CHAPTER 11

INTERNATIONAL BUSINESS

MEANING OF INTERNATIONAL BUSINESS

Business transaction taking place within the geographical boundaries of a nation is known as domestic or national business. It is also referred to as internal business or home trade. Manufacturing and trade beyond the boundaries of one's own country is known as international business.

Mostly people think of international business as international trade. But this is not true. No doubt international trade, comprising exports and imports of goods. The scope of international business has substantially expanded. International trade in services such as international travel and tourism, transportation, communication, banking, ware-housing, distribution and advertising has considerably grown.

REASON FOR INTERNATIONAL BUSINESS

The fundamental reason behind international business is that the countries cannot produce equally well or cheaply all that they need. This is because of the unequal distribution of natural resources among them or differences in their productivity levels.

Due to these differences, it is common to find one particular country being in a better position to produce better quality products and/ or at lower costs than what other nations can do.

INTERNATIONAL BUSINESS VS. DOMESTIC BUSINESS

(i) Nationality of buyers and sellers: **In the case of domestic business, both the buyers and sellers are from the same country. This makes it easier for both the parties to understand each other and enter into business deals. But this is not the case with international business where buyers and sellers come from different countries.**

(ii) Mobility of factors of production: The degree of mobility of factors like labour and capital is generally less between countries than within a country. While these factors of movement can move freely within the country, there exist various restrictions to their movement across nations.

(iii) Customer heterogeneity across markets: Since buyers in international markets hail from different countries, they differ in their socio-cultural background. Differences in their tastes, fashions, languages, beliefs and customs, attitudes and product preferences cause variations in not only their demand for different products and services, but also in variations in their communication patterns and purchase behaviours.

(iv) Political system and risks: Since a business person is familiar with the political environment of his/her country, he/she can well understand it and predict its impact on business operations. But this is not the case with international business. Political environment differs from one country to another.

(v) Business regulations and policies: Laws, regulations and economic policies are more or less uniformly applicable within a country, they differ widely among nations.

(vi) Currency used in business transactions: Another important difference between domestic and international business is that the latter involves the use of different currencies. Since the exchange rate, keeps on fluctuating, it adds to the problems of international business firms in fixing prices of their products and hedging against foreign exchange risks.

Scope of International Business

International business is much broader than international trade. It includes not only international trade (i.e., export and import of goods and services), but also a wide variety of other ways in which the firms operate internationally. Major forms of business operations that constitute international business are as follows.

(i) Merchandise exports and imports: Merchandise means goods that are tangible, i.e., those that can be seen and touched. Merchandise exports and imports, also known as trade in goods, include only tangible goods and exclude trade in services.

(ii) Service exports and imports: Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as invisible trade.

(iii) Licensing and franchising: Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copy rights in lieu of some fee is another way of entering into international business.

(iv) Foreign investments: Foreign investment is another important form of international business. Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: direct and portfolio investments.

Direct investment takes place when a company directly invests in properties such as plant and machinery in foreign countries with a view to undertaking production and marketing of goods and services in those countries.

A portfolio investment, on the other hand, is an investment that a company makes into another company by the way of acquiring shares or providing loans to the latter, and earns income by way of dividends or interest on loans.

BENEFITS OF INTERNATIONAL BUSINESS

Benefits of international business to the nations and business firms are.

Benefits to Countries

(i) Earning of foreign exchange: International business helps a country to earn foreign exchange which it can later use for meeting its imports.

(ii) More efficient use of resources: International business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own.

(iii) Improving growth prospects and employment potentials: Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production.

(iv) Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

Benefits to Firms

(i) Prospects for higher profits: International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.

(ii) Increased capacity utilisation: Many firms setup production capacities for their products which are in excess of demand in the domestic market. By planning overseas expansion and procuring orders from foreign customers, they can think of making use of their surplus production capacities and also improving the profitability of their operations.

(iii) Way out to intense competition in domestic market: When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth.

(iv) Improved business vision: The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation.

MODES OF ENTRY INTO INTERNATIONAL BUSINESS

The phrase 'modes of entry into international business', therefore, means various ways in which a company can enter into international business.

Exporting and Importing

Exporting refers to sending of goods and services from the home country to a foreign country. There are two important ways in which a firm can export or import products: direct and indirect exporting/importing. In the case of direct exporting/importing, a firm itself approaches the overseas buyers/suppliers and looks after all the formalities, on the other hand, is one where the firm's participation in the export/import operations is minimum, and most of the tasks relating to export/import of the goods are carried out by some middle men. Such firms do not directly deal with overseas customers in the case of exports and suppliers in the case of imports.

Advantages

Major advantages of exporting include:

• As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets.

• Exporting/importing does not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.

• Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil.

Limitations

Major limitations of exporting/ importing as an entry mode of international business are as follows:

• Since the goods physically move from one country to another, exporting/importing involves additional packaging, transportation and insurance costs. Taken together, all these expenses and payments substantially increase product costs and make them less competitive.

• Exporting is not a feasible option when import restrictions exist in a foreign country.

• Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. This puts the export firms in a disadvantageous position to buy from the local firms which are very near the customers and are able to better understand and serve them.

Contract Manufacturing

Contract manufacturing refers to a type of international business where a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain components or goods produced as per its specifications. Contract manufacturing, also known as outsourcing.

Advantages

• Contract manufacturing permits the international firms to get the goods produced on a large scale without requiring investment in setting up production facilities.

• Since there is no or little investment in the foreign countries, there is hardly any investment risk involved in the foreign countries.

• Contract manufacturing also gives an advantage to the international company of getting products manufactured or assembled at lower costs especially if the local producers happen to be situated in countries which have lower material and labour costs.

Limitations

• Local firms might not adhere to production design and quality standards, thus causing serious product quality problems to the international firm.

• Local manufacturer in the foreign country loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications of the contract.

The local firm producing under contract manufacturing is not free to sell the contracted output as per its will. It has to sell the goods to the international company at predetermined prices.

Licensing and Franchising

Licensing is a contractual arrangement in which one firm grants access to its patents, trade secrets or technology to another firm in a foreign country for a fee called royalty. The firm that grants such permission to the other firm is known as licensor and the other firm in the foreign country that acquires such rights to use technology or patents is called the licensee.

Franchising is a term very similar to licensing. Like in the case of licensing, a franchising agreement too involves grant of rights by one party to another for use of technology, trademark and patents in return of the agreed payment for a certain period of time. The parent company is called the franchiser and the other party to the agreement is called franchisee.

Advantages

• Under the licensing/franchising system, it is the licensor/ franchiser who sets up the business unit and invests his/her own money in the business. Licensing/franchising is, therefore, considered a less expensive mode of entering into international business.

• Since the business in the foreign country is managed by the licensee/franchisee who is a local person, there are lower risks of business takeovers or government interventions.

• Licensee/franchisee being a local person has greater market knowledge and contacts which can prove quite helpful to the licensor/franchiser in successfully conducting its marketing operations.

• As per the terms of the licensing/ franchising agreement, only the parties to the licensing/franchising agreement are legally entitled to make use of the licensor's/ franchiser's copyrights, patents and brand names in foreign countries.

Limitations

• This cause severe competition to the licenser/ franchiser.

• If not maintained properly, trade secrets can get divulged to others in the foreign markets.

• Over time, conflicts often develop between the licensor/franchiser and licensee/franchisee. These differences often result in costly litigations, causing harm to both the parties.

Joint Ventures

Joint venture is a very common strategy for entering into foreign markets. A joint venture means establishing a firm that is jointly owned by two or more otherwise independent firms. A joint ownership venture may be brought about in three major ways:

(i) Foreign investor buying an interest in a local company

(ii) Local firm acquiring an interest in an existing foreign firm

(iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.

Advantages

Major advantages of joint venture include:

• Since the local partner also contributes to the equity capital of such a venture, the international firm finds it financially less burdensome to expand globally.

• Joint ventures make it possible to execute large projects requiring huge capital outlays and manpower.

• The foreign business firm benefits from a local partner's knowledge of the host countries regarding the competitive conditions, culture, language, political systems and business systems.

Limitations

Major limitations of a joint venture are discussed below:

• Foreign firms entering into joint ventures share the technology and trade secrets with local firms in foreign countries, thus always running the risks of such a technology and secrets being disclosed to others.

• The dual ownership arrangement may lead to conflicts, resulting in battle for control between the investing firms.

Wholly Owned Subsidiaries

This entry mode of international business is preferred by companies which want to exercise full control over their overseas operations. The parent company acquires full control over the foreign company by making 100 per cent investment in its equity capital. A wholly owned subsidiary in a foreign market can be established in either of the two ways:

(i) Setting up a new firm altogether to start operations in a foreign country — also referred to as a green field venture, or

(ii) Acquiring an established firm in the foreign country and using that firm to manufacture and/or promote its products in the host nation.

Advantages

Major advantages of a wholly owned subsidiary in a foreign country are as follows:

• The parent firm is able to exercise full control over its operations in foreign countries.

• Since the parent company on its own looks after the entire operations of foreign subsidiary, it is not required to disclose its technology or trade secrets to others.

Limitations

The limitations of setting up a wholly owned subsidiary abroad include:

• This form of international business is not suitable for small and medium size firms which do not have enough funds with them to invest abroad.

• Since the parent company owns 100 per cent equity in the foreign company, it alone has to bear the entire losses resulting from failure of its foreign operations.

EXPORT-IMPORT PROCEDURES AND DOCUMENTATION

Export and import of goods is not that straight forward as buying and selling in the domestic market. Since foreign trade transactions involves movement of goods across frontiers and use of foreign exchange, a number of formalities are needed to be performed before the goods leave the boundaries of a country and enter into that of another.

Export Procedure

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

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

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

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

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

It is obligatory for every exporter to get registered with the appropriate export promotion council Registration with the ECGC is necessary in order to protect overseas payments from political and commercial risks. Such a registration also helps the export firm in getting financial assistance from commercial banks and other financial institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xvii) Securing payment: After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared. The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit.

Import Procedure

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

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

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

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

(iii) Obtaining foreign exchange: Since the supplier in the context of an import transaction resides in a foreign country, he/she demands payment in a foreign currency. The application is made in a prescribed form along with the import licence as per the provisions of Exchange Control Act. After proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

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

(v) Obtaining letter of credit: If the payment terms agreed between the importer and the overseas supplier is a letter of credit, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier. The exporter wants this document to be sure that there is no risk of non-payment.

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

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

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

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

(x) Customs clearance and release of goods: All the goods imported into India have to pass through customs clearance after they cross the Indian borders. C&F agents who are well- versed with such formalities and play an important role in getting the goods customs cleared.

Firstly, the importer has to obtain a delivery order which is otherwise known as endorsement for delivery.
The importer has to also pay dock dues and obtain port trust dues receipt. For this, the importer has to submit to the 'Landing and Shipping Dues Office' two copies of a duly filled in form — known as 'application to import'.

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

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

FOREIGN TRADE PROMOTION: INCENTIVES AND ORGANISATIONAL SUPPORT

Various incentives and schemes are operational in the country to help business firms improve competitiveness of their exports. From time-to-time, the government has also setup a number of organisations to provide infra-structural support and marketing assistance to firms engaged in international business.

Foreign Trade Promotion Measures and Schemes

Major trade promotion measures (especially those related to exports) are as follows:

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

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

(iii) Exemption from payment of sales taxes: Benefit of exemption from income tax is available only to 100 per cent Export Oriented Units (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) for select years.

(iv) Advance licence scheme: It is a scheme under which an exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. The advance licences are available to both the types of exporters — those who export on a regular basis and also to those who export on an adhoc basis. The regular exporters can avail such licences against their production programmes. The firms exporting intermittently can also obtain these licences against specific export orders.

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

(vi) Scheme of recognising export firms as export house, trading house and superstar trading house: With an objective to promote established exporters and assist them in marketing their products in international markets, the government grants the status of Export House, Trading House, Star Trading House to select export firms. This status is granted to a firm on its achieving a prescribed average export of performance in past select years. Besides attaining a minimum of past average export performance, such export firms have to also fulfill other conditions as laid down in the import-export policy.

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

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

(ix) Export Processing Zones (EPZs): Export Processing Zones are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA). These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international markets.

These zones have been set up at various places in India which include: Kandla (Gujarat), Santa Cruz (Mumbai), Falta (West Bengal), Noida (Uttar Pradesh), Cochin (Kerala), Chennai (Tamil Nadu), and Vishakapatnam (Andhra Pradesh). Santa Cruz zone is exclusively meant for electronic goods and gem and jewellery items. All other EPZs deal with multifarious items.

(x) 100 per cent Export Oriented Units (100 per cent EOUs): The 100 per cent Export Oriented Units scheme, introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime, but offers a wider option in location with reference to factors like source of raw materials, ports, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

Organisational Support

The Government of India has also set up from time-to-time various institutions in order to facilitate the process of foreign trade in our country.

Department of Commerce: The Department of Commerce in the Ministry of Commerce, Government of India, is the apex body responsible for the country's external trade and all matters connected with it. The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.

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

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

Export Inspection Council (EIC): The Export Inspection Council of India was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection.

Indian Trade Promotion Organisation (ITPO): The Indian Trade Promotion Organisation was setup on 1 January 1992 under the Companies Act 1956 by the Ministry of Commerce, Government of India. Its headquarters is in New Delhi. It serves the industry by organising trade fairs and exhibitions—both within the country and outside. It helps export firms participate in international trade fairs and exhibitions, developing exports of new items, providing support and updated commercial business information. ITPO has five regional offices at Mumbai, Bengaluru, Kolkata, Kanpur and Chennai and four international offices at Germany, Japan, UAE and USA.

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

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

State Trading Organisations: A large number of domestic firms in India found it very difficult to compete in the world market. At the same time, the existing trade channels were unsuitable for promotion of exports and bringing about diversification of trade with countries other than European countries. The main objective of the STC is to stimulate trade, primarily export trade among different trading partners of the world.

INTERNATIONAL TRADE INSTITUTIONS AND TRADE AGREEMENTS

The First World War (1914-1919) and the Second World War (1939-45) were accompanied by massive destruction of life and property the world over. Almost all the economies of the world were adversely affected. Due to scarcity of resources, countries were not in a position to take up any reconstruction or developmental works. There was no system of generally accepted exchange rate. Under the leadership of

J.M. Keynes — a noted economist joined together at Bretton Woods, New Hampshire to identify measures to restore peace and normalcy in the world.

The meeting was concluded with the setting up of three international institutions, namely the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and the International Trade Organisation (ITO). They considered these three organisations as three pillars of economic development of the world.

World Bank

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

International Monetary Fund

The International Monetary Fund (IMF) is the second international organisation next to the World Bank. IMF which came into existence in 1945 has its headquarters located in Washington DC. In 2005, it had 191 countries as its members. The major idea underlying the setting up of the IMF is to evolve an orderly international monetary system, i.e., facilitating system of international payments and adjustments in exchange rates among national currencies.

Major objectives of IMF include

• To promote international monetary cooperation through a permanent institution,

- To facilitate expansion of balanced growth of international trade

• To promote exchange stability with a view to maintain orderly exchange arrangements among member countries, and

• To assist in the establishment of a multilateral system of payments in respect of current transactions between members.

World Trade Organization (WTO) and Major Agreements

GATT came into existence with effect on 1 January 1948 and remained in force till December 1994. Various rounds of negotiations have taken place under the auspices of GATT to reduce tariff and non-tariff barriers. The last one, known as the Uruguay Round, was the most comprehensive one in terms of coverage of issues. Consequent to this decision, the GATT was transformed into World Trade Organization (WTO) with effect from 1 January 1995. The headquarters of the WTO are situated at Geneva, Switzerland. The establishment of WTO, thus, represents the implementation of the original proposal of setting up of the ITO as evolved almost five decades back.

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

Objectives of WTO

The basic objectives of WTO are similar to those of GATT, i.e., raising standards of living and incomes, ensuring full employment, expanding production and trade, and optimal use of the world's resources.

- **To ensure reduction of tariffs and other trade barriers imposed by different countries;**

- **To facilitate the optimal use of the world's resources for sustainable development; and**

- **To promote an integrated, more viable and durable trading system.**