Rs. 50/- and hence

Minimum FOB price in EURO = 9,600

Problem 3. From the following data calculate the minimum FOB price which the exporter can quote :

Ex-factory cost	Rs. 44,000
Expenses up to on board the ship	Rs. 4,000
Contribution towards profit 25% of FOB Cost	
Duty Drawback 10% of FOB price	

Solution :

Ex-factory cost	Rs. 44,000
Expenses	Rs. 4,000
FOB Cost	Rs. 48,000
Contribution towards profit @ 25%	Rs. 12,000
FOB Revenue	Rs. 60,000

Now FOB price has to be lowered in proportion of assistance:

Let minimum FOB price be Rs. x

Drawback duty at 10% = 0.10x

Therefore, x + 0.01x = Rs.60,000

x = 60,000/1.10 = Rs. 54,545

Minimum FOB Price which the exporter can quote is = Rs.54545.

Problem 4. Calculate the minimum F.O.B. price, which can be quoted by 'Swadeshi Exports' on the basis of the following information:

Ex-Factory cost	Rs. 10,000/-
Packing charges	Rs. 2,000/-
Transportation charges	Rs. 2,000/-

Contribution to profit 5% of F.O.B. cost. Duty drawback 5% of F.O.B. price.

Solution.

Calculation of minimum FOB Price :

Ex-factory Cost	Rs. 10,000
Packing Cost	Rs. 2,000
Transport Charges	Rs. 2,000
FOB Cost	Rs. 14,000
Contribution towards profit @ 5%	Rs. 700
FOB Revenue	Rs. 14,700

The amount of assistance will be considered as follows :

Let FOB Price be Rs. x

Drawback at 5% of FOB price = 0.05

Therefore, x + 0.05 = 14,700

1.05 = 14,700

x = 14,700/1.05 = 14,000

Minimum FOB price Rs. = 14,000.

Problem 5. Calculate FOB Price from the following particulars

(i) Ex-factory cost	Rs. 28,000
(ii) Packing Cost	Rs. 500
(iii) Transport	Rs. 700
(iv) Contribution towards profit	Rs. 3,800

(v) Duty Drawback 10% of FOB Price

(vi) Conversion rate 1$ = Rs. 45

Solution.

Ex-factory cost	Rs. 28,000
Packing Cost	Rs. 500
Transport	Rs. 700
FOB Cost	Rs. 29,200
Contribution towards profit	Rs. 3,800
FOB Revenue	Rs. 33,000

The amount of assistance will be considered as follows :

Let FOB Price be Rs. x

Drawback at 10% of FOB price = 0.10

Therefore, x + 0.10 = 33,000

1.10 = 33,000

x = 33,000/1.1 = 30,000

Minimum FOB price in $ = 30,000/45 666.66 or US $ 667

Problem 6. Calculate the FOB price to be quoted to an importer from the following details :

(i) Ex-factory cost Rs. 1,52,000/-

(ii) Packing cost Rs. 28,000/-

(iii) Expenses upto loading Rs. 20,000/-

(iv) Profit expected 21% of FOB cost

(v) Duty Drawback 10% of FOB price

(vi) Conversion rate 1$ = Rs. 40

Solution.

Calculation of minimum FOB price in EURO:-

Ex-factory Cost	Rs. 1,52,000/-
Packing Cost	Rs. 28,000/-
Expenses upto loading	Rs. 20,000/-
FOB Cost	Rs. 2,00,000/-
Profit expected 21% of FOB cost	Rs. 42,000/-
FOB Revenue	Rs. 2,42,000/-

The amount of assistance will be considered as follows :

Let minimum FOB Price be Rs. = x

Drawback duty at 10% of FOB price = 0.10

Therefore, x + 0.10 = Rs. 2,42,000

1.10 = Rs. 2,42,00

x = 2,42,000/1.10 = Rs. 2,20,000

Since 1 US$ = Rs. 40/- and hence

Minimum FOB price in US$ = 5,500

10.10 SUMMARY

There are internal and external factors which determine the export price. Internal factors include cost, objectives of the firm, product, image of the firm, promotional activities, product life cycle etc. External factors include competition, demand, consumers, economic condition, channel of distribution, market opportunity etc.

There are several export pricing strategies like Skimming strategy, Penetration strategy, Probe strategy, Follow the leader strategy, Differential trade margins strategy, Standard export strategy, Market strategy, Transfer strategy, Trial strategy, Flexible strategy.

Quotation is an offer or proposal made by an exporter in reply to the enquiry from an importer. Important types of quotation are FOB Quotation, C&F Quotation, CIF Quotation.

Marginal cost pricing suggests that only variable costs should be recovered from export if the export is more competitive and the fixed costs can be recovered from the domestic market.

10.11 QUESTIONS

1. Why is pricing considered an important factor in successful export strategy?
2. What is export pricing? What factors need special consideration while fixing export prices?
3. What are the export pricing quotations? Explain them in brief.
4. What is marginal cost pricing? Explain some of the important pricing strategies commonly followed in export trade.
5. Write short note on the following:
   (a) Break-even pricing
   (b) Marginal cost pricing

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11

EXPORT FINANCE

Unit Structure

11.0 Objectives
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11.2 Importance of Export Finance
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    11.3.1 Meaning
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    11.8.6 Policies issued by ECGC
11.9 Summary
11.10 Questions

11.0 OBJECTIVES

After reading this unit, the student will be able to understand

- Export Finance - Types of export finance
- Features of pre-shipment and post-shipment finance

- Methods of payment
- Role of commercial banks and EXIM bank in export finance
- Role of ECGC in export cover
- Discussion Questions

11.1 INTRODUCTION

Export finance refers to the policies, practices and procedures employed in financing export business. Export financing is the study of the financial network for export trade and includes the study of export credit institutions, foreign exchange implications, and the methods of securing payments.

Export financing broadly cover all aspects of arranging finance for export and securing payments from the overseas buyers. Financial facilities are available to the exporters from the banks even before the shipment of goods and after the shipment of goods. Besides these facilities from the network of financial institutions, export credit guarantees and export credit insurance facilities have also been provided to the exporter.

11.2 IMPORTANCE OF EXPORT FINANCE

Finance is important to exporters:

1. To purchase raw materials, and other inputs to manufacture export products.
2. To assemble the goods in the case of merchant exporters.
3. To store the goods in suitable warehouses till the goods are demanded for shipment.
4. To pack, mark and label the goods.
5. To pay pre-shipment inspection costs.
6. To pay freight and insurance charges under C.I.F. quotation.
7. To pay for port, customs and shipping agent’s charges.
8. To pay export duty or tax, if any.
9. To pay ECGC premium charges.
10. To promote sales of domestic goods in the international markets by way of advertising, publicity etc.
11. To pay for export documentation charges.
12. To import or purchase in the domestic market heavy capital goods, machinery etc.

13. To pay for consultancy firms for their services.
14. To pay for any other activity in-connection with export of goods.

Thus exporters need finance to promote the sale of goods and sometime to meet various expenses prior to and after shipment of goods till the export proceeds are realised.

11.3 PRE-SHIPMENT FINANCE

11.3.1 MEANING

Pre-shipment finance is also known as packing credit. It is a working capital finance provided by commercial banks to the exporter prior to shipment of goods.

Reserve Bank of India has defined packing credit as "any loan to an exporter for financing like purchase, processing, manufacturing or packing of goods". Finance is needed in order to convert raw materials into finished goods and packing of the same would be termed on pre-shipment finance. But for a merchant exporter who obtains finished goods directly and packing of the same would also term as packing credit.

Pre-shipment is finance required by an exporter prior to the shipment of goods. This is basically needed for the purchase of raw materials, processing packing, transportation, warehousing, etc. It is also termed as self-liquidating finance as it gets liquidated and repaid from the proceeds of export bills, when purchased negotiated and discounted. Packing credit is available to all types of exporters, i.e. merchant, manufacturing exporter, export houses, trading houses, star trading houses, and super star trading houses.

11.3.2 SALIENT FEATURES OF PRE-SHIPMENT FINANCE

The salient features of packing credits are as follows:

1. Eligibility: Packing credit is granted to the exporters to facilitate them to process export order/or a letter of credit received against the export contract.

An indirect exporter can also obtain packing credit provided:

(a) He produces a letter from concerned export houses or other concerned party stating that a portion of the export order has been allotted in his favour.

(b) The export houses or other concerned party should also state that they do not wish to obtain packing credit for the same.

2. Purpose: The packing credit is required by the exporter to meet working capital requirements before shipment of good, such as payment of raw materials etc.

3. Documents required: Packing credit is granted against the following documents:

(a) Confirmed export order.
(b) Letter of credit received against the contract.
(c) Relevant policy issued by ECGC.
(d) Personal bond from sureties known to bank.

4. Forms / Methods of Packing Credit:

(i) Cash packing credit loan : Where advances are granted initially on unsecured basis.

(ii) Against hypothecation: Where exporters have to necessarily process or handle goods before exporting.

(iii) Against pledge: where advances are made against the goods stored in custody of bank.

(iv) Against Red Clause L/C : Where the L/C from the importer instructs to the negotiating bank to provide packing credit.

5. Amount of packing credit: The amount of packing credit depends on the amount of export order and credit rating of the exporter by the bank. The bank may also consider the export incentives receivable such as IPRS, DBK etc.

6. Period of packing credit: It is normally granted for a period of 180 days. Further extension of 90 days can be provided with the prior permission of RBI.

7. Rate of interest: The rate of interest per annum is as follows :

(a) Upto 180 days.... 13% p.a.
(b) For additional 90 days ... 15% p.a.

8. Loan agreement: Before disbursement of loan, the bank requires the exporter to execute a formal loan agreement.

9. Maintenance of accounts: As per RBI directives bank must maintain separate accounts in respect of each pre-shipment advance. Running accounts are permitted in case of certain items produced in FTZs,/EPZs and 100% EOUs.

10. Disbursement of loan: Normally, packing credit advances are not sanctioned in lump sum, but it is disbursed in a phased manner.

11. Monitoring the use of advance: The bank advancing packing credit should monitor the use of packing credit by exporter i.e. whether the amount is used for export purpose or not. Penalty can be imposed for misuse.

12. Repayment: The repayment of loan must be made out of export proceeds only. No repayment can be made out of local funds in which case, the advance will not be treated as packing credit and no benefits of concessional rate will be applicable.

11.4 POST SHIPMENT FINANCE

11.4.1 MEANING

Post shipment finance is provided to meet working capital needs after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof.

11.4.2 SALIENT FEATURES

The salient features of post-shipment are as follows:

1. Eligibility: It is extended to the actual exporter who has shipped the goods or to an exporter in whose name export document are transferred. It can also be allotted to overseas buyer or institutions under the scheme of **'Buyer's credit and Lines of credit'** operated by EXIM Bank.

2. Purpose: Post shipment finance provides working capital to the export from the date of shipment to the date of realisation of export proceeds.

3. Documents required: It is extended against the evidence of shipping documents indicating the actual shipment of goods or necessary evidence in case of deemed exports.

4. Forms of Post-shipment Finance: Post shipment may be provided in one of the following forms:

(a) Export bills negotiated under L/C.
(b) Purchase of Export bills drawn under confirmed contracts.
(c) Advance against bills under collection.
(d) Advance against export incentives receivables.
(e) Advance against goods sent on consignments basis.
(f) Advance against undrawn balance of bills.
(g) Advance against deemed exports.
(h) Advance against Retention money.

5. Amount of Post-shipment Credit: The amount of post-shipment finance depends upon whether it is short term, long term or medium term. It also depends upon the value of capital goods and equipment or turnkey projects. Any loan upto Rs. 2 crores for financing export of capital goods is decided by commercial bank which can refinance itself from EXIM Bank. In case of export contract above Rs. 2 crores but not more than Rs. 5 crores , the EXIM has the authority to decide whether export finance could be provided. Contracts above Rs. 5 crores need the clearance by the Working Groups on Export Finance, consisting of representatives from EXIM Bank, RBI, ECGC and the bankers of the exporter. In case of large contracts representatives from Ministries of Commerce and Finance also act as members of Working Groups.

6. Period of Post-Shipment Finance:

(a) Short Term: The period is usually 180 days. The loan is provided by commercial banks.

(b) Medium Term: The period is usually 5 years and the commercial banks together with EXIM Bank give this type of medium term loan.

(c) Long Term: The period is above 5 years to 12 years. It is provided by EXIM Bank in case of sale of capital goods, complete plants and turnkey projects.

7. Rates of Interest: Post shipment finance facility is granted at concessional rate of interest of 15% for a period of 90 days. For medium and long term loan the rate of interest is applicable as per the directives of RBI issued from time to time.

8. Loan Agreement: Before disbursement of loan, the banks require the exporter to execute a formal loan agreement.

9. Maintenance of Accounts: As per RBI directives, banks must maintain separate accounts in respect of each pre-shipment advance. However, running accounts are permitted in case of certain items produced in FTZs/EPZs and 100% EOUs.

10. Disbursement of Loan Amount: Normally, packing credit advances are not sanctioned in lump-sum but they are disbursed in a phased manner.

11.5 METHODS OF PAYMENT

There are different methods of securing payments of an export proceed. The seller has to make sure that the sale proceed is credited in his account within 180 days from the date of shipment of goods.

The following are the methods of securing payment from the overseas buyers :

1. **Open Account:** Open Account is also called Trade Credit. Under this method, there is an understanding between the seller and the buyer on the terms of credit and rate of interest on the outstanding amount. This facility is extended by the seller to his overseas buyer only when he is confident of the buyers' integrity to honour his commitments.

2. **Bank Draft:** This is a popular method of making foreign payments. This is issued by a Commercial bank on the branch of that bank in that foreign country. The bank directs the Branch Manager of that country to make payment of a specified amount in foreign exchange to a particular party in that country. Some nominal commission is charged by the Bank for issuing such bank draft. After getting this draft, the customer can send the draft in ordinary post cover by air-mail.

3. **Cash Against Documents (C.A.D.):** Under this system the exporter sends the export documents to the commercial bank in his own country and directs the banker to deliver the export documents to the importer on receipt of the specified amount. Such points are agreed upon by both the parties. This is a very safe method or realising the payments particularly in case of dealings with new customers, about whom the exporter has no knowledge in respect of credit worthiness, this method is considered very safe. He cannot afford to dissatisfy him by demanding payments in advance. Under this system the payment is made when documents of title are given to him. The whole process is done through some commercial bank.

4. **Foreign Bills of Exchange:** This is an important method of payment. The bills of exchange are prepared by the exporter and sent to the importer through a commercial bank along with the documents. On acceptance of these bills or Documents against Acceptance (D.A.) in the bill of exchange the importer makes payment to the commercial bank in that foreign country and subsequently the payment are received in India.

Three copies of the foreign bills of exchange are prepared and sent in separate post covers.

5. **Letter of Credit :** Letter of credit (L/C) is a popular method of securing payment from overseas buyer. Under this method the importer maintains account with a bank, and purchases a letter of credit from his own bank. In the letter or credit the bank of importer's country writes to the bank of the exporter's country to make the payments of certain amount to the exporter on delivery by the exporter to the bank against certain specified export

documents. This letter is sent to the exporter. After complying the shipment formalities, the exporter submits this letter to the bank along with necessary documents and can realise the payments. The bank will be sending this letter of credit and will get the payment. The banker of the importer will call upon the importer and delivers the documents. The amount is already debited to the importer's account. This is a very common and safer method of securing payment of in the foreign trade.

The exporter must decide about the method of securing payment once he accepts an export assignment. In India exporters are held responsible to see that the sales proceed is credited to their account within 180 days from the date of shipment of goods. As such exporters usually do not extend credit to importers and decide the method of receiving payment.

CHECK YOUR PROGRESS

1. Define the following terms
   a. Packing credit
   b. Post-shipment finance
   c. Letter of Credit
   d. Open Account
   e. Bank draft

2. Enlist the salient features of Pre-shipment finance.
3. Fill in the blanks
   a. Pre-shipment finance is also known as----------------------------------.
   b. The rate of interest Up to 180 days for Packing Credit is as ----------.
   c. The bills of exchange are prepared by the ------------ and sent to the -----------.
   d. In India exporters are held responsible to see that the sales proceed is credited to their account within ------- days from the date of shipment of goods.
   e. Post-Shipment Finance for Short Term period is usually provided for -------- days.
   f. Post-Shipment Finance for Short Term period is provided by -------------------------.
   g. Post-Shipment Finance for Medium Term period is usually for ---------years.
   h. Long Term is provided by -------------------in case of sale of capital goods, complete plants and turnkey projects.

4. Explain the forms of Packing Credit.

11.6 EXPORT-IMPORT BANK OF INDIA (EXIM BANK)

11.6.1 MEANING

The EXIM bank of India is a public sector financial institution established on 1st January, 1982. It started operating from 1st march, 1982. It was established by an Act of Parliament, for the purpose of financing, facilitating and promoting foreign trade. It is also the principal financial institution for coordinating the working of institutions engaged in financing India's foreign trade.

This bank was mainly created for the purpose of financing medium and long term loans to exporters there by promoting the country's foreign trade.

11.6.2 OBJECTIVES OF EXIM BANK

The main objectives and purposes of EXIM bank are as follows

1. Financing of export and imports of goods and services not only of India but also of third world countries.
2. Financing of joint ventures in foreign countries.
3. Financing of Indian manufactured goods, consultancy and technological services of deferred payment terms.
4. Financing R&D and techno-economic study.
5. Co-financing global and regional development agencies.

11.6.3 FUNCTIONS OF EXIM BANK

The assistances offered by EXIM bank to the exporters can be grouped under the following three categories.

FUNCTIONS OF EXIM BANK

1. Fund Based Assistance
   a. Financial assistance to Indian companies
   b. Financial assistance to foreign govt. and business firms
   c. Financial assistance to Indian commercial banks
2. Non-Fund Based Assistance
   a. Guarantees and bonds
   b. Advisory and other services

We would discuss each of these briefly.

1. Fund Based Assistance

It provides direct loans to exporters, refinance, overseas buyers credit, foreign lines of credit, overseas investment finance and pre-shipment credit.

It also re-discounts export bills, and extends re-lending facility to banks abroad. It also renders technology and consultancy services.

It also provides term finance for export-oriented units. It assists SSI who is exporting by its bill rediscounting programme. It also has an 'agency credit line' with IFC. It refinances exports of computer software. Fund based assistance is divided into three broad groups:

(i) Financial Assistance to Indian Exporters.
(ii) Financial Assistance to Overseas Buyers and Agencies and
(iii) Financial Assistance to Indian Commercial Banks.

a. Financial Assistance to Indian Companies: EXIM bank provides loans to Indian Companies in the following manner:

I. **Direct Financial assistance to exporters:** Funds are provided on deferred payment terms to Indian exporters to enables them to extend deferred credit to the overseas buyer. Commercial banks participate in this programme directly or under the Risk Syndication facility.

II. **Consultancy & Technology Services:** Indian companies can obtain finance from EXIM Bank to extend deferred credit to overseas buyers of Indian consultancy, technology and other services.

III. **Pre-shipment Credit:** Packing credit is available for construction/turnkey project exporters involving cycle time exceeding six months.

IV. **Facilities for Export Oriented Units:** EXIM Bank provides term loans/deferred payment guarantee for projects in export oriented units and units in free trade zones.

V. **Facilities for Deemed Exports:** Deemed export transactions are eligible for funded and non funded facilities from EXIM Bank.

VI. **Overseas Investment Financing:** EXIM Bank provides finance to Indian Company establishing a joint venture abroad and requires funds towards equity participation in the joint venture.

b. Financial Assistance to Foreign Governments and Business Firms : EXIM bank also provides loans to foreign Governments, Companies and Financial Institutions in the following ways:

I. **Overseas Buyer's Credit:** This is offered directly to foreign buyers to import eligible Indian goods and related services with repayment terms spread over a period of years.

II. **Lines of Credit to Foreign Governments:** EXIM Bank also provide credit to foreign governments and foreign financial institutions. Such lines provide term finance import eligible Indian goods and related services.

III. **Relending facility to banks overseas:** Relending facility to enable overseas banks to provide term finance to importers for import of eligible Indian goods. Banks overseas would intermediate between foreign buyers and EXIM Bank and the latter would intermediate with the suppliers.

c. Financial Assistance to Indian Commercial Banks: EXIM Bank provides loans to Indian Commercial Banks as explain below:

I. **Export Bills Rediscounting :** Exchange banks in India can rediscount their short term export bills for a period of 90 days with EXIM Bank.

II. **Refinance of export credit:** EXIM Bank provides to authorised dealers in foreign exchange hundred per cent refinance of deferred payment loans. For export contracts up to Rs. 2 crores, automatic refinance facility is available. For proposals beyond Rs. 2 crores, EXIM Bank's approval is required.

2. Non-Funded Assistances

Non-funded assistances provide cover assistance, retent on money, guarantees etc.

(a) Issue of Guarantees: EXIM bank participates with commercial banks in India in the issue of guarantees such as advance payment guarantee, performance guarantee, and guarantee for retention money and guarantee for borrowings abroad required for execution of export contracts.

The bank charges at present interest ranging between 7.5% p.a. and 12.5% p.a. in connection with its export financing programmes.

(b) Advisory and Other Services: It advises Indian companies, in executing contract abroad, and on sources of overseas financing. It advises Indian exporters on global exchange control practices. The EXIM bank offers financial and advisory services to Indian construction projects abroad. It advises small-scale manufacturers on export markets and product areas. EXIM bank provides access to Euro Financing sources and global credit sources to Indian exporters. It assists the exporters under forfeiting scheme.

EXIM bank also provides advisory services relating to Marketing research, merchant banking, Foreign exchange, risk syndication, dissemination of information through publications.

The Bank is headquartered at Maker Chambers IV, 8th floor, 222, Nariman Point, Bombay-400 021 and it has six representative offices at New Delhi, Calcutta, Madras, Abidjan, Washington D.C., and Singapore.

11.7 ROLE OF COMMERCIAL BANKS

The exporter is expected to repay the amount of loan to the bank as soon as he receives export proceeds. Generally, the lending bank itself realizes the export proceeds from the importer's banks.

Commercial banks provide a major part of export finance. They extend financial assistance both at pre-shipment as well as post-shipment levels to exporters not only on priority basis but also on liberal terms.

The directives of Reserve Bank of India under Exchange Control Regulation Act make it obligatory for payments of exports to be settled through the medium of a bank in India authorized to deal in foreign exchange. Commercial banks services are divided into

(a) Fund Based Assistance (Financial Services)
(b) Non-Fund Based Assistance (Non-Financial Assistance)

(a) FUND BASED ASSISTANCE

The commercial banks provide fund based activities at pre-shipment stage and post-shipment stage.

(i) Pre-Shipment Stage

The commercial banks provide finance on short terms basis for a normal period of 180 days at a very concessional rate of interest. The various forms of advance are cash packing credit loan, advance against hypothecation, advance against pledge etc.

(ii) Post-Shipment Stage

The commercial banks provide finance at the post-shipment stage normally for a period of 90 days at a concessional rate of interest. The various forms of post-shipment finance are negotiation of bills drawn under LC, purchase/discounting of bills, overdraft against bills under connection etc.

(b) NON-FUND BASED ASSISTANCE

(I) Banks Guarantees

Banks are authorized to issue guarantees and furnish bid bonds in favour of overseas buyers. The various guarantees issued by banks are-

1. Bid Bonds – Banks issue bid bonds to enable exporters to participate and quote price in various global tenders.

2. Preference Guarantee – It is required in case of export of capital goods and turnkey projects and construction contracts.

3. Advance Payment Guarantee – The banks also issue advance payment guarantee to the overseas buyer who normally makes certain advance payment to the Indian exporter against a bank guarantee.

4. Guarantee for Payment of Retention Money – Banks issue a guarantee for payment of retention money by the overseas party who would release the retention money to the Indian party only after receiving guarantee from bank.

5. Guarantee for Foreign Currency Loans – It is sanctioned by financial institution abroad to Indian exporters who raise funds to finance their projects abroad.

(ii) Credit Rating of Importers

Banks undertake credit rating of importers on request from exporters. They collect important information about their credit worthiness and supply the same to the exporters.

(iii) Information about Foreign Exchange

Banks also provide information on the exchange rates of various countries.

(iv) Dollar Account

Commercial banks provide services to their clients by opening 25% dollar account. Under this account, an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India; these accounts help exporters to meet payment in foreign currencies.

(v) Invoicing in a Foreign Currency

Sometimes a buyer insists for invoicing in a foreign currency which is generally suitable to him. Banks provide necessary information on this matter, such as whether the said currency is marketable or not, if the contract is not for major currencies.

(vi) Confirmation of Letter of Credit

Banks also undertake the job of advising and confirming of L/C opened by importers.

(vii) Forward Exchange Contracts

Banks cover the risks of fluctuations in foreign exchange rates by fixing the rate in advance for future transactions. Such rates are known as forward exchange rates.

(viii) Currency for Invoicing Services

Banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their release.

11.8 EXPORT CREDIT AND GUARANTEE CORPORATION OF INDIA LTD. (ECGC)

11.8.1 MEANING

Export Credit and Guarantee Corporation of India Ltd. (ECGC) was established by the Government of India in December 1983. ECGC is a fully owned Government Company. It operates under the overall supervision of the Ministry of Commerce. It is managed by a Board of Directors. These directors are representatives of the Government, RBI, banking, insurance and export community. ECGC insures the exporters and finds finance for them.

11.8.2 OBJECTIVES OF ECGC

The main objectives of ECGC are:

(a) To facilitate the growth of India's export trade by providing credit insurance cover to India exporters and giving them guarantee for enlarging exports of the country.

(b) To provide the supplementary facilities which are necessary for diversifying exports.

(c) To conduct any other function which the Government asks them to do from time to time. This includes giving credit and guarantees in foreign currencies for importing raw materials which are required for manufacturing of processing export goods.

ECGC does not give direct export assistance to the exporters. It only helps them to get export finance from the lending institution. They do this by agreeing to share the risk with the lending institution, through their policies and guarantees. The ECGC issues different types of insurance policies in order to protect the interest of exporters and the lending institution. It also collects and distributes information regarding credit worthiness of overseas buyers.

Banks and financial institution need guarantee for lending financial support to the exporters. A number of financial guarantees have been introduced by ECGC on the strength of which credit can be extended to exporters and banks and financial institution are protected.

11.8.3 GUARANTEES OF ECGC

Important guarantees offered by ECGC are:

1. Packing credit guarantee.
2. Post-shipment export credit guarantee.
3. Export finance guarantee.
4. Export production finance guarantee
5. Export performance guarantee
6. Transfer guarantee.

1. Packing credit guarantee: An exporter requires pre-shipment finance or packing credit, for procuring raw material manufacture goods, and packs them. This all requires finance. Commercial banks provide this finance ECGC issues guarantee to protect these banks against:

(a) Non-delivery of shipping documents by the exporter to the bank. The guarantee given by ECGC for this purpose cover 66.67% losses.

(b) Non-payment of debt of shipment is not made. The guarantee issued by ECGC indemnifies bank to the extent of 75% of the losses due to non-payment of debts.

(c) In case of credit granted to small scale merchant exporter whose turnover does not exceed Rs. 2 lakhs and if such exporter fails to repay. ECGC indemnifies the back up to 90% of the losses.

2. Post-shipment export credit guarantees: The commercial banks extend post-shipment finance or post shipment credit to the exporter. This type of finance is granted through purchase negotiations and discounting of export bills. The financial banks are protected under this guarantee by the ECGC. The banks are protected against:

(a) Default or insolvency of exporter
(b) Non - Performance of export contract
(c) Dispute between exporter and importer

The banks are normally protected under this guarantee by the ECGC upto 75% of the losses.

3. Export finance guarantee: It takes time normally to claim incentive money from the government. This claim is to be made by exporter only after shipment of goods. But exporters funds are blocked in this course. He needs finance for keeping his activities continue. Commercial banks help him in this regard. Against these incentives the exporter can get from the banks maximum 50% of finance of the FOB value of goods or actual amount receivable on account of incentive whichever is less.

The financial institutions banks are protected by the ECGC against

(a) Default or insolvency of the exporter.

(b) Any enforceable loss

75% of the losses incurred by the bank are compensated by the ECGC.

4. Export production finance guarantee: The goods of exporter sold in the foreign market are much lower in value. It is only when the exporter receives the amount of incentives from government and export proceed from importers, he makes up the full value of goods commensurate with the cost of production. But realization of incentives takes time invariably.

As a result exporter's finances are blocked. This guarantee of ECGC enables manufacturer/exporter to get finance from commercial banks upto 50% over and above FOB value of the goods at the pre-shipment and post-shipment stage. The guarantee is issued to financing bank to indemnify to the extent of 66.67% of any loss owing insolvency or protracted default on the part of manufacturer/exporter.

5. Export performance guarantee: Sometimes exporter has to furnish bank guarantee to the foreign buyer. This guarantee is required when exports are made on deferred terms basic. The bank guarantee is required by the exporter for the following purposes.

(a) Bid Bond: Foreign buyer wants this to quote a tender. This guarantee is a sort of certificate of genuiness of the offer submitted by the buyer.

(b) Advance payment: After securing bid, the buyer may use to pay exporter certain percentage of the value of export contract as an advance money. This is provided against the bank guarantee.

(c) Ensuring performance of contract: This guarantee is required by the buyer when the contract is given to exporter. This guarantee ensures that export will fulfil his commitment.

(d) Payment of retention money: In order to ensure performances from exporter the buyer may retain certain percentage of contract money as a retention money. This money is released to exporter if the guarantee of bank is given for this purpose.

e) Loans of foreign currency: Sometimes exporter may have to raise funds in foreign currency to finance his operations of export project. Financial institutions abroad willing to grant funds to exporter in foreign currency may need such guarantee. The banks can issue this guarantee to enable exporter to furnish to the foreign financing institutions and get the funds in foreign currency.

6. Transfer Guarantee: Exporter prefers a letter of credit to be confirmed by a reputed bank in India. Exporter's own bank may confirm the L/C required from foreign buyers. The exporter receives the money of export transaction from the confirming bank. The confirming bank, however, may fall in trouble if the payment is not received from foreign buyers or from his foreign bank. ECGC has devised transfer guarantee scheme. Under this guarantee scheme, confirming bank has to see that transfer of money is guaranteed from the foreign country which is due to be payable to the confirming bank of L/C.

11.8.4 RISK COVERED BY ECGC

ECGC covers commercial risk as well as political risk.

1. Commercial Risks :

(a) Insolvency of the buyer.

(b) Failure of the buyer to make the payment due within 2 months from the due date.

(c) Buyer's failure to accept the goods, due to no fault of the exporter, provided that legal action against the buyer is considered to be inadvisable.

2. Political Risks :

(a) Imposition of restrictions by the Government of the buyer's country or any Government action which may block or delay the transfer of payment made by the buyer.

(b) War, civil war, revolution or civil disturbances in the buyer's country.

(c) New import restrictions or cancellation of a valid import licence.

(d) Interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges which cannot be recovered from the buyer.

Any other cause of loss occurring outside India, not normally insured by general insurers and beyond the control of both the exporter and the buyer.

11.8.5 RISK NOT COVERED

The Policy does not cover losses due to following risks:

(a) Commercial disputes including quality disputes raised by the buyer, unlike the exporter obtains a decree from a competent court of law in the buyer;s country in his favour.

(b) Causes inherent in the nature of the goods.

(c) Buyer's failure to obtain necessary import or exchange authorisation from authorities in his country.

(d) Insolvency or default of any agent of the exporter or of the collecting bank.

(e) Loss or damage to goods which can be covered by general insurance.

(f) Exchange rate fluctuation.

(g) Failure of the exporter to fulfill the terms of the export contract or negligence on his part.

11.8.6 POLICIES ISSUED BY ECGC

ECGC issues policies which cover the various risks involved in export trade. They are as follows:

(A) Standard policies: Standard policies are issued to cover various political risks and commercial risks. There are four policies which are issued under standard policy.

(i) Shipments (Comprehensive Risks) policy to cover both commercial and political risks from the date of shipment.

(ii) Shipments (Political Risks). policy to cover only political risks from the date of shipment.

(iii) Contract (Comprehensive Risks) policy to cover both commercial and political risks from the date of contract.

(iv) Contract (Political Risks) policy to cover only political risks from the date of contract.

90% of the losses on account of political and commercial risks are covered by ECGC. It may be less than 90% in cases of certain countries or some shipments.

(B) Specific policies: Contract for exports of capital goods, turn-key projects or construction works and those projects which are not of a repetitive nature are required to be insured by EGCG on a case - to - case basis under specific policies. There are various types of policies under this which are:

1. For supply contracts:

(i) Specific shipments (comprehensive Risks) policy to cover both commercial and political risks at the post shipment stage.

(ii) Specific shipment (Political Risks) policy to cover political risks at the post - shipment stage in cases where the buyer is overseas government or payments are guaranteed by Govt. or by banks.

(iii) Specific contracts (Comprehensive Risks) policy.

(iv) Specific contract (Political risks) policy.

2. For buyer's credit or Line of credit: The buyer's credit as the name suggests in the credit granted to the buyers by the financial institution to finance a particular export contract. ECGC has a policy under which financial institution such credit get insured. Under lines of credit, a loan is extended to Govt. of financial institutions is the importing country for financing import of specified items from the leading country.

(C) Services policy: A wide range of services such as , technical, professional, etc. are rendered to overseas buyers. When an exporter renders services to overseas buyers, there is a risk of payment which can be insured under service policies of ECGC. There are two type of policies which are available namely :

(a) Specific services contract (Comprehensive Risks) policy which covers both political and commercial risks.

(b) Specific services contract (Political Risks) policy, which covers only political risks.

If the services are obtained by overseas government, specific services contract (Political Risk) policy in takes. On the contrary, if services are to be utilised by private buyers which are not guaranteed by banks a comprehensive risks specific service contract - Policy is obtained. Such policies cover 90% of the loss suffered by the seller. A wide range of services, like technical or professional services, hiring or leasing can be covered under these policies.

(D) Construction works policy: This policy is basically to cover turn-key projects involving suppliers and services. Two types of policies which are evolved to cover the risks are namely Govt. and private buyers. Contract with Govt. buyers are covered with political risks and private buyers are covered with comprehensive risks. The policies, issued to cover contract with government, the percentage of loss payable by ECGC is 85% and that of private buyers 75%.

(E) Special Policies: Specific policies are meant for special ECGC scheme for small exporters. In order to give boost to export from small exporters special policies have been drafted for them with various features. This scheme is restricted to those exporters whose anticipated total export turnover for the period of 12 months ahead is not more them Rs. 25 Lakhs. This scheme covers 95% of commercial risks and 100% political risks.

11.9 SUMMARY

Exporters need finance to promote the sale of goods and sometime to meet various expenses prior to and after shipment of goods till the export proceeds are realised. Exporters need finance at both the steps i.e. at pre-shipment and at post-shipment.

Pre-shipment finance is an advance credit facility contained by an exporter from a bank or financial institution.

Post-shipment Finance is needed after making the shipment and before realization of payment from overseas buyers. Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods.

There are different methods of payment in export trade such as: Open account, Advance payment, Payment against shipment on consignment, Documentary bill, and Letter of credit.

Commercial banks provide financial assistance both at pre-shipment as well as post-shipment levels to exporters not only on priority basis but also on liberal terms. Commercial banks services are divided into: Fund Based Assistance (Financial Services) and Non-Fund Based Assistance (Non-Financial Assistance).

The EXIM bank of India was established by an act of parliament, for the purpose of financing, facilitating and promoting foreign trade. This bank was mainly created for the purpose of financing medium and long term loans to exporters there by promoting the country's foreign trade.

The Export Risk Insurance Corporation (ERIC) which is now known as ECGC of India ltd. was introduced to provide export credit and insurance support to Indian exporters. Important guarantees offered by ECGC are: Packing credit guarantee, Post-shipment export credit guarantee, Export finance guarantee, Export production finance guarantee, Export performance guarantee, Transfer guarantee.

ECGC issues policies which cover the various risks involved in export trade. The policies are: Standard policies, Specific policies, Service policies, Construction works policies and Special policies.

11.10 QUESTIONS

1. Explain the importance of finance in export trade.
2. Explain the sources of export finance available to Indian exporters.
3. What is export finance? Explain briefly, the role played by different financial institutions in export finance.
4. State the role of commercial banks in providing export finance.
5. What facilities do commercial banks offer to Indian exporters?
6. Explain the different types of policies issued by ECGC.
7. Examine the role of ECGC in export trade.
8. Describe the different kinds of insurance policies and financial guarantees issued by the ECGC of India.
9. Discuss the role of EXIM Bank in the field of export finance.
10. Explain the importance of pre-shipment and port-shipment finance for the exporters.
11. Examine the role played by EXIM Bank in financing India's export trade.

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12

EXPORT PROCEDURE

Unit Structure

12.0 Objectives
12.1 Introduction
12.2 Stages in Export Procedure
12.2.1 Preliminary Stage
12.2.2 Pre-Shipment Stage
12.2.3 Shipment Stage
12.2.4 Post-Shipment Stage
12.3 Shipping and Custom Formalities
12.4 Negotiation of Export Documents
12.5 Procedure for Realization of Export Proceeds
12.6 Main Export Incentives
12.7 Summary
12.8 Questions for Self-Assessment

12.0 OBJECTIVES

After studying this chapter the students should be able to

- Elaborate the stages in export procedure.
- Explain shipping and custom formalities.
- Understand negotiation of export documents and realization of export proceeds.
- Discuss the main export incentives available to Indian Exporters.

12.1 INTRODUCTION

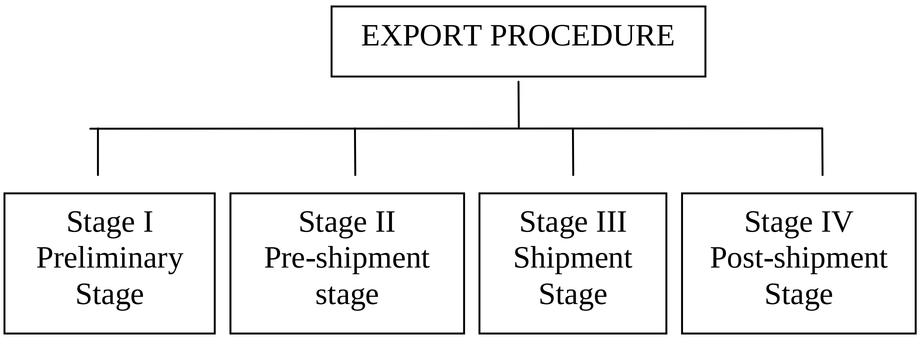
Export procedure refers to the execution of an order received from an overseas buyer and includes everything that the exporter is required to do right from the receipt of a confirmed order up to the realization, o/s final payment. It is not difficult to receive an export order but extremely difficult to successfully and satisfactorily execute the same. This is because exporting goods overseas involves same definite procedure and is covered by legal restrictions.

Export trade is governed by legal controls and therefore, every function of it is carried out under definite procedures. The various procedures that are followed in the export of goods facilitate execution of export in a systematic manner.

Export market is not merely an extension of domestic market. Apart from the basic principles of sound business in domestic as well as foreign market, selling abroad requires specialized knowledge regarding certain matters such as detailed market surveys, shipping, marine insurance, customs and foreign exchange formalities, etc.

12.2 STAGES IN EXPORT PROCEDURE

Export procedure involves a number of steps. The various steps can be classified into four stages



12.2.1 PRELIMINARY STAGE

1) Organizing –

The exporter should have an organization to look after exports. Exporters may set up a complete new organization or add on export section to an existing one. At this stage the exporter may take a decision to select the right product sell abroad.

2) Registering with various Authorities –

The exporter should register his organizations with various authorities. These are as follows.

a) Income Tax Authorities to obtain permanent Account Number (PAN).

b) Jt. DGFT – to obtain Importer's exporter's code Number (IEC No.)

c) EPC – to obtain Registration – cum –membership – certificate (RCMC)

d) Other authorities, such as FIEO, sales Tax authorities, chambers of commerce etc.

3) Appointing Agent / Distributors –

It is advisable to appoint agents or distributors in the selected overseas markets. The exporter may also open branches or sales divisions or depute permanent representative abroad.

4) Approaching Foreign Buyers –

The overseas agents / representatives approach foreign buyers with a quotation. The foreign buyer, if satisfied with the quotation and after clarifications, if any, will place an order with the exporter.

12.2.2 PRE-SHIPMENT STAGE

1) Confirmation of order –

When the buyer is satisfied with the terms and conditions of the seller, he will place either a formal or confirmed order along with a signed copy of the contract. The exporter should acknowledge and confirm the receipt of such order.

2) Obtaining Letter of credit –

Together with the acknowledgement letter confirming the receipt of an export order, the exporter may send a formal request to the importer to open a letter of credit in his favour.

3) Obtaining pre-shipment Finance –

As soon as the exporter receives a confirmed order and the L/C, he should approach his bank for securing pre-shipment finance to meet his working capital requirements.

4) Obtaining Export Licence, if necessary's –

Export control is exercised to a limited extent in India. The problem of obtaining export licence arises only in the case of a few controlled items. Otherwise, export business has been delined.

5) Production and Procurement of goods –

Soon after securing the pre-shipment advance from bank, the exporter has to arrange for production and procurement of goods for shipment. A manufacturer exporter himself undertakes the entire process of production.

6) Packing and Marketing –

After procuring the goods meant for export, the exporter has to arrange for proper packing and marking of the goods. Packaging must ensure proper protection of the goods. The packing material should be selected after considering the distance to be covered, mode of transportation, types of handling of the goods at ports etc.

7) Pre-shipment Inspection –

If the export cargo is subject to qualify control and pre-shipment inspection, the exporter should get in touch with EIA to obtain Inspection certificate.

8) Central Excise Clearance –

Goods meant for export are exempted from the payment of excise duty. Excise clearance is obtained by two methods a)Export Under Rebate and b) Export Under Bond.

9) ECGC cover –

The exporter must take appropriate policy to protect him from credit risk.

10) Marine Insurance policy –

In order to protect the cargo from perils on high sea, the exporter has to obtain marine insurance policy. Payment of insurance premium depends on the type of price quotation accepted by the importer.

11) Appointment of clearing and Forwarding Agent –

It is always advisable to appoint C & F agent to look after forwarding work which includes booking of shipping space, preparing and submitting various documents to customs.

12.2.3 SHIPMENT STAGE

1) Reservation of space in the ship –

The exporter has to contact the shipping company well in advance for booking the required space in the vessel for shipment of his consignment. He has to provide necessary information as regards date of shipment, gross and net weight of each package, particulars of the importer and that of his own, arrival and departure date of the vessel etc. when shipping company accepts the exporter's request, the company or its agent issues "shipping order".

2) Preparation and processing of shipping documents –

When goods reach the port of shipment, the exporter has to arrange for preparation of a complete set of documents to be passed on to the forwarding agent.

3) Physical Examination of goods at the port –

The C & F agent obtains the carting order from the Port Trust to Cart the goods inside the docks. He then approaches the custom Examiner, who may physically inspect the goods. The custom Examiner then given “Let Export order”.

4) Loading of goods –

The duplicate copy of shipping bill which is endorsed by the custom Examiner is handed over to the custom preventive officer, who endorses it with ‘Let ship order’. The goods are then loaded on board the ship, for which Mate’s Receipt is issued by the mate of the ship. The Mate’s Receipt is handed over to the shipping company to obtain Bill of Lading.

12.2.4 POST-SHIPMENT STAGE

1) Dispatch of Documents –

Dispatch of documents by C & F Agent to the exporter the details and the mode of dispatch of the shipping documents are specified in the L/C. negotiating, in this sense, implies mailing of dispatching a set of documents to ensure that the importer or his agent receives the same in time so that he can delivery of the exported goods.

2) Shipmen advice to importer –

After the shipment of goods, the exporter has to send suitable intimation to the importer for his information. By this intimation, the date of shipment, the name of the vessel, date on which the goods will reach the destination should be informed to the importer. A copy of non-negotiable bill of lading is also sent for information. The importer gets the remaining documents through his bank.

3) Presentation of Documents to the Bank –

A complete set of documents is submitted by the exporter to his bank for the purpose of negotiating the same and obtaining export proceeds in time. The bank then sends the same documents to the exporter.

4) Realization of export proceeds –

The exporter then proceeds to claim export incentives on the basis of bank certificate. The bank certificate gives description of the product, its value, the rate of conversion, the details of invoice etc. The exporter is entitled to various incentives such as IPRS, DBK and other incentives, it applicable.

5) Follow-up of Export sales –

A good exporter should always have a follow-up after sales i.e. he should provide necessary after sale service, find out buyer’s opinion towards the product and so an, which will help to generate more sales in the international market.

12.3 SHIPPING AND CUSTOM FORMALITIES

The shipment of export cargo has to be made with prior permission of and under the close supervision of the custom authorities. They cannot be loaded on board the ship unless a formal permission is obtained from the custom authorities. The custom authorities grant this permission only when it is being satisfied that the goods being exported are of the same type and value as have been declared by the exporter or his C & F agent, and that the duty has been properly determined and paid, if any.

The custom procedure can be briefly explained as follows.

1) Submission of Documents –

For customs clearance of cargo, the exporter or his agent has to submit five copies of shipping bill along with necessary documents such as –

- Letter of credit or confirmed export order.
- Commercial invoice.
- Packing list.
- Certificate of origin.
- G. R. Form
- ARE-1 Form.
- Original copy of certification inspection. (Wherever necessary)
- Marine insurance policy.

2) Verification of documents –

The customs appraiser verifies the details mentioned in each document and ensures that all formalities have been complied with by the exporter. It satisfied; he issues “A Shipping Bill Number” which is very important from the exporter’s point of view.

3) Carting order –

The custom house agent of the exporter approaches the superintendent of the concerned port trust for obtaining a carting order. After obtaining the carting order, the cargo is physically moved inside the docks, which is basically the permission to move cargo inside the docks. The carting order is issued by means of an endorsement on the duplicate copy of the shipping bill.

4) Storing the goods in the sheds –

After securing the carting order, the goods are moved inside the docks. The goods are then stored in the sheds at the docks.

5) Examination of goods –

The customs examiner examines the goods and gets the package sealed in his presence. If satisfied the examiner grants permission for the loading of the goods on the ship in the form of a "Let Export" order. The same procedure is now processed through Electronic Data Interchange (EDI) system.

6) Obtaining "Let ship order" –

The custom House Agent submits the duplicate copy of the shipping bill along with other documents to customs preventive offices. If the customs preventive officer finds that everything is in order he endorses the duplicate copy of shipping bill with "Let ship order".

7) Loading of goods –

After obtaining the "Let ship" order the goods are loaded on the ship for which the mate of the ship issues a "Mate's Receipt" to the superintendent of the port. That's how the mate's receipt reaches the office of the port trust.

8) Payment of port dues –

The Agent of the exporter then pays the required port dues and collects the mate's receipt.

9) Obtaining Bill of lading –

As the final step, the agent of the exporter submits the mate's receipt to the shipping company on whose ship the goods are loaded. The shipping company issues a bill of lading. Normally the bill of lading is issued in two or three negotiable and non-negotiable copies, as they are required on various occasions later on.

CHECK YOUR PROGRESS:

1. Draw the chart showing Export procedure.
2. Enlist the points included in the Pre-shipment stage.
3. Fill in the blanks
    a. For customs clearance of cargo, the exporter or his agent has to submit ------------------- copies of shipping bill.
    b. After submitting the mate's receipt to the shipping company, the shipping company issues a ------------------------------------
    c. The customs appraiser if satisfied; he issues ---------------------
    d. After obtaining the "Let ship" order the goods are loaded on the ship for which the mate of the ship issues a ----------------

12.4 NEGOTIATION OF EXPORT DOCUMENTS

The submission of the full set of shipping documents to the bank for realization of payments is called negotiation of documents.

Payments from overseas buyer in respect of export proceed must be realized only through the negotiating bank.

1) Negotiation of Documents –

The exporter must submit shipping documents to his bank for negotiation within 21 days of the date of shipment of goods (subject to certain exceptions). Full value of export should be realized within 180 days from the date of shipment. Where it is not possible to realize the sale proceeds within the prescribed period, the exporter must secure prior permission from the RBI. The following constitute full set of shipping documents. –

Commercial invoice, original L/C, customs invoice, certificate of origin, insurance policy, packing list, foreign exchange declaration form, Bank certificate etc.

2) Letter of Indemnity –

If the documents submitted are not according to the requirements of L/C, the bank normally refuses to negotiate the same. In such a case, the exporter should execute a letter of indemnity or request the bank to obtain special ‘Authority to pay’ from the bank of the importer which has advised the L/C.

3) Dispatch of documents –

Before the transmission of documents for negotiation the bank examines them thoroughly with reference to the terms and condition of the buyer’s order, L/C and the laws relating to foreign exchange control. It after scrutiny, the documents are in order, the bank dispatches them to its overseas branch / correspondent as early as possible.

4) Declaration of Export –

Every exporter before export of goods outside India should furnish in prescribed forms such as full value of export of goods, if the full value is unascertained at the time of exports, the prevailing market value or the value which will be realized.

5) Declaration Forms –

The main declaration forms are as follows:

a) G R Form: G R Form is exchange from submitted to customs authorities at the port of shipment.

b) D P Form: Exports to all countries other than Nepal and Bhutan by parcel post be declared on P P Form, which is prepared in duplicate. At first, this form must be presented to the bank for counter signature.

c) VP/COD Form: This is used in case of exports to all countries by parcel post under arrangements to realize exports proceeds through post either by value payable post system or cash on delivery system.

12.5 PROCEDURE FOR REALIZATION OF EXPORT PROCEEDS

Payment against exports should be realized only through an authorized dealer. No payment can be received even through bank drafts and cheques, unless exempted otherwise by RBI.

The following are the steps in realizing export proceeds.

1) Approaching a Bank –

After dispatch of goods, either by sea, or by air, the exporter should approach his bank with a formal request to realize sale proceeds from the foreign buyer.

It is obligatory to submit the shipping documents to an authorized dealer with 21 days of the date of shipment. In India, the exporters have to realize the full value of exports within 180 days from the date of shipment.

2) Submission of documents to the bank –

The exporter should submit the various documents such as Bill of Exchange, Full set of bill of Lading, commercial invoice copies, certificate of origin, Insurance policy, Inspection certificate, packing list, G R Bank certificate and other certificate.

3) Verification of documents –

The bank will verify the documents to find whether the required documents are in order, whether the required documents are attested by customs and other.

4) Letter of Indemnity –

The exporter can collect advance payment from his banker by signing a letter of indemnity. The understanding is in case the buyer's bank does not release the payment, the exporter will refund the money with accrued interests to the bank.

5) Discounting of Bills –

The bank may discount or purchase the bills drawn against L/C amount, and make immediate payment to the exporter, if so required.

6) Dispatch of documents –

The details and the mode of dispatch of the shipping documents are specified in the L/C. negotiating, in this sense, implies mailing or dispatching a set of documents to ensure that the importer or his agent receives the same in time so that he can present them to the port authorities and claim delivery of the exported goods.

7) Method of Realization –

For the purpose of receiving payments against exports, countries have been divided into two groups i.e. a) Asian clearing union – It includes Bangladesh, Burma, Pakistan, Iran and SriLanka and make a payment in Indian Rupees or any permitted currency b) External Group – In includes rest all countries and make payment in any permitted currency.

8) Processing of G R Form –

When the negotiating bank has received payment from abroad, it will record it on the duplicate copy of GR and forward it to RBI. The original copy of GR was already sent to RBI by the customs when goods were shipped. Now RBI will tally the information's in the original and duplicate copy of GR. When they are found to be alright, the transaction is treated closed because the required foreign exchange payment has already been received.

12.6 MAIN EXPORT INCENTIVES

The main export incentives are as follows.

1) Export Promotion Capital Goods Scheme –

The scheme allow import of new capital goods at 5% customs duty subject to an export equivalent to 5 times. CIF value of capital goods to be fulfilled over a period of 8 years. Both new and second hand capital goods can be imported.

2) Duty Drawback (DBK) –

The exporters are entitled to claim the refund of the customs duty paid on the imported materials and components. DBK also involves refund of central excise duty paid on indigenous materials used in the manufacture of the finished goods. Such refunds are described as "drawback".

3) Exemption from Excise Duty –

Finished goods, when exported are exempted from payment of excise duty. Exemption can be made in two ways i.e. Export under rebate and Export under bond.

In case of export under rebate, the exporter has to initially pay the duty which he can claim refund at a later stage.

In case of export under bond, goods can be exported without prior payment of duty but an indemnity bond is executed in favour of excise authorities.

4) Exemption from VAT –

Export goods are also exempted from the payment of sales tax. Necessary documents are to be provided to the sales tax authorities, giving proof of export, in order to claim sales tax exemption.

5) Marketing Development Assistance –

Large exporters such as export houses, trading houses, star trading houses and SSTH are given marketing development assistance which ranges between 25% to 60% of the actual expenditure incurred MDA is provided in respect of conducting market surveys, advertising and publicity abroad, opening showrooms in India and abroad, etc.

6) Octroi and Rail Freight Refund –

The exporters can claim Octroi refund from local authorities. Octroi is the levy imposed by local authorities like Municipal Corporation on goods entering from outside the local area jurisdiction. The exporters can also claim railway freight refund paid on transportation of goods by railways from the place of production to the ports or docks.

7) Exemption from Income Tax –

Out Government has provided income tax relief to all exporters. Under section 80 HHC, exporters are given 100% exemption from the payment of income tax on export profits. Similarly, FTZs / EPZs and 100% EOUs enjoy a five year tax holiday.

8) Duty Free Credit –

Exporters get duty free credit on various items depending on the FOB value of goods. For example, under Vishesh Krishi Gram Udyog Yojana, exporters get 5% duty free credit on FOB value of exports. Also service provides are eligible for duty free credit of 10% of FOB earned by them under the “Served from India” scheme.

9) Special Incentives to SEZ Units –

The SEZ units are given special incentives to boost export performance. For example a five year tax holiday is given to SEZ units. The SEZ units are also given extension in credit realization from 180 days to 360 days.

10) Market Access Initiative –

Under this scheme, Govt. provides financial assistance to undertake market studies, and marketing development activities in respect of certain ‘ Focus Products’ and ‘Focus Markets’. The assistance is provided to various agencies such as Departments of Central and State Governments, Export promotion Councils, Individual exporters and others. The amount of assistance ranges from 25% to 100% of the total cost depending upon the activity and the implementation agency.

12.7 SUMMERY

Export trade is governed by legal controls and therefore every function of it is carried out under definite procedure. The several steps in the procedure are classified into four stages as: Preliminary stage, Pre-shipment stage, Shipment step and Post-shipment stage.

While exporting exporter has to complete the shipping and custom formalities. The procedure includes the steps like: submission of documents, verification of documents, carting order, storing the goods in the sheds, examination of goods, obtaining ‘let ship order’, loading of goods, payment of port dues, obtaining bill of loading.

Negotiation of export documents means submission of all shipping documents to the bank for realization of payment. The export payment should be realized only through the dealer after completing proper procedure i. e. approaching a bank, submission of documents to the bank, verification of documents, letter of indemnity, discounting of bills, dispatch of documents, processing of G R form.

12.8 QUESTIONS FOR SELF-ASSESSMENT

1. What are the various stages in Export Procedure?
2. Discuss the shipping and custom Formalities.
3. Evaluate the negotiation of export Documents.
4. Discuss the procedure involved in Realization of Export Proceeds.

5. Explain the main incentives available to Indian Exporters.
6. Write short notes:
   a. Export incentives
   b. Pre-shipment stage
   c. Preliminary stage
   d. Post-shipment stage
   e. Negotiation of Export documents

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T.Y.B.A. COMMERCE PAPER – VI

EXPORT MANAGEMENT

N. B. 1) Attempt any Five questions from the following.
2) Figures to the right indicate full marks.

1. A) Define ‘Export Management’. Explain the need for ‘Export Management’ to a country and a firm. **(8)**

B) State and explain the functions of export manager. **(8)**

2. A) Explain the reasons for India’s poor share in the world trade. **(8)**

B) Discuss in detail the various trends in India’s export trade since independence. **(8)**

3. A) What do you mean by ‘Trade Barriers’? Explain various types of Non-tariff barriers. **(8)**

B) Discuss the role of WTO in International trade. **(8)**

4. A) Explain the objectives and main features of India’s Foreign Trade Policy (FTP) 2009-2014.

B) Discuss the role of Export Promotion Council (EPC) in export promotion. **(8)**

5. A) Explain the factors affecting the selection of product in export market. **(8)**

B) Explain the following concepts with respect to export marketing - **(8)**

i) Product Life Cycle

ii) Product Mix

iii) Product Branding

6. A) What do you mean by ‘Export Pricing’? Discuss the factors affecting ‘Export Pricing’. **(8)**

B) What do you mean by ‘Packing Credit’? Explain its important features. **(8)**

7. A) Explain customs and shipping formalities in export procedure. **(8)**

B) What do you mean by ‘Export Incentives’> Explain any four incentives available to Indian exporter. **(8)**

8. Write short notes on **any four** of the following : **(15)**

a) Registration formalities in export trade

b) EU

c) FIEO

d) New Product Development

e) Exim Bank

f) Letter of Credit

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