INSTITUTE OF AERONAUTICAL ENGINEERING

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MASTER OF BUSINESS ADMINISTRATION

COURSE LECTURE NOTES

Course Name	**FOREIGN TRADE**
Course Code	CMBB59
Programme	MBA
Semester	IV
Course Coordinator	Dr. T Vara Lakshmi, Associate Professor
Lecture Numbers	1-63
Topic Covered	All

COURSE OBJECTIVES:

The course should enable the students to:	
I	Understand the role of the World Customs Organization and the World Trade Organization about foreign trade, theories of international trade and economy
II	Analyze export and import policies of India and other nations and also special economic zones and institutions involved in export promotions
III	Understand promotion schemes and setup of export promotions. The different customs procedures, methods of products classification and learn to complete the customs documents
IV	Understanding International Marketing Environment, Marketing Cycle, Domestic and Export Marketing, Export Marketing Plan.

COURSE OUTCOMES (COs):

Students, who complete the course, will have demonstrated the ability to do the following:

CMBB59.01	Understand the composition of foreign trade and its contribution for economic development.
CMBB59.02	Discuss the various international agreements and foreign capital and BoP statements.
CMBB59.03	Demonstrate various legal aspects, purpose, functions and schemes related to EXIM policy.
CMBB59.04	Analyse the role of various trading policies and Exports services like EOUs/EPZs/SEZs.
CMBB59.05	Explain the need, general guidance and back group aspects of Inco terms.
CMBB59.06	Examine different tariffs, procedures and quantitative restrictions of Inco terms.
CMBB59.07	Describe the history, export assistance measures and principle commodities of India's exports and Imports.
CMBB59.08	Enumerate the institutional involvement in export promotion and canalizing agencies and chambers of commerce.
CMBB59.09	Introduce the Assessment of Prospects, Products and Markets, Identification of new markets for Indian products, African Market, potential to enter into the SOUTH AFRICA, GHANA, KENYA, NIGERIA, UGANDA, MAIRITIOUS and TAMZANIA
CMBB59.10	Identify the techniques and measurements in Export potential of India, Latin America, an analysis of US commercial office on India for investing in selected sector, Trade Blocks and Regional Economic Cooperation.

UNIT- I
Introduction to Foreign Trade

Definition of foreign trade, composition of foreign trade, theories of international trade, foreign Trade and economic development. analysis of India‘s foreign trade, growth, trends, composition and direction, foreign capital, collaboration of multinational corporations, bilateral and multinational trade agreements, India‘s trade agreements, India‘s balance of payments including invisibles.

1.1 Introduction to Foreign Trade:

Definition of Foreign Trade:

Foreign/International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has existed throughout history (for example Uttarapatha, Silk Road, Amber Road, scramble for Africa, Atlantic slave trade, salt roads), its economic, social, and political importance has been on the rise in recent centuries.

Carrying out trade at an international level is a complex process when compared to domestic trade. When trade takes place between two or more nation’s factors like currency, government policies, economy, judicial system, laws, and markets influence trade.

To smoothen and justify the process of trade between countries of different economic standing, some international economic organisations were formed, such as the World Trade Organization. These organisations work towards the facilitation and growth of international trade. Statistical services of intergovernmental and supranational organisations and national statistical agencies publish official statistics on international trade.

Characteristics of global trade

- A product that is transferred or sold from a party in one country to a party in another country is an export from the originating country, and an import to the country receiving that product. Imports and exports are accounted for in a country's current account in the balance of payments.
- Trading globally may give consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found in the international market, for example: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies, and water. Services are also traded, such as in tourism, banking, consulting, and transportation.
- Advanced technology (including transportation), globalisation, industrialisation, outsourcing and multinational corporations have major impacts on the international trade system.
- Increasing international trade is crucial to the continuance of globalisation. Countries would be limited to the goods and services produced within their own borders without international trade.

Differences from domestic trade

International trade is, in principle, not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not.

However, in practical terms, carrying out trade at an international level is typically a more complex process than domestic trade. The main difference is that international trade is typically more costly than domestic trade. This is due to the fact that a border typically imposes additional costs such as tariffs, time costs due to border delays, and costs associated with country differences such as language, the legal system, or culture (non-tariff barriers).

Another difference between domestic and international trade is that factors of production such as capital and labour are often more mobile within a country than across countries. Thus, international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labour, or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example of this is the import of labour-intensive goods by the United States from China. Instead of importing Chinese labour, the United States imports goods that were produced with Chinese labour. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

1.2. Composition of foreign trade

The Pattern of Import:

The main feature of India's import pattern was as follows:

(1) Rapid growth of import of capital goods, technical know-how, raw materials to meet the requirement of industrialisation.

(2) Growing import of petroleum products for meeting industrial and consumption requirement.

(3) Growing imports of raw materials on the basis of liberalization of import for export promotion.

(4) Decline in imports of food grains and consumer goods due to adoption of HYV technology in Indian agriculture and growth of consumer durables producing industrial units in the country.

Pattern of Export:

The pattern of export has also changed significantly over the years. India has diversified itself from traditional to non-traditional terns of export the main feature of export during the period are as follows:

(1) Growth of both traditional and non-traditional items of export.

(2) Large expansion of engineering goods particularly to the middle-east, which have imported infrastructural projects like road, railways, telecommunication and etc. and turn-key projects like complete industries,

(3) The price of export items has increased due to increased demand for both traditional and non-traditional exportable items.

(4) 'While some commodities have good export potential (handicrafts, engineering product, readymade) other items (sugar, jute, iron and steel) fluctuated considerably.

Direction of India's Foreign Trade:

The main Ganges in the direction of India's foreign trade can be mentioned as follows:

(1) New Trading Partners:

Prior to independence, India's foreign trade was concentrated around U.K. while after independence it has opened id expanded trade channels throughout the length id the breadth of the country. India has also versified its export, with specialization in certain good and securing new market for her products.

(2) Larger Sources of Import:

The import of India's industrial products could not be met by U.K or U.S.A. alone. Hence it has to import capital goods from a large number of developed countries furthering aid and grants from some countries willing to help India in her planning effort. The concessional assistance and aid from international monetary institutions helped India to purchase its import from cheaper sources through global tenders.

(3) Larger and Attractive Outlets for Export:

India has diversified her exports to various new countries in order to match her imports. Germany, Japan along with U.S.A. and U.K. constituted the four major countries absorbing 43% of her export. The demands for both traditional and non-traditional items of exports have increased in these countries over the period. Recently Middle East countries have provided a good market for India's export and it has absorbed 22% of India's exportable items.

Scope for Direction:

In order to expand its export in the coming period, India has to design its new export policy. The market for traditional goods (jute, sugar, tea, coffee, steel) has to be found in new countries like South America and African countries and the market for non-traditional goods (garments, pearls, precious stones, etc.) has to be increased in the traditional trading countries. With the African and South American countries, India has to expand its trade base along with the Middle East Asia in the coming years.

1.3. Theories of international trade

1. Introduction to Theories of International Trade
2. Theory of Mercantilism of International Trade
3. Theory of Absolute Advantage
4. Theory of Comparative Advantage
5. Factor Endowment Theory
6. Country Similarity Theory
7. New Trade Theory
8. International Product Life-Cycle Theory
9. Theory of Competitive Advantage of International Trade
10. Implications of International Trade Theories

1. Introduction to Theories of International Trade:

The exchange of goods across national borders is termed as international trade. Countries differ widely in terms of the products and services traded. Countries rarely follow the trade structure of other nations; rather they evolve their own product portfolios and trade patterns for exports and imports. Besides, nations have marked differences in their vulnerabilities to the upheavals in exogenous factors.

Trade is crucial for the very survival of countries that have limited resources, such as Singapore or Hong Kong (presently a province of China), or countries that have skewed resources, such as those located in the Caribbean and West Asian regions. However, for countries with diversified resources, such as India, the US, China, and the UK, engagement in trade necessitates a logical basis.

The trade patterns of a country are not a static phenomenon; rather these are dynamic in nature. Moreover, the product profile and trade partners of a country do change over a period of time. Till recently, the Belgian city of Antwerp, the undisputed leader in diamond polishing and trade, had witnessed a shift of diamond business to India and other Asian countries, as given in Exhibit 2.1.

Exhibit 2.1 Antwerp diamonds may not be forever

Patience and precision may be a diamond worker's most important working tools but with increasing competition from low-cost Asian countries like India and China, Antwerp is discovering that diamonds may not be forever. The Antwerp tradition of cutting and trading the most precious of gems began about 560 years ago. After centuries of being the undisputed world leader in producing and marketing diamonds, the Belgian port city is facing new challenges of globalization that is threatening to take the shine off its traditional role.[a]

Antwerp's diamond industry contributes up to 8 per cent of Belgium's overall exports and has generated considerable job opportunities. However, its undisputed position as a leading diamond centre has been seriously challenged by upcoming commercial powers like tax-free Dubai and India. In recent times, India has emerged as the world's major diamond manufacturing hub. One reason for the diamond business shifting the bulk of manufacturing to low-wage countries like India and China is that in Asia, labour costs for polishing are about one-fifth lower than that in Antwerp. However, this is not the only cause behind the shift.

Jewish cutters and traders may have dominated Antwerp's diamond sector for centuries but with the arrival of Indian dealers in the 1970s, Jewish businesses in the city have been closing down and currently represent only 40 per cent of the city's diamond trade.[b] Indians initially sent their workers to Antwerp to learn and improve techniques. These workers, in turn, opened up their own businesses. Today, there is no denying that Indians are Antwerp's main diamond merchants. They handle two-thirds of the city's diamond trade, which recorded a total turnover of €30 billion in 2005.

The Indian diamond community in Antwerp has also gained control over the trade's main governing body, the Diamond High Council. Diamond traders from India won five out of the six seats on the board of the Hoge Raa Voor Diamant (HRD), the group that regulates and represents the diamond sector in the rough diamond capital of Antwerp. The HRD governs and represents Antwerp's diamond trade with the mandate of 13 different organizations, representing diverse elements of the diamond trade. This signifies a significant shift in the control of the world diamond business from other ethnic groups.[c]

Astonishingly, Indian factories process 92 per cent of the world's diamonds today. Indian firms have taken the majority of business away from the old master craftmen of Belgium, New York City, and Israel. Rapid growth in the diamond polishing industry has influenced the household economies of 10 million people in the state of Gujarat. It implies that a person or somebody in his/her family had a job polishing a diamond 12 hours a day at 10 cents a stone. It is the genius available in India that takes in the garbage of the diamond world, slaps 58 facets on it, sets it in gold, and sends it on. These tiny specks are now the fifth most valuable export of a nation that has not mined diamonds from its own soil for more than a century.[d]

Source:
[a] 'Antwerp Diamond Feels the Asian Heat', *The Economic Times*, 9 May 2006.
[b] 'Antwerp Diamonds', *Hindustan Times*, 8 May 2006.
[c] 'Indian Community in Antwerp Gains Control over HRD', *Professional Jewelers Magazine*, 15 May 2006.
[d] 'The Dark Core of a Diamond', *Global Business Time*, 26 June 2006, pp. 29–32.

Trade theories also offer an insight, both descriptive and prescriptive, into the potential product portfolio and trade patterns. They also facilitate in understanding the basic reasons behind the evolution of a country as a supply base or market for specific products**.** The principles of the regulatory frameworks of national governments and international organizations are also influenced to a varying extent by these basic economic theories.

2. Theory of Mercantilism of International Trade:

The theory of mercantilism attributes and measures the wealth of a nation by the size of its accumulated treasures. Accumulated wealth is traditionally measured in terms of gold, as earlier gold and silver were considered the currency of international trade. Nations should accumulate financial wealth in the form of gold by encouraging exports and discouraging imports.

The theory of mercantilism aims at creating trade surplus, which in turn contributes to the accumulation of a nation's wealth. Between the sixteenth and nineteenth centuries, European colonial powers actively pursued international trade to increase their treasury of goods, which were in turn invested to build a powerful army and infrastructure.

The colonial powers primarily engaged in international trade for the benefit of their respective mother countries, which treated their colonies as exploitable resources. The first ship of the East India Company arrived at the port of Surat in 1608 to carry out trade with India and take advantage of its rich resources of spices, cotton, finest muslin cloth, etc.

Other European nations—such as Germany, France, Portugal, Spain, Italy—and the East Asian nation of Japan also actively set up colonies to exploit the natural and human resources.

Mercantilism was implemented by active government interventions, which focused on maintaining trade surplus and expansion of colonization. National governments imposed restrictions on imports through tariffs and quotas and promoted exports by subsidizing production.

The colonies served as cheap sources for primary commodities, such as raw cotton, grains, spices, herbs and medicinal plants, tea, coffee, and fruits, both for consumption and also as raw material for industries. Thus, the policy of mercantilism greatly assisted and benefited the colonial powers in accumulating wealth.

The limitations of the theory of mercantilism are as follows:

i. Under this theory, accumulation of wealth takes place at the cost of another trading partner. Therefore, international trade is treated as a win-lose game resulting virtually in no contribution to the global wealth. Thus, international trade becomes a zero-sum game.
ii. A favorable balance of trade is possible only in the short run and would automatically be eliminated in the long run, according to David Hume's Price-Specie- Flow doctrine. An influx of gold by way of more exports than imports by a country raises the domestic prices, leading to increase in export prices.
iii. In turn, the county would lose its competitive edge in terms of price. On the other hand, the loss of gold by the importing countries would lead to a decrease in their domestic price levels, which would boost their exports.
iv. Presently, gold represents only a minor proportion of national foreign exchange reserves. Governments use these reserves to intervene in foreign exchange markets and to influence exchange rates.
v. The mercantilist theory overlooks other factors in a country's wealth, such as its natural resources, manpower and its skill levels, capital, etc.
vi. If all countries follow restrictive policies that promote exports and restrict imports and create several trade barriers in the process, it would ultimately result in a highly restrictive environment for international trade.
vii. Mercantilist policies were used by colonial powers as a means of exploitation, whereby they charged higher prices from their colonial markets for their finished industrial goods and bought raw materials at much lower costs from their colonies. Colonial powers restricted developmental activities in their colonies to a minimum infrastructure base that would support international trade for their own interests. Thus, the colonies remained poor.

A number of national governments still seem to cling to the mercantilist theory, and exports rather than imports are actively promoted. This also explains the raison d'être behind the 'import substitution strategy' adopted by a large number of countries prior to economic liberalization.

This strategy was guided by their keenness to contain imports and promote domestic production even at the cost of efficiency and higher production costs. It has resulted in the creation of a large number of export promotion organizations that look after the promotion of exports from the country. However, import promotion agencies are not common in most nations.

Presently, the terminology used under this trade theory is neo-mercantilism, which aims at creating favorable trade balance and has been employed by a number of countries to create trade surplus. Japan is a fine example of a country that tried to equate political power with economic power and economic power with trade surplus.

3. Theory of Absolute Advantage of International Trade:

Economist Adam Smith critically evaluated mercantilist trade policies in his seminal book An Inquiry into the Nature and Causes of the Wealth of Nations, first published in 1776. Smith posited that the wealth of a nation does not lie in building huge stockpiles of gold and silver in its treasury, but the real wealth of a nation is measured by the level of improvement in the quality of living of its citizens, as reflected by the per capita income.

Smith emphasized productivity and advocated free trade as a means of increasing global efficiency. As per his formulation, a country's standards of living can be enhanced by international trade with other countries either by importing goods not produced by it or by producing large quantities of goods through specialization and exporting the surplus.

An absolute advantage refers to the ability of a country to produce a good more efficiently and cost-effectively than any other country.

Smith elucidated the concept of 'absolute advantage' leading to gains from specialization with the help of day-to¬day illustrations as follows:

It is the maxim of every prudent master of a family, never to make at home what it will cost him more to make than to buy. The Taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a Taylor.

The farmer attempts to make neither one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way which they have some advantage over their neighbors.

What is prudence in the conduct of every private family can scarce be folly in that of great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry. Thus, instead of producing all products, each country should specialize in producing those goods that it can produce more efficiently.

Such efficiency is gained through:

i. Repetitive production of a product, which increases the skills of the labour force.
ii. Switching production from one produce to another to save labour time.
iii. Long product runs to provide incentives to develop more effective work methods over a period of time.

Therefore, a country should use increased production to export and acquire more goods by way of imports, which would in turn improve the living standards of its people. A country's advantage may be either natural or acquired.

Natural:

Natural factors, such as a country's geographical and agro-climatic conditions, mineral or other natural resources, or specialized manpower contribute to a country's natural advantage in certain products. For instance, the agro-climatic condition in India is an important factor for sizeable export of agro-produce, such as spices, cotton, tea, and mangoes.

The availability of relatively cheap labour contributes to India's edge in export of labour-intensive products. The production of wheat and maize in the US, petroleum in Saudi Arabia, citrus fruits in Israel, lumber in Canada, and aluminums ore in Jamaica are all illustrations of natural advantages.

Acquired Advantage:

Today, international trade is shifting from traditional agro-products to industrial products and services, especially in developing countries like India. The acquired advantage in either a product or its process technology plays an important role in creating such a shift.

The ability to differentiate or produce a different product is termed as an advantage in product technology, while the ability to produce a homogeneous product more efficiently is termed as an advantage in process technology.

Production of consumer electronics and automobiles in Japan, software in India, watches in Switzerland, and shipbuilding in South Korea may be attributed to acquired advantage. Some of the exports centers in India for precious and semiprecious stones in Jaipur, Surat, Navasari, and Mumbai have come up not because of their raw material resources but the skills they have developed in processing imported raw stones.

To illustrate the concept of absolute advantage, an example of two countries may be taken, such as the UK and India. Let us assume that both the countries have the same amount of resources, say 100 units, such as land, labour, capital, etc., which can be employed either to produce tea or rice.

However, the production efficiency is assumed to vary between the countries because to produce a tonne of tea, UK requires 10 units of resources whereas India requires only 5 units of resources. On the other hand, for producing one tonne of rice, UK requires only 4 units of resources whereas India needs 10 units of resources (Table 2.1).

Since India requires lower resources compared to UK for producing tea, it is relatively more efficient in tea production. On the other hand, since UK requires fewer resources compared to India for producing rice, it is relatively more efficient in producing rice.

Table 2.1 Absolute advantage: An illustration

	UK	India
Units required to produce one tonne of tea	10	5
Units required to produce one tonne of rice	4	10

Although each country is assumed to possess equal resources, the production possibilities for each country would vary, depending upon their production efficiency and utilization of available resources. All of the possible combinations of the two products that can be produced with a country's limited resources may be graphically depicted by a production possibilities curve (Fig. 2.1), assuming total resource availability of 100 units with each country.

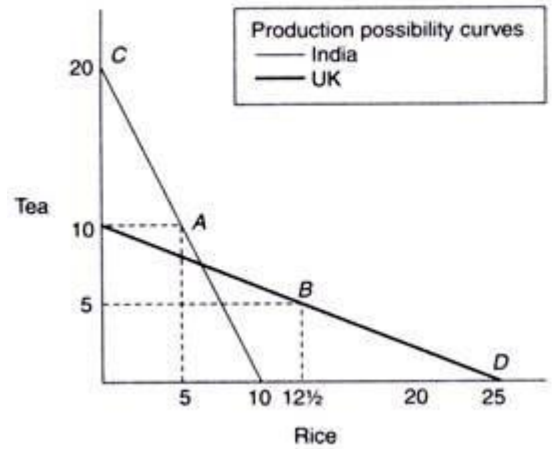


Fig. 2.1 Production possibilities under absolute advantage

The slope of the curve reflects the ‘trade¬-off of producing one product over the other, representing opportunity cost. The value of a factor of production forgone for its alternate use is termed as opportunity cost.

For instance, if the UK wishes to produce one tonne of tea, it has to forgo the production of 2.5 tonnes of rice. Whereas in order to produce one unit of rice, it has to relinquish the production of only 0.40 tonne of tea.

Suppose no foreign trade takes place between the two countries and each employs its resources equally (i.e., 50:50) for production of tea and rice. The UK would produce 5 tonnes of tea and 12.5 tonnes of rice at point B whereas India would produce 10 tonnes of tea and 5 tonnes of rice at point A as shown in Fig. 2.1.

This would result in a total output of 15 tonnes of tea and 17.5 tonnes of rice (Table 2.2). If both India and the UK employ their resources on production of only tea and rice, respectively, in which each of them has absolute advantage, the total output, as depicted in Fig. 2.1, of tea would increase from 15 tonnes to 20 tonnes (point C) whereas rice would increase from 17.5 tonnes to 25 tonnes (point D).

Thus, both countries can mutually gain from trading, as the total output is enhanced (Table 2.2) as a result of specialization.

Table 2.2 Gains of specialization and trade under absolute advantage

	Production without trade			**Production with trade**		
	UK	**India**	**Total**	**UK**	**India**	**Total**
Tea (tonnes) Rice (tonnes)	5 12.5	10 5	15 17.5	0 25	20 0	20 25
			32.5			**45**

The theory of absolute advantage is based on Adam Smith’s doctrine of laissez faire that means ‘let make freely’. When specifically applied to international trade, it refers to ‘freedom of enterprise’ and ‘freedom of commerce’.

Therefore, the government should not intervene in the economic life of a nation or in its trade relations among nations, in the form of tariffs or other trade restrictions, which would be counterproductive.

A market would reach to an efficient end by itself without any government intervention. Unlike as suggested by the mercantilist theory, trading is not a zero-sum game under the theory of absolute advantage, wherein a nation can gain only if a trading partner loses. Instead, the countries involved in free trade would mutually benefit as a result of efficient allocation of their resources.

4. Theory of Comparative Advantage of International Trade:

In Principles of Political Economy and Taxation, David Ricardo (1817) promulgated the theory of comparative advantage, wherein a country benefits from international trade even if it is less efficient than other nations in the production of two commodities.

Comparative advantage may be defined as the inability of a nation to produce a good more efficiently than other nations, but its ability to produce that good more efficiently compared to the other good.

Thus, the country may be at an absolute disadvantage with respect to both the commodities but the absolute disadvantage is lower in one commodity than another.
Therefore, a country should specialize in the production and export of a commodity in which the absolute disadvantage is less than that of another commodity or in other words, the country has got a comparative advantage in terms of more production efficiency.
To illustrate the concept, let us assume a situation where the UK requires 10 units of resources for producing one tonne of tea and 5 units for one tonne of rice whereas India requires 5 units of resources for producing one tonne of tea and 4 units for one tonne of rice (Table 2.3). In this case, India is more efficient in producing both tea and rice.
Thus, India has absolute advantage in the production of both the products.

Table 2.3 Comparative advantage: An illustration

	UK	India
Units required to produce one tonne of tea	10	5
Units required to produce one tonne of rice	5	4

Although the UK does not have an absolute advantage in any of these commodities it has comparative advantage in the production of rice as it can produce rice more efficiently. Countries also gain from trade by employing their resources for the production of goods in which they are relatively more efficient.
Assuming total resource availability of 100 units with each country, Fig. 2.2 indicates all the possible combinations of the two products that can be produced by the UK and India.
In case there is no foreign trade between India and the UK (Table 2.4) and both the countries are assumed to use equal (50:50) resources for production of each commodity, UK would produce 5 tonnes of tea and 10 tonnes of rice as shown at point A, whereas India would produce 10 tonnes of tea and 12.5 tonnes of rice at point B in Fig. 2.2.

Table 2.4 Gains of specialization and trade under comparative advantage

	Production without trade			Production with trade (increasing rice production)			Production with trade (increasing tea production)		
	UK	India	Total	UK	India	Total	UK	India	Total
Tea (tonnes)	5	10	15	0	15	15	0	18	18
Rice (tonnes)	10	12.5	22.5	20	6.25	26.25	20	2.5	22.5
			37.5			**41.25**			**40.5**

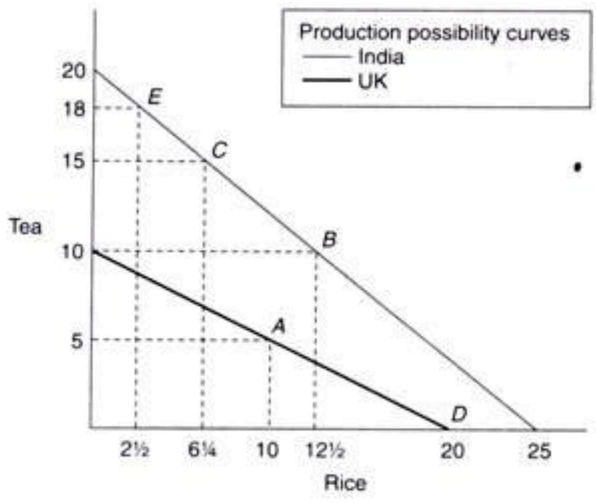


Fig. 2.2 Production possibilities under comparative advantage

If the UK employs all its resources in the production of rice in which it is more efficient than the other, India can produce the same quantum of tea, i.e., 15 tonnes (Point C) by employing only 75 units of its resources. It can utilize the remaining 25 units of its additional resources for producing 6.25 units of rice, which would raise the total rice production from 22.5 tonnes without trade to 26.25 tonnes after trade (Table 2.4).

Alternatively, the UK can employ its entire resources (i.e., 100 units) to produce 20 tonnes of rice and India can use only 10 units of its resources to produce 2.5 tonnes of rice so as to produce the same quantity of rice, i.e., 22.5 tonnes.
The remaining 90 units of resources may be used by India for the production of tea, resulting in an increase in tea production from 15 tonnes without trade to 18 tonnes with trade as shown at Point E. Hence, it is obvious from the illustrations that countries gain from trade even if a country does not have an absolute advantage in any of its products as the total world output increases.

Measuring Comparative Advantage:

The Balassa Index is often used as a useful tool to measure revealed comparative advantage (RCA) that measures the relative trade performance of individual countries in particular commodities.
It is assumed to 'reveal' the comparative advantage of trading countries, based on the assumption that the commodity patterns of trade reflects the inter-country differences in relative costs as the well as the non-price factors. The factors that contribute to the changes in the RCA of a country include economic factors, structural changes, improved world demand, and trade specialization.

RCA is defined as a country's share of world exports of a commodity divided by its share in total exports. The index for commodity j from country i is computed as
$RCA_{ij} = (X_{ij}/X_{wj})/(X_i/X_w)$

Where,
X_{ij} = i th country's export of commodity j
X_{wj} = world exports of commodity j
X_i = total export of country i
X_w = total world exports

If the value of the index of revealed comparative advantage (RCA_{ij}) is greater than unity (i.e., 1), the country has a RCA in that commodity. The RCA index considers the intrinsic advantage of a particular export commodity and is consistent with the changes in the economy's relative factor endowment and productivity. However, it cannot distinguish between the improvements in factor endowments and the impact of the country's trade policies.

As indicated in Table 2.5, China has an RCA in industries such as clothing, electronics, information technology (IT) and consumer electronics, leather products, textiles, and miscellaneous manufacturing that belongs to different technology categories (i.e., low, medium, and high) but not in resource-base manufacture. On the other hand, India has an RCA in resource-based and low-technological industries, such as fresh food, leather products, minerals, textiles, basic manufacture, chemicals, and clothing.

Table 2.5 RCA index of specialization

Industry	China	India	Hong Kong	Japan	Mexico	Thailand	UK	US
Basic manufactures	0.96	1.36	0.5	0.99	0.69	0.6	0.81	0.63
Chemicals	0.42	1.06	0.43	0.87	0.34	0.65	1.41	1.18
Clothing	3.46	3.09	3.01	0	1.29	1.56	0.43	0.23
Electronics	1.04	0.23	1.94	1.64	1.53	1.55	0.63	1.33
Fresh food	0.68	2.23	0.23	0	0.8	2.33	0.4	1.52
IT/consumer elect.	2.43	0.1	2.33	1.2	1.75	2.11	1.01	0.92
Leather products	3.34	2.18	4.12	0	0	1.4	0.34	0
Minerals	0.28	2.03	0.17	0	1.06	0.36	1.08	0.35
Misc. manufactures	1.48	0.8	2.01	1.01	1.07	1.01	1.23	1.31
Non-elect. machinery	0.52	0.37	0.46	1.71	0.84	0.62	1.39	1.38
Processed food	0.47	0.76	0.19	0	0.56	1.71	1.14	0.75
Textiles	2.39	4.27	2.28	0.55	0.49	0.79	0.56	0.61
Transport equipment	0.27	0.23	0.08	2.03	1.34	0.37	1.07	1.22
Wood products	0.43	0.17	0.39	0.19	0.26	0.66	0.48	0.93

It is also observed that the US, Japan, and the UK have an RCA in high- and medium- technology categories, such as IT, consumer electronics, electronics, manufacturing, etc., whereas China's main competitors such as Mexico, Hong Kong, and Thailand have RCA in low-, medium-, and high-technology categories.

This implies that countries specializing in medium- to high-technology products may explore opportunities of expanding bilateral trade with India and those in resource-based industries may stand to benefit substantially by an increase in demand of such products in China.

For example, Latin American countries mainly produce and export various commodities. The major producer of Latin America is copper, oil, soy, and coffee, as the region produces about 47 per cent of the world soybean crop, 40 per cent of copper, and 9.3 per cent of oil.

The rising demand for commodities in China and other countries presents opportunities to these countries for expanding their production and increasing foreign exchange revenues. Similarly, the rapid growth in economic activities in India and China opens up opportunity for oil exporting countries. Thus, revealed comparative advantage may be employed as a useful tool to explain international trade patterns.

Limitation of Theories of Specialization:

Some of the most important limitation of theories of specialization is as follows:

i. Theories of absolute and comparative advantage lay emphasis on specialization with an assumption that countries are driven only by the impulse of maximization of production and consumption. However, the attainment of economic efficiency in a specialized field may not be the only goal of countries. For instance, the Middle East countries have spent enormous resources and pursued a sustained strategy in developing their agriculture and horticulture sector, in which these countries have very high absolute and comparative disadvantage, so as to become self-reliant.

ii. Specialization in one commodity or product may not necessarily result in efficiency gains. The production and export of more than one product often have a synergistic effect on developing the overall efficiency levels.

iii. These theories assume that production takes place under full employment conditions and labour is the only resource used in the production process, which is not a valid assumption.

iv. The division of gains is often unequal among the trading partners, which may alienate the partner perceiving or getting lower gains, who may forgo absolute gains to prevent relative losses.

v. The original theories have been proposed on the basis of two countries-two commodities situation. However, the same logic applies even when the theories experimented with multiple-commodities and multiple-countries situations.

vi. The logistics cost is overlooked in these theories, which may defy the proposed advantage of international trading.
vii. The sizes of economy and production runs are not taken into consideration.

5. Factor Endowment Theory of International Trade:

The earlier theories of absolute and comparative advantage provided little insight into the of products in which a country can have an advantage. Heckscher (1919) and Bertil Ohhn (1933) developed a theory to explain the reasons for differences in relative commodity prices and competitive advantage between two nations.

According to this theory, a nation will export the commodity whose production requires intensive use of the nation's relatively abundant and cheap factors and import the commodity whose production requires intensive use of the nation's scarce and expensive factors.

Thus, a country with an abundance of cheap labour would export labour-intensive products and import capital-intensive goods and vice versa. It suggests that the patterns of trade are determined by factor endowment rather than productivity.
The theory suggests three types of relationships, which are discussed here:

(i) Land-Labour Relationship:

A country would specialize in production of labour intensive goods if the labour is in abundance (i.e., relatively cheaper) as compared to the cost of land (i.e., relatively costly). This is mainly due to the ability of a labour-abundant country to produce something more cost-efficiently as compared to a country where labour is scarcely available and therefore expensive.

(ii) Labour-Capital Relationship:

In countries where the capital is abundantly available and labour is relatively scarce (therefore most costly), there would be a tendency to achieve competitiveness in the production of goods requiring large capital investments.

(iii) Technological Complexities:

As the same product can be produced by adopting various methods or technologies of production, its cost competitiveness would have great variations. In order to minimize the cost of production and achieve cost competitiveness, one has to examine the optimum way of production in view of technological capabilities and constraints of a country.
The Leontief Paradox:

According to the factor endowment theory, a country with a relatively cheaper cost of labour would export labour-intensive products, while a country where the labour is scarce and capital is relatively abundant would export capital-intensive goods.

Wassily Leontief carried out an empirical test of the Heckscher-Ohlin Model in 1951 to find out whether or not the US, which has abundant capital resources, exports capital-intensive goods and imports labour-intensive goods. He found that the US exported more labour-intensive commodities and imported more capital-intensive products, which was contrary to the results of Heckscher-Ohlin Model of factor endowment.

6. Country Similarity Theory of International Trade:

As per the Heckscher-Ohlin theory of factor endowment, trade should take place among countries that have greater differences in their factor endowments. Therefore, developed countries having manufactured goods and developing countries producing primary products should be natural trade partners.

A Swedish economist, Staffan B. Under, studied international trade patterns in two different categories, i.e., primary products (natural resource products) and manufactures.

It was found that in natural resource-based industries, the relative costs of production and factor endowments determined the trade. However, in the case of manufactured goods, costs were determined by the similarity in product demands across countries rather than by the relative production costs or factor endowments.
It has been observed that the majority of trade occurs between nations that have similar characteristics. The major trading partners of most developed countries are other developed industrialized countries.

The country similarity theory is based on the following principles:

i. If two countries have similar demand patterns, then their consumers would demand the same goods with similar degrees of quality and sophistication. This phenomenon is also known as preference similarity. Such a similarity leads to enhanced trade between the two developed countries.
ii. The demand patterns in countries with a higher level of per capita income are similar to those of other countries with similar income levels, as their residents would demand more sophisticated, high quality, 'luxury' consumer goods, whereas those in countries with lower per capita income would demand low quality, cheaper consumer goods as a part of their 'necessity'.
iii. Since developed countries would have a comparative advantage in the manufacture of complex, technology-intensive luxury goods, they would find export markets in other high income countries.
iv. Since most products are developed on the demand patterns in the home market, other countries with similar demand patterns due to cultural or economic similarity would be their natural trade partners.
v. Countries with the proximity of geographical locations would also have greater trade compared to the distant ones. This can also be explained by various types of similarities, such as cultural and economic, besides the cost of transportation. The country similarity theory goes beyond cost comparisons. Therefore, it is also used in international marketing.

7. New Trade Theory of International Trade:

Countries do not necessarily trade only to benefit from their differences but they also trade so as to increase their returns, which in turn enable them to benefit from specialization. International trade enables a firm to increase its output due to its specialization by providing a much larger market those results in enhancing its efficiency.

The theory helps explain the trade patterns when markets are not perfectly competitive or when the economies of scale are achieved by the production of specific products. Decrease in the unit cost of a product resulting from large scale production is termed as economies of scale.

Since fixed costs are shared over an increased output, the economies of scale enable a firm to reduce it's per unit average cost of production and enhance its price competitiveness.

(i) Internal Economies of Scale:

Companies benefit by the economies of scale when the cost per unit of output depends upon their size. The larger the size, the higher are the economies of scale. Firms that enhance their internal economies of scale can decrease their price and monopolize the industry, creating imperfect market competition. This in turn results in the lowering of market prices due to the imperfect market competition.
Internal economies of scale may lead a firm to specialize in a narrow product line to produce the volume necessary to achieve cost benefits from scale economies.
Industries requiring massive investment in R&D and creating manufacturing facilities, such as branded software by Microsoft, microprocessors by Intel or AMD, and aircrafts by Boeing or Airbus, need to have a global market base so as to achieve internal economies of scale and compete effectively.

(ii) External Economies of Scale:

If the cost per unit of output depends upon the size of the industry, not upon the size of an individual firm, it is referred to as external economies of scale. This enables the industry in a country to produce at a lower rate when the industry size is large compared to the same industry in another country with a relatively smaller industry size.
The dominance of a particular country in the world market in a specific products sector with higher external economies of scale is attributed to the large size of a country's industry that has several small firms, which interact to create a large, competitive critical mass rather than a large-sized individual firm.

However, external economies of scale do not necessarily lead to imperfect markets but may enable the country's industry to achieve global competitiveness. Although no single firm needs to be large, a number of small firms in a country may create a competitive industry that other countries may find difficult to compete with.

The automotive component industry o India and the semiconductor industry in Malaysia are illustrations of external economies of scale. The development of sector-specific industrial clusters, such as brassware in Moradabad, hosiery in Tirupur, carpets in Bhadoi, semi-precious stones in jaipur, and diamond polishing in Surat, may also be attributed to external economies

The new trade theory brings in the concept of economies of scale to explicate the Leontief paradox. Such economies of scale may not be necessarily linked to the differences in factor endowment between the trading partners. The higher economies of scale lead to increase in returns, enabling countries to specialize in the production of such goods and trade with countries with similar consumption patterns.

Besides intra-industry trade, the theory also explains intra-firm trade between the MNEs and their subsidiaries, with a motive to take advantage of the scale economies and increase their returns.

8. International Product Life-Cycle Theory of International Trade:

International markets tend to follow a cyclical pattern due to a variety of factors over a period of time, which explains the shifting of markets as well as the location of production. The level of innovation and technology, resources, size of market, and competitive structure influence trade patterns.
In addition, the gap in technology and preference and the ability of the customers in international markets also determine the stage of international product life cycle (IPLC).

In case the innovating country has a large market size, as in case of the US, India, China, etc., it can support mass production for domestic sales. This mass market also facilitates the producers based in these countries to achieve cost-efficiency, which enables them to become internationally competitive.
However, in case the market size of a country is too small to achieve economies of scale from the domestic market, the companies from these countries can alternatively achieve economies of scale by setting up their marketing and production facilities in other cost-effective countries.

Thus, it is the economies of scope that assists in achieving the economies of scale by expanding into international markets. The theory explains the variations and reasons for change in production and consumption patterns among various markets over a time period, as depicted in Fig. 2.3.

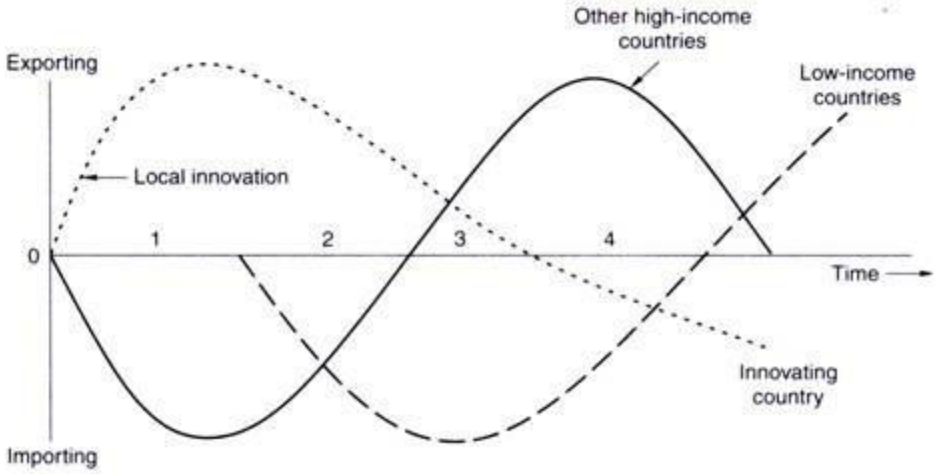


Fig. 2.3 International product life cycle

The IPLC has four distinct (Exhibit 2.2) identifiable stages that influence demand structure, production, marketing strategy, and international competition as follows.

(i) Introduction:

Generally, it is in high-income or developed countries that the majority of new product inventions take place, as product inventions require substantial resources to be expended on R&D activities and need speedy recovery of the initial cost incurred by way of market-skimming pricing strategies.

Since, in the initial stages, the price of a new product is relatively higher, buying the product is only within the means and capabilities of customers in high-income countries. Therefore, a firm finds a market for new products in other developed or high income countries in the initial stages.

(ii) Growth:

The demand in the international markets exhibits an increasing trend and the innovating firm gets better opportunities for exports. Moreover, as the market begins to develop in other developed countries, the innovating firm faces increased international competition in the target market.

In order to defend its position in international markets, the firm establishes its production locations in other developed or high income countries.

(iii) Maturity:

As the technical know-how of the innovative process becomes widely known, the firm begins to establish its operations in middle- and low-income countries in order to take advantage of resources available at competitive prices.

Exhibit 2.2 Stages of international product life cycle

	IPLC stages			
	Introduction	**Growth**	**Maturity**	**Decline**
Demand structure	▪ Nature of demand not well understood ▪ Consumers willing to pay premium price for a new product	▪ Price competition begins ▪ Product standard emerging	▪ Competition based on price and product differentiation	▪ Mostly price competition
Production	▪ Short runs, rapidly changing techniques ▪ Dependent on skilled labour	▪ Mass production	▪ Long runs with stable techniques ▪ Capital intensive	▪ Long runs with stable techniques ▪ Lowest cost of production needed either by capital intensive production or by massive use of inexpensive labour
Innovator company marketing strategy	▪ Sales mostly to home country (i.e., innovating country) consumers ▪ Some exported to other high-income countries	▪ Increased exports to high-income countries	▪ Innovator company begins production in other high-income countries to protect its foreign market from local competition	▪ Innovator company may begin production in developing countries
International competition	▪ A few competitors at home (i.e., innovating country)	▪ Competitors in other high-income countries begin production for their domestic markets ▪ They also begin exporting to the innovating country	▪ Companies from other high-income countries increase exports to the innovating country ▪ They begin exporting to developing countries	▪ Competitors from other high-income countries may begin production in developing countries ▪ Competitors from developing countries also begin exporting to the world

(iv) Decline:

The major thrust of marketing strategy at this stage shifts to price and cost competitiveness, as the technical know-how and skills become widely available. Therefore, the emphasis of the firm is on most cost-effective locations rather than on producing themselves.

Besides other middle-income or developing countries, the production also intensifies in low-income or least-developed countries (LDCs). As a result, it has been observed that the innovating country begins to import such goods from other developing countries rather than manufacturing itself.

The UK, which was once the largest manufacturer and exporter of bicycles, now imports this product in large volumes. The bicycle is at the declining stage of its life cycle in industrialized countries whereas it is still at a growth or maturity stage in a number of developing countries.

The chemical and hazardous industries are also shifting from high-income countries to low-income countries as a part of their increasing concern about environmental issues, exhibiting a cyclical pattern in international markets.
Although the product life cycle explains the emerging pattern of international markets, it has got its own limitations in the present marketing era with the fast proliferation of market information, wherein products are launched more or less simultaneously in various markets.

9. Theory of Competitive Advantage of International Trade:

As propounded by Michael Porter in The Competitive Advantage of Nations, the theory of competitive advantage concentrates on a firm's home country environment as the main source of competencies and innovations. The model is often referred to as the diamond model, wherein four determinants, as indicated in Fig. 2.4, interact with each other.

Porter's diamond consists of the following attributes:

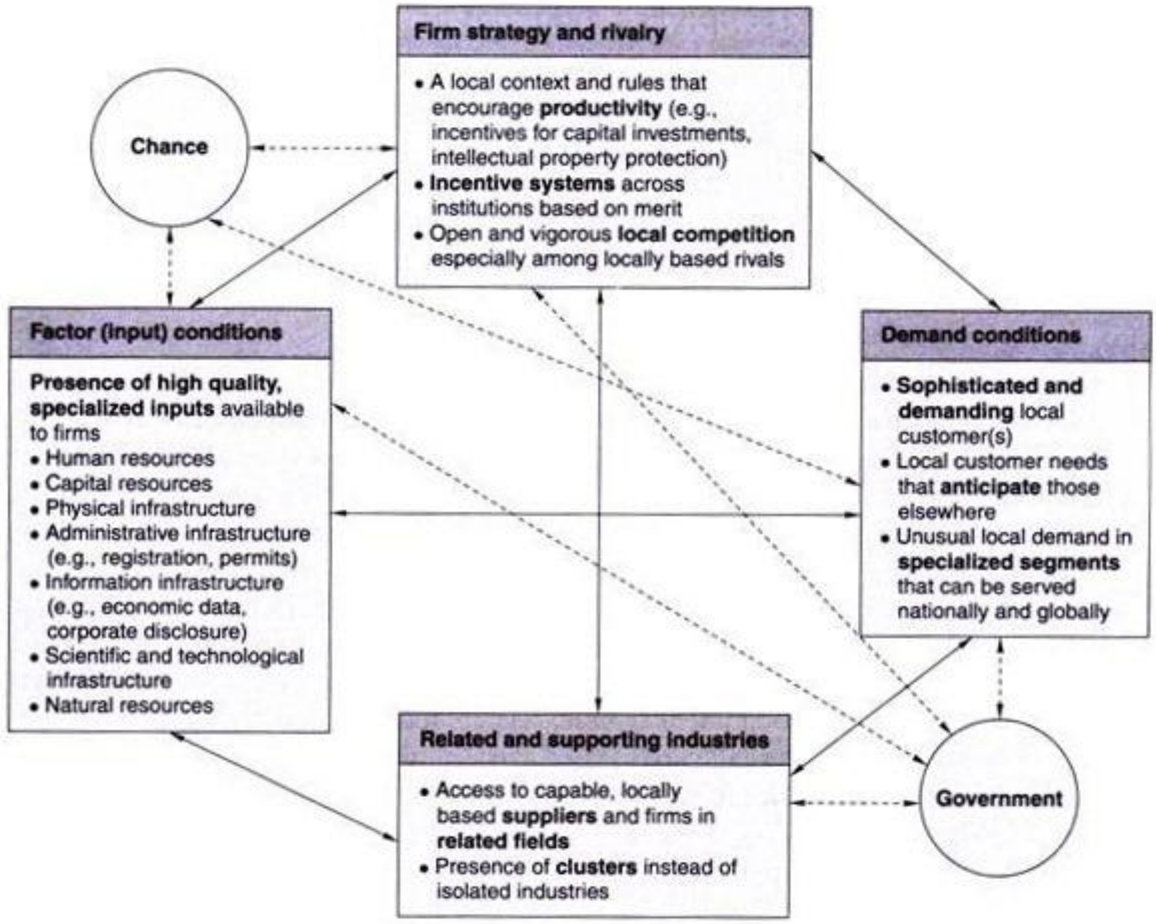


Fig. 2.4 Determinants of competitive advantage

(i) Factor (Input) Conditions:

Factor conditions refer to how well-endowed a nation is as far as resources are con¬cerned. These resources may be created or inherited, which include human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technological infrastructure, and natural resources.
The efficiency, quality, and specialization of underlying inputs that firms draw while com-peting in international markets are influenced by a country's factor conditions.
The inherited factors in case of India, such as the abundance of arable land, water resources, large workforce, round-the-year sunlight, biodiversity, and a variety of agro-climatic conditions do not necessarily guarantee a firm's international competitiveness.

Rather the factors created by meticulous planning and implementation, scientific and market knowledge, physical and capital resources and infrastructure, play a greater role in determining a firm's competitiveness.

(ii) Demand Conditions:

The sophistication of demand conditions in the domestic market and the pressure from domestic buyers is a critical determinant for a firm to upgrade its product and services. The major characteristics of domestic demand include the nature of demand, the size and growth patterns of domestic demand, and the way a nation's domestic preferences are transmitted to foreign markets.

As the Indian market has long been a sellers' market, it exerted little pressure on Indian firms to strive for quality up gradation in the home market. However, as a result of India's economic liberalization, there has been a considerable shift in the demand conditions.

(iii) Related and Supporting Industries:

The availability and quality of local suppliers and related industries and the state of development of clusters play an important role in determining the competitiveness of a firm. These determine the cost-efficiency, quality, and speedy delivery of inputs, which in turn influence a firm's competitiveness.
This explains the development of industrial clusters, such as IT industries around Bangalore, textile industries around Tirupur, and metal handicrafts around Moradabad.

(iv) Firm Strategy, Structure, and Rivalry:

It refers to the extent of corporate investment, the type of strategy, and the intensity of local rivalry. Differences in management styles, organizational skills, and strategic perspectives create advantages and disadvantages for firms competing in different types of industries. Besides, the intensity of domestic rivalry also affects a firm's competitiveness. In India, the management system is paternalistic and hierarchical in nature. In the system of mixed economy with protectionist and monopolistic regulations, the intensity of competition was almost missing in major industrial sectors. It was only after the economic liberalization that the Indian industries were exposed to market competition. The quality of goods and services has remarkably improved as a result of the increased intensity of market competition. Two additional external variables of Porter's model for evaluating national competitive advantage include chance and government, discussed below.

(v) Chance:

The occurrences that are beyond the control of firms, industries, and usually governments have been termed as chance, which plays a critical role in determining competitiveness. It includes wars and their aftermath, major technological breakthroughs, innovations, exchange rates, shifts in factor or input costs (e.g., rise in petroleum prices), etc.
Some of the major chance factors in the context of India include disintegration of the erstwhile USSR and the collapse of the communist system in Eastern Europe, opening up of the Chinese market, the Gulf War, etc.

(vi) Government:

The government has an important role to play in influencing the determinants of a nation's competitiveness. The government's role in formulating policies related to trade, foreign exchange, infrastructure, labour, product standards, etc. influences the determinants in the Porter's diamond.
Assessing country competitiveness:

In order to facilitate the quantifiable assessment of competitiveness, the World Economic Forum has developed the Global Competitiveness Index. It presents a quantified framework aimed to measure the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

The US was ranked as the most competitive economy in the world, followed by Switzerland, Denmark, Sweden, Singapore, Finland, and Germany whereas China and India were ranked at 30th and 50th positions, respectively.

India has made remarkable progress in improving its global competitiveness during the recent years. The rapid rise in the share of the working age population for the last 20 years would add to favorable demographics to India's competitiveness. However, to benefit from this India will have to find ways to bring its masses of young people into the workforce, by spending on education and improving the quality of its educational institutions so as to enhance the productivity of its young.

Moreover, the country still has to take effective measures (Exhibit 2.3) to deal with its bureaucratic red-tape, illiteracy, and infrastructure bottlenecks, especially road, rail, seaports and airports, and electricity, among others, so as to boost its global competitiveness.

Exhibit 2.3 Boosting India's global competitiveness

India's competitiveness has increased significantly in the recent years as it ranked to 50th place in 2008–09. Increasing trends in FDI inflows to the skill and technology-intensive sector over the past few years have led to an improvement in its position in the Technology Index. India's recent growth rates of over 7 per cent in the past few years reflect its economic success.

The significant increase in the degree of sophistication of India's private sector has markedly improved the business environment. Factors such as the sophistication in the production processes, levels of company's spending on R&D, the prevalence of foreign technology licensing, the sophistication of financial markets, greater openness in the economy, etc. have contributed to this improvement. Besides, the policy framework and institutional environment have also improved significantly and led to tangible progress over the past decade. However, India needs to address the following issues in order to maintain and improve its growth rates:

- High illiteracy rates and relatively low enrolment rates
- The extent of bureaucratic red tape and excessive regulations
- Significant improvement in infrastructure facilities, such as road, rail, airports, power generation, etc.
- Fiscal deficit problems

The Indian economy has the potential to become an engine of growth for the world. To realize its full potential, these challenges have to be jointly addressed by the government and the business community. India has to give special priority to boosting human capital endowment, improving physical infrastructure, reducing burden of needless over-regulation, and moving public finances onto a more sustainable path. If these challenges are met, there is no reason why India cannot join the ranks of the most competitive economies in the world.

Source: Claros, Augusto Lopex, Jennifer Blanke, Irene Mia, and Saadia Zahidi, 'Policies and Institutions Underpinning Economic Growth: Results from the Competitiveness Indexes', The Global Competitiveness Report 2005–06, 2006–07, and 2007–08, World Economic Forum, Geneva, 2008, pp. 18–19.

10. Implications of International Trade Theories:

The trade theories provide a conceptual base for international trade and shifts in trade patterns. This article brings out the significance of developing a conceptual understanding of the trade theories as it deals with the fundamental issues, such as why international trade takes place, trade partners, shifts in trade patterns, and determinants of competitiveness.

The initial theory of mercantilism was based on accumulating wealth in terms of goods by increasing exports and restricting imports.

Trade was considered to be a zero-sum game under the mercantilism theory wherein one country gains at the cost of the other. However, a new form of mercantilism, known as neo-mercantilism, is followed by a number of countries so as to increase their trade surpluses. In 1776, Adam Smith advocated the concept of free trade as a means of increasing gains in world output from specialization.

The theory of absolute advantage suggests that a country should produce and export those goods that it can produce more efficiently. David Ricardo's theory of comparative advantage was based on the international differences in labour productivity and advocates international trade even if a country does not have an absolute advantage in the production of any of its goods.

Although it is possible for a country not to have an absolute advantage in production of any good, it is not possible for it not to have a comparative advantage in any of the goods it produces. In the later case, the country should specialize in the production and export of those goods that can be produced more efficiently as compared to others.

The factor endowment theory highlights the interplay between proportions in which the factors of production such as land, labour, and capital are available to different countries and the proportions in which they are required for producing particular goods. Trade between countries with similar characteristics such as economic, geographic, cultural, etc. is explained by the country' similarity theory.

The new trade theory explains the specialization by some countries in production and exports of particular products as international trade enables a firm to increase its output due to its specialization by providing much larger market that results into enhancing its efficacy.

The shifting patterns of production location are elucidated by the theory of IPLC that influences demand structure, production, the innovator company's marketing strategy, and international competitiveness. The theory of competitive advantage comprehensively deals with the micro-economic business environment as the determinants of competitive advantage.

Earlier trade theories suggested the shift in comparative advantage in low-skilled production activities from advance economies to developing countries. The product life-cycle theory too heavily relied on such presumptions.

However, in recent years, the rapid shift of high-value activities such as R&D, technology-intensive manufacturing, and white-collar jobs to India and other Asian countries have evoked considerable apprehension among intellectuals in the US and other advanced economies about whether free trade is still beneficial for their countries or not.
This concern has been illustrated through Exhibit 2.4. It is likely to continue as a matter of serious debate and the upcoming economic thought may witness a significant deviation in terms of the support to theories based on free trade and, in him, globalization.

Exhibit 2.4 Mayhem over trade theories

The high cost of production in high-income countries, including the US, has led to the shift of manufacturing facilities to cheap labour countries such as India and China. Developing countries such as India and China can carry out labour-intensive production activities more efficiently, as they have got comparative advantage due to the abundance of less-educated workforce. In return, these countries would buy more of the high-value goods made by skilled labourers for which the US and other high-income countries have comparative advantage. The shift of production locations from high-income countries to lower-cost locations tend to result in job-cuts in high-income countries. But such lost jobs are more than offset when countries specialize, leading to more robust exports and lower prices on imported goods.

In recent years, the rapid shift of white-collar jobs to cheap-labour countries has caused deep concern in the US and other high-income countries. The rapid transfer of high-skilled jobs such as computer programming, engineering, project management, designing etc. to countries such as India and China seems to conflict head-on with the 200-year-old doctrine of comparative advantage. It is feared that the increased off-shoring of skilled activities could lower the US wages or slow the growth of the gross domestic product.

Ever since British economist David Ricardo spelled out the theory of comparative advantage in the early 1800s, most economists have believed that countries gain more than they lose when they trade with each other and specialize in what they do best. However, advances in information and communication technology have led to a new type of trade that does not fit neatly into this theory.[a] Since brainpower can be obtained anywhere from the world at low cost, a global labour market for skilled workers seems to be emerging for the first time, which has the potential to upset traditional notions of national specialization. It can disrupt the economies of high-income countries in the following ways.

If enough cheap, high-skilled workers become available around the world, competition may drive down US wages for a wide swathe of white-collar workers. It is for the first time that highly skilled workers in developed countries are going to be exposed to international competition.

The gains from trade that would flow to consumers in high-income countries needs to be assessed. So far the pain of globalization has been borne by less than a quarter of the workforce, mostly lower-skilled labours whose wage cuts outweighed the cheaper priced imported goods. But the majority of workers that constitute highly skilled jobs in developed countries were not affected by the foreign wage competition. If white- and blue-collared skilled workers alike are thrown to the global labour pool, it is feared that a majority of workers would end up losing more than they gain through lower prices. Then the benefits of increased trade would primarily go to the employers.

Even that would not completely derail the competitive advantage theory, which holds that higher profits from trade should more than offset the lower wages. But, for the first time economists have seen another factor at play. As the skill levels improve in cheap-labour countries, such as the growing scientific and engineering skills from India, the competition is confronting the very products, such as software, in which the US has a global advantage. If the new competition drives down prices considerably, US earnings would suffer and the US economy could end up worse off.

Prominent economists have viewed free trade to be beneficial for the US but the rising anxiety among high-skilled workers may erode the support for free trade and continued globalization.

[a] Bernstein, Aaran, 'Shaking Up Trade Theory', *Business Week*, 6 December 2004.
Sources: 'IT Job Losses: Don't Blame Off-shoring', *Business Week*, 6 March 2006 and 'White-Collar Outsourcing Pressure Builds', CNNMoney.com.

1.4. Foreign Trade and the Economic Growth of Country

According to Ricardo the source of comparative advantage is difference in labour cost between two countries. Modern economists have extended Ricardo's theory and identified various other sources of comparative advantage, such as differences in factor endowments, tastes and preferences, technological gaps and product cycles. Ricardo's theory is static in nature.

The same is true of the modern theory of comparative advantage, viz., the Heckscher-Ohlin theory. Given a nation's factor endowments, technology and taste, Heckscher-Ohlin theory proceeded to determine a nation's comparative advantage and the gains from trade. However, factor endowments change over time; technological improvement occurs in the long run; and tastes may also change. Consequently the nation's comparative advantage also changes over time.

Over time a nation's population grows and with it the size of its labour force. Similarly, a nation increases its capital stock in the long run. Moreover, natural resources (such as minerals) can be depleted or new ones found through discoveries or new applications.

All these changes lead to faster economic growth and changing pattern of comparative advantage over time. Technical change also leads to faster growth of real per capita income and is thus an important source of growth of nations and also a determinant of comparative advantage.

The growth of resources (such as land, labour, capital) and technological progress cause a nation's production possibilities curve (frontier) to shift outward.

There are the two main sources of growth:

1. Increase in the supplies of resources and
2. Technological progress. The effect of growth on the volume of trade depends on the rates at which the output of the nation's exportable and importable commodities grow and with the consumption pattern of the nation as its real per capita income increases through growth and trade.

The Effect of Growth on Trade: The Small-Country Case:

If the output of the nation's exportable goods increases proportionately faster than that of its importable commodities at constant relative prices (or terms of trade), then growth tends to led to greater than proportionate expansion of trade. Economic growth has natural effect of leading to the same rate of expansion of trade.

On the other hand, if the nation's consumption of its importable commodity increases proportionately more than the nation's consumption of its exportable commodity, at constant prices, then the consumption effect tends to lead to a greater than proportionate expansion of trade. What in fact happens to the volume of trade in the process of growth depends on the net result of these production and consumption effects. This prediction is relevant for a small country which cannot influence world prices of tradable goods.

Growth and Trade: The Large-Country Case:

Economic growth is more relevant for one development of LDCs. If economic growth, what-ever its source may be, expands the nation's volume of trade at constant prices, then the nation's terms of trade (which is the ratio of the price index of exports to that of imports) tend to deteriorate. On the other hand, if growth reduces the nation's volume of trade at constant prices, the nation's terms of trade will improve. This is known as the terms-of-trade effect of growth.
The effect of economic growth on the nation's welfare depends on the net result of terms-of-trade effect and a wealth effect. The wealth effect refers to the change in output per capita as a result of growth. A favorable wealth effect, by itself, tends to increase the nation's welfare.

Otherwise, the nation's welfare tends to decline or remain unchanged. If the wealth effect is positive and the nation's terms of trade improve as a result of growth and trade, the nation's welfare will surely improve. If they are both unfavorable, there is a loss of social welfare. If the wealth effect and the terms-of-trade effect move in opposite directions, the nation's welfare may deteriorate, improve or remain unchanged depending on the relative strength of these two opposing forces.
Immeserising Growth:

Even if the wealth effect, by itself, tends to increase the nation's welfare, the terms of trade may deteriorate so much that there a net loss of social welfare. This is termed as immeserising growth by Jagdish Bhagwati. The term refers to a situation in which a developing country's attempt to increase its growth potential through exports actually results in a retardation of that potential.

This is very much an exceptional situation confined only in theory to a country where export specialty (some mineral or agricultural crop) accounts for a major share of world trade in the product. The country needs to export more to earn the foreign exchange to finance the capital imports which it requires to accelerate its rate of economic growth.
If all its export effort is concentrated on its specialty, this could lead to an 'oversupply' of its product resulting in a deteriorating of the country's terms of trade. As a result, the country's foreign exchange earnings will now buy fewer imports and domestic growth potential will be impaired.
So long we briefly explained the effects of economic growth on a country's foreign trade but not the other side of the coin, the effects of trade on growth. Those effects are much more important for developing countries, at least, from the policy point of view. It is to this issue that we may turn now.

Trade Theory and Economic Development:

The classical (Ricardian)-trade theory predicts that if each nation specializes in the production of the commodity of its comparative advantage, world output will be greater, and, through trade, each nation will share in the gains from specialization and exchange.

According to the modern theory of comparative advantage (known as the factor endowments or Heckscher-Ohlin theory) developing countries should specialise primarily in the production and export of raw materials, fuels, minerals and food to developed nations in exchange for manufactured products.

It is now believed that this pattern of specialization and trade relegates developing countries to a subordinate position vis-a-vis developed nations and keeps them from deriving the dynamic benefits of industrializing and maximizing their welfare in the long run.

The dynamic benefits include a more trained labour force, more innovations, higher and more stable prices for the nation's exports, and higher per capita income. With developing countries specializing in primary commodities and developed nations in manufactured goods, most, if not all, of these dynamic benefits of industry and trade accrue to developed nations, leaving developing countries poor, backward and dependent.

Another reason for this is that all developed nations are primarily industrial, while most developing nations are largely agricultural or engaged in extractive activities such as construction and mining. For these reasons the traditional theory of comparative advantage is static and irrelevant to the process of economic development.

Critics comment that as a developing nation accumulates capital and improves its technology, its comparative advantage shift away from primary products to simple manufactured goods first and then to more sophisticated items. This has recently occurred in Brazil, Korea, Mexico and other developing countries.

Trade as an Engine of Growth:

During the 19th century, the export sector of resource-poor developing countries, mainly Great Britain (where most of the world's modern industrial production was concentrated), was the leading sector that propelled these economies into rapid growth and development.

Thus international trade acted as an engine of growth for these nations. The expansion of exports stimulated the rest of the economy. For other countries, including the USA foreign trade shaped their factor endowments and furnished investment opportune ties for foreign as well as domestic capital.

According to Ragnar Nurkse the industrial revolution happened to originate on a small island with a limited range of natural resources, at a time when synthetic materials were yet unknown. In these circumstances, economic expansion was transmitted to less developed areas by a steep and steady demand for primary commodities which those area were well suited to produce.

Local factors of production overseas, whose growth may in part have been induced by trade, were thus largely absorbed in the expansion of profitable primary production for export. On top of this, the centre's increasing demand for raw materials and foodstuffs created incentives -for capital and labour to move from the centre to outlying areas, accelerating the process of growth transmission from the former to the latter.

Nurkse has argued that the young economies of the 19th century, viz., the USA, Canada and Australia had temperate climates and unusual factor endowments — vast quantities of land and small amounts of labour. They could therefore supply coffee, wheat and other staples needed at the centre of the world economy. Furthermore, the new countries of the 19th century (often called areas of recent settlement) were peopled by recent immigrants from Europe, who brought with them institutions and traditions conductive to the growth of a modern economy.

However, some economists, notably Kravis, hold a different view on the relation between trade and growth. According to them, rapid growth of such nations as Canada, Argentina and Australia during the 19th century was primarily due to very favorable internal conditions (such as an abundant supply of natural resources), with international trade playing only an important supportive role.

Modem economists generally believe that today's developing nations can rely much less on trade for their growth and development. This is due to less favorable demand and supply conditions.

Prima facie, the demand for food and raw materials is growing much more slowly today than was the case during the 19th century.

There are at least five reasons for this:

1. Low income elasticity of demand:

The income elasticity of demand in developed nations for many of the food and agricultural raw materials exports of developing countries is low (the coefficient is often less than 1). This means that as income rises in developed countries, their demand for the agricultural exports of developing nation's increases proportionately less than the increase in income.

2. Development of synthetics:

The development of synthetics has reduced the demand for natural raw materials. For example, synthetic rubber has reduced the demand for natural rubber, nylon the demand for cotton and plastics the demand for hides and skins. The demand for Indian jute goods has also fallen for the same reason, i.e., use of plastic materials instead of jute bags for packing purposes.

3. Technological progress:

Technological advances have reduced the raw material content of many products, such as tin-plated cans and micro circuits.

4. Growth of service output:

The output of services (with lower raw material requirements than commodities) has grown faster than the output of commodities in developed nations.

5. Trade restrictions:

Developed countries have imposed trade restrictions on many agricultural exports (such as wheat, vegetables, sugar, oils and other products) of developing nations.

On the supply side the following four factors have been identified:

1. Factor endowments:

Most of today's developing countries are much less endowed with natural resources (except for petroleum- exporting countries) than were the western countries during the 19th century.

2. Population growth:

Most of today's developing countries are overpopulated. This means that the major portion of any increase in their output of food and raw materials is absorbed domestically, leaving, very little, if any, export surplus.

3. Factor mobility:

There is much less flow of capital in developing countries today than was observed in the 19th century. At the same time there is outflow of skilled labour from such countries on a fairly large scale.

4. Neglect of agriculture:

Finally, until recently, developing nations have somewhat neglected their agriculture in favors of more rapid industrialization. This has hampered their export growth in particular and development prospects in general.

The Contributions of Trade to Development:

Today international trade cannot be expected to act as an 'engine of growth'. Yet there are many ways in which it can contribute to the economic growth of today's developing nations.
According to G. Haberler international trade can have the following beneficial effects on economic development:

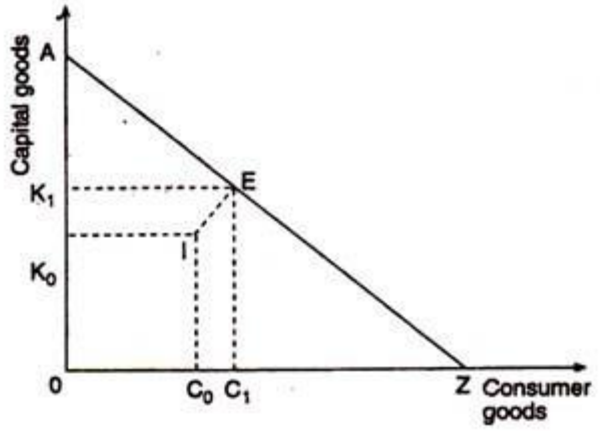


Fig. 8.3. Effect of trade on production

Economic Insight : International Trade and Endogenous Growth Theory

According to Romer and Lucas, who developed endogenous growth theory, there is a positive relationship between international trade and long-term economic growth and development. The theory postulates that lowering trade barriers will speed up the rate of economic growth and development in the long run by (1) allowing developing nations to absorb the technology developed in advanced countries at a faster rate than with a lower degree of openness, (2) increasing the benefits that flow from research and development (R & D), (3) promoting larger economies of scale in production, (4) reducing price distortions and leading to a more efficient use of domestic resources across sectors, (5) encouraging greater specialisation and more efficiency in the production of intermediate inputs, and (6) leading to more rapid innovations — introduction of new products and services.

International trade has over the centuries served as a major motivation for contact among people of different countries and regions, the dissemination of new ideas, and the transfer of new technologies. In addition to the static gains from specialisation and exchange trade spreads knowledge and thereby increases countries' rates of technological progress. In particular, endogenous growth theory seeks to explain how endogenous technological change creates positive externalities which offset any propensity to diminishing returns to capital accumulation. Diminishing returns to capital arise when more units of capital are used with fixed amounts of other inputs.

So there are various ways by which freeser trade can stimulate growth and development. Empirical studies have also shown that openness leads to faster growth.

1. Full utilization of resources:

Trade can lead to full utilization of a country's idle and under-employed resources as Fig. 8.3 shows. In the absence of trade a developing country is operating at point I (an inefficient point). International trade enables it to operate at point E (an efficient point) and thus produce more of both consumption and capital goods.

This is the essence of the vent for surplus theory, developed by Hla Myint. According to this theory, international trade represents an outlet for its potential surplus of agricultural commodities and raw materials. This has really happened in many developing countries, particularly those in South-east Asia and West Africa.

2. Division of labour and specialization:

There is not much scope for division of labour and specialization if production of a commodity takes place for the narrow domestic market. If, instead, production is for the wider and unlimited export market there is much greater scope for specialization. This has actually occurred in the production of light manufacturers in small economies such as Taiwan, Hong Kong and Singapore.

3. Transmission of knowledge:

International trade often acts as a vehicle for the transmission of new ideas, new technology and new managerial and organizational skills. And knowledge is the only factor of production which is not subject to diminishing returns.

4. Capital inflow:

International trade also stimulates and facilitates the flow of financial capital from developed to developing countries. In case of foreign direct investment, where the foreign firms or multinational corporations (MNCs) retain managerial control over its investment, foreign capital is often accompanied by foreign skilled personnel to operate the production units.

5. Stimulating domestic demand:

In case of India, Brazil and other large developing countries, imports of new manufactured goods have stimulated domestic demand in the initial stages when efficient domestic production of these goods were not economically feasible.

Contact with the rest of the world has acted as a powerful factor in creating demand for manufactured goods in the initial stages of industrialization and stimulating domestic production of import-substitute items at a later stage of industrialization and economic development.

6. Promoting competition:

International trade often acts as an anti-monopoly weapon by foreign domestic producers to achieve greater efficiency so as to be able to introduced foreign competition and survive in the long run. This is no doubt very important for keeping the cost and price of intermediate and semi-finished products used as the main or subsidiary inputs in the domestic production of various commodities low.

Trade as a Hindrance to Growth:

International trade is not an unmixed blessing for developing countries. It can also act as an obstacle (hindrance) to growth in more ways than one. Firstly, developing countries suffer from deteriorating terms of trade. Secondly, the gains from trade are not equally shared by all sections of society.

Producers of import-substitute manufactured goods gain at the expense of primary producers. As a result there is more inequality in the distribution of income. These and other issues discussed in the context of trade problems of developing countries. Moreover, many developing countries of today lack the institutions conducive to rapid growth.

In spite of all these most economists continue to believe that trade is the most promising engine of growth for the developing countries, and they argue that the doctrine of comparative advantage applies with particular force to those countries, which should attempt to make the best possible use of their scarce human factor (skills) and limited physical capital.

While making an overall assessment of the effects of trade on growth Peter B. Kenen writes: “Many developing countries did not welcome private foreign capital because it had colonial overtones. Nor were they willing to serve forever as suppliers of raw materials. They feared the instability of raw materials prices and wanted to draw back from export dependence. Above all, they identified economic development with industrialization and sought to build modern factories to symbolize their independence and assert their maturity. Invoking the infant industry argument, countries in Asia and Latin America engaged in systematic import substitution. They protected their import- competing industries, penalized their export industries and tended to neglect agricultural development.”

Protectionism in Developed Countries:

The future success of international trade in serving as an engine of growth for developing economies depends only in part on the developing economies’ willingness to eliminate trade barriers and integrate their economies into the world economy. It also depends on the willingness of the developed countries to open their economies to trade with the developing countries.

The truth is that the developed economies are very ‘protectionist’ against industries in which developing economies are most likely to enjoy a comparative advantage. Given the importance of international trade for economic growth, the protectionism by the developing economies may be a major cause of the lack of convergence in per capita output in the world.

Conclusion:

In summary is becoming increasingly difficult to treat international trade, international investment and immigration as separate phenomena. Trade often requires supporting investments in distribution and marketing facilities.

Improved transportation and communications permit multinational corporations to increasingly establish and spread production centers in accordance with every country’s comparative advantage, and thus many foreign investments directly increase imports and exports. And people frequently accompany trade and investment flows.

All of these components of globalization are also closely related to economic growth. After all, globalization is just an international extension of the increased specialization, exchange and interdependence that characterize the process of economic growth.

Economic Insight : Trade Growth and Dynamic Efficiency

The close linkage of economies through trade and investment can be mutually advantageous for trading nations. It permits producers in each nation to take advantage of specilisation and economies of large-scale production. A nation can consume a wider variety of products at a cost less than that which could be achieved in the absence of trade.

According to H. Leibenstein, free trade may promote 'x-efficiency', which means that the presence of some forces causes the firm to purchase and utilise all its inputs 'efficiently' so as to reduce average real cost. X-efficiency improves allocation of resources within the firm, increases the productivity of resources, especially labour through motivation and minimises cost per unit.

Trade, by exposing a firm to the competitive world markets, can stimulate greater managerial effort and hence improve x-efficiency. Free trade forces domestic firms to face greater competitive pressures from overseas. Import-competing firms will have to reduce their managerial slack, and pursue cost-reducing methods of production through greater effort. more intensive search for best methods of production or the utilisation of new information.

Thus trade promotes growth from the supply side by giving a country the opportunity to remove its domestic shortages and overcome the discoveries of the narrow domestic market. This is no doubt a crucial advantage for small developing countries. Trade also provides an opportunity for the exchange of goods with less growth potential for goods with more growth potential, thereby accelerating the rate of growth with the same amount of saving. The reason is that trade gives a country opportunity to import capital goods and materials required for development projects.

The classical view is that trade promotes saving which results in capital formation. Real income also rises due to more efficient allocation of resources associated with international trade and this, in its turn, leads to an increase in the rate of savings. Investment receives a further stimulus by the realisation of increasing returns by firms that operate in the wider international markets — an opportunity that foreign trade provides. Some benefits can also be derived from foreign investment attracted to the export sectors.

Finally, in a dynamic world characterised by rapid technological advance diffusion of knowledge (know-how) and adoption of new ideas, the transfer of skills international trade contributes to accelerating the country's 'learning rate'. Trade creates a competitive stimuli, and leads to cost reduction through the realisation of economies of scale, and contributes to increasing productivity and development of new skills. Dynamic learning effects and the consequent scale economies are important consequences of international specialisations.

Empirical studies show that growth performance has been more satisfactory under export promotion strategies than under import-substitution strategies. The rate of growth of export has been said to be positively correlated with rates of capital formation and growth of real GNP.

However, both imports and exports are necessary for raising productivity and achieving faster economic growth. International trade allows a nation to increase its productivity by eliminating the need to produce goods and services within the nations itself. A nation can thus specialise in those industries in which its firms are relatively more productive than their foreign rivals and can import the goods and services in which its firms are less productive. In this way, resources are channelised from low-productivity uses to high-productivity uses, thus increasing the country's average level of productivity.

1.5. Analysis of India's foreign trade, growth, trends, composition and direction:

History

Even before independence, the Government of India maintained semi-autonomous diplomatic relations. It had colonies (such as the Aden Settlement), who sent and received full missions, and was a founder member of both the League of Nations and the United Nations. After India gained independence from the United Kingdom in 1947, it soon joined the Commonwealth of Nations and strongly supported independence movements in other colonies, like the Indonesian National Revolution. The partition and various territorial disputes, particularly that over Kashmir, would strain its relations with Pakistan for years to come. During the Cold War, India adopted a foreign policy of non-alignment policy itself with any major power bloc. However, India developed close ties with the Soviet Union and received extensive military support from it.

Around 100CE

The Periplus of the Eritrean Sea is a document written by an anonymous sailor from Alexandria about 100CE describing trade between countries, including India.

Around 1500

In 1498 Portuguese explorer Vasco da Gama landed in Calicut (modern day Kozhikode in Kerala) as the first European to ever sail to India. The tremendous profit made during this trip made the Portuguese eager for more trade with India and attracted other European navigators and tradesmen.

Pedro Álvares Cabral left for India in 1500 and established Portuguese trading posts at Calicut and Cochin (modern day Kochi), returning to Portugal in 1501 with pepper, ginger, cinnamon, cardamom, nutmeg, mace, and cloves. The profits made from this trip were huge.

1991 economic reform

Prior to the 1991 economic liberalization, India was having a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on imports. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalization, India's economy has improved mainly due to increased foreign trade.

Trade in services

India was the eighth largest exporter of commercial services in the world in 2016, accounting for 3.4% of global trade in services. India recorded a 5.7% growth in services trade in 2016-17.

Exports and imports

India exports approximately 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. India exported US$331.0 billion and imported $507.4 billion worth of commodities in 2018-2019.

The Government of India's Economic Survey 2017-18 noted that five states — Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana — accounted for 70% of India's total exports. It was the first time that the survey included international export data for states. The survey found a high correlation between a state's Gross State Domestic Product (GSDP) per capita and its share of total exports. With a high GSDP per capita but low export share, Kerala was the only major outlier because the state's GSDP per capita was heavily influenced by remittances.

The survey also found that the largest firms in India contributed to a smaller percentage of exports when compared to countries like Brazil, Germany, Mexico, and the United States. The top 1% of India's companies accounted for 38% of total exports.

Trade statistics

Summary table of recent India Foreign Trade (in billion $):

Year	Export	Import	Trade Deficit
1999	36.3	50.2	-13.9
2000	43.1	60.8	-17.7
2001	42.5	54.5	-12.0
2002	44.5	53.8	-9.3
2003	48.3	61.6	-13.3
2004	57.24	74.15	-16.91
2005	69.18	89.33	-20.15

2006	76.23	113.1	-36.87
2007	112.0	100.9	11.1
2008	176.4	305.5	-129.1
2009	168.2	274.3	-106.1
2010	201.1	327.0	-125.9
2011	299.4	461.4	-162.0
2012	298.4	500.4	-202.0
2013	313.2	467.5	-154.3
2014	318.2	462.9	-144.7
2015	310.3	447.9	-137.6
2016	262.3	381	-118.7
2017	275.8	384.3	-108.5

The top 10 commodity exports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billions)	Share (%)
1	Refined Petroleum	27	61.2	19.2
2	Gems, precious metals, coins	71	41.2	13
3	Vehicles	87	14.5	4.6
4	Machines, engines, pumps	85	13.6	4.3
5	Organic chemicals	29	12.1	3.8
6	Pharmaceuticals	30	11.7	3.7
7	Cereals	10	10.1	3.2
8	Iron and steel	72	9.1	2.9
9	Clothing (not knit or crotchet)	58	9.1	2.9
10	Electronics	85	9.1	2.8

The top 10 commodity imports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billions)	Share (%)
1	Oil	27	177.5	38.3
2	Gems, precious metals, coins	71	60	13
3	Electronics	85	32	6.9
4	Machines, engines, pumps	85	31.2	6.7
5	Organic chemicals	29	18.3	4
6	Plastics	39	11.8	2.6
7	Iron and steel	72	11.4	2.5
8	Animal/vegetable fats and oils	15	10.7	2.3
9	Ores, slag and ash	26	7.4	1.6
10	Medical and technical equipment	90	7.1	1.5

Trading partners:

India's largest trading partners in descending order of value of total trade are the United Arab Emirates, China, United States, Saudi Arabia, Switzerland, Singapore, Germany, Hong Kong, Indonesia, Iraq, Russia and Japan.

Foreign Trade Growth:

The integration of the domestic economy through the twin channels of trade and capital flows has accelerated in the past two decades which in turn led to the India's GDP reaching Rs 167.73 trillion (US$ 2.30 trillion) in 2017-18*. Simultaneously, the per capita income also nearly trebled during these years. India's trade and external sector had a significant impact on the GDP growth as well as expansion in per capita income. Provisional estimates of India's GDP during the 2018-19 stood at Rs 190.10 trillion (US$ 2.72 trillion). As per the estimates of Gross Domestic Product (GDP) for the first quarter (Q1) of 2019-20, the growth of real GDP for Q1 of 2019-20 is estimated at 5 percent.

Total exports from India (Merchandise and Services) registered a growth of 1.60 per cent year-on-year during April-November 2019 to US$ 353.96 billion, while total imports estimated to be US$ 408.02 billion, exhibiting a negative growth of 5.30 per cent according to data from the Ministry of Commerce & Industry.Total exports from India (Merchandise and Services) registered a growth of 1.60 per cent year-on-year during April-November 2019 to US$ 353.96 billion, while total imports estimated to be US$ 408.02 billion, exhibiting a negative growth of 5.30 per cent according to data from the Ministry of Commerce & Industry.

The merchandise export stood at Rs 14,89,793.87 crore (US$ 211.93 billion) during April-November 2019 and imports reaching Rs 22,39,900.18 crore (US$ 318.78 billion) for the same period.

The estimated value of services export for April-October 2019 stood at US$ 142.02 billion and import is US$ 89.24 billion.

Thus, the overall trade deficit for April-November 2019 is estimated at US$ 54.06 billion.

According to Mr Piyush Goyal, Minister for Commerce and Industry, the Government of India is keen to grow exports and provide more jobs for the young, talented, well-educated and even semi-skilled and unskilled workforce of India.

Capital Inflows

India's foreign exchange reserves were Rs 32.19 lakh crore (US$ 460.65 billion) in the week up to November 22, 2019 according to data from the RBI.

External Sector

- In December 2019, cabinet approved Memorandum of Understanding between Central Electricity Authority, India and Japan Coal Energy Centre, on Japan-India cooperation for Efficiency and Environmental Improvement for Sustainable, Stable and Low-Carbon supply of Electricity.
- The Memorandum of Cooperation (MoC) between Government of India and Government of Japan in order to constitute the 'India-Japan Steel Dialogue' to strengthen cooperation in steel sector got approval from cabinet in December 2019.
- In November 2019, All India Institute of Ayurveda (AIIA) signed a Memorandum of Understanding (MoU) with Western Sydney University, Australia at New Delhi.
- In November 2019, the Memorandum of Understanding (MoU) signed between India and Finland approved by Cabinet in order to strengthen the cooperation in the field of Tourism.
- In September 2019, four Memorandum of Understanding (MoUs) were signed between India and Mongolia focusing on cultural exchange protocol, disaster management, space exploration and in field of animal health and dairy.
- In September 2019, Liquefied Natural Gas (LNG) importer Petronet entered into agreement with US LNG developer Tellurian Inc. and invest US$ 2.5 billion.
- In August 2019, four Memorandum of Understanding (MoUs) were signed between India and France focusing on skill development and vocational training, renewable energy, IT services and space research.
- In June 2019, India and Kyrgyzstan signed 15 agreements in main areas, including defence, trade and investment and health.
- In April 2019, India signed a memorandum of understanding (MoU) with the National Bank for Agriculture and Rural Development Consultancy Service (NABCONS) for establishing the India-Africa Institute of Agriculture and Rural Development (IAIARD) in Malawi, South Africa.
- In December 2018, India and the UAE signed currency swap agreement to boost trade and investment ties between the two countries.

Foreign Trade Policy

- In the Mid-Term Review of the Foreign Trade Policy (FTP) 2015-20 the Ministry of Commerce and Industry has enhanced the scope of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS), increased MEIS incentive raised for ready-made garments and made- ups by 2 per cent, raised SEIS incentive by 2 per cent and increased the validity of Duty Credit Scrips from 18 months to 24 months.
- In August 2019, Ministry of Commerce plans to introduce new foreign trade policy aimed at providing incentives and guidelines for increasing export in next five financial years 2020-25.

- As of December 2018, Government of India is planning to set up trade promotion bodies in 15 countries to boost exports from Small and Medium Enterprises (SME) in India.

- In September 2018, Government of India increased the duty incentives for 28 milk items under the Merchandise Export from India Scheme (MEIS).

- All export and import-related activities are governed by the Foreign Trade Policy (FTP), which is aimed at enhancing the country's exports and use trade expansion as an effective instrument of economic growth and employment generation.

- The Department of Commerce has announced increased support for export of various products and included some additional items under the Merchandise Exports from India Scheme (MEIS) in order to help exporters to overcome the challenges faced by them.

- The Central Board of Excise and Customs (CBEC) has developed an 'integrated declaration' process leading to the creation of a single window which will provide the importers and exporters a single point interface for customs clearance of import and export goods.

- As part of the FTP strategy of market expansion, India has signed a Comprehensive Economic Partnership Agreement with South Korea which will provide enhanced market access to Indian exports. These trade agreements are in line with India’s Look East Policy. To upgrade export sector infrastructure, ‘Towns of Export Excellence’ and units located therein will be granted additional focused support and incentives.

- RBI has simplified the rules for credit to exporters, through which they can now get long-term advance from banks for up to 10 years to service their contracts. This measure will help exporters get into long-term contracts while aiding the overall export performance.

- The Government of India is expected to announce an interest subsidy scheme for exporters in order to boost exports and explore new markets.

Road Ahead

India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought-after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country augur well for the trade and economic sector in the years to come.

Boosted by the forthcoming FTP, India's exports are expected reach US$ 750 billion by 2018-2019 according to Federation of India Export Organization (FIEO). Also, with the Government of India striking important deals with the governments of Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent.

***Provisional estimates at current prices**

Note: Conversion rate used as on September 2019, Re 1 = US$ 0.01407

Composition and Direction of India’s Foreign Trade:

1) Increasing Share of Gross National Income:

In 1990-91, share of India’s foreign trade (import export) in net national income was 17 per cent which in 2006-07 rose to 25 per cent. In 2006-07 exports and imports as percentage of GDP were 14.0 per cent and 21 per cent respectively.

2) Less Percentage of World Trade:

Share of India's foreign trade in world trade has been declining. In 1950-51, India's share in total import trade of the world was 1.8 per cent and in export trade it was 2 per cent. According to World Trade Statistics, India's share in world trade has gone-up from 1.4 per cent in 2004 to 1.5 per cent in 2006 and estimated to be 2 per cent in 2009.

3) Oceanic Trade:

Most of India's trade is by sea, India has very little trade relations with its neighing countries like Nepal, Afghanistan, Myanmar, Sri Lanka, etc. Thus, 68 per cent of India's trade is oceanic trade: Share of these neighing countries in our export trade was 21.8 per cent and in import trade 19.1 per cent.

4) Dependence on a Few Ports:

For its foreign trade, India depends mostly on Mumbai, Kolkata, and Chennai ports. These ports are therefore, over-crowded. Recently, India has developed Kandla, Cochin, and Visakhapatnam ports to lessen the burden on former ports.

5) Increase in Volume and Value of Trade:

Since 1990-91, volume and value of India's foreign trade has gone up. India now exports and imports goods which are several times more in value and volume. In 1990-91, total value of India's foreign trade was Rs 75,751 and in 2008-09, it rose to Rs 22, 15,191 crore. Of it, value of exports was Rs 8, 40,755 crore and that of imports was Rs 13, 74,436 crore.

6) Change in the Composition of Exports:

Since independence, composition of export trade of India has undergone a change. Prior to independence, India used to export agricultural products and raw materials, like jute, cotton, tea, oil seeds, leather, food grains, cashew nuts, and mineral products. It also exported manufactured goods. But now in its export kitty are included mostly manufactured items like, machines, ready-made garments, gems and jewellery, tea, jute manufactures, Cashew Kernels, electronic goods, especially hardware's and software's which occupy prime place in exports.

7) Change in the Composition of Imports:

Since Independence, composition of India's import trade has also witnessed a sea change. Prior to Independence, India used to import mostly consumption goods like medicines, cloth, motor vehicles, electrical goods, iron, steel, etc. Now it has been importing mostly petrol and petroleum products, machines, chemicals-, fertilizers, oil seeds, raw materials, steel, edible oils, etc.

8) Direction of Foreign Trade:

It refers to the countries with whom a country trades. Main changes in the direction of foreign trade are as under:

In the year 1990, in exports the maximum share, i.e., 17.9 per cent was that of Eastern Europe, i.e., Romania, East Germany, and U.S.S.R., etc. In import trade, maximum share, i.e., 16.5 per cent was that of OPEC, i.e., Iran, Iraq, Saudi Arabia, Kuwait, etc. In 2008-09, the largest share in India's foreign trade (both imports and exports) was that of European Union (EU), i.e., Germany, Belgium, France, U.K., etc., and developing countries. Now, U.A.E., China and U.S.A. have occupied important place in India's foreign trade. The importance of England, Russia, etc., has declined.

9) Mounting Deficit in Balance of Trade:

Since 1950-51, India's balance of trade has been continuously adverse except for two years, viz., 1972-73 and 1976-77, besides it has been mounting year after year. In 1950-51 balance of trade was adverse to the tune of Rs 2 crore and by 1990-1991 it rose to Rs 16,933 crore. After the policy of liberalization, the country has witnessed a rapid increase in it. In 1999- 2000 it rose to Rs 77,359crorc and in 2008-09 it amounted to 5, 33,680 crore. Fast rise in the value of imports and slow rise in the value of exports accounted for this tremendous rise in balance of trade deficit.

10) Trend towards Globalization:

Globalization and diversification mark the latest trend of India's foreign trade. India's foreign trade is no longer confined or a few goods or a few countries. Presently, India exports 7,500 items to about 190 countries and in its import- kitty there are 6,000 items from 140 countries. It unveiled the changing pattern of India's foreign trade.

11) Changing Role of Public Sector:

Since 1991 the role of public sector in India's foreign trade has undergone a change. Prior to it, State Trading Corporation (STC), Minerals and Metals Trading Corporation (MMTC), Handicraft and Handloom Corporation, Steel Authority of India Ltd. (SAIL), Hindustan Machine Tools (HMT), Bharat Heavy Electrical Limited (BHEL), etc., used to play significant role in India's foreign trade. As a result of implementation of the policy of liberalization, the importance of all these public sector enterprises has diminished.

Foreign Capital in India: Need and Forms of Foreign Capital!

Everywhere in the world, including the developed countries, governments are vying with each other to attract foreign capital. The belief that foreign capital plays a constructive role in a country's economic development, it has become even stronger since mid-1980.

The experience of South East Asian Countries (1986-1995) has especially confirmed this belief and has led to a progressive reduction in regulations and restraints that could have inhibited the inflow of foreign capital.

1. Need for Foreign Capital:

The need for foreign capital arises because of the following reasons. In most developing countries like India, domestic capital is inadequate for the purpose of economic growth. Foreign capital is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and the planned investment necessary to achieve developmental targets. To give an example of this 'savings-investment' gap, let us suppose that planned rate of growth output per annum is 7 percent and the capital-output ratio is 3 percent, then the rate of saving required is 21 percent.

If the saving that can be domestically mobilized is 16 percent, there is a shortfall or a savings gap of 5 percent. Thus the foremost contribution of foreign capital to national development is its role in filling the resource gap between targeted investment and locally mobilized savings. Foreign capital is needed to fill the gap between the targeted foreign exchange requirements and those derived from net export earnings plus net public foreign aid. This is generally called the foreign exchange or trade gap.

An inflow of private foreign capital helps in removing deficit in the balance of payments over time if the foreign-owned enterprise can generate a net positive flow of export earnings.

The third gap that the foreign capital and specifically, foreign investment helps to fill is that between governmental tax revenue and the locally raised taxes. By taxing the profits of the foreign enterprises the governments of developing countries are able to mobilize funds for projects (like energy, infrastructure) that are badly needed for economic development.

Foreign investment meets the gap in management, entrepreneurship, technology and skill. The package of these much-needed resources is transferred to the local country through training programmes and the process of learning by doing'. Further foreign companies bring with them sophisticated technological knowledge about production processes while transferring modern machinery equipment to the capital-poor developing countries.

In fact, in this era of globalization, there is a great belief that foreign capital transforms the productive structures of the developing economics leading to high rates of growth. Besides the above, foreign capital, by creating new productive assets, contributes to the generation of employment a prime need of a country like India.

2. Forms of Foreign Capital:

Foreign Capital can be obtained in the form of foreign investment or non-concessional assistance or concessional assistance.

1. Foreign Investment includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FPI includes the amounts raised by Indian corporate through Euro Equities, Global Depository Receipts (GDR's), and American Depository Receipts (ADR's).

2. Non-Concessional Assistance mainly includes External Commercial Borrowings (ECB's), loans from governments of other countries/multilateral agencies on market terms and deposits obtained from Non-Resident Indians (NRIs).

3. Concessional Assistance includes grants and loans obtained at low rates of interest with long maturity periods. Such assistance is generally provided on a bilateral basis or through multilateral agencies like the World Bank, International Monetary Fund (IMF), and International Development Association (IDA) etc. Loans have to be repaid generally in terms of foreign currency but in certain cases the donor may allow the recipient country to repay in terms of its own currency.

Grants do not carry any obligation of repayment and are mostly made available to meet some temporary crisis. Foreign Aid can also be received in terms of direct supplies of agricultural commodities or industrial raw materials to overcome temporary shortages in the economy. Foreign Aid may also be given in the form of technical assistance.

1.6. Collaboration of multinational corporations for foreign trade:

Role of Multinational Corporations (MNCs) in Foreign Investments!

Multinational corporations are those large firms which are incorporated in one country but which own, control or manage production and distribution facilities in several countries. Therefore, these multinational corporations are also known as transnational corporations.

They transact business in a large number of countries and often operate in diversified business activities. The movements of private foreign capital take place through the medium of these multinational corporations. Thus multinational corporations are important source of foreign direct investment (FDI). Besides, it is through multinational corporations that modern high technology is transferred to the developing countries.

The important question about multinational corporations is why they exist. The multinational corporations exist because they are highly efficient. Their efficiencies in production and distribution of goods and services arise from internalizing certain activities rather than contracting them out to other forms.

Managing a firm involves which production and distribution activities it will perform itself and which activities it will contract out to other firms and individuals. In addition to this basic issue, a big firm may decide to set up and operate business units in other countries to benefit from advantages of location.

For examples, it has been found that giant American and European firms set up production units to explore and refine oil in Middle East Countries because oil is found there. Similarly, to take advantages of lower labour costs, and not strict environmental standards, multinational corporate firms set up production units in developing countries.

Alternative Methods of Foreign Investment by Multinational Companies:

In order to increase their profitability many giant firms find it necessary to go in for horizontal and vertical integration. For this purpose they find it profitable to set up their production or distribution units outside their home country.

The firms that sell abroad the products produced in the home country or the products produced abroad to sell in the home country must decide how to manage and control their assets in other countries. In this regard, there are three methods of foreign investment by multinational firms among which they have to choose which mode of control over their assets they adopt.

There are three main modes of foreign investment:

1. Agreement with Local Firms for Sale of MNCs Products:

A multinational firm can enter into an agreement with local firms for exporting the product produced by it in the home country to them for sale in their countries. In this case, a multinational firm allows the foreign firms to sell its product in the foreign markets and control all aspects of sale operations.

2. Setting up of Subsidiaries:

The second mode for investment abroad by a multinational firm is to set up a wholly owned subsidiary to operate in the foreign country. In this case a multinational firm has complete control over its business operations ranging from the production of its product or service to its sale to the ultimate use or consumers.

A subsidiary of a multinational corporation in a particular country is set up under the company act of that country. Such subsidiary firm benefits from the managerial skills, financial resources, and international reputation of their parent company. However, it enjoys some independence from the parent company.

3. Branches of Multinational Corporation:

Instead of establishing its subsidiaries, Multinational Corporation can set up their branches in other countries. Being branches they are not legally independent business unit but are linked with their parent company.

4. Foreign Collaboration or Joint Ventures:

Thirdly, the multinational corporations set up joint ventures with foreign firms to either produce its product jointly with local companies of foreign countries for sale of the product in the foreign markets. A multinational firm may set up its business operation in collaboration with foreign local firms to obtain raw materials not available in the home country. More often, to reduce its overall production costs multinational companies set up joint ventures with local foreign firms to manufacture inputs or subcomponents in foreign markets to produce the final product in the home country.

Some of world’s largest multinational corporations are given below:

Table 1: World's Some Important Non-Financial Multinational Corporations

S.No.	*International Corporation*	*Parent Country*	*Industry of operation*
1.	General Electric	United States	Electronics
2.	Exxon Mobil Corporation	United States	Petroleum (exploring, refining and distributing)
3.	Royal Duch Shell Group	Netherland/UK	-do-
4.	General Motors	United States	Motor Vehicles
5.	Ford Motor Co.	United States	Motor Vehicles
6.	Toyata Motor Co.	Japan	Motor Vehicles
7.	IBM	United States	Computers
8.	BP	United Kingdom	Petroleum (Exp/Ref./Distt.)
9.	Nesle SA	Switzerland	Food/Beverages
10.	Nippon Oil Co.	Japan	Petroleum/Expl., Ref./Distt.
11.	Sieman AG	Germany	Electronics
12.	BMW AG	Germany	Motors Vehicles
13	ABB	Switzerland	Electrical equipment
14.	Sony Corporation	Japan	Electronics
15.	Seagram	Canada	Food/Beverages
16.	Aventis	France	Pharmaceuticals/Chemicals
17.	Roche Group	Switzerland	Pharmaceuticals
18.	Honda Motor Co.	Japan	Motor Vehicles
19.	Phillips Electronics	Netherland	Electronics
20.	Hewlett-Packard	United States	Electronics/Computers

Role of Multinational Corporations in the Indian Economy:

Prior to 1991 Multinational companies did not play much role in the Indian economy. In the pre-reform period the Indian economy was dominated by public enterprises. To prevent concentration of economic power industrial policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies were quite big and operate in several countries.

While multinational companies played a significant role in the promotion of growth and trade in South-East Asian countries they did not play much role in the Indian economy where import-substitution development strategy was followed. Since 1991 with the adoption of industrial policy of liberalization and privatization rote of private foreign capital has been recognized as important for rapid growth of the Indian economy.

Since source of bulk of foreign capital and investment are Multinational Corporation, they have been allowed to operate in the Indian economy subject to some regulations. The following are the important reasons for this change in policy towards multinational companies in the post-reform period.

1. Promotion of Foreign Investment:

In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India.

The liberalized foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.

For example, the effect of Suzuki firm's investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars.

Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

2. Non-Debt Creating Capital inflows:

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts.

This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from India and this resulted in balance of payments crisis in 1991. As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments.

Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India's balance of payments (BOP).

3. Technology Transfer:

Another important role of multinational corporations is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology.

Whenever, multinational firms set up their subsidiary production units or joint- venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery.

As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

4. Promotion of Exports:

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry.

Historically in India, multinationals made large investment in planlations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India.

However, in case of Pepsi, a famous cold -drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

5. Investment in Infrastructure:

With a large command over financial resources and their superior ability to raise resources both globally and inside India it is said that multinational corporations could invest in infrastructure such as power projects, modernization of airports and posts, telecommunication.

The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth.

In view of above, even Common Minimum Programme of the present UPA government provides that foreign direct investment (FDI) will be encouraged and actively sought, especially in areas of (a) infrastructure, (b) high technology and (c) exports, and (d) where domestic assets and employment are created on a significant scale.

A Critique of Multinational Corporations:

In recent years foreign direct investment through multinational corporations has vastly increased in India and other developing countries. This vast increase in investment by multinational corporations in recent years is prompted by factors (1) the liberalization of industrial policy giving greater role to the private sector, (2) opening up of the economy and liberalization of foreign trade and capital inflows. In this economic environment multinational corporations which are in search for global profits are induced to make investment in developing countries.

As explained above, foreign direct investment by multinational firms bring many benefits to the recipient countries but there are many potential dangers and disadvantages from the viewpoint of economic growth and employment generation.

Therefore, role of multinational corporations in India and other developing countries have been criticized on several grounds. We discuss below some of the criticisms leveled against multinational corporations.

Capturing Markets:

1. First, it is alleged that multinational corporations invest their capital and locate their manufacturing units on their own or in collaboration with local firms in order to sell their products and capture the domestic markets of the countries where they invest and operate. With their vast resources and competitive strength, they can weed out their competitive firms.

For example, in India if corporate multinational firms are allowed to sell or produce the products presently produced by small and medium enterprises, the latter would not be able to compete and therefore would be thrown out of business. This will lead to reduction in employment opportunities in the country.

2. Use of Capital-intensive Techniques:

It has been seen that increasing capital intensity in modern manufacturing sector is responsible for slow growth of employment opportunities in India's industrial sector. These capital-intensive techniques may be imported by large domestic firms but presently they are being increasingly used by multinational corporations which bring their technology when they invest in India.

Emphasizing this factor, Thirwall rightly writes, "In this case the technology may be inappropriate not because there is not a spectrum of technology or inappropriate selection is made but because the technology available is circumscribed by the global profit maximizing motives of multinational companies investing in the less-developed country concerned

3. Encouragement to Inessential Consumption:

The investment by multinational companies leads to overall increase in investment in India but it is alleged that they encourage conspicuous consumption in the economy. These companies cater to the wants of the already well-to-do people. For example, in India very expensive cars (such as City Honda, Hyundai's Accent, Mercedes, Opal Astra, etc.) the air conditioners, costly laptops, washing machines, expensive fridges, 29″ and Plasma TVs are being produced/sold by multinational companies.

Such goods are quite inappropriate for a poor country like India. Besides, their consumption has a demonstration effect on the consumption of others. This tends to raise the propensity to consume and adversely affects the increase in savings of the country.

4. Import of Obsolete Technology:

Another criticism of MNCs is based on the ground that they import obsolete machines and technology. As mentioned above, some of the imported technologies are inappropriate to the conditions of Indian economy. It is alleged that India has been made a dumping ground for obsolete technology.

Moreover, the multinational corporations do not undertake Research and Development (R&D) in India to promote local technologies suited to the Indian factor-endowment conditions. Instead, they concentrate R&D activity at their head quarters.

5. Setting up Environment-Polluting Industries:

It has been found that investment by multinational corporations in developing countries such as India is usually made for capturing domestic markets rather than for export promotion. Moreover, in order to evade strict environment control measures in their home countries they set up polluting industrial units in India.

A classic example of this is a highly polluting chemical plant set up in Bhopal resulting in gas tragedy when thousands of people were either killed or made handicapped due to severe ailments. "With the tightening of environmental measures in such countries, there is a tendency among the MNCs to locate the polluting industries in the poor countries, where environmental legislation is non-existent or is not properly implemented, as exemplified in the Bhopal gas tragedy".

6. Volatility in Exchange Rate:

Another major consequence of liberalized foreign investment by multinational corporations is its impact on the foreign exchange rate of the host country. Foreign capital inflows affect the foreign exchange rate of the Indian rupee.

A large capital inflow through foreign investment brings about increase in the supply of foreign exchange say of US dollars. With demand for foreign exchange being given, increase in supply of foreign exchange will lead to the appreciation of exchange rate of rupee.

This appreciation of the Indian rupee will discourage exports and encourage imports causing deficit in balance of trade. For example, in India in the fiscal years 2004-05 and 2005-06, there were large capital inflows by FII (giant financial multinationals) in the Indian economy to take advantage of higher interest rates here and also booming of the Indian capital market.

On the other hand, when interest rates rise in the parent countries of these multinationals or rates of return from capital markets go up or when there is loss of confidence in the host country about its capacity to make payments of its debt as happened in case of South-East Asia in the late nineties there is large outflow of capital by multinational companies resulting in the crisis and huge depreciation of their exchange rate. Thus, capital inflows and outflows by multinationals have been responsible for large volatility of exchange rate.

Then there is the question of repatriation of profits by the multinationals. Though a part of profit is reinvested by the multinational companies in the host country, a large amount of profits are remitted to their own parent countries.

This has a potential disadvantage for the developing countries, especially when they are facing foreign exchange problem. Commenting on this Thirwall writes "FDI has the potential disadvantage even when compared with loan finance, that there may be outflow of profits that lasts much longer.

Transfer Pricing and Evasion of Local Taxes:

Multinational corporations are usually vertically integrated. The production of a commodity by multinational firm comprises various phases in its production the components used in the production of a final commodity may be produced in its parent country or in its affiliates in other countries.

Transfer pricing refers to the prices a vertically integrated multinational firm charges for its components or parts used for the production of the final commodity, say in India. These prices of components or parts are not real prices as determined by demand for and supply of them.

They are arbitrarily fixed by the companies so that they have to pay fewer taxes in India. They artificially inflate the transfer prices for intermediate products (i.e., components) produced in their parent country or their overseas affiliates so as to show lower profits earned in India. As a result, they succeed in evading corporate income tax.

Conclusion:

We have seen above foreign investment by multinational companies have both advantages and disadvantages. Therefore, they need regulation and should be permitted in selected sectors and also subject to a cap on their investment in particular fields. If objective of economic growth with stability and social justice is to be achieved, there should not be complete open door policy for them.

It is true that multinational corporations take risk in making investment in India, they bring capital and foreign exchange which are non-debt creating, they generally promote technology and can help in raising exports. But they must be regulated so that they serve these goals.

They should be allowed to invest in infrastructure, high-technology areas, and in industries whose products they can export and if they help in generating net employment opportunities. We agree with Colman and Nixon who write:

"Transnational corporations cannot be directly blamed for lack of development (or the direction development is taking) within less developed countries. Their prime objective is global profit maximization and their actions are aimed at achieving that objective, not developing the host less developed country. If the technology and products that they introduce are inappropriate, if their actions exacerbate regional and social inequalities, if they weaken the balance of payments position, in the last resort it is up to the government of less developed country to pursue policies which will eliminate the causes of these problems."

1.7. Foreign Trade bilateral and multinational trade agreements:

The current environment of stalled multilateral negotiations has led to a spurt in regional trade agreements and India too has molded its foreign trade policy to remain in sync with the changing realities. This article evaluates the impact of trade agreements (TAs) on India's trade to gain insights on how it has evolved with its trade agreement partner countries relative to non-partner countries. The study utilizes difference in difference approach to estimate the increment of trade flows of India with partner countries. After the conclusion of the trade agreement, growth in trade flows was witnessed between India and the partner countries. One positive impact of TAs has been in the form of increased shipments of capital goods and industrial supplies from trade partner economies. This indirectly would have contributed in enhancing the productive capacity in the country.

Introduction

After the end of World War II, there was a move towards a multilateral system to facilitate global commerce and countries took initiatives to eliminate trade barriers. With the early efforts in the General Agreement on Tariffs and Trade (GATT) and subsequently under its successor, the World Trade Organization (WTO), the average value of tariffs in force around the world declined by 85 per cent compared to 19471.

Notwithstanding the benefits arising from multilateral system, the current environment of stalled multilateral negotiations has led to a spurt in regional trade agreements wherein countries have moved towards bilateralism in place of multilateralism. India too has molded its foreign trade policy to remain in sync with the changing realities. Accordingly, India has signed preferential access, economic cooperation and TAs with about 54 individual countries.

Against this backdrop this article evaluates the impact of trade agreements on India's trade. By dissecting the impact separately for exports, imports and overall trade, the article attempts to gain insights on how India's trade has evolved with its trade agreement partner countries relative to non-partner countries. Historical backdrop along with stylised facts pertaining to trade agreements are set out in Section II. Section III provides a brief review of the relevant literature. Current status regarding India's TAs along with empirical analysis are presented in Section IV. Section V sets out the concluding observations.

II. Historical Backdrop and Stylized Facts

Trade agreements are arrangements by which countries provide preferential treatment to each other and aid greater ease-of-trade by elimination of tariffs and other trade barriers. TAs can be between two or more countries that primarily agree to reduce or eliminate tariff and non-tariff barriers on substantial trade between them. Formal TAs may cover a spectrum of arrangements, from small margins of tariff preference to full scale economic integration. TAs can take several configurations which can be Partial Scope Agreement (PSA), Free Trade Agreement (FTA), Custom Union (CU), Common Market or Economic Union. Typically, trade agreements aim to reduce trade barriers between the member countries which entail discrimination against trade with non-member countries. By design, TAs has positive as well as negative externalities.

TAs originated primarily among European countries. At the start, TAs had restricted presence and was mainly confined to the geographic influence of the colonial empires and generally took the form of bilateral commercial treaties. The surge in cross-border movement of goods in the nineteenth century led to greater openness and liberalization and simultaneously altered the nature and scope of bilateral trade treaties. The Cobden-Chevalier Treaty between Britain and France in 1860 may be considered as the pioneer in this regard as for the first time it contained most favored nation2 (MFN) clause and led to significant reciprocal tariff reductions between two countries. The Cobden-Chevalier Treaty triggered a spate of bilateral negotiations among other European economic powers. This proved to be a precursor to the competitive trade liberalization among countries which followed later. Since this new network of treaties was both reciprocal and inclusive (via the MFN clause), it was also essentially interlocking - creating an early form of plurilateral preferential trade agreement (i.e., unconditional MFN treatment among all treaty-signers) and foreshadowing the basic structure of the multilateral system that took shape a century later (Brown, 2003). These bilateral agreements laid the foundations for much of the GATT system after the Second World War.

With the formation of the GATT in 1947, the idea of a wider multilateral agreement moved to the forefront of international trade relations. Nonetheless, the initial signatories to GATT system were just 23 countries. This later evolved to the near universal membership of the WTO. However, the emergence of a multilateral system in the form of GATT did not diminish the significance of bilateral or regional agreements to further international trade relations. Notwithstanding the presence of a multilateral system, the impetus for bilateral/plurilateral agreements outside its purview, especially in Europe, resurfaced within a short span of time. The upshot of this development was concurrent advancement witnessed in both regionalism and multilateralism. In fact, Article XXIV of GATT 1994 encompasses the statutory backing for trade agreements. This Article exempts member states from the Most-Favored Nation (MFN) principle and permits mutual imports among countries preferentially through the ratification of a trade agreement. The WTO permits three types of trade agreements. These are:

Custom unions and free trade agreements sanctioned under Article XXIV;

Agreements between developing countries formed under the Enabling Clause that allows partial preferential treatment; and

Agreements under the Generalized System of Preferences (GSP) that allow developed countries to grant preferential treatment to developing countries.

The specific conditions under Article XXIV of the GATT permitting TAs are:

FTA members shall not erect higher or more restrictive tariff or non-tariff barriers on trade with non-members than existed prior to the formation of the FTA.

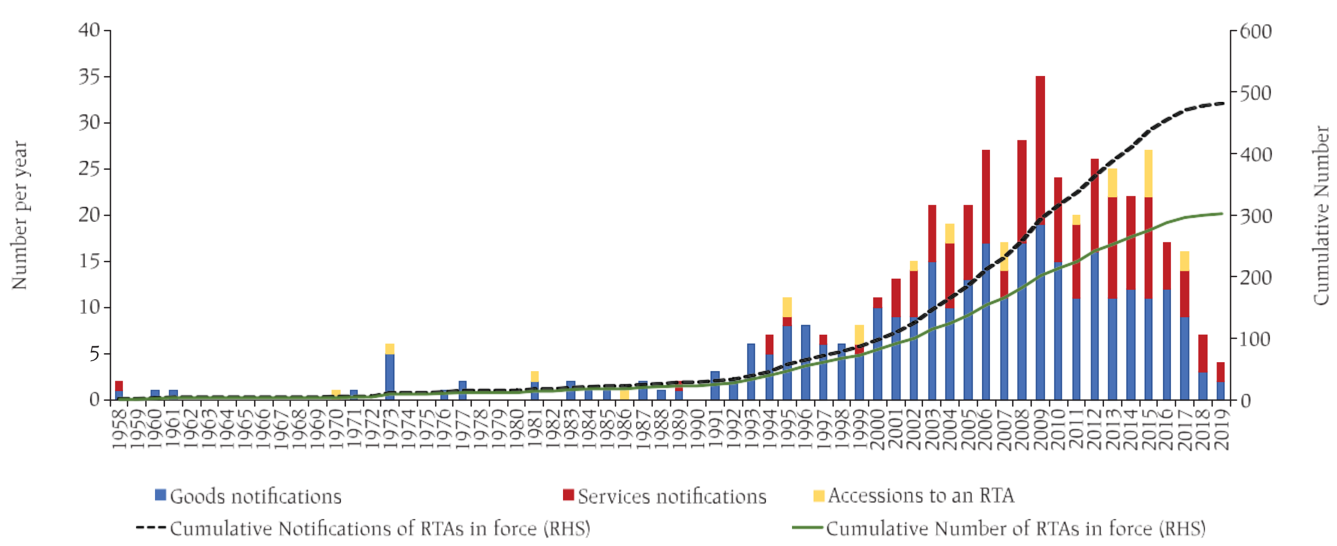
Elimination of tariffs and other trade restrictions be applied to substantially all the trade between the constituent territories in products originating in such territories.

Elimination of duties and other trade restrictions on trade within the TA to be accomplished within a reasonable length of time, meaning a period of no longer than ten years.

In addition, an Enabling Clause, allows developing countries to form preferential trading arrangements without adhering to the conditions under Article XXIV.

There are currently 164 WTO members, the latest being Liberia joining in July 20183 and majority of the members are participants in at least one TA. TAs cover more than half of international trade and operate alongside global multilateral agreements under the WTO. From 1950s onwards, the number of active TAs increased more or less continuously to almost 70 in 1990. Thereafter, TA activity accelerated noticeably, with the number of TAs more than doubling over the next five years and more than quadrupling until 2010 (WTO, 2011). As of September 3, 2019, 695 TAs have been notified to the WTO, out of which 481 are in force (Chart 1). The rise in the absolute number of TAs and its acceleration from the early 1990s onwards, is due to the fact that an increasing number of countries have turned towards outward-oriented policies. This has spurred the demand for trade agreements compared with previous time periods that were dominated by inward-looking development strategies.

Chart 1: Trade Agreements: Global Perspective



Source: World Trade Organisation accessed on September 3, 2019.

III. Literature Review

Trade agreements have drawn the attention of researchers since the early 1950s. The traditional economic theory has sought to examine the welfare impact of a TA on each member country, the bloc as a whole and the rest of the world. The outcomes of TAs on the global economy are not unequivocally positive. TAs may contribute to expansion of trade and global welfare, or may lead to diminished welfare.

The overall welfare depends on whether these agreements lead to creation of new trade patterns based on comparative advantage or to diversion of trade from a more competitive non-member to a member of the trade bloc. Impact analysis of TAs has been done either ex-post with historical data or has been based on ex-ante predictions. Generally ex-post studies have employed gravity equation to analyze the impact of TAs in boosting trade (Tinbergen (1962) and Bergstrand (1985)). It was first investigated by Jacob Viner (1950), who introduced the concepts of trade creation and trade diversion. Viner defined trade creation as the situation where a member of a preferential trading bloc has a comparative advantage in producing a product and is now able to sell it to its free trade area partners because trade barriers have been removed. Trade diversion is the welfare reduction in trade after the formation of free trade agreement that replaces lower cost imports from a country outside the trading bloc (Annex I). Viner in his seminal paper showed that the net effect of trade liberalization on a regional basis was not unambiguously welfare enhancing. Meade (1955) presented the first welfare theoretic analysis of trade blocs in a general equilibrium model. Meade's model has since been extended to decipher the welfare impact of TAs with significant contributions from Lipsey (1958), Mundell (1964), Vanek (1965), Corden (1972) and McMillan and McCann (1981).

Tinbergen (1962) used the gravity model to analyze the impact of British Commonwealth on trade for member countries. The study concluded that the 'average treatment effects' of TAs on trade flows are economically insignificant. The paper found that TAs lead to only 5 per cent higher trade flows for member countries. Various authors after Tinbergen such as Aitken (1973), Abrams (1980), and Brada and Mendez (1983) found that TAs have a significant impact on trade flows among members, whereas studies by Bergstrand (1985) and Frankel, Stein and Wei (1995) concluded that the effect is insignificant.

As per the theoretical literature on TAs, a particular agreement may be classified as beneficial or harmful depending upon the countries involved and the extent of trade created relative to the trade which is diverted (Panagariya, 2000). The empirical framework estimating these effects is particularly important. Burfisher et. al., (2001) noted that the impact of TAs is essentially an empirical issue that must be settled by data analysis. Krugman (1991) analysed the relative merits of regional TAs. The article analysed the variation in the global welfare with the changes in the number of TAs. The article notes that when the number of TAs is large, and they decline to a much smaller number then under such a scenario, welfare will reduce. However, the largest increase in welfare is when the world has only one TA which includes all the countries and the world moves towards free trade. Krugman concluded that because most TAs are among natural trading partners, the likelihood of trade diversion is small and the move towards regional free trade would do more good than bad between the members of free trade area.

In case of India, studies have analyzed the impact of TAs using different empirical specifications ranging from simple pre-post evaluation to analysis within the GTAP (Global Trade Analysis Project)4 and SMART5 frameworks. Studies based on ex-ante analysis of the impact of India-ASEAN (Association of Southeast Asian Nations) FTA with a full trade liberalization scenario had concluded that India's allocative efficiency will increase, but the terms of trade effect will worsen continuously and remain negative (Ahmed, 2010 and Sikdar and Nag 2011). Studies based on ex-post analysis concluded that post India-ASEAN FTA, India's exports to ASEAN increased substantially, with the largest accesses gained in Thailand, Cambodia, Vietnam, Malaysia, the Philippines and the Lao People's Democratic Republic. However, there was no significant impact of India-ASEAN TA with respect to intra-ASEAN trade (Venkatesh and Bhattacharyya (2014)). A study by Seshadri (2015) on India-Korea TA concluded that progressive tariff reductions resulted in steady improvement in TA utilisation. However, India's overall exports to Korea did not gain and the growth was confined to certain sectors. Studies on India Sri-Lanka FTA found modest increase in trade flows between the two countries with diversification in the export baskets of both the partners (Mukherji et al. (2002), Weerakoon et al. (2006), Joshi (2012)). However, a recent study by Saraswat et al. (2018) argued that India's exports have been more responsive to income changes in comparison with price changes such as a tariff cut or elimination. There is also high underutilization of the TAs by Indian traders (approximated to be less than 25 per cent) which is due to a myriad of reasons such as lack of information on the TAs, low margins of preference and administrative costs associated with the rules of origin. Thus, the impact of TAs particularly in terms of increase in trade is ambiguous.

In sum, the existing literature has shown a mixed impact of TAs on external trade and welfare. A TA will lead to reallocation of resources and hence, there will be some amount of trade creation and trade diversion. However, each of these studies brings out the time-specific and region-specific factors in determining this impact.

IV. India and Trade Agreements

India has entered into bilateral and regional trading agreements over the years. These agreements, besides offering preferential tariff rates on the trade of goods among member countries, also provide wider economic cooperation in the fields of trade in services, investment, and intellectual property. Few of these TAs have gone beyond tariff cuts in trade in goods and encompass other components like liberalization in services and investment. The first TA of which India became a member was the Bangkok Agreement in 1975. In 2005, this regional initiative between developing economies was re-incarnated as Asia Pacific Trade Agreement (APTA). India's first bilateral TA, the India-Sri Lanka FTA (ISFTA) was signed in December 1998 and came into force in the year 2001. Subsequently India implemented South Asian Free Trade Agreement (SAFTA) in 2004, Comprehensive Economic Cooperation Agreement (CECA) with Singapore in 2005, Indo-ASEAN FTA in 2010, Indo-Korea Comprehensive Economic Partnership Agreement (CEPA) in 2010, Indo-Malaysia CECA and Indo-Japan CEPA in 2011. SAARC Preferential Trading Agreement (SAPTA) is a preferential agreement between India and other South Asian Association for Regional Cooperation (SAARC) countries.

In the past decade India's trade policy has seen a marked shift towards regionalism. India has preferential access, economic cooperation and FTAs with about 54 individual countries6. India has signed bilateral trade deals in the form of CEPA/ CECA/ FTA/ Preferential Trade Agreements (PTAs) with around 18 groups/countries7. The preferential arrangement/ plans under which India was receiving tariff preferences are the Generalized System of Preferences (GSP) and the Global System of Trade Preferences (GSTP)8. Presently, there are 43-member countries of the GSTP and India has exchanged tariff concessions with 12 countries on a limited number of products (Chart 2).

India and several Asian countries have signed a CECA, which is an integrated package of agreements encompassing trade in goods, services, investments and economic co-operations in education, science and technology, air services and intellectual property. These agreements prescribe rules of origin that must be fulfilled for exports to be eligible for tariff preference. Table 1 provides a broad overview of India's major trade agreements.

India's TAs have become increasingly prevalent since the early 1990s. The crucial hypothesis is to examine whether these regional trading agreements translated into desired outcomes in terms of growing trade9 between India and its agreement partners during the subsequent period. in value terms, India's total trade in the last two decades with the world has increased substantially (Chart 3).

Table 1: Major Bilateral and Regional Trade Agreements of India

S. No.	Acronym	Groupings	Member Countries		FTAs/PTAs
			No.	Names	
1	APTA	Asia Pacific Trade Agreement	6	Bangladesh, China, India, Laos, Republic of Korea, Sri Lanka	Partial Scope Agreement (PSA) and Economic Integration Agreement (EIA)
2	India ASEAN TIG	India ASEAN Trade in Goods Agreement	11	Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam	FTA and EIA
3	BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation	7	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand	Under Negotiation
4	GSTP	Global System of Trade Preferences	43	Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Columbia, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Iran Iraq, Libya, Malaysia, Mexico. Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania, Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Venezuela, Vietnam, Zimbabwe.	PSA

5	MERCOSUR India	Southern Common Market India	5	Argentina, Brazil, Paraguay, Uruguay and India	PSA
6	SAFTA	South Asia Free Trade Agreement	8	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka	FTA
7	ISLFTA	Indo Sri Lanka FTA	2	India and Sri Lanka,	FTA
8	IMCECA	Indo Malaysia CECA	2	India and Malaysia	FTA and EIA
9	ISCECA	India Singapore CECA	2	India and Singapore	FTA and EIA
10	JICEPA	Japan India CEPA	2	India and Japan	FTA and EIA
11	IKCEPA	India Korea CEPA	2	India and South Korea	FTA
Source: Ministry of Commerce, Government of India. World Trade Organization.					

A disaggregation of India's trade with its agreement partner and non-partner countries shows that inter-linkages between India and its TA partners have strengthened with a substantial and persistent upward trend in the last two decades (Chart 4).

To gain further insights into the impact of TAs on India's trade with its agreement partner countries, an analysis of pre/post effect of TAs is attempted.

The study utilizes 'difference in difference'10 method to analyze the impact using panel data. The hypotheses tested for this study relate to whether these agreements led to higher trade generally and particularly how exports and imports have progressed. This empirical specification tries to differentiate the trade linkages between member countries and non-member countries. The study covers a total of 31 countries, out of which 18 countries are part of the treatment group and 13 countries are part of the control group. The treatment group consists of those countries with which India has a TA. The control group consists of countries with which India does not have a TA. In order to choose variables that determine the trade trend we adopt the inference from gravity model (Tinbergen's paper (1962)). The traditional gravity model is based on the theory that bilateral trade between two countries is directly related to the size of these countries (measured by GDP) and inversely related to distance between the two countries. Based on these micro foundations there have been many specifications of the gravity models that researchers have used.

For this study we assume that GDP of the partner country and GDP of India helps in determining the size of the countries' economy and hence the demand for commodities. We also control for the price sensitivity by taking the bilateral exchange rate of the countries. The study undertakes analysis for agreements signed since 2000 so the period studied in the analysis is from 1996 till the latest available data for all countries, i.e., 2017. Data on GDP and exchange rates are taken from the World Bank and IMF database, respectively. Data on trade flows of countries are taken from World Bank's World Integrated Trade Solution (WITS) database.

The empirical specification is as follows:

where,

Tr: represents total trade with partner country in US Dollar;

Exp: India's exports to partner country in US Dollar;

Imp: India's imports from partner country in US Dollar;

GDP_p: Partner country's per capita gross domestic product in US Dollar;

GDP_I: India's per capita gross domestic product in US Dollar;

ER: India's bilateral exchange rate with partner country;

Country dummy: Dummy variable with value 1 for countries with which India has a TA and 0 otherwise;

Year dummy: Dummy variable takes value 1 from the year the agreement came into force and 0 otherwise.

All the variables in the above equation are taken in log terms.

In equation 1, the coefficients of GDP for partner country and for India are positive which indicates that trade increases with the size of the economy (Table 2). The results also indicate that supply side effect for the exporting countries dominates demand side effect. This is so because countries with higher GDP are able to export may be due to higher supply (relative to their domestic demand). The opposite holds true for the country which imports implying that higher domestic demand leads to larger imports thus resulting in higher trade for countries with higher GDP. The interaction term of dummies is positive and statistically significant which reflects that overall effect of India's TA on trade is positive. We decompose the difference-in-difference equation and try to analyse the impact on exports and imports separately. Equation 2 provides estimation on the dynamics of India's exports which shows that a 1 per cent increase in the GDP of trade partners results in a 0.33 per cent increase in India's exports. This result is not conditional on the presence of a TA. The coefficient of exchange rate term reflects that when the exchange rate increases by 1 per cent (i.e., Indian currency depreciates), India's exports increase by 0.055 per cent but elasticity is insignificant. In equation 2, the coefficient of interest, i.e., interaction term is positive and significant. The interaction term shows that India's exports to partner countries increase by 15 per cent after agreement is signed compared to non-partner countries on an average. Chart 5 provides evidence that although India's overall exports to partner countries have increased but the median log value of exports in recent years appears to be similar for partner and non-partner countries.

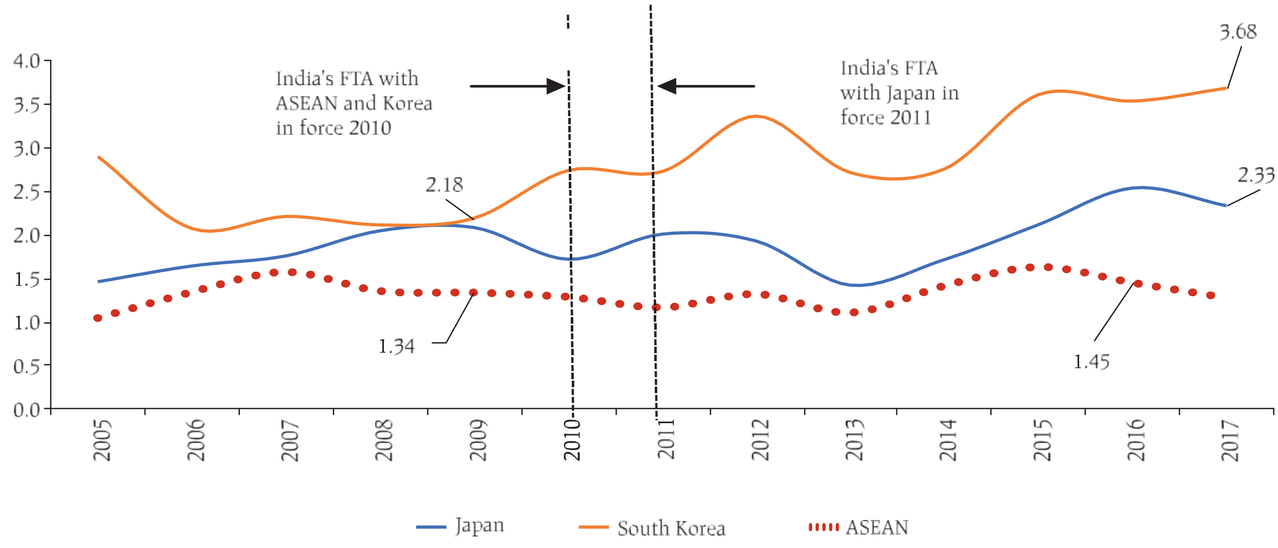
Table 2: Estimation Results

	(1)	(2)	(3)
	Ln tr	Ln exp	Ln imp
lnGDP_p	0.354***	0.332***	
	(0.0919)	(0.0828)	
lnGDP_I	1.583***		2.138***
	(0.115)		(0.174)
Interaction	0.162*	0.155*	0.478**
	(0.0796)	(0.0710)	(0.145)
lnER		0.0555	-0.277***
		(0.0391)	(0.0787)
N	594	594	594
R-sq	0.835	0.847	0.664

Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Standard errors in parentheses.			
=’* p<0.05	** p<0.01	*** p<0.001’	
Source: Calculations based on WITS database.			

Finally, the last equation on imports reflects that as the GDP of India increases by 1 per cent, imports go up by 2.14 per cent irrespective of the status of the trading partner. The interaction term is positive and significant in the case of imports. The interaction term shows that imports have increased by 48 per cent from TA partners compared to Non-TA partners after the implementation of the agreement. The box chart also shows that over the years, median log values of India’s imports from TA partners have increased substantially compared to non-TA partners (Chart 6).

Chart 7: India's Import-Export Ratio with Partner Countries



Source: Authors' calculations based on WITS database.

The above empirical analysis points towards improvement in trade with India’s partner countries particularly imports from these countries post signing of the agreement. Imports have increased at a faster pace as compared to India’s exports to these countries. This holds true for countries/regional blocs with whom India has recently entered into trading agreements, viz., Japan, South Korea and ASEAN where the ratio of India’s imports to its exports has gone up (Chart 7).

However, a bigger related question is which commodities are being imported from these partners. As literature mentions that with reduction in the cost of imports, industries get greater access to capital goods and intermediate inputs which might improve competitiveness and efficiency in domestic market (Goldar and Kumari, 2003, Nagraj 2017). Moreover, country can reap benefits from imports of enhanced technology from partner countries. Thus, a closer examination of the composition of import and export basket from each individual partner country can provide further insights on which commodities have experienced growth after implementation of TAs. In the case of Japan, after the implementation of the agreement, India mostly imported industrial supplies, capital goods and transport equipment which may be a positive indicator as these goods are used as inputs in producing the final goods and thus may have aided in an improvement in the productive capacity of the economy (Table 3).

Table 3: India’s Imports from Japan

(Share in per cent)

Sectoral Classification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital Goods (Except Transport Equ)	48.4	47.9	46.9	46.7	50.5	50.0	46.1	47.5	45.7	45.5	42.2	42.8	38.8	45.6	40.9
Consumer Goods	4.7	4.4	4.8	3.7	3.1	2.3	3.2	2.9	2.9	2.9	2.4	2.3	2.1	2.3	2.3
Food and Beverages	-	-	-	-	-	-	-	-	0.2	0.2	0.1	-	-	0.1	-
Fuels and Lubricants	2.6	3.4	0.8	1.6	3.1	5.9	3.0	1.8	3.6	3.3	2.2	2.1	2.2	1.5	2.3
Industrial Supplies	37.1	33.4	35.0	30.7	32.3	30.9	33.4	37.6	37.6	37.9	42.7	42.1	47.2	39.9	43.7
Transport Equipment	7.2	10.9	12.5	17.3	11.0	10.9	14.3	10.2	10.0	10.2	10.4	10.7	9.7	10.6	10.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- : Nil or Negligible
Source: calculations based on WITS database.

In the case of Korea, imports of capital goods and industrial supplies have not seen any major change, but imports of consumer goods have gone up sharply (Table 4).

In the case of ASEAN countries, decomposition of import basket does not reveal any specific bias in favour of consumer goods or capital goods. Imports of food and beverages, industrial supplies and consumer goods have gone up whereas inward shipments of fuels and lubricants, capital goods and transport equipment have witnessed a decline (Table 5).

Table 4: India’s Imports from Korea

(Share in per cent)

Sectoral Classification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital Goods (Except Transport Equ.)	57.7	49.2	52.2	44.2	35.1	31.4	27.0	33.3	30.5	31.6	28.4	29.8	34.5	31.4	31.5
Consumer Goods	3.3	2.5	2.7	2.9	2.1	1.8	2.8	2.5	2.5	2.1	2.4	2.1	2.6	3.4	10.7
Food and Beverages	0.1	-	-	-	-	-	-	0.1	0.2	0.1	-	-	-	-	-
Fuels and Lubricants	0.1	0.1	0.1	8.3	8.2	9.6	12.5	7.1	7.4	6.7	5.5	7.1	5.1	5.2	4.9
Industrial	26.8	27.0	30.1	33.5	42.4	43.5	39.2	45.1	47.4	48.0	53.3	51.9	48.9	49.8	45.6

Supplies															
Transport Equipment	12.0	21.2	14.9	11.1	12.2	13.7	18.5	11.9	12.0	11.5	10.4	9.1	8.9	10.2	7.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- : Nil or Negligible
Source: calculations based on WITS database.

Table 5: India's Imports from ASEAN Countries

(Share in per cent)

Sectoral Classification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Food and Beverages	10.9	15.6	8.5	4.6	3.5	5.0	8.3	6.6	5.4	6.5	7.5	5.9	6.9	9.1	7.5
Industrial Supplies	51.7	42.9	44.4	37.8	37.4	34.0	39.5	42.5	44.2	43.8	42.5	44.4	43.8	42.5	46.0
Fuels and Lubricants	3.1	5.3	9.8	26.5	29.6	37.7	24.7	24.6	26.7	24.0	24.3	26.4	20.9	19.9	19.8
Capital Goods (Except Transport Equ)	26.7	27.5	28.4	22.8	22.3	15.7	19.6	18.3	16.7	17.6	18.1	15.9	19.5	19.2	17.6
Transport Equipment	3.7	4.4	4.2	4.2	3.5	4.8	4.0	4.2	3.5	4.0	3.7	3.4	4.0	4.7	3.3
Consumer Goods	3.9	4.3	4.7	4.1	3.7	2.8	3.9	3.8	3.5	4.1	3.9	4.0	4.9	4.6	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculations based on WITS database.

V. Conclusion

The present study attempts a quantitative assessment of the impact of the recently signed TAs on India. The study utilises difference in difference approach to estimate the increment of trade flows of India with partner countries and how trade has grown compared to the Non-TA partner countries. After the conclusion of the TA, growth in trade flows was witnessed between India and the partner countries. However, the increase in exports could not keep pace with the spurt in imports. One possible reason for this could be that India's tariffs were much higher than the trade partner and hence the effective reduction on tariff for the partner countries was greater thus resulting in higher inbound shipments11. One positive impact of TA has been in the form of increased shipments of capital goods and industrial supplies from trade partner economies. This indirectly would have contributed in enhancing the productive capacity in the country. Moving ahead there is a need to focus on TAs which would enable increased integration in global value chains. The TAs should also enable access to newer markets for the products where the country enjoys competitive edge over its peers. However, to provide definitive conclusion on the impact of Tax, future research needs to extend the analysis to the services sector liberalization by individual partner countries. Another critical aspect that needs analysis is India's relative position in the TAs which includes changing trade patterns, competitiveness, compliance cost and ease of doing business.

1.8. India's balance of payments including invisibles

In the modern world, there is hardly any country which is self-sufficient in the sense that it produces all the goods and services it needs.

Every country imports from other countries the goods that cannot be produced at all in the country or can be produced only at an unduly high cost as compared to the foreign supplies.

Similarly, a country exports to other countries the commodities which those countries prefer to buy from abroad rather than producing at home. Besides, trade of goods and services, there are flows of capital. Foreign capital flows are in the form of portfolio investment by foreign institutional investors or in the form of foreign direct investment. The balance of payments is a systematic record of all economic transactions of residents of a country with the rest of the world during a given period of time.

This record is so prepared as to measure the various components of a country's external economic transactions. Thus, the aim is to present an account of all receipts and payments on account of goods exported, services rendered and capital received by the residents of a country, and goods imported, services received and capital transferred by residents of the country. The main purpose of keeping these records is to know the international economic position of a country which helps the Government in making decisions on monetary and fiscal policies on the one hand, and trade and payments policies on the other.

Balance of Trade and Balance of Payments:

Balance of trade and balance of payments are two related terms but they should be carefully distinguished from each other because they do not have exactly the same meaning. Balance of trade refers to the difference in values of imports and exports of commodities only, i.e., visible items only. Movement of goods between countries is known as visible trade because the movement of goods is open and visible and can be verified by the custom officials.

During a given period of time, the exports and imports may be exactly equal, in which case the balance of trade is said to be in balance. But this is not necessary because those who export and import are not necessarily the same persons. If the value of exports exceeds the value of imports, the country is said to have an export surplus. On the other hand, if the value of its imports exceeds the value of its exports, the country is said to have a deficit balance of trade.

Distinction between Current Account and Capital Account:

The distinction between the current account and capital account of the balance of payment may be noted. The current account deals with payment for currently produced goods and services. It includes also interest earned or paid on claims and also gifts and donations.

The capital account, on the other hand, deals with capital receipts and payments of debts and claims. The current account of the balance of payments affects the level of national income directly. For instance, when India sells its currently produced goods and services to foreign countries, the producers of those goods get income from abroad.

In other words, current account receipts have the effect of increasing the flow of income in the country. On the other hand, when India imports goods and services from foreign countries and pays them money which would have been used to demand goods and services within the country money flows out to foreign countries.

Thus, current account payments to foreigners involve reduction of the flow of income within the country and constitute a leakage. Thus, the current account of the balance of payments has a direct effect on the level of income in a country. The capital account, however, does not have such a direct effect on the level of income; it influences the volume of assets which a country holds.

Balance of Payments on Current Account:

Two types of Balance of Payments are distinguished:

(1) Balance of Payments on Current Account, and

(2) Balance of Payments on Capital Account.

We first explain the meaning and components of balance of payments on current account.

Balance of payments on current account is more comprehensive in scope than balance of trade. It includes not only imports and exports of goods which are visible items but also invisible items such as foreign travel, transportation (shipping, air transport etc.), insurance, tourism, investment income (e.g. interest on investments), transfer payments i.e. donations, gifts, etc.

A country, say India, has to make payments to the other countries not only for its imports of merchandise but also for tourists travelling abroad, insurance and shipping services rendered by other countries. Further, it has to pay the royalties to foreign firms, expenditure of Indians in foreign countries, interest on foreign investment in India. These are debit items for India, since the transactions involve payments made to the rest of the world. In the same way, foreign countries import goods from India, make use of Indian films and so on, for all of which they make payments to India.

An important item which has recently emerged as an item of invisible exports is software exports which has become good foreign exchange earner. These are the credit items for India as the latter receives payments. Balance of payments thus gives a comprehensive picture of all such transactions including imports and exports of goods and services concerned.

The Table 2.4 (given below) gives the position of India's balance of payments on current account for the years 2007-08 to 2011-12. In this table balance of payments the visible as well as invisible items of trade are given. The visible items are export-import of goods and the invisible items of balance of payments on current account are travel, transportation and insurance, interest on loans given and other investment income on private and official transfers.

Table 2.4. India's Balance of Payments on Current Account (in Billion US $)

S.No.	Items	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Exports	166.2	189.0	182.2	256.2	309.8	306.6
2.	Imports	257.6	307.6	300.6	383.5	499.5	592.2
3.	Trade Balance	–91.5	–118.6	–118.4	–127.3	–189.9	–195.7
		(–7.4)	(–9.8)	(–8.6)	(–7.8)	(–10.1)	(–10.8)
4.	Invisibles (Net)	75.7	89.9	79.9	79.3	111.6	64.9
	(*i*). Non-factor Services	38.9	49.6	35.7	44.1	64.1	–
	(*ii*). Investment Income	–5.1	–4.0	–8.0	–17.9	–16.0	–
	(*iii*). Private Transfers	41.7	44.6	52.3	53.1	63.5	–
5.	Goods and Services Balance	–52.6	–69.0	–83.0	–83.2	–125.7	–130.7
6.	Current Account Balance (Net)	–15.7	–28.7	–38.4	–48.1	–78.2	–87.8
		(–1.3)	(–2.4)	(–2.8)	(–2.7)	(–4.2)	(4.8)

Both visible and invisible items together make up the current account. Interest on loans, tourist expenditure, banking and insurance charges, software services etc., are similar to visible trade since receipts from selling such services to the foreigners are very similar in their effects to the receipts from sales of goods; both provide income to the people who produce the goods or services.

It will be noted from Table 2.4 above that the most important item in the balance of payments on current account is balance of trade which refers to imports and exports of goods. In Table 2.4 balance of trade does not balance and shows a deficit in all the seven years. In the years 2011-12 and 2012-13 trade deficit has substantially increased. Trade deficit was over 10 per cent of GDP in both these years.

In fact, it is huge trade deficit in these two years that has caused huge current account deficit of over 4% of GDP in these two years. Economic slowdown in advanced countries and its spillover effects in Emerging Market Economies coupled with high crude oil and gold prices were responsible for sharp increase in trade deficit.

Due to surplus in invisibles account, there was a surplus on current account during 2001-2002, 2002-03 and 2003-04. In India's balance of payments on current account from 2004-05 onwards there has been a deficit. Contrary to popular perception, deficit on current account is not always bad provided it is within reasonable limits and can be easily met by non-debt capital receipts. In fact, deficit on current account represents the extent of absorption of capital inflows in India during a year.

It may be noted that when there is deficit on the current account, it is financed either by using foreign exchange reserves held by Reserve Bank of India or by capital flows that come into the country in the form of foreign direct investment (FDI) and portfolio investment by FIIs, external commercial borrowing (ECB) from abroad and by NRI deposits in foreign exchange account in our banks.

However, due to global financial crisis in 2008-09, there was first slowdown and then decrease in exports. As a result, there was a large deficit of 2.4 of per cent of GDP on current account which could not be met by capital inflows as they were quite meagre ($ 8.6 billion) as a result of global financial crisis. Therefore, to finance the deficit on current account in 2008-09 we had to withdraw US $ 20 billion from our foreign exchange reserves. Again, in the two years 2011-12 and 2012-13 the current account deficit (CAD) had been quite high.

It may be noted that high current deficit tends to weaken the rupee by raising the demand for US dollars. In 2011- 12, the current account deficit tended to weaken the rupee by raising the demand for US dollars. In 2011-12, the current account deficit was 4.2 per cent of GDP. Since capital inflows in this year were not adequate to finance the current account deficit, RBI had to withdraw 12.8 billion US dollars from its foreign exchange reserves to meet the demand for US dollars.

In the year 2012-13 the current account deficit has been estimated to be even higher at 4.8 per cent of GDP, capital inflows through portfolio investment by FIIs had picked up in the latter half of 2012-13 but capital inflows through FDI had fallen. However, we managed to meet such large account deficit through capital inflows. In fact we added to our foreign exchange reserves by $3.8 billion in 2012-13.

Thus current account deficit poses serious challenge to macroeconomic management of the economy. The dependence on volatile capital inflows through FIIs to meet the current account deficit is unsustainable as these capital flows go back when global situation worsens and thereby cause sharp depreciation in exchange rate of rupee and crash in stock market prices.

Since in the recent years, 2011-12 and 2012-13 current account deficit has widened, this has increased the balance of payments vulnerability to sudden reversal of capital flows, especially when sizable flows comprise debt and volatile portfolio investment by FIIs. The priority has therefore been to reduce current account deficit (CAD) through improving trade balance. Efforts have been made to promote exports by diversifying the export commodity basket and export destinations.

One way to limit imports is to bring domestic prices up to the international level so that users bear the full cost. Accordingly, petrol has been decontrolled and diesel prices have been revised upward in Jan. 2013 to curtail subsidy on it. To discourage the imports of gold which has played a significant role in causing trade deficit, customs duty on its import was raised from 6% to 8% and further to 10% in July 2013.

Further, to improve the current account deficit emphasis has been on facilitating remittances and encouraging software exports that have been responsible for surplus on the invisible account. In recent years this surplus has lowered the impact of widening trade deficit on current account deficit (CAD) significantly.

The two components together met nearly two-thirds of the trade deficit that was more than 10 per cent of GDP in 2011-12. Remittances particularly are known to exhibit resistance when the country is hit by external shock as was evident during the global crisis of2008.

Balance of Payments on Capital Account:

In the balance of payments on capital account given in Table 2.5 important items are borrowings from foreign countries and lending funds to other countries.

This takes two forms:

(i) External assistance which means borrowing from foreign countries under concessional rate of interest;

(ii) Commercial borrowing under which the Indian Government and the private sector borrow funds from world money market at higher market rate of interest.

Besides non-resident deposits are another important item in capital account. These are the deposits made by non-resident Indians (NRI) who keep their surplus funds with Indian Banks. Another important item in balance of payments on capital account is foreign investment by foreign companies in India. There are two types of foreign investment. First is portfolio investment under which foreign institutional investors (FIIs) purchase shares (equity) and bonds of Indian companies and Government.

The second is foreign direct investment (FDI) under which foreign companies set up plants and factories on their own or in collaboration with the Indian companies. Still another item in capital account is other capital flows in which the important source of funds is remittances from abroad sent by the Indian citizens working in foreign countries. Table 2.5 gives the position of India's capital account for the years 2007-08 to 2012-13.

Capital inflows in the capital account can be classified into debt creating and non-debt creating. Foreign investment (both direct and portfolio) represents non-debt creating capital inflows, whereas external assistance (i.e. concessional loans taken from abroad), external commercial borrowing (ECB) and non-resident deposits are debt-creating capital inflows.

Table 2.5. India's Balance of Payments on Capital Account (in Billion US $)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
External Assistance (Net)	2.1	2.6	2.9	4.93	2.3	–
Commercial Borrowing (Net)	22.6	7.0	2.8	11.8	10.3	–
Non-Resident Deposits (Net)	0.2	– 4.3	N.A	3.18	11.9	–
Foreign Investment (Net) of which	43.3	3.5	51.2	44.18	39.3	–
(*i*) FDI net	15.9	17.5	18.8	7.1	22.1	–
(*ii*) Portfolio Investment (Net)	27.4	–15.0	32.4	37.2	17.2	–
(*iii*) Other capital flows (Net)	39.7	–9.7	–13.1	–10.36	–	–
Capital Account Total (Net)	107.9	8.6	53.4	59.7	67.8	–
Use of Exchange Reserves*	–92.2	+20.1*	–13.4*	(–13.1)	(+12.8)	–3.8

It will be seen from Table 2.5 that during 2007-08, there was net capital inflow of 43.3 billion US dollars on account of foreign investment (both direct and portfolio). Table 2.5 gives the position of India's balance of payments in capital account for seven years, 2007-08,2008-09,2009-10,2010- 11, 2011-12 and 2012-13.

When all items of balance of payments on capital account are taken into account we had a surplus of 107.9 billion US dollars in 2007-08. Taking into current account deficit of $ 15.7 billion on current account in year 2007-08 there was accretion to our foreign exchange reserves by $ 92.2 billion in 2007-08.

Global financial crisis affected our capital account balance as there was reversal of capital flows after Sept. 2008 with the result that we used $ 20.1 billion of our foreign exchange reserves in 2008-09 resulting in decrease of our foreign exchange reserves. That is, because we used our foreign exchange reserves equal to $ 20.1 billion, there was decline in our foreign exchange reserves by $ 20 billion in 2008-09.

The situation improved in 2009-10 as foreign direct investment (FDI) and portfolio investment by FIIs picked up. As a result there was net capital account surplus of $ 53.4 billion in 2009-10 and after meeting the current account deficit of $ 38 billion there was addition to our foreign exchange reserves by $ 13.4 billion in 2009-10. In 2010-11 also there was surplus on capital account of $ 59.7 billion and after meeting current deficit we added $ 13.1 billion in our foreign exchange reserves in 2010.11.

However, in 2011 -2012 and 2012-13 the situation regarding capital flows changed significantly and capital flows were not sufficient to meet the large current account deficit (CAD). Consequently, in 2011-12 withdrawal from foreign exchange reserves of 12.8 million US dollars was made. Capital flows are driven by pull factors such as economic fundamentals of recipient countries and push factors such as policy stance of source countries.

The capital flows have implications for exchange rate management, overall macroeconomic and financial stability including liquidity conditions. Capital account management therefore needs to emphasize promoting foreign direct investment (FDI) and reducing dependence on volatile portfolio capital inflows.

This would ensure that to the extent current account defect is bridged through capital surplus it would be better if it is done through stable and growth-enhancing foreign direct investment flows. In the present international financial situation, reserves are the first line of defense against the volatile capital flows. However, the decline in reserves as a percentage of GDP is a source of concern.

When all items of balance of payments of capital account are taken into account we had a surplus of 6.8, 53.9 and 59.7 billion US dollars in 2008-09, 2009-10 and 2010-11. Small size surplus on capital account of 6.8 billion US dollars in 2008-09 was due to large portfolio capital outflows by FII, which occurred because of global financial crisis in 2008-09. As a result of this, capital flows fell short of current account deficit of 27.9 billion US dollars resulting in deficit of 20.1 billion US dollars in 2008-09.

As a consequence our foreign exchange reserves declined by $ 20.1 billion in 2008-09. However, in 2009-10 and 2010-11, there were enough capital account surpluses so that after meeting current account deficit we added to our foreign exchange reserves by $ 13.4 and $ 13.1 billion in our foreign exchange reserves in 2009-10 and 2010-11.

Further, it is important to note that surplus on capital account is mainly due to foreign investment in India, external commercial borrowing and NRI deposits which do not belong to us. These investment funds, especially foreign institutional investment funds and Non-Resident Deposits, can flow out of India if situation in India is not favorable.

This in fact happened in the year 2008-09 when as a result of global financial crisis FIIs (Foreign Institutional Investors) sold corporate shares in the Indian stock market and capital outflow from India took place on a large scale.

Determinants of Balance of Payments:

It may be further noted that when there is a deficit in the current account, it has to be financed either by using foreign exchange reserves with Reserve of Bank, if any, or by capital inflows (in the form of foreign assurance, commercial borrowing from abroad, non-residential deposits).

There are several variables which determine the balance of payments position of a country, viz., national income at home and abroad, the prices of goods and factors, the supply of money, the rate of interest, etc. all of which determine exports, imports, and demand and supply of foreign currency.

At the back of these variables lie the supply factors, production function, the state of technology, tastes, distribution of income, economic conditions, the state of expectations, etc. If there is a change in any of these variables and there are no appropriate changes in other variables, disequilibrium will be the result.

The main cause of disequilibrium in the balance of payments arises from imbalance between exports and imports of goods and services that is, deficit or surplus in balance of payments. When for one reason or another exports of goods and services of a country are smaller than their imports, disequilibrium in the balance of payments is the likely result.

Exports may be small due to the lack of exportable surplus which in turn results from low production or the exports may be small because of the high costs and prices of exportable goods and severe competition in the world markets.

Important causes of small exports are the inflation or rising prices in the country or over-valued exchange rate. When the prices of goods are high in the country, its exports are discouraged and imports encouraged. If it is not matched by other items in the balance of payments, disequilibrium emerges.

Does Balance of Payments Must Always Balance?

It is often said that balance of payments must always balance. What does it mean? The individuals and business firms of an economy have to pay for the imports from abroad. If exports are not sufficient to pay for the imports, then how the balance of payments will be in balance.

For example, the balance of payments on current account of India has been in deficit for most of the years till 2000 01. Deficit on current account implies that the residents of a country are spending more on imports of goods and services than the incomes they are earning from exports of goods and services.

For the overall balance of payments to be in balance, this deficit in the current account of the balance of payments must be financed by selling capital assets of such as shares and bonds of companies or other assets such as gold or foreign exchange reserves of a country or by borrowing from abroad.

Both by selling assets and by borrowing from abroad, foreign capital flows into the country as has been happening in the last several years in India. These foreign capital inflows are shown in the capital account of the balance of payments which must be in surplus to finance the deficit in the current account.

Thus current account + capital account surplus = 0…. (i)

The above fact has an important lesson that must be borne in mind. If a country has no foreign currency reserves or it has no assets to sell to pay for the imports and if nobody is willing to lend to it, it will have to cut down its imports which will reduce productive activity in the economy and adversely affect economic growth of the country.

Such a crisis situation arose in India in 1991 when our foreign exchange reserves had fallen to a very low level and no one was willing to lend to us or give us aid. In fact, due to loss of confidence of foreign investors, capital outflows were taking place.

Therefore, in 1991 India had to mortgage gold to Bank of England and Central Bank of Japan to get the necessary foreign exchange to pay for the needed imports. We had to accept the pre-conditions of IMF for providing us assistance to tide over the crisis. It is interesting to note this was done under the guidance of Dr. Manmohan Singh who was then the Finance Minister.

Capital Flows and Globalization:

The globalization of the Indian economy has an important consequence with regard to capital flows into the economy. Suppose India faces given prices of its imports and a given demand for its exports of goods and services. Under these circumstances, if domestic rate of interest is higher as compared to what exists abroad, then given the mobility of capital, capital will flow into the Indian economy to a very large extent.

This principle can be expressed as follows:

BP = NX (Yd Yf, R) + CF (If – Id) … (ii)

where BP = balance of payments, NX is net exports (i.e. exports-imports which is also called trade balance, CF stands for surplus in the capital account of the balance of payments, that is, capital flows.

The above equation reveals that trade balance (NX) is a function of level of domestic income (Yd) and foreign income (Yf) and real rate of exchange (R). An increase in the domestic income due to higher industrial growth or fall in real exchange rate of rupee will adversely affect the trade balance (NX) by increasing imports. lf– Id in equation (ii) measures net foreign investment, i.e. net capital inflows.

Further, the above equation shows that higher interest rate in India as compared to that in the foreign country such as the United States will cause large capital inflows into India. Such capital inflows actually took place in India 2009-10 and

2010-11. Due to large capital inflows into the Indian economy our foreign exchange reserves increase. However, when there are large capital outflows as occurred during 2008-09, our foreign exchange reserves decline.

Balance of Payments (BoP):

The balance of payments, also known as balance of international payments and abbreviated B.O.P. or BoP, of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period of time (e.g., a quarter of a year). These transactions are made by individuals, firms and government bodies. Thus the balance of payments includes all external visible and non-visible transactions of a country. It is an important issue to be studied, especially in international financial management field, for a few reasons.

First, the balance of payment provides detailed information concerning the demand and supply of a country's currency. For example, if Sudan imports more than it exports, then this means that the quantity of Sudanese pounds supplied by the domestic market is likely to exceed the quantity demanded in the foreign exchanging market, ceteris paribus. One can thus infer that the Sudanese pound would be under pressure to depreciate against other currencies. On the other hand, if Sudan exports more than it imports, then the Sudanese pound would be likely to appreciate.

Second, a country's balance of payments data may signal its potential as a business partner for the rest of the world. If a country is grappling with a major balance of payments difficulty, it may not be able to expand imports from the outside world. Instead, the country may be tempted to impose measures to restrict imports and discourage capital outflows in order to improve the balance of payments situation. On the other hand, a country with a significant balance of payments surplus would be more likely to expand imports, offering marketing opportunities for foreign enterprises, and less likely to impose foreign exchange restrictions.

Third, balance of payments data can be used to evaluate the performance of the country in international economic competition. Suppose a country is experiencing trade deficits year after year. This trade data may then signal that the country's domestic industries lack international competitiveness.

To interpret balance of payments data properly, it is necessary to understand how the balance of payments account is constructed. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. It is prepared in a single currency, typically the domestic currency for the country concerned. The balance of payments accounts keep systematic records of all the economic transactions (visible and non-visible) of a country with all other countries in the given time period. In the BoP accounts, all the receipts from abroad are recorded as credit and all the payments to abroad are debits. Since the accounts are maintained by double entry bookkeeping, they show the balance of payments accounts are always balanced. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items.

When all components of the BoP accounts are included they must sum to zero with no overall surplus or deficit. For example, if a country is importing more than it exports, its trade balance will be in deficit, but the shortfall will have to be counterbalanced in other ways – such as by funds earned from its foreign investments, by running down currency reserves or by receiving loans from other countries.

While the overall BoP accounts will always balance when all types of payments are included, imbalances are possible on individual elements of the BoP, such as the current account, the capital account excluding the central bank's reserve account, or the sum of the two. Imbalances in the latter sum can result in surplus countries accumulating wealth, while deficit nations become increasingly indebted. The term "balance of payments" often refers to this sum: a country's balance of payments is said to be in surplus (equivalently, the balance of payments is positive) by a specific amount if sources of funds (such as export goods sold and bonds sold) exceed uses of funds (such as paying for imported goods and paying for foreign bonds purchased) by that amount. There is said to be a balance of payments deficit (the balance of payments is said to be negative) if the former are less than the latter. A BoP surplus (or deficit) is accompanied by an accumulation (or dissimulation) of foreign exchange reserves by the central bank.

Under a fixed exchange rate system, the central bank accommodates those flows by buying up any net inflow of funds into the country or by providing foreign currency funds to the foreign exchange market to match any international outflow of funds, thus preventing the funds flows from affecting the exchange rate between the country's currency and other currencies. Then the net change per year in the central bank's foreign exchange reserves is sometimes called the balance of payments surplus or deficit. Alternatives to a fixed exchange rate system include a managed float where some changes of exchange rates are allowed, or at the other extreme a purely floating exchange rate (also known as a purely flexible exchange rate). With a pure float the central bank does not intervene at all to protect or devalue its currency, allowing the rate to be set by the market, the central bank's foreign exchange reserves do not change, and the balance of payments is always zero.

Components

The current account shows the net amount of a country's income if it is in surplus, or spending if it is in deficit. It is the sum of the balance of trade (net earnings on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and unilateral transfers. These items include transfers of goods and services or financial assets between the home country and the rest of the world. Private transfer payments refer to gifts made by individuals and nongovernmental institutions to foreigners. Governmental transfers refer to gifts or grants made by one government to foreign residents or foreign governments. When investment income and unilateral transfers are combined with the balance on goods and services, we arrive at the current account balance. It is called the current account as it covers transactions in the "here and now" – those that don't give rise to future claims.

The capital account records the net change in ownership of foreign assets. It includes the reserve account (the foreign exchange market operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future interest payments and dividends that the loans and investments yield; those are earnings and will be recorded in the current account). If a country purchases more foreign assets for cash than the assets it sells for cash to other countries, the capital account is said to be negative or in deficit.

The term "capital account" is also used in the narrower sense that excludes central bank foreign exchange market operations: Sometimes the reserve account is classified as "below the line" and so not reported as part of the capital account.

Expressed with the broader meaning for the capital account, the BoP identity states that any current account surplus will be balanced by a capital account deficit of equal size – or alternatively a current account deficit will be balanced by a corresponding capital account surplus:

The balancing item, which may be positive or negative, is simply an amount that accounts for any statistical errors and assures that the current and capital accounts sum to zero. By the principles of double entry accounting, an entry in the current account gives rise to an entry in the capital account, and in aggregate the two accounts automatically balance. A balance isn't always reflected in reported figures for the current and capital accounts, which might, for example, report a surplus for both accounts, but when this happens it always means something has been missed – most commonly, the operations of the country's central bank – and what has been missed is recorded in the statistical discrepancy term (the balancing item).

An actual balance sheet will typically have numerous sub headings under the principal divisions. For example, entries under Current account might include:

i. Trade – buying and selling of goods and services

ii. Exports – a credit entry

iii. Imports – a debit entry

iv. Trade balance – the sum of Exports and Imports

v. Factor income – repayments and dividends from loans and investments

vi. Factor earnings – a credit entry

vii. Factor payments – a debit entry

viii. Factor income balance – the sum of earnings and payments.

Especially in older balance sheets, a common division was between visible and invisible entries. Visible trade recorded imports and exports of physical goods (entries for trade in physical goods excluding services is now often called the merchandise balance). Invisible trade would record international buying and selling of services, and sometimes would be grouped with transfer and factor income as invisible earnings.

The term "balance of payments surplus" (or deficit – a deficit is simply a negative surplus) refers to the sum of the surpluses in the current account and the narrowly defined capital account (excluding changes in central bank reserves). Denoting the balance of payments surplus as BoP surplus, the relevant identity is

Variations in the use of term "balance of payments"

Economics writer J. Orlin Grabbe warns the term balance of payments can be a source of misunderstanding due to divergent expectations about what the term denotes. Grabbe says the term is sometimes misused by people who aren't aware of the accepted meaning, not only in general conversation but in financial publications and the economic literature.

A common source of confusion arises from whether or not the reserve account entry, part of the capital account, is included in the BoP accounts. The reserve account records the activity of the nation's central bank. If it is excluded, the BoP can be in surplus (which implies the central bank is building up foreign exchange reserves) or in deficit (which implies the central bank is running down its reserves or borrowing from abroad).

The term "balance of payments" is sometimes misused by non-economists to mean just relatively narrow parts of the BoP such as the trade deficit, which means excluding parts of the current account and the entire capital account.

Another cause of confusion is the different naming conventions in use. Before 1973 there was no standard way to break down the BoP sheet, with the separation into invisible and visible payments sometimes being the principal divisions. The IMF has their own standards for BoP accounting which is equivalent to the standard definition but uses different nomenclature, in particular with respect to the meaning given to the term capital account.

The IMF definition of the Balance of Payments

The International Monetary Fund (I.M.F.) use a particular set of definitions for the BoP accounts, which is also used by the Organisation for Economic Co-operation and Development (OECD), and the United Nations System of National Accounts (SNA).

The main difference in the IMF's terminology is that it uses the term "financial account" to capture transactions that would under alternative definitions be recorded in the capital account. The IMF uses the term capital account to designate a subset of transactions that, according to other usage, previously formed a small part of the overall current account.[8] The IMF separates these transactions out to form an additional top level division of the BoP accounts. Expressed with the IMF definition, the BoP identity can be written:

The IMF uses the term current account with the same meaning as that used by other organizations, although it has its own names for its three leading sub-divisions, which are:

- The goods and services account (the overall trade balance)
- The primary income account (factor income such as from loans and investments)
- The secondary income account (transfer payments)
- Balance of payments are also known as "balance of international trade"

Imbalances

While the BoP has to balance overall, surpluses or deficits on its individual elements can lead to imbalances between countries. In general there is concern over deficits in the current account. Countries with deficits in their current accounts will build up increasing debt or see increased foreign ownership of their assets. The types of deficits that typically raise concern are

- A visible trade deficit where a nation is importing more physical goods than it exports (even if this is balanced by the other components of the current account.)
- An overall current account deficit.
- A basic deficit which is the current account plus foreign direct investment (but excluding other elements of the capital account like short terms loans and the reserve account.)

As discussed in the history section below, the Washington Consensus period saw a swing of opinion towards the view that there is no need to worry about imbalances. Opinion swung back in the opposite direction in the wake of the financial crisis of 2007–2009. Mainstream opinion expressed by the leading financial press and economists, international bodies like the IMF – as well as leaders of surplus and deficit countries – has returned to the view that large current account imbalances do matter.[10] Some economists do, however, remain relatively unconcerned about imbalances and there have been assertions, such as by Michael P. Dooley, David Folkerts-Landau and Peter Garber, that nations need to avoid the temptation to switch to protectionism as a means to correct imbalances.

Current account surpluses coincide with current account deficits of other countries, the indebtedness of the latter therefore increasing. According to Balances Mechanics by Wolfgang Stützel this is described as surplus of expenses over revenues. Increasing imbalances in foreign trade are critically discussed as a possible cause of the financial crisis since 2007. Many Keynesian economists consider the existing differences between the current accounts in the euro zone to be the root cause of the Euro crisis, for instance Heiner Flassbeck, Paul Krugman or Joseph Stiglitz.

Causes of BoP imbalances

There are conflicting views as to the primary cause of BoP imbalances, with much attention on the US which currently has by far the biggest deficit. The conventional view is that current account factors are the primary cause – these include the exchange rate, the government's fiscal deficit, business competitiveness, and private behavior such as the willingness of consumers to go into debt to finance extra consumption. An alternative view, argued at length in a 2005 paper by Ben Bernanke, is that the primary driver is the capital account, where a global savings glut caused by savers in surplus countries, runs ahead of the available investment opportunities, and is pushed into the US resulting in excess consumption and asset price inflation.

Reserve asset

The US dollar has been the leading reserve asset since the end of the gold standard.

In the context of BoP and international monetary systems, the reserve asset is the currency or other store of value that is primarily used by nations for their foreign reserves. BoP imbalances tend to manifest as hoards of the reserve asset being amassed by surplus countries, with deficit countries building debts denominated in the reserve asset or at least depleting their supply. Under a gold standard, the reserve asset for all members of the standard is gold. In the Bretton Woods system, either gold or the U.S. dollar could serve as the reserve asset, though its smooth operation depended on countries apart from the US choosing to keep most of their holdings in dollars.

Following the ending of Bretton Woods, there has been no de jure reserve asset, but the US dollar has remained by far the principal de facto reserve. Global reserves rose sharply in the first decade of the 21st century, partly as a result of the 1997 Asian Financial Crisis, where several nations ran out of foreign currency needed for essential imports and thus had to accept deals on unfavorable terms. The International Monetary Fund (IMF) estimates that between 2000 and mid-2009, official reserves rose from $1,900bn to $6,800bn.[21] Global reserves had peaked at about $7,500bn in mid-2008, then declined by about $430bn as countries without their own reserve currency used them to shield themselves from the worst effects of the financial crisis. From Feb 2009 global reserves began increasing again to reach close to $9,200bn by the end of 2010.

As of 2009, approximately 65% of the world's $6,800bn total is held in U.S. dollars and approximately 25% in euros. The UK pound, Japanese yen, IMF special drawing rights (SDRs), and precious metals also play a role. In 2009, Zhou Xiaochuan, governor of the People's Bank of China, proposed a gradual move towards increased use of SDRs, and also for the national currencies backing SDRs to be expanded to include the currencies of all major economies. Dr Zhou's proposal has been described as one of the most significant ideas expressed in 2009.

While the current central role of the dollar does give the US some advantages, such as lower cost of borrowings, it also contributes to the pressure causing the U.S. to run a current account deficit, due to the Triffin dilemma. In a November 2009 article published in Foreign Affairs magazine, economist C. Fred Bergsten argued that Dr Zhou's suggestion or a similar change to the international monetary system would be in the United States' best interests as well as the rest of the world's. Since 2009 there has been a notable increase in the number of new bilateral agreements which enable international trades to be transacted using a currency that isn't a traditional reserve asset, such as the renminbi, as the Settlement currency.

Balance of payments crisis

A BoP crisis, also called a currency crisis, occurs when a nation is unable to pay for essential imports or service its external debt repayments. Typically, this is accompanied by a rapid decline in the value of the affected nation's currency. Crises are generally preceded by large capital inflows, which are associated at first with rapid economic growth. However a point is reached where overseas investors become concerned about the level of debt their inbound capital is generating, and decide to pull out their funds. The resulting outbound capital flows are associated with a rapid drop in the value of the affected nation's currency. This causes issues for firms of the affected nation who have received the inbound investments and loans, as the revenue of those firms is typically mostly derived domestically but their debts are often denominated in a reserve currency. Once the nation's government has exhausted its foreign reserves trying to support the value of the domestic currency, its policy options are very limited. It can raise its interest rates to try to prevent further declines in the value of its currency, but while this can help those with debts denominated in foreign currencies, it generally further depresses the local economy.

Balancing mechanisms

One of the three fundamental functions of an international monetary system is to provide mechanisms to correct imbalances.

Broadly speaking, there are three possible methods to correct BoP imbalances, though in practice a mixture including some degree of at least the first two methods tends to be used. These methods are adjustments of exchange rates; adjustment of nation’s internal prices along with its levels of demand; and rules based adjustment. Improving productivity and hence competitiveness can also help, as can increasing the desirability of exports through other means, though it is generally assumed a nation is always trying to develop and sell its products to the best of its abilities.

Rebalancing by changing the exchange rate

An upwards shift in the value of a nation's currency relative to others will make a nation's exports less competitive and make imports cheaper and so will tend to correct a current account surplus. It also tends to make investment flows into the capital account less attractive so will help with a surplus there too. Conversely a downward shift in the value of a nation's currency makes it more expensive for its citizens to buy imports and increases the competitiveness of their exports, thus helping to correct a deficit (though the solution often doesn't have a positive impact immediately due to the Marshall–Lerner condition).

Exchange rates can be adjusted by government in a rules based or managed currency regime, and when left to float freely in the market they also tend to change in the direction that will restore balance. When a country is selling more than it imports, the demand for its currency will tend to increase as other countries ultimately need the selling country's currency to make payments for the exports. The extra demand tends to cause a rise of the currency's price relative to others. When a country is importing more than it exports, the supply of its own currency on the international market tends to increase as it tries to exchange it for foreign currency to pay for its imports, and this extra supply tends to cause the price to fall. BoP effects are not the only market influence on exchange rates however; they are also influenced by differences in national interest rates and by speculation.

Rebalancing by adjusting internal prices and demand

When exchange rates are fixed by a rigid gold standard, or when imbalances exist between members of a currency union such as the Euro zone, the standard approach to correct imbalances is by making changes to the domestic economy. To a large degree, the change is optional for the surplus country, but compulsory for the deficit country. In the case of a gold standard, the mechanism is largely automatic. When a country has a favorable trade balance, as a consequence of selling more than it buys it will experience a net inflow of gold. The natural effect of this will be to increase the money supply, which leads to inflation and an increase in prices, which then tends to make its goods less competitive and so will decrease its trade surplus. However the nation has the option of taking the gold out of economy (sterilizing the inflationary effect) thus building up a hoard of gold and retaining its favorable balance of payments. On the other hand, if a country has an adverse BoP it will experience a net loss of gold, which will automatically have a deflationary effect, unless it chooses to leave the gold standard. Prices will be reduced, making its exports more competitive, and thus correcting the imbalance. While the gold standard is generally considered to have been successful up until 1914, correction by deflation to the degree required by the large imbalances that arose after WWI proved painful, with deflationary policies contributing to prolonged unemployment but not re-establishing balance. Apart from the US most former members had left the gold standard by the mid-1930s.

A possible method for surplus countries such as Germany to contribute to re-balancing efforts when exchange rate adjustment is not suitable is to increase its level of internal demand (i.e. its spending on goods). While a current account surplus is commonly understood as the excess of earnings over spending, an alternative expression is that it is the excess of savings over investment. That is:

Where CA = current account, NS = national savings (private plus government sector), NI = national investment.

If a nation is earning more than it spends the net effect will be to build up savings, except to the extent that those savings are being used for investment. If consumers can be encouraged to spend more instead of saving; or if the government runs a fiscal deficit to offset private savings; or if the corporate sector divert more of their profits to investment, then any current account surplus will tend to be reduced. However, in 2009 Germany amended its constitution to prohibit running a deficit greater than 0.35% of its GDP and calls to reduce its surplus by increasing demand have not been welcome by officials, adding to fears that the 2010s would not be an easy decade for the euro zone. In their April 2010 world economic outlook report, the IMF presented a study showing how with the right choice of policy options governments can shift away from a sustained current account surplus with no negative effect on growth and with a positive impact on unemployment.

Rules based rebalancing mechanisms

Nations can agree to fix their exchange rates against each other, and then correct any imbalances that arise by rules based and negotiated exchange rate changes and other methods. The Bretton Woods system of fixed but adjustable exchange rates was an example of a rules based system. John Maynard Keynes, one of the architects of the Bretton Woods system had wanted additional rules to encourage surplus countries to share the burden of rebalancing, as he argued that they were in a stronger position to do so and as he regarded their surpluses as negative externalities imposed on the global economy. Keynes suggested that traditional balancing mechanisms should be supplemented by the threat of confiscation of a portion of excess revenue if the surplus country did not choose to spend it on additional imports. However his ideas were not accepted by the Americans at the time. In 2008 and 2009, American economist Paul Davidson had been promoting his revamped form of Keynes's plan as a possible solution to global imbalances which in his opinion would expand growth all rounds without the downside risk of other rebalancing methods.

UNIT- II
IMPORT POLICY AND EXPORT PROMOTION SCHEMES

2.1. Salient features of India's export import policy:

Govt. of India introduced a series of trade reforms since July 1991 as part of economic liberalization.

The aim of the new policy was to promote exports and to remove restrictions on imports.

The following are the salient features of the new export, import policy:

1. Increase in number of Export Items:

The Govt. has identified many new products for exports. They are fish and fish preparations, agricultural products and marine products etc. These products are import-light and hence pressure on foreign exchange was relieved.

2. Special Economic Zones:

For promotion of exports, special economic zones (SEZ) have been established. SEZ units are deemed to be foreign territory for the purpose of trade operations and tariffs. The main objective of the SEZ units is to provide a congenial atmosphere for exports. Indian banks were pre-mitted to establish off share banking units in SEZ. These units will attract foreign direct investments (FDI's) and would be free from cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

3. Role of Public Sector Agencies:

Certain exports are controlled by Public sector agencies like State Trading Corporations (STC), Mineral and Metal Trading Corporation (MMTC). Now these are asked to compete with other exporters. Foreigners have been permitted to set up trading houses for export purposes.

4. Restriction Free Export Policy:

Restrictions on exports have been reduced to minimum according to new policy. Export restrictions have been imposed on a few sensitive commodities taking the domestic demand and supply factors into consideration. Export duties are now not considered as source of revenue generation but a means of increasing the competitiveness of domestic exporters in the international market.

5. Liberalization of Export-Oriented Import:

Import licenses were removed from most of the items. Provisions were made to levy low custom duties an imports which were used as inputs for production of export goods. Imports were linked to the availability of foreign exchange generated through exports.
Import duties were gradually reduced and the objective was to equal the same with other countries of the world. The restrictions laid on import of all items were removed to conform to the WTO norms and these were put under Open General License (OGL) list. This process liberalized imports and simplified export-import procedures.

6. Convertibility of Rupee:

To increase exports, the rupee was made partly convertible on current account. In 1994-95 budget rupee was made fully convertible.

7. Devaluation of Rupee:

Generally speaking, devaluation of rupee means lowering the value of rupee in terms of foreign currencies. Devaluation makes domestic goods cheaper in the foreign market. To cover the balance of payment difficulty. Govt. of India devalued rupee in June 1991 by 23%. This helped in encouraging exports.

2.2. Objectives of EXIM/trade policy:

The Export-Import Policy (EXIM Policy), announced under the Foreign Trade (Development and Regulation Act), 1992, would reflect the extent of regulations or liberalization of foreign trade and indicate the measures for export promotion. Although the EXIM Policy is announced for a five- year period, announcing a Policy on March 31st of every year, within the broad frame of the Five Year Policy, for the ensuring year.

EXIM Policy

A very important feature of the EXIM policy since 1992 is freedom. Licensing, quantitative restrictions and other regulatory and discretionary controls have been substantially eliminated.

The Union Commerce Ministry, Government of India announces the integrated Foreign Trade Policy FTP in every five year. This is also called EXIM policy. This policy is updated every year with some modifications and new schemes. New schemes come into effect on the first day of financial year, i.e., April 1, every year. The Foreign Trade Policy which was announced on August 28, 2009 is an integrated policy for the period 2009-14.

Export-Import (EXIM) Policy frames rules and regulations for exports and imports of a country. This policy is also known as Foreign Trade Policy. It provides policy and strategy of the government to be followed for promoting exports and regulating imports. This policy is periodically reviewed to incorporate necessary changes as per changing domestic and international environment. In this policy, approach of government towards various types of exports and imports is conveyed to different exporters and importers.

Export refers to selling goods and services to other countries, while import means buying goods and services from other countries. Now in the era of globalization, no economy in the world can remain cut-off from rest of the world. Export and import play a significant role in the economic development of all the developed and developing economies. With the growth of international organizations like WTO, UNCTAD, ASEAN, etc., world trade is growing at a very fast rate.

- To facilitate sustained growth in exports from India and import in India.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods scheme required for augmenting production and providing services.
- To enhance the technological strength and efficiency of Industry Agriculture industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
- To provide clients with high-quality goods and services at globally competitive rates. Canalization is an important feature of Exim Policy under which certain goods can be imported only by designated agencies. For an example, an item like gold, in bulk, can be imported only by specified banks like SBI and some foreign banks or designated agencies.
- The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current policy covers the period 2002-2007. The Export Import Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year.
- All types of changes or modifications related to the Exim Policy is normally announced by the Union Minister of Commerce and Industry who co-ordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of DGFT regional offices.
- To provide a stable and sustainable policy environment for foreign trade in merchandise and services;
- To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", Digital India and Skill India to create an ‘Export Promotion Mission’ for India;

- To promote the diversification of India's export by helping various sectors of the Indian economy to gain global competitiveness with a view to promote exports;

- To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's product and contributing to the government's flagship "Make in India" initiative;

- To provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

2.3. Instruments of trade Policy:

Trade policy is a collection of rules and regulations which pertain to trade. Every nation has some form of trade policy in place, with public officials formulating the policy which they think would be most appropriate for their country. The purpose of trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners. In many regions, groups of nations work together to create mutually beneficial trade policies.

Trade policy uses seven main instruments:

1. Tariffs
2. Subsidies
3. Import Quotas
4. Voluntary Export Restraints
5. Local content requirements
6. Administration policy
7. Anti dumping duties.

1) Tariff:

An import tariff is a tax collected on imported goods. Generally speaking, a tariff is any tax or fee collected by a government. However, the term is much commonly applied to a tax on imported goods. There are two basic ways in which tariffs may be levied:

1. specific tariffs &

2. Ad valorem tariffs.

1. Specific tariffs:

Are levied as a fixed charge for each unit of a good imported.

2. Ad volorem Tariffs:

Are levied as a proportion of the value of the imported goods.

A tariff raises the cost f imported products. In most cases, tariffs are put in place to protect domestic producers from foreign competition.

Gainers:

1. The government gains, because the tariff increases govt. revenues.

2. Domestic producers gain because the tariff affords them some protection against foreign-competitors by increasing the cost of imported foreign goods.

Sufferers:

1. Consumers suffer, because they must pay more for certain imports.

2) Subsidies:

A subsidy is a government payment to a domestic producer. Subsidies take many forms including cash grants, low-interest, tax breaks and government equity participation in domestic and government producers in two ways:

1. They help producers compete against foreign imports and

2. Subsidies help them gain export markets.

The main gains from subsidies accrue to domestic producers, whose international competitiveness is increased as a result of them.

3) Import Quotas:

An import is a direct restriction on the quantity of some good that may be imported into a country. This restriction is usually enforced by issuing import licenses to a group of individuals or firms.

Import quotas are limitations on the quantity of goods that can be imported into the country during a specified period of time. An import quota is typically set below the free trade level of imports. In this case it is called a binding quota. If a quota is set at or above the free trade level of imports then it is referred to as a non-binding quota.

Goods that are illegal within a country effectively have a quota set equal to zero. Thus many countries have a zero quota on narcotics and other illicit drugs.

There are two basic types of quotas: absolute quotas and tariff-rate quotas. Absolute quotas limit the quantity of imports to a specified level during a specified period of time.

Tariff-rate quotas allow a specified quantity of goods to be imported at a reduced tariff rate during the specified quota period.

4) Voluntary Export Restraints (VERs):

A voluntary export restraint is a restriction set by a government on the quantity of goods that can be exported out of a country during a specified period of time. Often the word voluntary is placed in quotes because these restraints are typically implemented upon the insistence of the importing nations.

Typically VERs arise when the import-competing industries seek protection from a surge of imports from particular exporting countries. VERs are then offered by the exporter to appease the importing country and to avoid the effects of possible trade restraints on the part of the importer.

Example: one of the most famous examples is the limitation on auto exports to the United States enforced by Japanese automobile producer in 1981.

Foreign producers agree to VERs because they fear for more damaging punitive tariffs or import quotas might follow if they do not.

Benefits:

1. Both imports and quotas and VERs benefit domestic producers by limiting competition.

Sufferers:

1. VER always raises the domestic price of an imported goods, so VER do not benefit consumers.

5) Local Content Requirements:

A local content requirement is a requirement that some specific fraction of a good be produce domestically. The requirement may be expressed either in physical terms (75% of component parts for this product must be produced locally) or in value terms (75% of the value of this product must be produced locally). It also tends to benefit producers and not customers. They have been used mainly in developing and developed countries.

6) Administrative Policies:

Administrative trade policies are bureaucratic rules that are designed to make it difficult for imports to enter a country. In addition to the formal instruments of trade policy, govt. of all types sometimes uses informal or administrative policies to restrict imports & boost exports. Some would agree that the Japanese are the masters of this kind of trade barrier.

As with all instruments of trade, administrative instruments benefits producers and hurt consumers, who are derived access to possibly superior foreign products.

7) Anti-dumping policies:

In the context of international trade, dumping is defined as selling goods in a foreign market at below their costs of productive, or as selling goods in a foreign market at below their "fair" market value. "Fair" market value of a good is normally judged to be greater than the costs of producing that good.

2.4. Duty exemption schemes:

EXPORT PROMOTION SCHEMES

Foreign Trade Policy 2015-20 and other schemes provide promotional measures to boost India's exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Brief of these measures are as under:

1. Exports from India Scheme

i. Merchandise Exports from India Scheme (MEIS)

Under this scheme, exports of notified goods/ products to notified markets as listed in Appendix 3B of Handbook of Procedures are granted freely transferable duty credit scrips on realized FOB value of exports in free foreign exchange at specified rate. Such duty credit scrips can be used for payment of basic custom duties for import of inputs or goods.

Exports of notified goods of FOB value up to Rs 5,00,000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit. List of eligible category under MEIS if exported through using e-commerce platform is available in Appendix 3C.

ii. Service Exports from India Scheme (SEIS)

Service providers of notified services as per Appendix 3D are eligible for freely transferable duty credit scrip @ 5% of net foreign exchange earned.

2. DUTY EXEMPTION & REMISSION SCHEMES

These schemes enable duty free import of inputs for export production with export obligation. This scheme consists of:-

2.1 Advance Authorization Scheme

Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION or on the basis of self declaration, as per procedures of FTP. AA normally have a validity period of 12 months for the purpose of making imports and a period of 18 months for fulfillment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s).

2.2 Advance Authorization for annual requirement

Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorization for Annual requirement. This shall only be issued for items having SION.

2.3 Duty Free Import Authorization (DFIA) Scheme

DFIA is issued to allow duty free import of inputs, with a minimum value addition requirement of 20%. DFIA shall be exempted only from the payment of basic customs duty. DFIA shall be issued on post export basis for products for which SION has been notified. Separate schemes exist for gems and jewellery sector for which FTP may be referred.

2.4 Duty Drawback of Customs

The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways:

i) All Industry Rates : As per Schedule

ii) Brand Rate : As per application on the basis of data/documents

2.5 Interest Equalization Scheme (IES)

The Government announced the Interest Equalization Scheme @ 3% per annum for Pre and Post Shipment Rupee Export Credit with effect from 1st April, 2015 for 5 years available to all exports under 416 tariff lines [at ITC (HS) code of 4 digit] and exports made by Micro, Small & Medium Enterprises (MSMEs) across all ITC(HS) codes. With effect from November 2, 2018, the rate of Interest Equalization for MSME has been increased to 5%. The Scheme has also been extended to Merchant Exporters who will now avail the benefit @ 3% for all exports under 416 tariff lines w.e.f. January 2, 2019.

3. EPCG SCHEME

3.1 Zero duty EPCG scheme

Under this scheme import of capital goods at zero custom duty is allowed for producing quality goods and services to enhance India's export competitiveness. Import under EPCG shall be subject to export obligation equivalent to six times of duty saved in six years. Scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

3.2 Post Export EPCG Duty Credit Scrip Scheme

A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash.

4. EOU/EHTP/STP & BTP SCHEMES

Units undertaking to export their entire production of goods and services may be set up under this scheme for import/ procurement domestically without payment of duties. For details of the scheme and benefits available therein FTP may be required.

5. OTHER SCHEMES

5.1 Towns of Export Excellence (TEE)

Selected towns producing goods of Rs. 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

5.2 Market Access Initiative (MAI) Scheme

Under the Scheme, financial assistance is provided for export promotion activities on focus country, focus product basis to EPCs, Industry & Trade Associations, etc. The activities are like market studies/surveys, setting up showroom/warehouse, participation in international trade fairs, publicity campaigns, brand promotion, reimbursement of registration charges for pharmaceuticals, testing charges for engineering products abroad, etc. Details of the Scheme is available at www.commerce.gov.in

5.3 Status Holder Scheme

Upon achieving prescribed export performance, status recognition as one star Export House, two Star Export House, three star export house, four star export house and five star export house is accorded to the eligible applicants as per their export performance. Such Status Holders are eligible for various non-fiscal privileges as prescribed in the Foreign Trade Policy.

In addition to the above schemes, facilities like 24X7 customs clearance, single window in customs, self assessment of customs duty, prior filing facility of shipping bills etc are available to facilitate exports.

5.4 Gold Card Scheme

The Gold Card Scheme was introduced by the RBI in the year 2004. The Scheme provides for a credit limit for three years, automatic renewal of credit limit, additional 20% limit to meet sudden need of exports on account of additional orders, priority in PCFC, lower charge schedule and fee structure in respect of services provided by Banks, relaxed norms for security and collateral etc,. A Gold Card under the Scheme may be issued to all eligible exporters including those in the small and medium sectors who satisfy the pre-requisite conditions laid by individual Banks.

2.5. DBK, DEPB:

DUTY DRAWBACK SCHEME

Under Duty Drawback Scheme (DBK) relief of Customs and Central Excise Duties suffered on the inputs/components used in the manufacture of goods exported is allowed to Exporters. The admissible duty drawback amount is paid to exporters by depositing it into their nominated bank account. Section 75 of the Customs Act, 1962 and Section 37 of the Central Excise Act, 1944, empower the Central Government to grant such duty drawback. Customs and Central Excise Duties Drawback Rules, 1995 have been framed outlining the procedure to be followed for the purpose of grant of duty drawback (for both kinds of duties suffered) by the Customs Authorities processing export documentation.

Under Duty Drawback Scheme, an exporter can opt for either All Industry Rate (AIR) of Duty Drawback Scheme or brand rate of Duty Drawback Scheme. Major portion of Duty Drawback is paid through AIR duty Duty Drawback Scheme which essentially attempts to compensate exporters of various export commodity for average incidence of customs and Central Excise duties suffered on the inputs used in their manufacture. Brand rate of duty drawback is granted in terms of rules 6 & 7 of Customs and Central Excise Duties Drawback Rules, 1995 in cases where the export product does not have any AIR or duty drawback rate, or where the AIR duty drawback rate notified is considered by the exporter insufficient to compensate for the Customs/Central Excise duties suffered on inputs used in the manufacture of export products. For goods having an AIR the brand rate facility to particular exporters is available only if it is established that the compensation by AIR is less than 80% of the actual duties suffered in the manufacture of the export goods.

Duty Drawback facilities on re-export of duty paid goods is also available in terms of Section 74 of Customs Act, 1962. Under this Scheme part of the customs duty paid at the time of import is remitted on re-export of the goods subject to identification and prescribed procedure being followed.

LIMITATIONS ON DRAWBACK ADMISSIBILITY

The Customs Act lays down certain limitations and conditions which exporters claiming drawback have to meet/fulfill. Thus, no drawback is admissible under Section 75 if the market price is less than the amount of drawback claimed. Drawback is also not admitted if the claim is less than Rs.50/- in individual shipments. Government has also powers to deny or admit drawback claim subject to laid down conditions where there is likelihood of goods exported being smuggled back. These powers have been used for exports to Nepal where normal provisions of duty drawback are not applied. The Drawback Rules also further lay down in Rule 8 some further limitations, where rate is less than 1%, and this may be referred to. Government has also powers to deny drawback facility in such cases where export of goods if less than the value of imported material used in their manufacture. If necessary, certain minimum value addition over the value of imported materials can also be prescribed before granting drawback. It is also pertinent to note that the drawback is permitted to encourage exports and essentially there must be export proceeds repatriation. Though prior repatriation of export realization is not pre-requisite, the law prescribes that if sale proceeds are not received within the stipulated period, the drawback paid will be recoverable by the Government as per procedure laid down in drawback.

IMPORTANT STATUTORY PROVISIONS, RULES AND CIRCULARS RELATING TO DRAWBACK.

I. STATUTORY PROVISIONS

S.NO	Section Nos	Subject
1	Section 74 of Customs Act, 1962	Drawback on re-export of imported duty paid goods
2.	Section 75 of Customs Act, 1962	Drawback on input materials/services used for manufacture of export goods.

II. DRAWBACK RULES, 1995

S.NO.	Rule Nos	Subject
1	Rule 5	Determination of date from which the amount or rate of drawback is to come into force and the effective date for application of amount or rate of drawback.
2	Rule 8A	Upper Limit of Drawback money or rate
3	Rule 13	Manner and time for claiming drawback on goods exported other than by Post.
4	Rule 15	Supplementary claim
5	Rule 16	Repayment of erroneous or excess payment of drawback and interest.
6	Rule 16A	Recovery of amount of Drawback where export proceeds not realized.

III. CIRCULARS:

S.NO.	Public Notice Nos	Subject
1	Circular No. 57/97-Cus., dated 31-10-1997 [From F. No. 605/161/97-DBK]	Testing of goods exported under DEEC/ Drawback Pass Book Scheme.
2	Circular No. 2/2000-Cus., dated 5-1-2000 [From F. No. 609/221/95-DBK]	Amendment of Customs and Central Excise Duties Drawback Rules, 1995 to delegate powers to Commissioners of Customs for conversion of free Shipping Bills to Drawback Shipping Bills.
3	Circular No. 3/2001-Cus., dated 16-1-2001 F. No. 609/115/2000-DBK	All Industry Rates of Drawback n respect of man-made fabrics falling under Chapters 54, 55 and 58 of the Drawback Table.
4	Drawback Circular No. 5/2001 Cus. 19th	Drawback on Ready made Garments - Deduction for f.o.b.

S.NO.	Public Notice Nos	Subject
	January, 2001 F.No.609/74/2000-DBK	value on account of Imported/indigenous hangers - Reg
5	Circular No.06/2003-Cus. 28th January, 2003 F.NO.609/176/2002-DBK & Circular No. 04 /2004-Cus. 16th January, 2004 F.NO.609/176/2002-DBK	Sub: Conversion of free shipping bills into Advance License/DEPB/DFRC/ Drawback shipping bills and conversion of shipping bills from one export promotion scheme to another - reg.
6	Circular No.8 / 2003-Cus 17th February 2003 F.No.609/162/2002-DBK & Circular No. 65 / 2003-Cus 28th July, 2003. F.No.609/162/2002-DBK	Sub: Acceptance of self-declaration as to the non-availment of Cenvat facility for extending the duty drawback
7	Circular No. 14/2003-Cus., dated 6-3-2003, F. No. 609/32/2003-DBK	Decentralization of the work relating to fixation of Brand Rate of drawback under Rule 6 and Rule 7 of the Customs and Central Excise Duties Drawback Rules, 1995
8	Circular No. 19/2005-Cus., dated 21-3-2005, F.No. 609/13/2004-DBK	Admissibility of All Industry Rates of Duty Drawback on Export Goods Manufactured from out of Inputs, some of which are Non-Duty Paid
9	Circular No. 43/2007-Cus., dated 5-12-2007,F.No. 602/2/2002-DBK	Drawback on supplies from DTA units to SEZ - Authority for sanction and disbursement
10	1/2008-Systems, dated 24-6-2008,F.No. IV(26)/33/2008-Systems	Drawback payment in exporter’s account in any core banking enabled branch anywhere in country - Procedure
11	Circular No. 5 / 2009-Cus, F.NO.609/167/2003-DBK	Systems Alert for Monitoring Realization of Export Proceeds in EDI - reg

DEPB (Duty Entitlement Pass Book): It is an export incentive scheme of Indian Government provided to Exporters in India.

Duty Entitlement Pass Book Scheme (DEPB) is an export incentive scheme. The objective of DEPB is to neutralize the incidence of Customs duty on the import content of the export product. The neutralization shall be provided by way of grant of duty credit against the export product. Under the DEPB, an exporter may apply for credit, as a specified percentage of FOB value of exports made in freely convertible currency.

Notified on 1/4/1997, the DEPB Scheme consisted of (a) Post-export DEPB and (b) Pre-export DEPB. The pre-export DEPB scheme was abolished w.e.f. 1/4/2000. Under the post-export DEPB, which is issued after exports, the exporter is given a duty entitlement Pass Book Scheme at a pre-determined credit on the FOB value. The DEPB rates allows import of any items except the items which are otherwise restricted for imports. Items such as Gold Nibs, Gold Pen, Gold watches etc. though covered under the generic description of writing instruments, components of writing instruments and watches are thus not eligible for benefit under the DEPB scheme.

The DEPB Rates are applied on the basis of FOB value or value cap whichever is lower. For example, if the FOB value is Rs.700/- per piece, and the value cap is Rs.500/- per piece, the DEPB rate shall be applied on Rs.500/-. The DEPB rate and the value cap shall be applicable as existing on the date of exports as defined in paragraph 15.15 of Handbook (Vol.1).

DEPB Scheme is issued only on post-export basis and pre/export DEPB Scheme has been discontinued. The provisions of DEPB Scheme are mentioned in Para 4.3 and 4.3.1 to 4.3.5 of the Foreign Trade Policy or Exim Policy. One significant change in the new DEPB Scheme is that in terms of Para 4.3.5 of the Exim Policy even excise duty paid in cash on inputs used in the manufacture of export product shall be eligible for brand rate of duty drawback as per rules framed by Department of Revenue which was not mentioned in the earlier DEPB Scheme.

Benefits of DEPB Rates

The benefit of DEPB schemes is available on the export products having extraneous material up to 8% by material up to 5% shall be ignored and the DEPB rate as notified for that export product is to be allowed.

Review of DEPB Rates

The Government of India review the DEPB rates after getting the appropriate an export import data on FOB (shipping) value of exports and Cost, Insurance and Freight (CIF) value of inputs used in the export product, as per SION. Such data and information is usually obtained from the concerned Export Promotion Councils.

Implementation of the DEPB Rates

Some additional facilities as listed below have been provided for better implementation of the DEPB Rates

- DEPB rates rationalized to account for the changes in Customs duties.
- Caps fixed on certain items but there would be no verification of Present Market Value (PMV) on such items.
- A number of ports have been added for availing facilities under the Duty Exemption Scheme, including DEPB.
- The threshold limit of Rs. 200 million for fixing new DEPB rates removed.

Provisional DEPB Rate

The main objective behind the provisional DEPB rates is to encourage diversification and to promote export of new products. However, provisional DEPB rates would be valid for a limited period of time during which exporter would furnish data on export and import for regular fixation of rates.

Maintenance of Record

It is necessary for Custom House at ports to maintain a separate record of details of exports made under DEPB Schemes.

Port of Registration

The exports/imports made from the specified ports given shall be entitled for DEPB.

- **Sea Ports:** Mumbai, Kolkata, Cochin, Dahej, Kakinada, Kandla, Mangalore, Mormugao, Mundra, Chennai, Nhava Sheva, Paradeep, Pipavav, Sikka, Tuticorin Vishakhapatnam, Surat (Magdalla), Nagapattinam, Okha, Dharamtar and Jamnagar.
- **Airports:** Ahmedabad, Bangalore, Bhubaneshwar Mumbai, Kolkata Coimbatore Air Cargo Complex, Cochin, Delhi, Hyderabad, Jaipur, Srinagar, Trivandrum, Varanasi, Nagpur and Chennai.
- **ICDs :** Agra, Ahmedabad, Bangalore, Bhiwadi, Coimbatore, Daulatabad, (Wanjarwadi and Maliwada), Delhi, Dighi (Pune), Faridabad, Guntur, Hyderabad, Jaipur, Jallandhar, Jodhpur, Kanpur, Kota, Ludhiana, Madurai and the land Customs station at Ranaghat Mallanpur, Moradabad, Meerut Nagpur, Nasik, Gauhati (Amingaon), Pimpri (Pune), Pitampur (Indore), Rudrapur (Nainital), Salem Singanalur, Surat, Tirupur, Udaipur, Vadodara, Varanasi, Waluj, Bhilwara, Pondicherry, Garhi-Harsaru, Bhatinda, Dappar, Chheharata (Amritsar), Karur, Miraj and Rewari.
- **LCS:** Ranaghat, Singhabad, Raxaul, Jogbani, Nautanva (Sonauli), Petrapole and Mahadipur.
- The exports made to the following Special Economic Zones (SEZ) are also entitled to DEPB.
- **SEZ** : Santacruz, Kandla, Kochi, Vishakhapatnam, Chennai, FALTA, Surat, NOIDA

Credit under DEPB and Present Market Value

In respect of products where rate of credit entitlement under DEPB Scheme comes to 10% or more, amount of credit against each such export product shall not exceed 50% of Present Market Value (PMV) of export product. During export, exporter shall declare on shipping bill that benefit under DEPB Scheme would not exceed 50% of PMV of export product.

However PMV declaration shall not be applicable for products for which value cap exists irrespective of DEPB rate of product.

Utilization of DEPB credit

Credit given under DEPB Schemes is utilized for payment of Indian customs duty

Re-export of goods imported under DEPB Scheme

In case of return of any exported goods, which has been found defective or unfit for use may be again exported according to the exim guidelines as mentioned by the Department of Revenue.

In such cases 98% of the credit amount debited against DEPB for the export of such goods is generated by the concerned Commissioner of Customs in the form of a Certificate, containing the amount generated and the details of the original DEPB. On the basis of certificate, a fresh DEPB is issued by the concerned DGFT Regional Authority. It is important to note that the issued DEPB have the same port of registration and shall be valid for a period equivalent to the balance period available on the date of import of such defective/unfit goods.

Closure of DEPB Scheme

DEPB scheme has been withdrawn since October 2015

2.6. Advance license:

An Advance License is issued to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts etc. which are consumed in the course of their use to obtain the export product, may also be allowed under the scheme.

Duty free import of mandatory spares up to 10% of the CIF value of the license which are required to be exported/ supplied with the resultant product may also be allowed under Advance License.

Advance Licenses are issued on the basis of the inputs and export items given under SION. However, they can also be issued on the basis of Adhoc norms or self declared norms as per Para 4.7 of Handbook.

Duty free import of mandatory spares up to 10% of the CIF value of the license which are required to be exported/ supplied with the resultant product may also be allowed under Advance License.

Advance License can be issued for:-

a) **Physical exports:**- Advance License may be issued for physical exports including exports to SEZ to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s) for import of inputs required for the export product.

b) **Intermediate supplies**:- Advance Licensee may be issued for intermediate supply to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/deemed exporter holding another Advance License

c) **Deemed exports**:- Advance License can be issued for deemed export to the main contractor for import of inputs required in the manufacture of goods to be supplied to the categories mentioned in paragraph 8.2 (b), (c), (d) (e) (f),(g) (i) and (j) of the Policy.

In addition, in respect of supply of goods to specified projects mentioned in paragraph 8.2 (d) (e) (f), (g) and (j) of the Policy, an Advance License for deemed export can also be availed by the sub-contractor of the main contractor to such project provided the name of the sub contractor(s) appears in the main contract.

Such license for deemed export can also be issued for supplies made to United Nations Organizations or under the Aid Program of the United Nations or other multilateral agencies and paid for in foreign exchange.

- Advance License is issued for duty free import of inputs, as defined in paragraph 4.1.1 subject to actual user condition. Such licenses (other than Advance License for deemed exports) are exempted from payment of basic customs duty, additional customs duty, education cess, anti dumping duty and safeguard duty, if any.

- Advance License for deemed export shall be exempted from basic customs duty, additional customs duty and education cess only. However in case of supplies to EOU/SEZ/ EHTP/STP/ BTP under such licenses, anti-dumping duty and safeguard duty shall also be exempted.

- Advance License and/or materials imported there under shall not be transferable even after completion of export obligation.

- Advance Licenses (including Advance License for deemed exports and intermediate supply) shall be issued with a positive value addition.

- However, for exports for which payments are not received in freely convertible currency, the same shall be subject to value addition as specified in Appendix-32 of Handbook (Vol.1).

- Advance License shall be issued in accordance with the Policy and procedure in force on the date of issue of license and shall be subject to the fulfillment of a time bound export obligation as may be specified.

- The facility of Advance License shall also be available where some or all of the inputs are supplied free of cost to the exporter.

- In such cases, for calculation of value addition, the notional value of free of cost inputs along with value of other duty-free inputs shall be taken into consideration. However, if all the inputs are supplied free of cost, it shall be covered under paragraph 4.2.7 of the Policy.

Export Obligation

- The period for fulfillment of the export obligation under Advance License shall be as prescribed in the Handbook (Vol.1). Supplies to SEZ would also be counted for fulfillment of export obligation under the Advance License for physical exports.

- Advance License for Annual Requirement

- Advance License can also be issued on the basis of annual requirement for physical exports, intermediate supplies or deemed exports.

- One to Five Star Export House shall be entitled for the Advance License for annual requirement.

- However, if the status holders are holding the certificate as merchant exporter, they are also entitled to the Advance License for Annual Requirement provided they agree to the endorsement of the name(s) of the supporting manufacturer(s) on the relevant license.

- The entitlement under this scheme shall be up to 200% of the FOB value of export in the preceding licensing year. Such license shall have positive value addition.

Advance Release Orders

- An Advance License holder, holder of advance license for annual requirement and holder of DFRC intending to source the inputs from indigenous sources/State Trading Enterprises/ EOU/SEZ/ EHTP/STP/BTP units in lieu of direct import has the option to source them against Advance Release Orders denominated in foreign exchange/ Indian rupees.
- The transferee of a DFRC shall also be eligible for ARO facility. However, supplies may be obtained against the license from EOU/ EHTP/ BTP/STP/SEZ units, without conversion into ARO.
- Back-to-Back Inland Letter of Credit
- An Advance License holder, holder of advance license for annual requirement and holder of DFRC may, instead of applying for an Advance Release Order, avail of the facility of Back-to-Back Inland Letter of Credit in accordance with the procedure specified in Handbook (Vol.1).

Prohibited Items

- Prohibited items of imports mentioned in ITC (HS) shall not be imported under the license issued under the scheme.
- Admissibility of Drawback
- In the case of an Advance License, the drawback shall be available in respect of any of the duty paid materials, whether imported or indigenous, used in the goods exported, as per the drawback rate fixed by Ministry of Finance (Directorate of Drawback). The Drawback shall however be restricted to the duty paid materials as mentioned in the license.

2.7. Import of capital goods:

Procedure and Steps Involved in Import of Goods

Import Procedure:

Import trade refers to the purchase of goods from a foreign country. The procedure for import trade differs from country to country depending upon the import policy, statutory requirements and customs policies of different countries. In almost all countries of the world import trade is controlled by the government. The objectives of these controls are proper use of foreign exchange restrictions, protection of indigenous industries etc. The imports of goods have to follow a procedure. This procedure involves a number of steps.

The steps taken in import procedure are discussed as follows:

(i) Trade Enquiry:

The first stage in an import transaction, like any other transaction of purchase and sale relates to making trade enquiries. An enquiry is a written request from the intending buyer or his agent for information regarding the price and the terms on which the exporter will be able to supply goods.

The importer should mention in the enquiry all the details such as the goods required, their description, catalogue number or grade, size, weight and the quantity required. Similarly, the time and method of delivery, method of packing, terms and conditions in regard to payment should also be indicated.

In reply to this enquiry, the importer will receive a quotation from the exporter. The quotation contains the details as to the goods available, their quality etc., the price at which the goods will be supplied and the terms and conditions of the sale.

(ii) Procurement of Import Licence and Quota:

The import trade in India is controlled under the Imports and Exports (Control) Act, 1947. A person or a firm cannot import goods into India without a valid import licence. An import licence may be either general licence or specific licence. Under a general licence goods can be imported from any country, whereas a specific or individual licence authorises to import only from specific countries.

The Government of India declares its import policy in the Import Trade Control Policy Book called the Red Book. Every importer must first find out whether he can import the goods he wants or not, and how much of a certain class of goods he can import during the period covered by the relevant Red Book.

For the purpose of issuing licence, the importers are divided into three categories:

(a) Established importer,

(b) Actual users, and

(c) Registered exporters, i.e., those import under any of the export promotion schemes.

In order to obtain an import licence, the intending importer has to make an application in the prescribed form to the licensing authority. If the person imported goods of the class in which he is interested now during the basic period prescribed for such class, he is treated as an established importer.

An established importer can make an application to secure a Quota Certificate. The certificate specifies the quantity and value of goods which the importer can import. For this, he furnishes details of the goods imported in any one year in basic period prescribed for the goods together with documentary evidence for the same, including a certificate from a chartered accountant in the prescribed form certifying the c.i.f. value of the goods imported in the selected year.

The c.i.f. value includes the invoice price of the goods and the freight and insurance paid for the goods in transit. The quota certificate entitles the established importer to import upto the value indicated therein (called Quota) which is calculated on the basis of past imports. If the importer is an actual user, that is, he wants to import goods for his own use in industrial manufacturing process he has to obtain licence through the prescribed sponsoring authority.

The sponsoring authority certifies his requirements and recommends the grant of licence. In case of small industries having a capital of less than Rs. 5 lakhs, they have to apply for licences through the Director of Industries of the state where the industry is located or some other authority expressly prescribed by the Government.

Registered exporter importing against exports made under a scheme of export promotion and others have to obtain licence from the Chief Controller of Exports and Imports. The Government issues from time to time a list of commodities and products which can be imported by obtaining a general permission only. This is called as O.G.L. or Open General Licence list.

(iii) Obtaining Foreign Exchange:

After obtaining the licence (or quota, in case of an established importer), the importer has to make arrangement for obtaining necessary foreign exchange since the importer has to make payment for the imports in the currency of the exporting country.

The foreign exchange reserves in many countries are controlled by the Government and are released through its central bank. In India, the Exchange Control Department of the Reserve Bank of India deals with the foreign exchange. For this the importer has to submit an application in the prescribed form along-with the import licence to any exchange bank as per the provisions of Exchange Control Act.

The exchange bank endorses and forwards the applications to the Exchange Control Department of the Reserve Bank of India. The Reserve Bank of India sanctions the release of foreign exchange after scrutinizing the application on the basis of exchange policy of the Government of India in force at the time of application.

The importer gets the necessary foreign exchange from the exchange bank concerned. It is to be noted that whereas import licence is issued for a particular period, exchange is released only for a specific transaction. With liberalisation of economy, most of the restrictions have been removed as rupee has become convertible on current account.

(iv) Placing the Indent or Order:

After the initial formalities are over and the importer has obtained the licence quota and the necessary amount of foreign exchange, the next step in the import of goods is that of placing the order. This order is known as Indent. An indent is an order placed by an importer with an exporter for the supply of certain goods.

It contains the instructions from the importer as to the quantity and quality of goods required, method of forwarding them, nature of packing, mode of settling payment and the price etc. An indent is usually prepared in duplicate or triplicate. The indent may be of several types like open indent, closed indent and Confirmatory indent.

In open indent, all the necessary particulars of goods, price, etc. are not mentioned in the indent, the exporter has the discretion to complete the formalities, at his own end. On the other hand, if full particulars of goods, the price, the brand, packing, shipping, insurance etc. are mentioned clearly, it is called a closed indent. A confirmatory indent is one where an order is placed subject to the confirmation by the importer's agent.

(v) Dispatching a Letter of Credit:

Generally, foreign traders are not acquainted to each other and so the exporter before shipping the goods wants to be sure about the creditworthiness of the importer. The exporter wants to be sure that there is no risk of non-payment. Usually, for this purpose he asks the importers to send a letter of credit to him.

A letter of credit, popularly known as 'L/C or 'L.C is an undertaking by its issuer (usually importer's bank) that the bills of exchange drawn by the foreign dealer, on the importer will be honoured on presentation upto a specified amount.

(vi) Obtaining Necessary Documents:

After dispatching a letter of credit, the importer has not to do much. On receipt of the letter of credit, the exporter arranges for the shipment of goods and sends Advice Note to the importer immediately after the shipment of goods. An Advice Note is a document sent to a purchaser of goods to inform him that goods have been despatched. It may also indicate the probable date on which the ship is expected to reach the port of destination.

The exporter then draws a bill of exchange on the importer for the invoice value of goods. The shipping documents such as the bill of lading, invoice, insurance policy, certificate of origin, consumer invoice etc., are also attached to the bill of exchange. Such bill of exchange with all these attached documents is called Documentary Bill. Documentary bill of exchange is forwarded to the importer through a foreign exchange bank which has a branch or an agent in the importer's country for collecting the payment of the bill.

There are two types of documentary bills:

(a) D/P, D.P. (or Documents against payment) bills.

(b) D/A, D.A. (or Document against acceptance) bills.

If the bill of exchange is a D/P bill, then the documents of title of goods are delivered to the drawee (i.e., importer) only on the payment of the bill in full. D/P bill may be sight bill or usance bill. In case of sight bill, the payment has to be made immediately on the presentation of the bill. But usually a grace period of 24 hours is granted.

Usance bill is to be paid within a particular period after sight. If the bill is a D/A bill, then the documents of title of goods are released to the drawee on his acceptance of the bill and it is retained by the banker till the date of maturity. Usually 30 to 90 days are provided for the payment of the bill.

(vii) Customs Formalities and Clearing of Goods:

After receiving the documents of title of the goods, the importer's only concern is to take delivery of the goods, when the ship arrives at the port and to bring them to his own place of business. The importer has to comply with many formalities for taking delivery of goods. Unless the following mentioned formalities are complied with, the goods lie in the custody of the Custom House.

(a) To obtain endorsement for delivery or delivery order:

When the ship carrying the goods arrives at the port, the importer, first of all, has to obtain the endorsement on the back of the bill of lading by the shipping company. Sometimes the shipping company, instead of endorsing the bill in his favour, issues a delivery order to him. This endorsement of delivery order will entitle the importer to take the delivery of the goods.

The shipping company makes this endorsement or issues the delivery order only after the payment of freight. If the exporter has not paid the freight, i.e., when the bill, of lading is marked freight forward, the importer has to pay the freight in order to get green signal for the delivery of goods.

(b) To pay Dock dues and obtain Port Trust Dues Receipts:

The importer has to submit two copies of a form known as 'Application to import' duly filled in to the 'Lading and Shipping Dues Office'. This office levies a charge on all imported goods for services rendered by the dock authorities in connection with lading of goods. After paying the necessary charges, the importer receive back one copy of the application to import as a receipt 'Port Trust Dues Receipt'.

(c) Bill of Entry:

The importer will then fill in form called Bill of Entry. This is a form supplied by the custom office and is to be filled in triplicate. The bill of entry contains the particulars regarding the name and address of the importer, the name of the ship, packages number, marks, quantity, value, description of goods, the name of the country wherefrom goods have been imported and custom duty payable.

The bill of entry forms are of three types and are printed in three colours-Black, Blue and Violet. A black form is used for non-dutiable or free goods, the blue form is used for goods to be sold within the country and the violet form is used for re-exportable goods, i.e., goods meant for re-export. The importer has to submit three forms of bill of entry along-with Port Trust Dues Receipt to the customs office.

(d) Bill of Sight:

If the importer is not is a position to supply the detailed particulars of goods because of insufficiency of information supplied to him by the exporter, he has to prepare a statement called a bill of sight. The bill of sight contains only the information possessed by the importer along-with a remark that he is not in a position to give complete information about the goods. The bill of sight enables him to open the package and examine the goods in the presence of custom officer so as to complete the bill of entry.

(e) To pay Customs or Import Duty:

There are three types of imported goods:

(i) Non dutiable or free goods,

(ii) Goods which are to be sold within the country or which are for home consumption, and

(iii) Re-exportable goods i.e. goods meant for re-export. If the goods are duty free, no import duty is to be paid at the custom office.

Custom authorities will permit the delivery of such goods after usual examination of the goods. But if the goods are liable for duty, the importer has to pay custom or import duty which may be based on weight or measurement of goods, called Specific Duty or on the value of imported goods Ad-valorem Ditty.

There are three types of import duties. On some goods quite low duties are levied and they are called revenue duties. On some others, quite high duties are charged to give protection to home industries against foreign competition. While goods imported from certain nations are given preferential treatment for the levy of import duties and in their case full protective duties are not charged.

(f) Bonded and Duty paid Warehouses:

The port trust and custom authorities maintain two types of warehouses-Bonded and Duty paid. These warehouses are situated near the dock and are very useful to importers who do not have godown of their own to store the imported goods or who, for business reasons, do not wish to carry them to their own godowns.

The goods on which the duty has already been paid by the importer can be kept in the duty paid warehouses for which a receipt called 'warehouse receipt' is issued to him. This receipt is a document of title and is transferable. The bonded warehouses are meant for goods on which duty has been paid by the importer. If the importer cannot pay the duty, he may keep the goods in Bonded warehouses for which he is issued a receipt, called 'Dock Warrant'. Dock Warrant, also like warehouses receipt, is a document of title and is transferable.

The bonded warehouses are used by the importer when:

(i) He has no godown of his own.

(ii) He cannot pay the duty immediately.

(iii) He wants to re-export the goods and thereby does not want to pay the duty.

(iv) He wants to pay the duty in installments.

A nominal rent is charged for the use of these warehouses. One special advantage of these warehouses is that the importer can sell the goods and transfer the title of goods merely by endorsing warehouse receipt or dock-warrant. This will save the importer from the trouble and expenses of carrying the goods from the warehouses to his godown.

(g) Appointment of clearing Agents:

By now we understand that the importer has to fulfill many legal formalities before he can take delivery of goods. The importer may take the delivery of the goods himself at the port. But it involves much of time, expenses and difficulty. Thus, to save himself from the botheration of complying with all the complicated formalities, the importer may appoint clearing agents for taking the delivery of the goods for him. Clearing agents are the specialized persons engaged in the work of performing various formalities required for taking the delivery of goods on behalf of others. They charge some remuneration on performing these valuable services.

(viii) Making the Payment:

The mode and time of making payment is determined according to the terms and conditions as agreed to earlier between the importer and the exporter. In case of a D/P bill the documents of title are released to the importer only on the payment of the bill in full. If the bill is a D/A bill, the documents of title of the goods are released to the importer on his acceptance of the bill. The bill is retained by the banker till the date of maturity. Usually, 30 to 90 days are allowed to the importer for making the payment of such bills.

(ix) Closing the Transactions:

The last step in the import trade procedure is closing the transaction. If the goods are to the satisfaction of the importer, the transaction is closed. But if he is not satisfied with the quality of goods or if there is any shortage, he will write to the exporter and settle the matter. In case the goods have been damaged in transit, he will claim compensation from the insurance company. The insurance company will pay him the compensation under an advice to the exporter.

2.8. Exports/Trading/Star Trading/super star trading house policy EOU‘s/EPZs/SEZs Schemes:

CHAPTER 12 of EXIM policy EXPORT HOUSES, TRADING HOUSES, STAR TRADING HOUSES AND SUPERSTAR TRADING HOUSES		
Objective	12.1	The objective of the scheme is to recognize established exporters as Export House, Trading House, Star Trading House and Super Star Trading House with a view to building marketing infrastructure and expertise required for export promotion. Such Houses should operate as highly professional and dynamic institutions and act as important instruments of export growth.
Eligibility	12.2	Merchant as well as Manufacturer exporters, Service providers, Export Oriented Units (EOUs)/ units located in Export Processing Zones (EPZs)/ Special Economic Zone (SEZ’s) /Electronic Hardware Technology Parks (EHTPs)/ Software Technology Parks (STPs) shall be eligible for such recognition.
Criterion for Recognition	12.3	The eligibility criterion for such recognition shall be on the basis of the FOB/NFE value of export of goods and services, including software exports made directly, as well as on the basis of services rendered by the service provider during the preceding three licensing years or the preceding licensing year, at the option of the exporter. The exports made, both in free foreign exchange and in Indian Rupees, shall be taken into account for the purpose of recognition.
Exports made by Subsidiary Company	12.4	The exports made by a subsidiary of a limited company shall be counted towards export performance of the limited company for the purpose of recognition. For this purpose, the company shall have the majority share holding in the subsidiary company.
Export Performance Level	12.5	The applicant is required to achieve the prescribed average export performance level subject to the condition that
		(a) Deemed exports and exports under paragraph 11.7 shall not be counted for export performance.
		(b) Deleted
		(c) Deleted
	The level of export performance for the purpose of recognition shall be as per the table below:	

Category	Average FOB value during the preceding three licensing years, in Rupees	FOB value during the preceding licensing year, in Rupees	Average NFE earnings made during the preceding three licensing years , in Rupees	NFE earned during the preceding licensing year, in Rupees
(1)	(2)	(3)	(4)	(5)
EXPORT HOUSE	15 crores	22 crores	12 crores	18 crores
TRADING HOUSE	75 crores	112 crores	62 crores	90 crores
STAR TRADING HOUSE	375 crores	560 crores	312 crores	450 crores

SUPER STAR TRADING HOUSE	1125 crores	16 80 crores	937 crores	1350 crores

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Calculation of Net Foreign Exchange	12.6	For the purpose of calculation of the Net Foreign Exchange earned on exports, the value of all the licences including the value of 2.5 times of the DEPB Credit earned/ granted and the value of duty free gold/ silver/ platinum taken from nominated agency or from foreign supplier shall be deducted from the FOB value of exports made by the person. However, the value of freely transferable SIL, EPCG licences and the value of licences surrendered during the validity of licence shall not be deducted.	
Weightage to exports	12.7	For the purpose of recognition, weightage shall be given to the following categories of exports provided such exports are made in freely convertible currency:	
		(a)	Triple weightage on FOB or NFE on the export of products manufactured and exported by units in the Small Scale Industry (SSI)/Tiny sector/Cottage Sector and double weightage on FOB or NFE to merchant exporter exporting products reserved for SSI units and manufactured by units in the Small Scale Industry (SSI)/Tiny sector/Cottage Sector. The facility under this paragraph shall not be available to units exporting gems & jewellery products.
		(b)	Triple weightage on FOB/NFE on the export of products manufactured and exported by the handlooms and handicraft sector (including handloom made silk products), hand knotted carpets, carpets made of silk and double weightage on FOB/NFE to merchant exporter exporting products manufactured by the handlooms and handicraft sector (including handloom made silk products), hand knotted carpets, carpets made of silk
		(c)	Double weightage on FOB or NFE on the export of fruits and vegetables, floriculture and horticulture produce/ products, project exports.
		(d)	Double weightage on FOB or NFE on export of goods manufactured in North Eastern States;
		(e)	Double weightage on FOB or NFE on export to such countries as listed in Appendix-33 of the Handbook (Vol.1).
		(f)	The manufacturing units registered with KVIC or KVIBs shall be granted triple weightage on FOB or NFE on the export of products manufactured and exported by them with effect from 15th August, 97. However, such units shall not be entitled for the weightage given in sub paragraph (a) and (b) above.
		(g)	Double weightage on FOB or NFE on exports made by units having ISO 9000(series) or IS/ISO 9000 (series) or ISO 14000 (series) certification.
		(h)	Double weightage on FOB or NFE on exports of bar coded products.
		(i)	Double weightage on FOB or NFE on export of goods manufactured in Jammu and Kashmir
Recognition for State Corporations	12.8	With a view to encouraging participation of State Governments and Union Territories in export promotion, one state corporation nominated by the respective State Government/Union Territory may be recognized as an Export House, even though the	

		criterion for such recognition is not fulfilled by it. This benefit shall be available only for such period and in accordance with such terms and conditions as may be specified from time to time.
Validity Period	12.9	Status Certificate shall be valid for a period of three years starting from 1st April of the licensing year during which the application for the grant of such recognition is made, unless otherwise specified. On the expiry of such certificate, application for renewal of status certificate shall be required to be made within a period as prescribed in the Handbook (Vol.1). During the said period, the status holder shall be eligible to claim the usual facilities and benefits, except the benefit of a SIL.
Facilities	12.10	All status holders shall be entitled to such facilities as specified in chapter-12 of the Handbook (Vol.1).
Transitional Arrangement	12.11	Status holders shall continue to hold the recognition accorded to them for the period for which such recognition was accorded.
	12.12	Deleted
Manufacturing Companies/ Industrial Houses	12.12A	Manufacturing companies or Industrial houses with an annual manufacturing turnover of Rs.300 crores and Rs.1,000 crores in the preceding licensing year shall be recognized as Star Trading House and Super Star Trading House respectively on signing a Memorandum of Understanding in the prescribed form for achieving physical exports as currently prescribed for these categories over a period of next three years. Similarly, companies/project exporters, domestic service providers with annual turnover of Rs.100 crores or more in the preceding licensing year shall be recognized as Export House and International Service Export House respectively on signing a Memorandum of Understanding in the prescribed form for achieving physical exports as currently prescribed for this category over a period of next three years.
	12.12B	Service providers shall be entitled to recognition as Service Export House, International Service Export House, International Star Service Export House, and International Super Star Service Export House on earning free foreign exchange as given in paragraph 15.7 of the Policy.
	12.13	Deleted
Golden Status Certificate	12.14	Exporters who have attained Export House, Trading House, Star Trading Houses and Super Star Trading Houses status for three terms or more and continue to export shall be eligible for golden status certificate which would enable them to enjoy the benefits of status certificate irrespective of their actual performance thereafter as per the guidelines issued in this regard from time to time.

2.9. Services Exports:

Service Exports from India Scheme (SEIS)

Service Exports from India Scheme (SEIS) aims to promote export of services from India by providing duty scrip credit for eligible exports. Under the scheme, service providers, located in India, would be rewarded under the SEIS scheme, for all eligible export of services from India. In this article, we look at the Service Exports from India Scheme in detail. Service Exports from India Scheme was earlier termed as Served from India Scheme (SFIS).

SEIS Scheme Eligibility

Service Providers of notified services, located in India are eligible for the Service Exports from India Scheme. To be eligible, a service provider (Company / LLP / Partnership Firm) should have minimum net free foreign exchange earnings of USD15000 in the preceding financial year to be eligible for duty credit scripts. For proprietorships or individual service providers, minimum net foreign exchange earnings of USD10, 000 in the preceding financial year is required to be eligible for the scheme. Also, in order to claim reward under the SEIS scheme, the service provider shall have to have an active Import Export Code (IE Code) at the time of rendering such services for which rewards are claimed.

Net foreign exchange earnings for the SEIS scheme is calculated as:

Net Foreign Exchange = Gross Earnings of Foreign Exchange – Total Expenses or payment or remittances of Foreign Exchange.

Duty Credit Scrip

Service providers of eligible services shall be entitled to duty credit scrip at notified rates on the net foreign exchange earned. Duty credit scripts can be used for the payment of custom duties, excise duties, service tax on procurement of services, custom duty in case of default in fulfillments of export obligation under Advance Authorization/EPCG, etc., Further, the SEIS scheme has given relaxation to the actual user condition and duty credit scripts and goods imported using duty credit scripts are freely transferable. Duty credit scrip would be valid for a period of 18 months from the date of issue.

Foreign Exchange or Remittance Ineligible under SEIS Scheme

Foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement. Thus, other sources of foreign exchange earnings such as equity or debt participation, donations, receipts of repayment of loans etc. and any other inflow of foreign exchange, unrelated to rendering of service, would be ineligible.

UNIT- III
INCOTERMS

3.1. Background and objectives of Inco terms

The Inco terms or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are widely used in international commercial transactions or procurement processes and their use is encouraged by trade councils, courts and international lawyers. A series of three-letter trade terms related to common contractual sales practices, the Inco terms rules are intended primarily to clearly communicate the tasks, costs, and risks associated with the global or international transportation and delivery of goods. Inco terms inform sales contracts defining respective obligations, costs, and risks involved in the delivery of goods from the seller to the buyer, but they do not themselves conclude a contract, determine the price payable, currency or credit terms, govern contract law or define where title to goods transfers.

The Inco terms rules are accepted by governments, legal authorities, and practitioners worldwide for the interpretation of most commonly used terms in international trade. They are intended to reduce or remove altogether uncertainties arising from the differing interpretations of the rules in different countries. As such they are regularly incorporated into sales contracts worldwide.

"Inco terms" is a registered trademark of the ICC.

The first work published by the ICC on international trade terms was issued in 1923, with the first edition known as Inco terms published in 1936. The Inco terms rules were amended in 1953,[4] 1967, 1976, 1980, 1990, and 2000, with the eighth version— Inco terms 2010 — having been published on January 1, 2011. The ICC has begun consultations on a new revision of Inco terms; to be called Inco terms 2020.

Inco terms 2010

Inco terms 2010 is the eighth set of pre-defined international contract terms published by the International Chamber of Commerce, with the first set having been published in 1936. An Inco term 2010 defines 11 rules, down from the 13 rules defined by Inco terms 2000. Four rules of the 2000 version ("Delivered at Frontier"; DAF, "Delivered Ex Ship"; DES, "Delivered Ex Quay"; DEQ, "Delivered Duty Unpaid"; DDU) were removed, and are replaced by two new rules ("Delivered at Terminal"; DAT, "Delivered at Place"; DAP) in the 2010 rules.

In the prior version, the rules were divided into four categories, but the 11 pre-defined terms of Inco terms 2010 are subdivided into two categories based only on method of delivery. The larger group of seven rules may be used regardless of the method of transport, with the smaller group of four being applicable only to sales that solely involve transportation by water where the condition of the goods can be verified at the point of loading on board ship. They are therefore not to be used for containerized freight, other combined transport methods, or for transport by road, air or rail.

Inco terms 2010 also formally defined delivery. Before, the term has been defined informally but it is now defined as the point in the transaction where "the risk of loss or damage [to the goods] passes from the seller to the buyer.

Inco terms in government regulations

In some jurisdictions, the duty costs of the goods may be calculated against a specific Inco term: for example in India, duty is calculated against the CIF value of the goods, and in South Africa the duty is calculated against the FOB value of the goods. Because of this it is common for contracts for exports to these countries to use these Inco terms, even when they are not suitable for the chosen mode of transport. If this is the case then great care must be exercised to ensure that the points at which costs and risks pass are clarified with the customer.

Definition of Inco terms: Inco terms are internationally accepted commercial terms, developed in 1936 by the International Chamber of Commerce (ICC) in Paris. Inco terms 2000 define the respective roles of the buyer and seller in the agreement of transportation and other responsibilities and clarify when the ownership of the merchandise takes place. These terms are incorporated into export-import sales agreements and contracts worldwide and are a necessary part of foreign trade.

Inco terms are used in union with a sales agreement or other methods of sales transactions and define the responsibilities and obligations of both, the exporter and importer in Foreign Trade Transactions.

The main objectives of Inco terms 2000 revolve around the contract of Foreign Trade concerned with the loading, transport, insurance and delivery transactions. Its main function is the distribution of goods and regulation of transport charges.

Another significant role played by Inco terms is to identify and define the place of transfer and the transport risks involved in order to justify the ownership for support and damage of goods by shipments sent by the seller or the buyer in an event of execution of transport.

Inco terms make international trade easier and help traders in different countries to understand one another. These International Commercial Terms are the most widely used international contracts protected by the ICC copyright.

Inco terms safeguard the following issues in the Foreign Trade contract or International Trade Contract:

1. To determine the critical point of the transfer of the risks of the seller to the buyer in the process forwarding of the goods (risks of loss, deterioration, robbery of the goods) allow the person who supports these risks to make arrangements in particular in term of insurance.

2. To specify who is going to subscribe the contract of carriage that is to say the seller (exporter) or the buyer (importer).

3. To distribute between the seller and the buyer the logistic and administrative expenses at the various stages of the process.

It is important to define who is responsible for packaging, marking, operations of handling, loading and unloading, inspection of the goods.

Need To confirm and fix respective obligations for the achievement of the formalities of exportation and importation, the payment of the rights and taxes of importation as well as the sending of the documents. In dealing Foreign Trade there are 13 Inco terms globally adopted by the International Chamber of Commerce.

3.2. Types of Inco terms

TYPES OF INCOTERMS 2010 (CIF, FOB, …)

Everyone who works with importation and exportation should know all the Inco terms (International Commercial Terms). It’s a very important subject that helps not only traders but lawyers, transporters and insurers.

Some Inco terms are used for any mode or modes of transport like: EXS, FCA, CPT, CIP, DAT, DAP and DDP.

Other Inco terms for sea and inland waterway transport like: FAS, FOB, CFR and CIF.

1. EXW (Ex Works)

EXW means that the seller fulfills his obligation to deliver when he has made the goods available at his premises to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller.

2. FCA (Free Carrier)

FCA means that the seller fulfills his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier the seller may act at the buyer's risk and expense.

3. FAS (Free Alongside Ship)

FAS mean that the seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

4. FOB (Free on Board)

FOB means that the seller fulfills his obligation to deliver when he places the goods on board at the port departure. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export.

5. CFR (Cost and Freight)

CFR means that the seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport.

6. CIF (Cost, Insurance and Freight)

CIF means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

7. CPT (Carriage Paid to)

CPT means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier."Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage, by rail, road, sea, air, inland waterway or by a combination of such modes. The CPT term requires the seller to clear the goods for export.

8. CIP (Carriage and Insurance Paid To)

CIP means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination. The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

9. DAT (Delivered at Terminal)

DAT means that the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. “Terminal” includes a place, whether covered or not, such as a key, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

10. DAP (Delivered at Place)

DAP means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

11. DDP (Delivered Duty Paid)

DDP means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

3.3. General guidance that are used in Inco terms.

The Inco terms rules are standard sets of trading terms and conditions designed to assist traders when goods are sold and transported.

Each Inco terms rule specifies:

- The obligations of each party (e.g. who is responsible for services such as transport; import and export clearance etc)
- The point in the journey where risk transfers from the seller to the buyer
  - ✓ So by agreeing on an Inco terms rule and incorporating it into the sales contract, the buyer and seller can achieve a precise understanding of what each party is obliged to do, and where responsibility lies in event of loss, damage or other mishap.
  - ✓ The Inco terms rules are created and published by the International Chamber of Commerce (ICC) and are revised from time to time. The most recent revision is Inco terms 2020 which comes into force on 1st January 2020.
- The definitive publication on the Inco terms 2020 rules is the ICC publication number 723, which is available from various national bookshops.
- This is essential reading for those with responsibility for setting a corporate policy or negotiating contracts with trading partners or service providers.

3.4. Terminology of Inco terms:

Defined terms in Inco terms

There are certain terms that have special meaning within Inco terms, and some of the more important ones are defined below:

- **Delivery**: The point in the transaction where the risk of loss or damage to the goods is transferred from the seller to the buyer
- **Arrival:** The point named in the Inco term to which carriage has been paid
- **Free**: Seller has an obligation to deliver the goods to a named place for transfer to a carrier
- **Carrier**: Any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes
- **Freight forwarder**: A firm that makes or assists in the making of shipping arrangements;

- **Terminal**: Any place, whether covered or not, such as a dock, warehouse, container yard or road, rail or air cargo terminal

- **To clear for export**: To file Shipper's Export Declaration and get export permit

Variation of Inco terms

Parties adopting Inco terms should be wary about their intention and variations. The desire of the parties should be expressed clearly and casual adoption should be refrained. Also, making additions or variations to the meaning of a certain term should be carefully done as parties' failure to use any trade term at all can produce unexpected results.

Rules for any mode of transport

EXW – Ex Works (named place of delivery)

The seller makes the goods available at their premises, or at another named place. This term places the maximum obligation on the buyer and minimum obligations on the seller. The Ex Works term is often used while making an initial quotation for the sale of goods without any costs included.

EXW means that a buyer incurs the risks for bringing the goods to their final destination. Either the seller does not load the goods on collecting vehicles and does not clear them for export, or if the seller does load the goods, he does so at buyer's risk and cost. If the parties agree that the seller should be responsible for the loading of the goods on departure and to bear the risk and all costs of such loading, this must be made clear by adding explicit wording to this effect in the contract of sale.

There is no obligation for the seller to make a contract of carriage, but there is also no obligation for the buyer to arrange one either - the buyer may sell the goods on to their own customer for collection from the original seller's warehouse. However, in common practice the buyer arranges the collection of the freight from the designated location, and is responsible for clearing the goods through Customs. The buyer is also responsible for completing all the export documentation, although the seller does have an obligation to obtain information and documents at the buyer's request and cost.

These documentary requirements may result in two principal issues. Firstly, the stipulation for the buyer to complete the export declaration can be an issue in certain jurisdictions (not least the European Union) where the customs regulations require the declaring to be either an individual or corporation resident within the jurisdiction. If the buyer is based outside of the customs jurisdiction they will be unable to clear the goods for export, meaning that the goods may be declared in the name of the seller by the buyer, even though the export formalities are the buyer's responsibility under the EXW term.

Secondly, most jurisdictions require companies to provide proof of export for tax purposes. In an EXW shipment, the buyer is under no obligation to provide such proof to the seller, or indeed to even export the goods. In a customs jurisdiction such as the European Union, this would leave the seller liable to a sales tax bill as if the goods were sold to a domestic customer. It is therefore of utmost importance that these matters are discussed with the buyer before the contract is agreed. It may well be that another Inco term, such as FCA seller's premises, may be more suitable, since this puts the onus for declaring the goods for export onto the seller, which provides for more control over the export process.

FCA – Free Carrier (named place of delivery)

The seller delivers the goods, cleared for export, at a named place (possibly including the seller's own premises). The goods can be delivered to a carrier nominated by the buyer, or to another party nominated by the buyer.

In many respects this Inco term has replaced FOB in modern usage, although the critical point at which the risk passes moves from loading aboard the vessel to the named place. The chosen place of delivery affects the obligations of loading and unloading the goods at that place.

If delivery occurs at the seller's premises, or at any other location that is under the seller's control, the seller is responsible for loading the goods on to the buyer's carrier. However, if delivery occurs at any other place, the seller is deemed to have delivered the goods once their transport has arrived at the named place; the buyer is responsible for both unloading the goods and loading them onto their own carrier.

CPT – Carriage Paid To (named place of destination)

CPT replaces the C&F (cost and freight) and CFR terms for all shipping modes outside of non-containerized sea freight.

The seller pays for the carriage of the goods up to the named place of destination. However, the goods are considered to be delivered when the goods have been handed over to the first or main carrier, so that the risk transfers to buyer upon handing goods over to that carrier at the place of shipment in the country of Export.

The seller is responsible for origin costs including export clearance and freight costs for carriage to the named place of destination (either the final destination such as the buyer's facilities or a port of destination. This has to be agreed to by seller and buyer, however).

If the buyer requires the seller to obtain insurance, the Inco term CIP should be considered instead.

CIP – Carriage and Insurance Paid to (named place of destination)

This term is broadly similar to the above CPT term, with the exception that the seller is required to obtain insurance for the goods while in transit. CIP requires the seller to insure the goods for 110% of the contract value under at least the minimum cover of the Institute Cargo Clauses of the Institute of London Underwriters (which would be Institute Cargo Clauses (C)), or any similar set of clauses. The policy should be in the same currency as the contract, and should allow the buyer, the seller, and anyone else with an insurable interest in the goods to be able to make a claim.

CIP can be used for all modes of transport, whereas the Inco term CIF should only be used for non-containerized sea-freight.

DAT – Delivered At Terminal (named terminal at port or place of destination)

This Inco term requires that the seller delivers the goods, unloaded, at the named terminal. The seller covers all the costs of transport (export fees, carriage, unloading from main carrier at destination port and destination port charges) and assumes all risk until arrival at the destination port or terminal.

The terminal can be a Port, Airport, or inland freight interchange, but must be a facility with the capability to receive the shipment. If the seller is not able to organize unloading, they should consider shipping under DAP terms instead.

All charges after unloading (for example, Import duty, taxes, customs and on-carriage) are to be borne by buyer. However, it is important to note that any delay or demurrage charges at the terminal will generally be for the seller's account.

DAP – Delivered At Place (named place of destination)

Inco terms 2010 defines DAP as 'Delivered at Place' – the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Under DAP terms, the risk passes from seller to buyer from the point of destination mentioned in the contract of delivery.

Once goods are ready for shipment, the necessary packing is carried out by the seller at his own cost, so that the goods reach their final destination safely. All necessary legal formalities in the exporting country are completed by the seller at his own cost and risk to clear the goods for export.

After arrival of the goods in the country of destination, the customs clearance in the importing country needs to be completed by the buyer, e.g. import permit, documents required by customs and etc., including all customs duties and taxes.

Under DAP terms, all carriage expenses with any terminal expenses are paid by seller up to the agreed destination point. The necessary unloading cost at final destination has to be borne by buyer under DAP terms.

DDP – Delivered Duty Paid (named place of destination)

Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. The seller is not responsible for unloading. This term is often used in place of the non-Inco term "Free In Store (FIS)". This term places the maximum obligations on the seller and minimum obligations on the buyer. No risk or responsibility is transferred to the buyer until delivery of the goods at the named place of destination.

The most important consideration for DDP terms is that the seller is responsible for clearing the goods through customs in the buyer's country, including both paying the duties and taxes, and obtaining the necessary authorizations and registrations from the authorities in that country. Unless the rules and regulations in the buyer's country are very well understood, DDP terms can be a very big risk both in terms of delays and in unforeseen extra costs, and should be used with caution.

Rules for sea and inland waterway transport

To determine if a location qualifies for these four rules, please refer to 'United Nations Code for Trade and Transport Locations (UN/LOCODE)'.

The four rules defined by Inco terms 2010 for international trade where transportation is entirely conducted by water are as per the below. It is important to note that these terms are generally not suitable for shipments in shipping containers; the point at which risk and responsibility for the goods passes is when the goods are loaded on board the ship, and if the goods are sealed into a shipping container it is impossible to verify the condition of the goods at this point.

Also of note is that the point at which risk passes under these terms has shifted from previous editions of Inco terms, where the risk passed at the ship's rail.

FAS – Free alongside Ship (named port of shipment)

The seller delivers when the goods are placed alongside the buyer's vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS term requires the seller to clear the goods for export, which is a reversal from previous Inco terms versions that required the buyer to arrange for export clearance. However, if the parties wish the buyer to clear the goods for export, this should be made clear by adding explicit wording to this effect in the contract of sale. This term should be used only for non-containerized sea freight and inland waterway transport.

FOB – Free on Board (named port of shipment)

Under FOB terms the seller bears all costs and risks up to the point the goods are loaded on board the vessel. The seller's responsibility does not end at that point unless the goods are "appropriated to the contract" that is, they are "clearly set aside or otherwise identified as the contract goods".[18] Therefore, FOB contract requires a seller to deliver goods on board a vessel that is to be designated by the buyer in a manner customary at the particular port. In this case, the seller must also arrange for export clearance. On the other hand, the buyer pays cost of marine freight transportation, bill of lading fees, insurance, unloading and transportation cost from the arrival port to destination. Since Inco terms 1980 introduced the Inco term FCA, FOB should only be used for non-containerized sea freight and inland waterway transport. However, FOB is commonly used incorrectly for all modes of transport despite the contractual risks that this can introduce. In some common law countries such as the United States of America, FOB is not only connected with the carriage of goods by sea but also used for inland carriage aboard any "vessel, car or other vehicle."

CFR – Cost and Freight (named port of destination)

The seller pays for the carriage of the goods up to the named port of destination. Risk transfers to buyer when the goods have been loaded on board the ship in the country of Export. The Shipper is responsible for origin costs including export clearance and freight costs for carriage to named port. The shipper is not responsible for delivery to the final destination from the port (generally the buyer's facilities), or for buying insurance. If the buyer does require the seller to obtain insurance, the Inco term CIF should be considered. CFR should only be used for non-containerized sea freight and inland waterway transport; for all other modes of transport it should be replaced with CPT.

CIF – Cost, Insurance & Freight (named port of destination)

This term is broadly similar to the above CFR term, with the exception that the seller is required to obtain insurance for the goods while in transit to the named port of destination. CIF requires the seller to insure the goods for 110% of their value under at least the minimum cover of the Institute Cargo Clauses of the Institute of London Underwriters (which would be Institute Cargo Clauses (C)), or any similar set of clauses. The policy should be in the same currency as the contract. The seller must also turn over documents necessary, to obtain the goods from the carrier or to assert claim against an insurer to the buyer. The documents include (as a minimum) the invoice, the insurance policy, and the bill of lading. These three documents represent the cost, insurance, and freight of CIF. The seller's obligation ends when the documents are handed over to the buyer. Then, the buyer has to pay at the agreed price. Another point to consider is that CIF should only be used for non-containerized sea freight; for all other modes of transport it should be replaced with CIP.

DAF – Delivered at Frontier (named place of delivery)

This term can be used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs clearance and pays for transportation from the frontier to his factory. The passing of risk occurs at the frontier.

DES – Delivered Ex Ship

Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a CIF arrangement. Unlike CFR and CIF terms, the seller has agreed to bear not just cost, but also Risk and Title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc. are for the Buyer. A commonly used term in shipping bulk commodities, such as coal, grain, dry chemicals; and where the seller either owns or has chartered their own vessel.

DEQ – Delivered Ex Quay (named port of delivery)

This is similar to DES, but the passing of risk does not occur until the goods have been unloaded at the port of discharge.

DDU – Delivered Duty Unpaid (named place of destination)

This term means that the seller delivers the goods to the buyer to the named place of destination in the contract of sale. A transaction in international trade where the seller is responsible for making a safe delivery of goods to a named destination, paying all transportation and customs clearance expenses but not the duty. The seller bears the risks and costs associated with supplying the goods to the delivery location, where the buyer becomes responsible for paying the duty and taxes.

Inco terms 2020

New Inco terms were published in September 2019, ready to enter into force on 1 January 2020. The ICC's Incoterms 2020 Drafting Group includes lawyers, traders and company representatives from around the world, mostly European but also from China and Australia.

Inco terms 2020 have eleven Inco terms, again split by mode of transport:

For any mode of transport

- EXW
- FCA
- CPT
- CIP
- DAP

- DPU
- DDP

For sea and inland waterway transport

- FAS
- FOB
- CFR
- CIF

The only new Inco term is DPU (Delivered at Place Unloaded), which replaces DAT (Delivered At Terminal) from the 2010 edition. With DPU, there are no restrictions on the named place – for example it can be a transport hub, a warehouse or the buyer’s depot. The seller's responsibility extends to arranging carriage and delivering the goods, unloaded from the arriving conveyance, at the named place. Risk does not transfer from the seller to the buyer until the goods have been unloaded at the named place.

3.5. Tariffs: Meaning and Types | International Trade | Economics

Meaning of Tariffs:

A tariff is a duty or tax imposed by the government of a country upon the traded commodity as it crosses the national boundaries. Tariff can be levied both upon exports and imports. The tariff or duties imposed upon the goods originating in the home country and scheduled for abroad are called as the export duties. Countries, interested in maximizing their exports generally avoid the use of export duties. Tariffs have, therefore, become synonymous with import duties.

The import duties or import tariffs are levied upon the goods originating from abroad and scheduled for the home country. Sometimes a country may also resort to what is called as a transit duty. It is imposed upon the goods originating in the foreign country and scheduled for a third country crossing the borders of the home country. For instance, if India imposes tariffs on goods that Bangladesh exports to Nepal through the Indian Territory, these will be called as transit duties. Such duties are usually a matter of much concern for the land-locked countries.

The imposition of import tariff results in the relative changes in prices of products and factors.

That brings about a significant change in the structure of international trade. High tariffs certainly have the effect of restricting the volume of international trade. A negative tariff or subsidy is often supposed to expand foreign trade over and above its volume in the absence of subsidy.

Types of Tariffs:

Tariffs are of several types and these can be classified into different groups or sub-groups as below:

(1) Classification on the Basis of Criterion for Imposition:

On the basis of the criterion for imposition of tariffs.

These can be of such types as:

(a) Specific tariff,

(b) Ad Valorem tariff,

(c) Compound tariff and

(d) Sliding scale tariff.

(a) Specific Tariff:

Specific tariff is the fixed amount of money per physical unit or according to the weight or measurement of the commodity imported or exported. Such duties can be levied on goods like wheat, rice, fertilizers, cement, sugar, cloth etc. Specific duties are quite easy to administer, as they do not involve the evaluation of the goods.

The determination of the value of the traded goods may be difficult as there are several variants of price such as demand price, supply price, market price, contract price, invoice price, f.o.b, (free on board) price, c.i.f (cost, insurance, freight) price etc. The resort to specific duties enables the government to keep out of complexities of prices.

However, the specific duties cannot be levied on high valued goods such as diamonds, jewellery, watches, T.V. sets, motor cars, works of arts like paintings etc. These articles can be taxed either on the basis of weight, surface area covered or the number of articles.

(b) Ad Valorem Tariff:

'Ad Valorem' is the Latin word that means 'on the value.' When the duty is levied as a fixed percentage of the value of the traded commodity, it is called as valorem tariff. Such duties are levied on the products the value of which is disproportionately higher compared to their physical characteristics such as weight or measure-ment.

These duties are more equitable as the costly goods, generally consumed by the rich, bear greater burden of duty, while the cheaper goods bought by the poor, bear lesser burden of tariff. For instance, if the import of watches is subject to 70 percent ad valorem tariff, a watch valued at Rs. 1000 will be subject to a duty of Rs. 700 and a watch valued at Rs. 1200 will be subject to a tariff amounting to Rs. 840. The ad valorem duties have an additional advantage that the international comparison of tariffs, in their case, can be easily made.

(c) Compound Tariff:

The compound tariff is a combination of specific and ad valorem tariff. The structure of compound tariff includes specific duty on each unit of the commodity plus a percentage of ad valorem duty. The compound tariffs not only impart a greater elasticity to revenues but also assure a more effective protection to the home industries.

(d) Sliding Scale Tariff:

The import duties which vary with the prices of the commodities are termed as sliding scale duties. These may either be on specific or ad valorem basis. In practice, these are generally on a specific basis.

(2) Classification on the Basis of Purpose for Which Tariff is Imposed:

On the basis of purpose of levying the tariff.

These can be of two types:

(a) Revenue Tariff and

(b) Protective Tariff.

(a) Revenue Tariff:

The tariff, which is imposed primarily for generating more revenues for the government is called as the revenue tariff. In advanced countries, the introduction and diversification of direct taxes has reduced the importance of tariff as a source of government revenues. But in the less developed countries, there is still much reliance of the governments on this source of revenue.

Generally pure revenue tariff is not possible. The imposition of tariff, even for the purpose of securing revenues, does have protective effect when it leads to switch of demand by the domestic consumers from the imported to home- produced goods.

(b) Protective Tariff:

The tariff may be imposed by the government to protect the home industries from the cut-throat competition from the foreign produced goods. The higher the tariff, greater may be the protective effect of tariff. A perfect protective tariff is likely to prohibit completely the import from abroad.

In practice, the perfect protective tariff may not exist. If the domestic demand for import remains strong, there can be the possibility of smuggling imported goods. In addition, such a tariff will not yield any revenue to the government. A high rate of protective tariff can make the domestic producers more lethargic and inefficient and unable to face foreign competition even in the long run.

(3) Classification on the Basis of Discrimination:

If the tariff is influenced by the consideration of discrimination.

There can be two types of tariffs-

(a) Non-discriminatory and

(b) Discriminatory.

(a) Non-Discriminatory Tariff:

If the uniform tariff rates are applicable to all the commodities irrespective of the country of origin, these are known as non-discriminatory tariffs. It is possible that low rates of tariffs on certain commodities exist because of commercial agreements with some countries but the tariff-imposing home country extends the same low tariff rates to the commodities of all the countries.

Such a system of non-discriminatory tariff is called as single column tariff. This system of tariff is easy and simple to administer. There is, however, one deficiency that it is not elastic enough to adjust according to the changing needs of the industries of the home country. From the viewpoint of revenues too, it may not be satisfactory for the tariff-imposing country.

(b) Discriminatory Tariff:

In case of discriminatory tariff, the varying tariff rates exist for different commodities. The products originating from favored countries are subject to a lower tariff rate than those of other countries. The discriminatory tariffs can be double or multiple column tariffs.

In case of the double column tariff, two different rates of duty exist for all or some commodities. Both the rates are either announced by the government right from the beginning and the two rates come into existence after the country enters into favored-nation commercial agreement with some foreign countries. The favored rates of tariff may either be on a unilateral basis or on a reciprocal basis.

The double column tariff can be further classified as:

(i) General and conventional tariff

(ii) Maximum and minimum tariff

(iii) Multiple Column Tariff.

(i) General and Conventional Tariff:

The general tariff schedule is determined by the state legislature. It also makes provision for the adjustment in tariff rates as and when required to fulfill the obligations of international commercial agreements. The conventional tariff schedule is evolved through the commercial agreements of the home country with other countries. It does not permit changes in tariff rates according to the changes in domestic conditions or requirements.

The changes can be possible only after negotiations and agreements are reached between the concerned countries or after the expiry of the existing agreement. It is clear that there is some rigidity in the conventional tariff schedule. In contrast, the general tariff schedule is more flexible

(ii) Maximum and Minimum Tariff:

Under this system, a country has maximum and minimum tariff rates for every commodity. These tariff rates are fixed by the legislature and the government is authorized to apply specific rates of tariff to the goods imported from the different countries. The minimum tariff rates are applied to the products originating from the countries treated as 'The Most Favored Nations'. The maximum tariff rates are applied for the purpose of improving the bargaining position of the home country vis-a-vis the foreign countries.

(iii) Multiple Column Tariff:

The multiple column tariff consists of three different rates of tariff – a general rate, an international rate and a preferential rate. The general and international tariff rates can be considered equivalent to the maximum and minimum tariff rates discussed above. The preferential tariff is generally applied by a subject country to the products originating from the colonial countries.

The preferential tariff rate is kept lower than the general rate of tariff. For instance, the goods imported by India from Britain before independence were subjected to a lower tariff or duty free on account of Imperial Preferences. On the other hand, the goods imported from other countries such as Japan, Germany and others were subject to higher rates of tariff.

(4) Classification on the Basis of Products:

Whether a product is imported or exported can be the basis of tariff.

On this basis, the tariffs can be of the types of:

(a) Import duties and

(b) Exports duties.

(a) Import Duties:

If the home country imposes tariff upon the products of the foreign countries as they enter its territory, the tariff is known as import tariff or import duty.

(b) Export Duties:

If the products of the home country become subject to tax as they leave its territory to be sold in the foreign market, the tax or duty is called as export tariff or export duty.

The import tariffs have remained the matter of deep interest both for analytical and policy reasons. These are far more wide-spread, and almost every country takes resort to them. In contrast, the export duties are applied to a very limited extent. Some countries like the USA have prohibited export duties by law. Even in those countries, where these are in vogue, the basic purpose is to secure larger revenues.

(5) Classification on the Basis of Retaliation:

On this basis, the tariffs can be of the types of

(a) Retaliatory tariffs and

(b) Countervailing tariffs.

(a) Retaliatory Tariffs:

If a foreign country has imposed tariffs upon the exports from the home country and the latter imposes tariffs against the products of the former, the tariffs resorted to by the home country will be regarded as the retaliatory tariffs. The home country, while adopting this measure does not either has the object of raising revenues or protecting home industries but of acting in retaliation.

(b) Countervailing Tariffs:

If the foreign country has been exporting large quantities of its products in the market of the home country on the strength of export subsidies, the home country can neutralize the 'unfair advantage' enjoyed by foreign products through imposing duties upon them as they enter the territory of the home country. The latter has full justification for resorting to these countervailing duties in order that the unfair advantage given by exports subsidies to the foreign products is offset and the competition takes place on equal footing between the foreign and home produced goods.

3.6. Quantitative restrictions

Quantitative restrictions refer to explicit limits, or quotas, on the physical amounts of particular commodities that can be imported or exported during a specified time period. These restrictions may be applied on a selective basis, with varying limits set according to the country of origin or destination. Quantitative restrictions are considered to have a greater protective effect than tariff measures and are more likely to distort free trade. When a trading partner uses tariffs to restrict imports, it is still possible to increase exports as long as foreign products become price competitive enough to overcome the barriers created by the tariff. When a trading partner uses quantitative restrictions, however, it is impossible to export in excess of the quota.

Article XI of the GATT generally prohibits quantitative restrictions on the importation or the exportation of any product, by stating "no prohibitions or restrictions other than duties, taxes or other charges shall be instituted or maintained by any Member..." One reason for this prohibition is that quantitative restrictions are considered to have a greater protective effect than tariff measures and are more likely to distort free trade. When a trading partner uses tariffs to restrict imports, it is still possible to increase exports as long as foreign products become price competitive enough to overcome the barriers created by the tariff. When a trading partner uses quantitative restrictions, however, it is impossible to export in excess of the quota no matter how price competitive foreign products may be. Thus, quantitative restrictions are considered to have such a distortional effect on trade that their prohibition is one of the fundamental principles of the GATT.

However, the GATT provides exceptions to this fundamental principle. These exceptions permit the imposition of quantitative measures under limited conditions and only if they are taken on policy grounds justifiable under the GATT such as critical shortages of foodstuffs (Article XI:2) and balance of payment problems (Article XVIII:B). As long as these exceptions are invoked formally in accordance with GATT provisions, they cannot be criticized as unfair trade measures.

3.7. Export-Import Procedures and documentation.

Import and export procedure(s)

1. Establish company, open business bank account and apply for export/import license

The followings are the crucial import and export procedure(s) what entrepreneurs need to follow through. No matter If you are exporting or importing, no matter as an export/import company or export-import agent.

In order to establish a company, you need to approach your country appropriate authorities and institutions.

- Firstly, you need to fill the forms, confirm your initial capital, address details, contact details, and other formalities. After some time your company will be established. To establish a company, you also need to pay some government fees.
- Note: Before, you decide to open a company; we suggest you think through your export business properly. It is smart to conclude export business plan as well. An export business plan will help you set right activities and set goals and priorities.

- Secondly, you need to go to the local bank with your company corporation docs (if you have a business plan, take this as well) and apply for a bank account. You need again to fill different forms and answer banker questions about your future business activities. After some time, you should have an existing bank account opened. You need international banking service, so you can send and receive money from abroad.
- Thirdly, after you have an existing company with the bank account you need to apply for your export/import license. This is also called as IEC number (your export/import license code no. Example, in India IEC, is a CODE which contains 10 digit number issued by General Director of Foreign Trade, Department of Commerce, Government of India.
- So, in order, to apply the application, you need to approach to the Department of Commerce in India, in your local branch.

Application for IEC/e-IEC

(a) Application for obtaining IEC can be filed manually and submitting the form in the office of Regional Authority (RA) of DGFT.

Alternatively, an application for e-IEC may be filed online in ANF 2A, in accordance with Para 2.08 of Handbook of Procedure on payment of application fee of Rs. 500/-, to be paid online through net banking or credit/debit.

Documents/ details required to be uploaded/ submitted along with the application form are listed in the Application Form (ANF 2A).

(b) When an e-IEC is approved by the competent authority, applicant is informed through e-mail that a computer generated e-IEC is available on the DGFT website. By clicking on “Application Status” after having filled and submitted the requisite details in “Online IEC Application” webpage, applicant can view and print his e-IEC.

(c) Briefly, following are the requisite details /documents (scanned copies) to be submitted/ uploaded along with the application for IEC:

(i) Details of the entity seeking the IEC, as per Impex Policy 2015-20

(1) PAN of the business entity in whose name Import/Export would be done (Applicant individual in case of Proprietorship firms).

(2) Address Proof of the applicant entity.

(3) LLPIN /CIN/ Registration Certification Number (whichever is applicable).

(4) Bank account details of the entity. Cancelled Cheque bearing entity’s pre-printed name or Bank certificate in prescribed format ANF2A (I).

(ii) Details of the Proprietor/ Partners/ Directors/ Secretary or Chief Executive of the Society/ Managing Trustee of the entity:

(1) PAN (for all categories)

(2) DIN/DPIN (in case of Company /LLP firm)

(iii) Details of the signatory applicant as per Export Import Policy 2015-20 (FTP 2015-20):

(1) Identity proof

(2) PAN

(3) Digital photograph

(d) In case the applicant has digital signature, the application can also be submitted online and no physical application or document is required. In case the applicant does not possess digital signature, a print out of the application filed online duly signed by the applicant has to be submitted to the concerned jurisdictional RA, in person or by post.

(II) No Export/Import without IEC

(i) No export or import shall be made by any person without obtaining an IEC number unless specifically exempted under Import Export Policy 2015-20.

(ii) Exempt categories and corresponding permanent IEC numbers are given in Para 2.07 of Handbook of Procedures.

(III) Only one IEC against one Permanent Account Number (PAN)

Only one IEC is permitted against on Permanent Account Number (PAN). If any PAN cardholder has more than one IEC, the extra IECs shall be disabled.

As you can see, in India without IEC number you are not allowed to export or import any goods. This is similar also in other developing countries like China, Vietnam, and South Africa.

Only, if you are working as an export-import agent or sourcing agent, then you may not need to apply for the IEC code.

Previous was pre work, for getting started in export import business, now we will look real import and export procedure(s).

2. Contact with buyers and make offers.

The validation of the buyers, this export procedure includes online research and background check of the potential buyers.

For validated and serious buyers, you should make a price offers. Price offer should include all the relevant data, such as price, delivery term, quality, validation period for the offer.

Buyer can accept or reject your offer, If reject, then you need to negotiate. If accepted, then let us move to the next import and export procedure(s).

3. Send samples to your overseas buyers

If you found a potential overseas buyer, then definitely, they will ask you to send them a sample first. You need to pack the sample and ship it to your customer, so they can check and test your product.

You need to use an airplane as a transport. We suggest using DHL, TNT or some other international shipping company. Also, they will help you, to fill export documents and will tell you, what you need to provide them. Even for sample sending, you need to fill the export declaration, where you mark product, its HS code and, its value.

Usually, there’s no export duty, but some goods may be restricted or prohibited to export in your country. Get yourself a customs broker in your country; they will help you make all clear. Making clear all duties, regulations, important terms related to your product is very important import export procedure; this will prevent you from future surprises.

After your buyer, received and tested your product sample, then if he is satisfied, they can move to the next export procedure (stage). Ordering and signing the contracts.

In case, if the buyer doesn’t want to make an export order for you and it is not related with the product or price, then you should read why foreign buyers don’t want buy from you.

4. Confirm the order from buyer and receive money

Sign sale-purchase contract, issue a proforma invoice and receive the first payment

If your buyer likes the sample, the next import export procedure (step) is that they will make the real export order for you. They will tell you the order quantity and terms. Now is time for final negotiation after what you need to sign the agreement of sales and purchase.

This stage belongs to the most important import export procedure.

In contract, all important terms and conditions need to be stated and confirmed. At least following terms need to be negotiated and settled into the contract.

- Price of the goods and total price
- shipping date
- Description of the goods with HS code
- Ordered quantity
- Delivery term (EXW; FOB; CIF)
- Payment terms (TT, LC, DC)
- Inspection and warranty terms
- Agreed advance-payment % and balance payment %
- Packing details
- Required docs provided by exporter

The step-by-step process of the work

1. Issue proforma invoice and request first payment

- After the contract is signed then exporter need to issue the proforma invoice to the buyer. The buyer needs to arrange the advance payment to confirm the order. Advance payment is usually 30% and the balance payment need to be arranged against the copy of the bill of landing.
- Or if you are using LC (Letter of credit) payment, then the buyer should open the deposit for you in the agreed bank. Also if LC, then all the LC conditions need to be agreed, so bank knows in what conditions the LC deposit will be released to the seller.
- In this stage, exporter needs to know all the buyer custom requirements and must be sure, that all can be done. Then exporter can prepare all docs and certificates and send together with the goods. (if using T/T payment).
- If LC payment, then your bank will send the docs to the buyer's bank and buyer bank will give over to the buyer.
- For first time exporters, it is smart to use service of freight forwarders and custom-agents. They can help you with all the export formalities.

5. Prepare order to your customer

- Now, you should have received the advance payment from your customer, this means the order is confirmed.
- If you work 100% on LC, then, you should get a notice from the bank, that LC deposit is opened for you.
- Neatly you need to arrange the agreed order to the buyer. You need to send the order to the shipping port. The exporter can use a freight forwarder to collect, pack and send the goods to the shipping port.

6. Final inspection by the buyer before shipping and final payment

- This is very critical part of any export import business. Usually, the buyer is not going to make the final payment or accepting the goods, if he hasn't got the inspection and test report. Buyer can come over and conclude the inspection by himself, or he can authorize some third party to do it. I si internationally common to use SGS for such inspections.

- Final inspection will be done at your warehouse or on the port, before sending it to the shipping board.
- This export and import procedure is critical. If inspection results are not what they should be, then you are in trouble.
- But If this export and import procedure runs smoothly and all test report is what it should be, then buyer shouldn't have any complaints. Also, Bank will check test report results (if LC is being used).
- If this export and import procedure is successfully finished, then we reach to the next stage.

7. Receive balance payment against B/L and test report copy

- Before the goods have been taken on the ship board, you need to arrange the export custom. You need to provide needed details, docs to your country custom bureau. It is wise to use the service of a custom broker, so they will arrange all for you.
- Export procedures of customs are specific and formal. If you don't have previous experiences, then is it clever to let customs brokers and freight forwarders arrange everything for you.
- If you send the goods to the ship, then you will get the Bill of lading (B/L) from a shipping company.
- Now you are done and now you need your balance payment from your buyer, against the copy of the bill of lading and other docs if required.
- You provide the copy of the bill of lading to the buyer and buyer need to arrange the payment to you.
- If you used LC payment, then you need to present all the docs to your bank where LC is opened for you.
- After you receive the balance payment or LC deposit, your export risk is over.
- This import export procedure (stage) is the riskiest for the exporter, after this, all risk will go over to the buyer.
- NB! In export-import business, LC is often the best payment way for both, exporter and importer.

8. Send all the original docs to your customer and support him

Now, after you have received the total amount of your goods, you need to provide all the original docs to your buyer. Buyer needs original docs for the import custom. Without required export-import documentations he can't clear the importing customs in his country.

Even, the goods arrive at the buyers port, but the buyer doesn't have the original docs of the goods, then he cant import the goods into his country.

You can send the docs with express; I usually use DHL for this.

Also, maybe your customer needs some further help from you. Maybe he need some extra docs from you, so you should help him and provide all to him. It is important to support your buyer because then he is often willing to make next order for you.

Previous 6 import export procedure(s) are most important. But we didn't handle here, how to find buyers and how to select right products or how to select right export markets. You can read more article about those topics below:

- Exactly how to find buyers for your goods
- How to select right product for export business

- Select right target market.

- If you are more interested in importing, then we are sure you love our own case study about how to import from China.

Also, if you are serious about starting your export-import business, we have in-depth online course: “Zero to first deal” you can see it in our programs.

Now, after the import export procedure(s) we will show you the most important docs in the export import business.

Documentation in export import business

Followings are the necessary documents what every exporter and importer needs to provide or receive if you are importing/exporting. All the following docs are needed for clearing import or export custom.

NB! Having well crafted documents is very important in your export-import business. If you don’t have professional documents, it can ruin your deal!

We have put together a full set of document templates; you would need in your business. You can get all the documents templates

1. Proforma invoice (PI)

- Mandatory Export import document.

- This is a document, which will state the value per unit for the goods. And will show the total value of the goods exported. Also, the exporter and importer details are stated. There is no formal format for the proforma invoice, just make sure all the needed data is stated.

2. Sales-purchase contract

- Belongs to mandatory export-import documentation.

- This is the proof of purchase-sale between the parties. You need to present this to your country custom together with the proforma invoice. The sales purchase contract needs to be well-crafted and prepared. Entrepreneurs should use the service of professional lawyers.

- It is not wise to use the contract forms that are available on the internet for free! We have included professional international sales-purchase contract form (ready for use and modify) in our premium course.

- Also, you can take a full set of business document templates, which we have packed for you from (here)

3. Export-import agent commission agreement

- If you are working as an export-import agent, you are basically a representation of a supplier. You will be doing marketing and sales for the chosen supplier, against the commission fee, from the sales/transactions you have generated for the supplier.

- In this case, you as an EXIM-agent need the solid commission agreement to be signed with the supplier first. In the commission agreement, you should state all the related and important terms about the business relationship you will have with the supplier. Especially pay attention to state clearly the terms related to your commission fee.

4. NDA agreement

- NDA (Non-disclosure agreement) document, which protects, you as a supplier or export-import agent. It is a tool, protecting your business interests. It prevents the buyer from going directly to your supplier. We suggest this document to be signed with both, suppliers and buyers, before entering into business transactions with them.

- NDA sets penalties for the signed parties. If one signee surpasses you as a supplier or agent, then based on the NDA you can take legal actions to get back the profit you lost, because of one side breaking the NDA.

5. Packing list (PL)

- Mandatory export import procedures and documentation
- The packing list states the quantity of the goods exported. Also those packing and weights and CBM,s. also, the amount of the packages are stated on the packing list.
- On the packing list, also the product HS code is marked.
- HS code is a code, that all the nations understand the same way. This code will determine the import duties and other formalities.

6. Bill of landing/Airway bill/Railway bill

- Crucial Export import document for importers custom.
- After, the goods had been taken on the shipboard, then shipper will issue the Bill of landing (B/L). This document confirms that goods had been taken on the ship and is ready for shipping.
- This is the proof for receivers and banks that the goods are ready for shipment.
- Similarly, if the goods are transported by the airplane, then there is airway bill. If goods are transported by Train, then there is railway bill.

7. Certificate of Origin (C/O)

- This is very important doc what is required by countries customs. This doc can lower the import duties in some cases and without this sometimes exporting is impossible. This doc will prove, that the goods are from the country by which the C/O is issued.
- Also, the C/O contains the producer data. This is an official doc what can be issued only by country export and trading authorities. Usually, to issue the certificate of origin, this will cost some money.

8. CE certificate

- CE belongs to the export import procedures and documentation if you are exporting to Europe.
- With all the products, the CE certificate is required, in trading with Europe.
- The producer must have been certified by third country to have CE certificate. CE confirms, that the product meets the European Union safety standards.

9. Material safety sheet (MSD)

- Sometimes this document is required by importing country custom. This doc can be issued by the exporter and must confirm that product is not harmful to the humans and nature. This doc is usually required for liquids.

10. Freight insurance certificate

- This doc is not mandatory in export import documentation.
- If the goods are precious then usually the buyer requires that exporter signs insurance-policy for the goods. The insurance certificate is issued by companies who provide insurances. Also the international shipping companies like DHL, DSV provide the insurances.

- There are lot more documents and procedures that are required if exporting some specific product. For food product example, the exporter needs to provide health inspection certificates and sanitary certificates.

- Some export and import procedure(s) and documentation can turn out to be very costly as well. All costs need to be considered for your export business.

- In order to apply those certificates, special import and export procedure(s) need to be concluded.

- If to export medical products, then the rules are even more strict and special licenses may need to apply. Then import export procedure(s) and documentation could be much more complex and involve special institutions and organizations.

- NB! That’s why, at the stage of sending the samples to the buyers, you need to make sure what docs and licenses are required by importing party custom for a specific product.

- Sometimes it may come clear, that some docs can’t be issued. Then also the product can’t be an exporter. It is crucial to make all sure at the very beginning

UNIT- IV
INSTITUTIONAL SETUP FOR EXPORT PROMOTION

4.1. Export Assistance measures.

Export production assistance and export marketing assistance!

To provide effective support to the exporters, particularly new and small exporters and effective system consisting of several export promotion measures have been instituted.

Export Marketing

Although the intensity and coverage of these measures have undergone change with the liberalization of policy, there does exist a number of schemes for export production as well as marketing. The various export assistance or promotion measures are undertaken through a number of organizations existing both at the Centre and State level.

Export assistance includes facilities for efficient export production and marketing.

1) Export Production Assistance:

Export production assistance is available right from the stage of acquiring land and building, procuring plant machinery, equipments, components, spares, technical guidance/training, to giving finance and credit in time at comparatively cheaper rate. Export production assistance includes following facilities provided to enhance the assistance:

i) Infrastructural Facilities:

Besides providing land and building to exporting units, Special Economic Zones, Technology Parks, Export Promotion Parks, Industrial Estates, etc., have been set-up in various parts of the country.

There are 8 Special Economic Zones at Kandla (Gujarat), Santa Cruz (Maharashtra), Falta (West Bengal), Noida (U.P.), Cochin (Kerala), Chennai (Tamil Nadu), Surat (Gujarat), and Visakhapatnam (Andhra Pradesh) which arc functional at present (Sept '03). Whereas all the Zones, except Seepz, are multi-product Zones, the Seepz at Santa Cruz in Bombay is exclusively for Electronics and Gem and Jewellery items. Private Bonded Warehouses for Exports are also allowed to be set-up in DTA (Domestic Tariff Area) for procurement of goods from domestic manufacturers without payment of duty. Such applies are considered as physical export, provided payment for the same is made in foreign exchange.

Government has also recently permitted development of Special Economic Zones by Private/State or Joint Sector. Export Promotion Industrial Parks Scheme has been introduced with a view to involving State Government in providing infrastructural facilities for export-oriented production.

Technology Park for Electronic Hardware and Software development for export have also been set-up, mostly on the lines of SEZs providing same facilities for production and export.

ii) Manufacture-in-Bond:

Manufacture-in-bond facility is available both in the excise as well as customer regulations. Whereas rule 13 of the Central Excise Rules relates to Excise Regulations, Section 65 of the Customs Act provides facilities of manufacture in bond.

iii) Machinery and Equipments:

Besides making available machinery and equipments on lease, there is a special facility to import CG (Capital Goods) at 5% duty under EPCG, i.e., Export Promotion Capital Goods Scheme.

iv) Production Inputs:

Raw-materials, components, spares, consumables, etc., whether indigenous or imported, can be obtained for export production under various schemes. Imported inputs for use in export products are importable duty free under the Duty

Exemption/Remission Scheme, popularly known as Advance Licensing Scheme, Duty Free Replenishment Certificate (DFRC), and Duty Entitlement Passbook (DEPB) Scheme, although there are several other schemes covered there under. Still another scheme known as duty free import entitlement scheme has been introduced for status holder exporters including service providers.

Goods (including CG) are also allowed to be imported without an import license or Customs Clearance Permit (CCP) for jobbing, repairing, servicing, etc., against bond, surety/security. Such goods are to be re-exported with specified minimum value addition. There are special for export of gold/silver jewellery and articles as also for specified sectors like pharmaceuticals, readymade garments other than leather garments, electronics/writing instruments, and engineering goods.

v) Technology Upgradation:

Besides allowing duty free import of technical samples/prototypes and trade samples upto specified value, simplified approval mechanism has been introduced for foreign technology agreements. Foreign exchange is also released liberally for foreign visits and testing abroad of indigenous raw materials. National Laboratories, National Test House, etc., provide technical guidance for export production. The Pilot Test House offer special technical support facilities to the industry. SISIs and Regional Testing Laboratories also provide technical support.

vi) Packing Credit:

It is also known as pre-shipment credit. It is available even if there is no export other in hand. It consists of cash credits and overdraft facilities, and given at a concessional rate of interest.

Pre-shipment credit is also available in foreign currency under the PCFC Scheme. It is applicable to both the domestic and imported inputs for export goods.

vii) Back-to-Back Letter of Credit (L/C):

An inland Back-to-Back Letter of Credit Scheme has been instituted which makes sub- suppliers of raw-materials, samples, etc., to exporter, eligible for export packing credit on the basis of export order or L/C in the name of the export order holder.

2) Export Marketing Assistance:

A number of steps have been taken to assist the exporters in their marketing effort. These include conducting, sponsoring or otherwise assisting market surveys and research; collection, storage, and dissemination of marketing information, organising and facilitating participation in international trade fairs and exhibitions; credit and insurance facilities; release of foreign exchange for export marketing activities; assistance in export procedures; quality control and pre-shipment inspection; identifying markets and products with export potential; helping buyer-seller interaction, etc.

Some of the schemes and facilities which assist export marketing are as follows:

i) Marketing Development Fund (MDF):

This came into being in 1963-64, the nomenclature was changed to Marketing Development Assistance (MDA) in 1975. The fund is administered for providing grants/assistance to Export Promotion Councils, other export bodies, also for special schemes approved for specific export promotion efforts. The fund is on the decline, and sufficient amount had not been set apart in recent years.

Assistance under the MDA is available for market and commodity researchers; trade delegations and study teams; participation in trade fairs and exhibitions; establishment of offices and branches in foreign countries; and grants-in-aid to EPCs and other approved organisations for export promotion. Interest on Export Credit by commercial banks and approved cooperative banks enjoy a subsidy of 1.5% out of MDA. Most of the MDA expenditure in the past was absorbed by the CCS. The CCS helped the exporters to increase the price competitiveness of the Indian products in foreign markets.

ii) Cash Compensatory Support:

Cash assistance for exports, which was later termed as Cash Compensatory Support (CCS.) was introduced in 1966. The stated objectives were to enable exporters to meet competition in foreign markets, to develop marketing competence and to neutralize disadvantages inherent in the existing stage of development of the economy. The main basis for the CCS Scheme was to provide compensation for unrebated indirect taxes (on both final and intermediate stages of production) which enter into export production but are not refundable through Duty Drawback System.

iii) Foreign Exchange:

It is released for undertaking approved market development activities such as participation in trade fairs and exhibitions, foreign travel for export promotion, advertisement abroad, market research, procurement of samples, and technical information from abroad.

iv) Trade Fairs and Exhibitions:

As trade fairs and exhibitions are effective media of promoting products, facilities are provided for enabling and encouraging participating of Indian exporters/manufacturers in such events. Foreign exchange is released for such purpose, the cost of participation is subsidized and the ITPO plays an Important role in organizing and facilities participation in trade fairs/exhibitions. Besides the ITPO, some other promotional agencies also organize trade fairs. For example, the MPEDA organizes sea foods trade fair in India, in every 2nd year, which attracts a number of foreign buyers and others connected with the sea foods industry.

v) Export Risk Insurance:

As international business in fraught with different types of risks, measures have been taken to provide insurance covers against such risks. The Export Credit Guarantee Corporation (ECGC) has policies covering different political and commercial risks associated with export marketing, certain types of risks associated with overseas investments and risks arising-out of exchange rate fluctuations. Further, ECGC extends the export credit risks cover the commercial banks. Marine insurance is provided by the general Insurance Corporation and its subsidiaries.

vi) Finance:

The export-import bank and commercial banks and certain other financial institutions like specified cooperative banks provide pre-shipment and post-shipment finance to exports. Some of these institutions also provide suppliers' credit including line of credit, to promote Indian exports. Export credits generally carry concessional interest rates.

vii) Quality Control and Pre-Shipment inspection:

A number of steps have been taken by the Government to improve the quality of exports and to ensure that only goods of appropriate quality are exported from the country. The Export (Quality Control and Inspection) Act empowers the Government to make necessary regulations in this respect.

viii) Institutional Assistance:

Export marketing is assisted in different ways by a number of organizations like the ITPO, EPCS, Commodity Boards, Export Development Authorities like the MPEDA and APEDA, IIFT, Indian Mission abroad, etc.

ix) Dollar Denominated Credit for Exporters:

There has been a persistent complaint, rightly so, from the exporters that the interest rates in India are higher. This consequently is reflected in the cost of the products, which makes firms non-competitive in quite a few products. Even though government agrees in principle, it is not able to bring-down the interest rates in India, due to the fact that such a move would increase the money supply, and result in inflation.

4.2. Free Trade Zone SEZ‘s and 100%EOUs.

Various schemes have been introduced by the Government from time to time to encourage exports, viz, Special Economic Zones (SEZs), Export-oriented Units (EOUs), Software Technology Parks (STPs), Electronics Hardware Technology Parks (EHTPs), Biotechnology Parks (BTPs), etc.

Special Economic Zones

With a view to providing an internationally competitive environment for exports, the Government of India announced the SEZ Policy in April 2000. The objectives of the SEZ Policy include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, expeditious and single-window approval mechanism and a package of incentives to attract foreign and domestic investments for promoting export-led growth.

Initially, SEZs in India functioned from 1 November 2000 to 9 February 2006 under the provisions of the Exim Policy/Foreign Trade Policy and fiscal incentives were made available through the provisions of relevant statutes. This system did not lend enough confidence to the investors to commit substantial investment for development of infrastructure and for the setting up of units for export of goods and services.

In order to provide a long-term and stable policy framework with minimum regulatory regime and to provide expeditious and single-window clearance mechanism in line with the international best business practices, a Central Act for Special Economic Zones was therefore found to be necessary. The *Special Economic Zones Act, 2005* (SEZ Act) was enacted by the Government in 2005. Subsequently, the *Special Economic Zones Rules, 2006* (SEZ Rules) were notified on 10 February 2006. Consequently, the SEZ Act came into operation w.e.f. 10 February 2006.

The SEZ Policy provides for simplified procedures and single-window clearance mechanism to deal with matters under Central/State enactments. For SEZ developers, there are different minimum-land requirements for different classes of SEZs. Every SEZ is divided into a processing area, within which only the SEZ units would come up, and the non-processing area, where the supporting infrastructure is to be created.

The salient features of the SEZ Policy are as follows:

- Simplified procedures for development, operation, and maintenance of the SEZs and for setting up units and conducting business in SEZs;
- Single-window clearance for setting up of SEZ;
- Single-window clearance for setting up units in SEZ;
- Single-window clearance on matters relating to Central as well as State Governments; and
- Simplified compliance procedures and documentation with an emphasis on self certification.

Administrative Set-up

- The administrative set-up for functioning of SEZs is as under:

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Board of Approval
↓
Zonal Development Commissioner(s)
↓
Unit Approval Committee(s)
↓
Development Commissioner(s)

- The Board of Approval (BoA) is the apex body and is headed by the Secretary, Department of Commerce, Ministry of Commerce and Industry, Government of India.
- The Unit Approval Committee (UAC) at the Zonal level deals with approval of units in the SEZs and other related issues.
- Each SEZ is headed by a Development Commissioner, who is *ex officio* chairperson of the UAC.
- Once an SEZ has been approved by the BOA and Central Government has notified the area of the SEZ, units are allowed to be set up in that SEZ. All the proposals for setting up of units in the SEZ are approved at the Zonal level by the UAC consisting of Development Commissioner, Customs Authorities and representatives of the State Government.

'Ease of Doing Business in India' initiative-Online Filing Facility for SEZ Proposals

Ministry of Commerce and Industry vide Notification No. D.12/25/2012-SEZ (Pt.) dated June 30, 20151 provides for digitization of application/ permissions by SEZ Units/Developers (Phase-II).

The Department of Commerce, Ministry of Commerce and Industry (MoCI), had announced the online filing of SEZ proposals *vide Circular F. No. D.12/13/2008-SEZ, dated 21 October 2008*. The following online services were being offered through the SEZ online link on the website http://www.sezindia.nic.in/:

- Filing of application (Form A) for setting up SEZ.
- Filing of other requests, viz, Application for authorised operations, addition of co-developer, application for conversion of in-principle approval to formal approval, application for validity extension of approvals, change in developing entity, change in sector, change in area/location, land details.
- Inbuilt e-mail box for each developer/co-developer to enable them to communicate with the Department.
- Online status of requests.

For filing of new applications, a physical copy of the complete application form after due signatures and authentication has to be submitted along with necessary enclosures.

In addition to the various applications digitized *vide* Department's aforesaid circular of 28 October, 2014, as a part of "Ease of Doing Business" initiative of Department of Commerce, the following additional transactions are identified by Department of Commerce as important applications made by SEZ units and Developers to Development Commissioner's office and Department of Commerce for various approvals/ intimations/ reporting.

Accordingly, with effect from 1 July 2015, online submission process for the following transactions has been made part of the SEZ Online System:

For SEZ Developers:

1. Application for change of sector of SEZ (Form C3)
2. Application for addition of land in notified SEZ (Form C4)
3. Application for deletion of land in notified SEZ (Form C5)
4. Application for De-notification of Notified SEZ (Form C6)
5. Application for Form I for CST Exemption
6. Application to lease out space for canteen facilities etc. in processing area
7. Application for approval of list of materials and Services to carry on authorized operation in SEZ.

8. Receipt & examination of the proposal by DC Office for setting up of SEZ, Processing the proposal along with site inspection report to DOC for consideration by Board of Approval (BoA).

For SEZ Units:

1. Application for Issuance of Importer Exporter Code.
2. Application for Issuance of Registration-Cum-Membership Certificate.
3. Application for issuance of Form-I for CST Exemption

Further, no manual interface is to be allowed with effect from 1 July 2015 w.r.t. applications already identified and conveyed *vide* aforementioned circular of even number dated 28 October 2014 (Phase-I).

Minimum Investment/Net-Worth Criteria for setting up SE

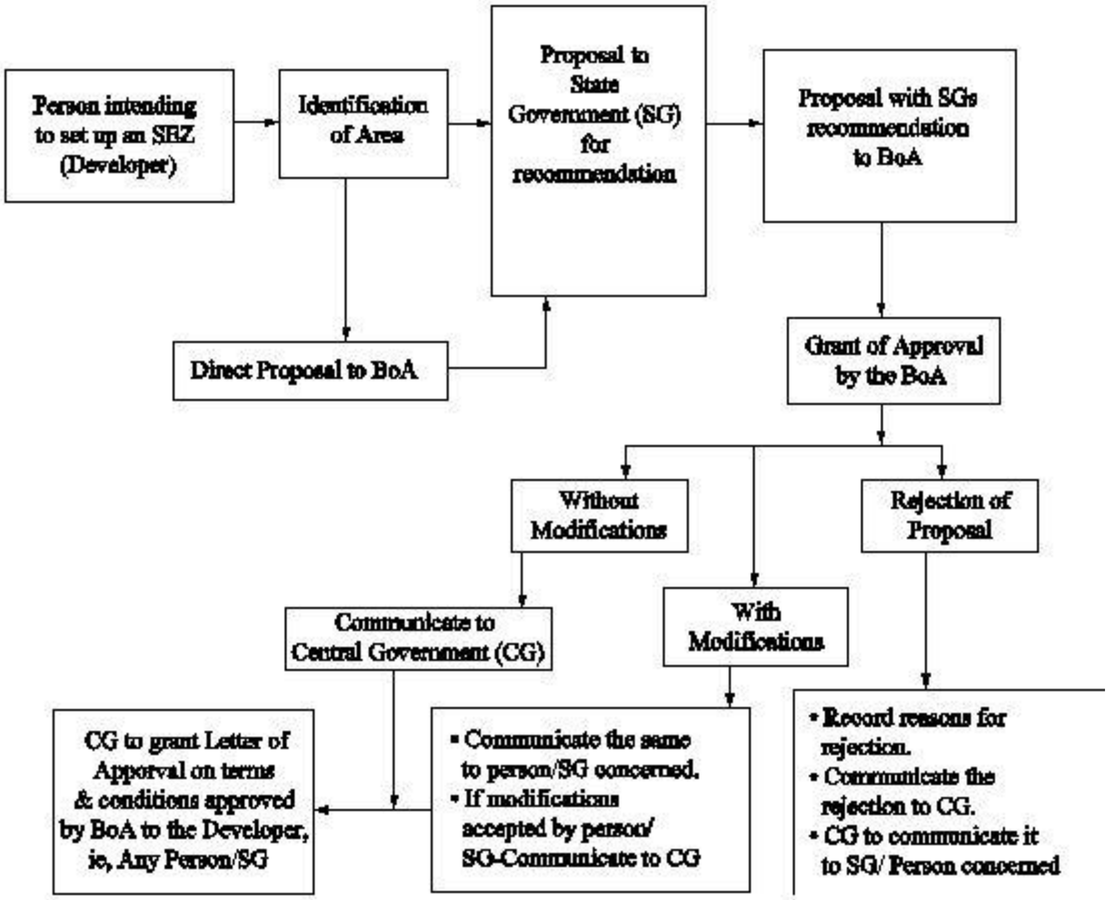
The minimum investment or net-worth of the promoters, all group companies, and flagship companies, should be as under:

- *Multi-Product SEZs* - Minimum investment of Rs 1,000 crore (Rs 10 billion) or net-worth of Rs 250 crore (Rs 2.5 billion)
- *Sector-specific SEZs* - Minimum investment of Rs 250 crore (Rs 2.5 billion) or net-worth of Rs 50 crore (Rs 0.5 billion)

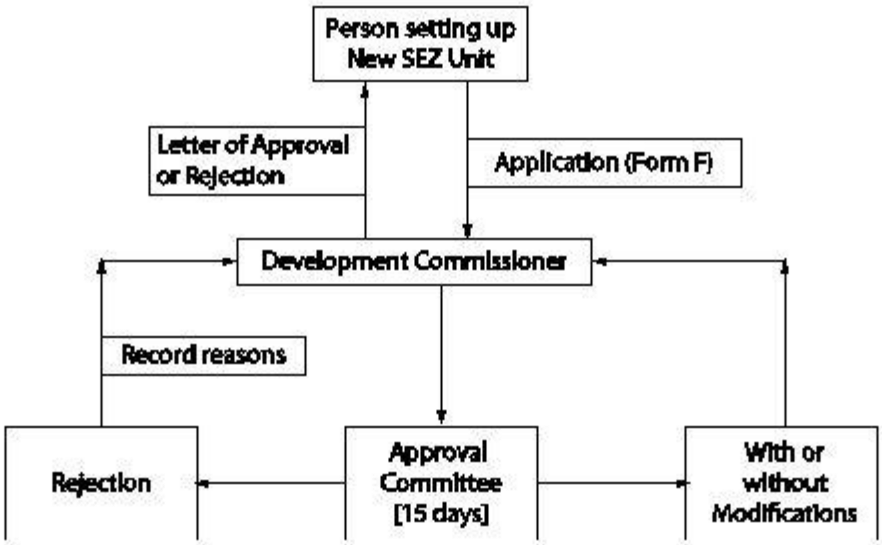
Process of setting up of SE

Setting up of a Special Economic Zone

(a)



(b)



Incentives to the SEZs

SEZs are deemed to be a foreign territory within the country. The SEZs are specifically treated as duty-free enclaves for the purposes of trade operations, duties and tariffs. SEZs enjoy a host of exemptions from income tax, customs duties, excise duties, central sales tax (CST), service tax and state levies.

Major incentives to SEZ developers

The major incentives and facilities available to SEZ Developers include:

(i) *Direct taxes*

- 100% income tax deduction, allowed to the Developer under s 80-IAB of the Income Tax Act for any consecutive 10 years out of the first 15 years from the date of notification of the SEZ.
- Exemption from minimum alternate tax (MAT) under s 115JB of the Income-tax Act. However, with effect from the assessment year 2012-2013, MAT at the rate of18.5% has been imposed on SEZ Developers.
- Exemption from dividend distribution tax (DDT) under s 115-O of the Income-tax Act to the SEZ Developers. However, with effect from 1 June 2011, DDT has been imposed at the rate of 15% on the dividend distributed by the SEZ Developers.

(ii) Indirect Taxes

- Duty-free import/domestic procurement of goods for development, operation and maintenance of SEZs
- Exemption from Central Sales Tax (CST)
- Exemption from Service Tax

(iii) *FEMA/ FDI/ECB*

- 100% Foreign Direct Investment permitted for setting up of SEZ with approval of the BOA.
- SEZ developers can avail of ECBs for providing infrastructure facilities within SEZ. For ("infrastructure sector", please refer para I(A)(v)(a) of the RBI Master Circular No. 12/ 2015-16 dated July 1, 2015).

(iv) Miscellaneous

- Full freedom in the allocation of space and built-up area to approved SEZ units on commercial basis.
- Authorisation to provide utilities and maintenance services, viz, water, electricity, security, restaurants and recreation centers on a commercial basis.
- Generation, transmission and distribution of power in SEZ.

Major incentives to SEZ units

The major incentives and facilities available to SEZ Units include:

(i) *Direct taxes*

15 years tax holiday in a phased manner, subject to certain conditions. 100% income tax exemption under s 10AA of the Income Tax Act, 1961 for the first 5 years, 50% for the next 5 years and thereafter 50% of the ploughed back export profits for the next 5 years. Exemption from minimum alternate tax (MAT) under s 115JB of the Income Tax Act was earlier available to the SEZ Units. However, with effect from the assessment year 2012-2013, MAT at the rate 18.5% has been imposed on SEZ units.

(ii) Indirect taxes

- *Duty-free import/procurement from domestic sources for all their requirement of capital goods, raw materials, office equipment, DG sets, etc, for implementation of their project in the SEZ, without any license*
- *Exemption from CST*
- *Exemption/refund from Service Tax*

(iii) *FEMA/FDI related*

- *100% FDI allowed through automatic route for all manufacturing activities in the Special Economic Zone, except for the following activities:*

    - ✓ Arms and ammunition, explosive and allied items of defence equipment, defence aircraft and warship,
    - ✓ Automatic substances,
    - ✓ Narcotics and psychotropic substances and hazardous chemicals,
    - ✓ Distillation and brewing of alcoholic drinks, and
    - ✓ Cigarettes/cigars and manufactured tobacco substitutes.

- *Sectoral norms, as notified by the Government, applies to foreign investment in services. The cases not covered by automatic route to be considered and approved by the BOA.*

- *Units in SEZs are permitted to issue equity shares to non-residents against import of capital goods subject to valuation done by a Committee consisting of Development Commissioner and appropriate Customs officials.*

- *Units in Special Economic Zones (SEZs) are allowed to raise ECB for their own requirement. However, they cannot transfer or on-lend ECB funds to sister concerns or any unit in the Domestic Tariff Area (DTA).*

- *The period of realisation and repatriation of export proceeds shall be nine months from the date of export for SEZ units.2*

- *SEZ unit may open, hold and maintain a Foreign Currency Account with an AD Category – I bank in India subject to conditions stipulated in Regulation 6(A) of Notification No. FEMA 10/2000-RB dated May 3, 2000 and as amended from time to time.*

- *SEZ Units are permitted to undertake job work abroad and export goods from that country itself subject to the conditions that:*

    - ✓ Processing/manufacturing charges are suitably loaded in the export price and are borne by the ultimate buyer.
    - ✓ The exporter has made satisfactory arrangements for realization of full export proceeds subject to the usual EDF procedure.

AD Category – I banks may permit units in DTAs to purchase foreign exchange for making payment for goods supplied to them by units in SEZs.

- ***Export of Services by Special Economic Zones (SEZs) to DTA Unit:** Authorised Dealer Banks are permitted to sell foreign exchange to a unit in the DTA for making payment in foreign exchange to a unit in the SEZ for the services rendered by it (ie SEZ Unit) to a DTA Unit.*

- ***"Netting off" of export receivables against import payments by SEZ Units:** AD Category-I banks may allow requests received from exporters for "netting off" of export receivables against import payments for SEZ Units subject to the condition that the "netting off" of export receivables against import payments is in respect of the same Indian entity and the overseas buyer/supplier (bilateral netting) and the netting may be done as on the date of balance sheet of the unit in SEZ.*

- *Enhanced limit of Rs 24,000,000 (Indian Rupees Twenty-four million) per annum allowed as managerial remuneration under the Companies Act, 2013.*

Obligations of SEZ Units

- *To achieve positive Net Foreign Exchange (NFE), in accordance with the formula provided under r 53 of SEZ Rules, 2006.*

- *To execute Bond-cum-Legal Undertaking and submit to the Development Commissioner in the prescribed Form-H under SEZ Rules, 2006.*

- *To submit Annual Performance Report to the Development Commissioner, in the prescribed Form-I under SEZ Rules, 2006.*

- *To abide by local laws, rules, regulations or bye-laws with regard to the area planning, sewerage disposal, pollution control and the like.*

- *To comply with Industrial and Labour Laws, as are applicable locally. It may be noted that the labour laws will apply to all the units inside the SEZs. However, the respective State Government may declare units within the SEZ as public utilities and may delegate the powers of Labour Commissioner to the Development Commissioner of the SEZs.*

Conclusion

The SEZ scheme has generated tremendous response amongst investors, both in India and abroad. As on July 9, 2015, there were 416 SEZs which have been formally approved, out of which 330 SEZs have been notified. Further, out of 330 notified SEZs, 202 SEZs are were operational as on March 31, 2015. Nearly 3,900 units/ companies have set up their operations in these operational SEZs by making cumulative investment of Rs 2,88,477 crore. During the financial year 2013-2014, the exports from the operational SEZs stood at Rs 4,94,077 crore, which constituted nearly 30% of India's total exports.

The facts suggest that the SEZ scheme has generated a large flow of foreign and domestic investment in the development of SEZs.

Export-oriented units

The export-oriented unit (EOU) Scheme was introduced in 1980 and is covered under Chapter 6 of the Foreign Trade Policy. Establishment of units and their performance is monitored by the jurisdictional Development Commissioner under the Foreign Trade Policy provisions.

The purpose of the scheme was to boost exports by creating additional production capacity. Under this scheme, units undertaking to export their entire production of goods are allowed to be set up as an EOU. These units may be engaged in manufacturing, services, development of software, trading, repairing, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisci-culture, viticulture, poultry, sericulture and granites. EOUs can export all products except prohibited items of exports in ITC (HS) without payment of duty. However, permissions required for import under other laws shall be applicable.

A minimum investment of Rs 10 million in plant and machinery is required before commencement of commercial production in an EOU. Applications for setting up of units under EOU scheme, other than proposals for setting up of units in the services sector (except R&D, software and IT-enabled services or any other service activity, as may be delegated by the BOA), is approved or rejected by the Unit Approval Committee.

EOUs may import, without payment of duty, all types of goods, including capital goods, as defined in the Policy, required by it for its activities or in connection therewith, provided they are not prohibited items of imports in the ITC (HS). The units are also permitted to import goods required for the approved activity, including capital goods, free of cost or on loan from clients.

EOU units are exempted from central excise duty in procurement of goods manufactured in India, procured from DTA and from customs duty on import of capital goods, raw materials, consumables, spares, etc. Such units are further entitled to reimbursement of CST paid on purchases.

Supplies from Domestic Tariff Area (DTA) to EOUs are considered deemed exports and Indian suppliers can claim benefits of deemed exports. In addition, foreign investment up to 100% is allowed, subject to sectoral norms.

Software technology parks

The Software Technology Parks (STP) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The STP Scheme is a 100% export-oriented scheme for the development and export of computer software and services using data communication links or in the form of physical media including the export of professional services. The major attraction of this scheme is a single-point contact service to the STP units.

For implementing the STP scheme, the Ministry of Communications and Information Technology formed the Software Technology Park of India (STPI) in 1991. STPI is an autonomous body for the management and regulation of IT Parks or STPs in India. The main aim of STPI is to develop India into an IT giant and one of the leading generators and exporters of IT and software within the coming few years. STP scheme approvals are given under a single-window clearance mechanism.

An STP unit can be located in areas designated as STP complexes or at any place where EOUs can be set up. Such a unit is a duty-free custom bonded area and is entitled to refund of CST paid on purchases. STP units are allowed to import all types of goods (except prohibited goods, namely capital goods, raw materials, consumables, office equipment, etc) for the purpose of manufacture/production of export products and export thereof, without payment of duties. Units can export software through data communication channel or through physical transport.

For the STP units, the period of realisation and repatriation of export proceeds shall be nine months from the date of export.3

Further, foreign investment up to 100% is allowed, subject to sectoral norms.

Electronics hardware technology parks

The Electronics Hardware Technology Parks (EHTPs) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The EHTP Scheme is administered by the Ministry of Communications and Information Technology. Under the EHTP Scheme, an EHTP can be set up by the Central Government, State Government, public or private sector undertaking or any combination of them.

An EHTP unit can be located in areas designated as EHTP complex or at any place where EOUs can be set up. Such a unit is a duty-free custom-bonded area and is entitled to refund of CST paid on purchases. EHTP units are allowed to import all types of goods (except prohibited goods, namely capital goods, raw materials, consumables, office equipment, etc) for the purpose of manufacture/production of export products and export thereof, without payment of duty. Units can export software through data communication channel or through physical transport.

For EHTP units, the period of realization and repatriation of export proceeds shall be nine months from the date of export. Further, foreign investment up to 100% is allowed, subject to sectoral norms.

Biotechnology parks

The Biotechnology Parks (BTPs) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The BTP units can export all products, except prohibited items of exports in ITC (HS) without payment of duty. Units may import, without payment of duty, all types of goods, including capital goods, as defined in the Foreign Trade Policy, required by it for its activities or in connection therewith, provided they are not prohibited items of imports in the ITC (HS).

BTP units are entitled to refund of CST paid on purchases and exempted from payment of Central Excise Duty on goods manufactured in India procured from DTA.

For BTP units, the period of realisation and repatriation of export proceeds shall be nine months from the date of export.

4.3. State Trading in India- Principal

History and Introduction of the STC:

The idea of STATE TRADING was first evolved during Second World War when a supply department was set up under the control of Shri M.S.A. Haider on the pattern of United Kingdom Commerce Corporation in the U.K.

Both these organisations worked together till the war was over.

Again in 1949, the Ministry of Commerce considered a proposal for setting up a corporation for international trade. The proposal was given a serious thought after the devaluation of rupee in September 1949. The government appointed a committee to consider the question of state trading in India under the Chairmanship of Dr. P. S. Deshmukh.

The committee submitted its report in 1950 but due to changes in economic conditions of the country, the government again set up a Three Member Committee in 1956 under Shri S. V. Krishna Murti Rao. The committee recommended the setting up of the State Trading Corporation in India. Consequently, the State Trading Corporation of India was set up in 1956.

On the recommendation of the Deshmukh Committee chaired by Dr. P. S. Deshmukh and the review committee headed by Shri S.V. Krishna Murti Rao. The Government accepted the proposal of establishing the State Trading Corporation a registered body under Indian Companies Act.

Establishment:

The State Trading Corporation (STC) was set up by the Government in May 1956 incorporated under the Indian Companies Act, 1956. It was designed as the sole import export agency as may be decided by the Government of India from time to time. Initially, it was established to deal with bilateral trading partners largely in the socialist block. It has now become a wholly owned holding company of the Project and Equipment Corporation of India Limited.

The Cashew Corporation of India Ltd., the Handicrafts and Handlooms Export Corpora-tion of India Ltd. Before October 1963, the foreign trade of minerals and metals was also with STC but with the establishment of the Minerals and Metals Trading Corporation of India (MMTC) Ltd. w.e.f. October 1, 1963, this part of trading activities was handed over to the newly set up corporation.

Management:

The State Trading Corporation is a registered company under Indian Companies Act and managed by a Board of Directors including both executive and non-execu-tive directors. It is headed by a Chairman.

Objects of the STC:

The main objects of the STC are as follows:

1. To organize and undertake trade in socialist countries as well as other countries in commodities entrusted to the company from time to time by the Government of India and to undertake the purchase, sale and transport of such commodities in India or elsewhere in the world.

2. To undertake at the instance of the Union Government of India import and/or internal distribution of any commodity in short supply with a view to stabilizing prices and rationalizing distribution.

3. To implement such special arrangement for imports/export, internal trade or distribu-tion of particular commodities as the Union Government may specify in the public interest.

4. To arrest the declining trend in exports or to boost export by introducing new products in new markets.

5. To assist small exporters in their export trade.

6. To assist export-oriented organizations in their export and financial and organizational activities.

Workings of STC:

The State Trading Corporation has completed 54 years of its existence. It has played a commendable role in achieving its objectives for which it was established.

Its workings can be evaluated by the facts written below:

1. The Turnover of the STC:

The turnover of the STC over the years has increased. Before 1971-72 the turnover was quite insignificant but after that the increase was significant. The exports reached to the highest peak during 1980-85 and started declining afterwards.

In the beginning the STC efforts were guided by the policies of the Government. But in latter years it has developed the non-canalized exports such as of items marine products, garments, engineering goods and products and textiles.

2. Important Products:

It deals in nearly 3000 commodities including agricultural and consumer items and items of construction materials, software, miscellaneous engineering items, fresh and processed food, leather and leather products, meat and marine products. The major imports of STC are edible oils, cement, explosives, natural rubber standard and glazed newsprint. Its trade is stretched over 115 countries.

Progress in Other Fields:

The STC has taken various steps in different fields. These are:

1. It has diversified its product range and continued to add new items to its export basket like orthopedic shoes, sports shoe; upper compressors. H.D. Pipe etc.
2. Trying to spearhead the national effort to identify new markets for Indian commodities and manufactured goods and establish itself in these markets on long-term basis.
3. It has established 100 per cent export oriented production units mainly with foreign collaboration and equity participation and 100 per cent buy-back arrangements.
4. It has developed a reliable supply base for production of quality goods in association with the state undertakings, co-operative organizations and other in selected and identified sectors. If necessary STC shall undertake investments for development of such production base.
5. It has taken steps for improvement in quality grading, packing etc.
6. The STC also performs serving functions thereby bringing, buyers and sellers together and assisting them in fulfilling business contracts. It assists Government departments and industrial concerns in procuring supplies of plant and machinery from abroad. In some cases, it settles trade disputes amicably between Indian and foreign parties.
7. The original idea of its setting up was to develop foreign trade with socialist countries. It has therefore improved relations with countries of socialist block but at the same time, its operations are wider with non-communist countries.
8. The STC marketing expertise has been of particular advantage to small industries because they are unable to participate in foreign trade without STC support.

Weaknesses of the STC:

There are certain inherent weaknesses of the STC, pointed out in a study conducted by Indian Institute of Management, Ahmadabad was:

1. Though the objectives of the STC were quite clear and well defined but it has not taken any major entrepreneurial decision of its own so far.

2. There seems to be no guidelines for the choice of new products to be exported and new markets to sell its products.

3. Not much expertise has been developed to locate and develop sources of supply for exportable products and also for procuring imports from sources of supply abroad.

4. Much of the expertise is in operation as an agent, in processing indents and tenders and transportation and distribution not in merchandising, procurement and marketing.

5. The set back in the exports of non-canalized items can be attributed to the STC's failure to develop an appropriate supply base and take adequate promotional step among importers.

The other weaknesses which are also important are:

(a) It is guided by the bureaucrats who lack business experience and initiative, businessmen with practical knowledge should replace them.

(b) The interlocking of the activities of the Government of India and the STC makes possible the concealment of inefficiency under intricate official procedure. There is an urgent need of coordinating the trade of Private Traders and the STC.

(c) Moreover, the STC offices abroad have not been in a position to create an impact.

Conclusion:

On the whole, the STC has developed a sound infrastructure for development of exports through it about 20 branches in India and 18 overseas offices and a large force of trained marketing personnel. Foreign offices provide market intelligence and can pursue the STC business matters with the various parties concerned.

With this sound infrastructure, STC should not only act as a canalizing agency but should also make efforts to create an image of an effective trading house on lines of Japanese trading houses. It should provide new dimensions and leadership as the biggest export house in the country. It has stepped forward towards achieving its objectives of boosting exports.

4.4. Commodities of India‘s export and imports an overview

The country that is one of the so-called BRIC economies is recognized as being one of the major emerging national economies and it is currently the 18th largest export economy in the world.

The growth has helped create a negative trade balance that has widened steadily in the last fifteen years, moving from a positive trade balance of $340 million at the beginning of that period to a negative trade balance of $88.1 billion in net imports. GDP per capita for India is $6,570, ranking it at 72nd out of 89 countries.

India's Top 5 Commodity Exports

1. Diamonds - $9.3 billion

2. Refined Petroleum - $25.4 billion

3. Rice - $5.32 billion

4. Aluminum - $1.57 billion
5. Raw Sugar - $1.45 billion

India’s Other Notable Exports

6. Jewelry – $12.6 billion
7. Packaged Medicaments – $11.6 billion
8. Cars – $6.36 billion
9. Frozen Bovine Meat – $3.68 billion
10. Leather Footwear – $1.88 billion

India’s top export destinations are the United States ($42 billion), The United Arab Emirates ($30 billion), Hong Kong ($13.2 billion) and China ($8.92 billion).

India’s Top 5 Commodity Imports

1. Crude Petroleum - $60.7 billion
2. Gold - $22.9 billion
3. Diamonds - $19 billion
4. Palm Oil - $5.6 billion
5. Copper - $2.46 billion

India's Other Notable Imports

1. Telephones – $10.6 billion
2. Semiconductors – $3.57 billion
3. Vehicle Parts – $3.66 billion
4. Cyclic Hydrocarbons – $2.1 billion
5. Special Purpose Ships – $2.54 billion

More Information on India's Imports/Exports

Diamonds

India is the leading diamond exporter in the world with an 18.8% market share of an annual export market worth $127 billion. The country has a net export surplus of $5.1 billion, which has risen by 243% in the last five years. Most Indian diamond mines were depleted several decades ago and the country is no longer considered a source for rough diamonds. However, it does still have one state-owned mine in Madhya Pradesh and DeBeers is currently prospecting in five different regions.

Refined Petroleum

India is the fourth-largest exporter with a 5.3% share of a global export market that is worth $504 billion annually. The surplus value of India’s refined petroleum is $23.3 billion after deducting the value of its refined petroleum imports against the export total. This figure has fallen by 51.1% in the last five years.

Rice

India leads the way when it comes to rice exports and has 26.7% of the annual global total, with closest rival Thailand having 21.9% and the other main exporters all enjoying a single-digit share of the market. India's rice production has increased three-fold over the last 50 years, although climatic conditions have been known to affect yields. Iran recently lifted the ban on the import of basmati rice from India and this could be a significant development as Iran is the world's largest importer of aromatic rice.

Aluminum

Major export markets for Indian aluminum are the United States (22%) and the United Arab Emirates (12%). India's aluminum production is predicted to grow at an annual compound rate of 3.5% over the next few years. This is mainly in response to rising domestic demand. Did you know? Although the Indian aluminum industry was first established in 1808, it actually took over 45 years before they managed to make production commercially viable.

Raw Sugar

India is the third-largest sugar exporter and has a market share of 5.9% of the $25 billion annual market, although, Brazil is the largest exporter by some margin, with 42.4% of the market. The states of Uttar Pradesh and Maharashtra are responsible for more than 70% of the country's sugar production.

A Few Interesting Facts about India

- India is the world's largest democracy, with over 1.2 billion people.
- There are a greater percentage of vegetarians in India than any other country in the world.
- India is now the world's largest producer of milk, having recently overtaken the European Union's production figures.
- Diamonds were first mined in India and the country was the global leader in diamond production until diamonds were subsequently discovered in Brazil during the 18th century.

4.5. Sources and Analysis of foreign Trade Statistics

Sources of Trade Information in WITS

WITS provide access to information on External Trade from the United Nations (UN) COMTRADE Data Base, The United Nations Conference on Trade and Development (UNCTAD) TRAINS Data Base and the World Trade Organization (WTO) IDB and CTS Data Bases.

The data is reported by statistical offices of each country to relevant international organizations. As a rule, missing country/period data means that the reporting country had not reported data for that specific year. No trade information for any given product (or product category) indicates a non-traded product according to the reporting country.

UN COMTRADE:

- Offers the largest country/period coverage of all three databases (from 1962 and virtually all countries).
- Records not only imports but also exports and re-exports.
- But information is not as detailed as in the 2 other databases (HS or SITC nomenclatures for UN COMTRADE, national tariff line level for TRAINS and IDB).
- UN COMTRADE is better fitted for cross-country analysis since information from all countries shares standard international nomenclatures.

TRAINS:

- Contains information at the national tariff level which means more details compared with UN COMTRADE.
- Country/Period coverage (from 1988, less than 100 countries) is smaller than in UN COMTRADE.
- Contains only imported flows.
- TRAINS is best fitted for very detailed country or sector analysis with link to market access information;

IDB:

- Contains information at the national tariff level which means more details compared with UN COMTRADE.
- Country/Period coverage (from 1996, less than 100 countries) is smaller than in UN COMTRADE.
- Contains only imported flows.
- IDB is best fitted for very detailed country or sector analysis with link to market access information;

Imports, Exports and Mirror Data with UN COMTRADE

In a perfect world, country A reported imports from country B would match with country B reported exports to country A. Consequently, this would make mirroring (using information from the partner when a country does not report its trade) a transparent and error-free process.

However, this is not the case for the following reasons:

- In UN COMTRADE, imports are recorded CIF (cost insurance and freight) while exports are fob (free on board). This may represent a 10% to 20% difference.
- Despite all efforts made by national and international agencies, data quality may vary among countries.
- For a given country, imports are usually recorded with more accuracy than exports because imports generally generate tariff revenues while exports don't.
- At a detailed level, a same good may be recorded in different categories by the exporter and the importer.

For example, in 2001 Pakistan reported US$ 236 million exports to China while China was reporting US$ 557 million.

There will be cases where you can't avoid using mirror data. In such cases, it is recommended to use reporters for which you believe statistics are the most accurate and to keep using the same reporter for the full period if you build time series. For example, if Rwanda's imports from USA are missing for some selected years and you want a complete time series, it is better to rely on USA exports to Rwanda for each and every year, even if Rwanda's imports from USA is available for some of them. Otherwise, year to year trade value variations may reflect a shift from USA to Rwanda as a reporter rather than actual variations in trade flows.

4.6. Canalizing Agencies and Chambers of Commerce

A chamber of commerce (or board of trade) is a form of business network, for example, a local organization of businesses whose goal is to further the interests of businesses. Business owners in towns and cities form these local societies to advocate on behalf of the business community. Local businesses are members, and they elect a board of directors or executive council to set policy for the chamber. The board or council then hires a President, CEO or Executive Director, plus staffing appropriate to size, to run the organization.

A chamber of commerce is a voluntary association of business firms belonging to different trades and industries. They serve as spokespeople and representatives of business community. They differ from country to country.

History

- The first chamber of commerce was founded in 1599 in Marseille, France as the "Chambre de Commerce".
- Another official chamber of commerce followed 65 years later, probably in Bruges, then part of the Spanish Netherlands.

- The world's oldest English-speaking chamber of commerce and oldest chamber of commerce in North America is the Halifax Chamber of Commerce, founded in 1750.
- The Glasgow Chamber of Commerce was founded in 1783. However, Hull Chamber of Commerce is the UK's oldest, followed by those of Leeds and of Belfast in present day Northern Ireland.
- As a non-governmental institution, a chamber of commerce has no direct role in the writing and passage of laws and regulations that affect businesses. It can, however, lobby in an attempt to get laws passed that are favorable to businesses.

Characteristics

Membership in an individual chamber can range from a few dozen to well over 800,000, as is the case with the Paris Île-de-France Regional Chamber of Commerce and Industry. Some chamber organizations in China report even larger membership numbers. Chambers of commerce can range in scope from individual neighborhoods within a city or town up to an international chamber of commerce.

In the United States, chambers do not operate in the same manner as the Better Business Bureau in that, while the BBB has the authority to bind its members under a formal operation doctrine (and, thus, can remove them if complaints arise regarding their services), the local chamber membership is either voluntary or required by law. In addition, Chambers represent the interests of businesses, while the BBB represents both the interests of businesses and the general public.[citation needed] Some Chambers are partially funded by local government, others are non-profit, and some are a combination of the two. Chambers of commerce also can include economic development corporations or groups (though the latter can sometimes be a formal branch of a local government, the groups work together and may in some cases share office facilities) as well as tourism and visitor bureaus.[citation needed]

Some chambers have joined state, national (such as the United States Chamber of Commerce and the British Chambers of Commerce) and even international bodies (such as Euro chambers, the International Chamber of Commerce (ICC), World chambers). Currently, there are about 13,000 chambers registered in the official World chambers Network registry, and the chamber of commerce network is the largest business network globally. This network is informal, with each local chamber incorporated and operating separately, rather than as a chapter of a national or state chamber.[citation needed]

Chamber models

Community, city and regional chambers

Chambers of commerce in the United States can be considered community, city, regional, state, or nationwide (United States Chamber of Commerce). City Chambers work on the local level to bring the business community together to develop strong local networks, which can result in a business-to-business exchange. In most cases, city Chambers work with their local government, such as their mayor, their city council and local representatives to develop pro-business initiatives. There are also bilateral chambers of commerce that link the business environments of two countries (e.g. Romanian-American Chamber of Commerce, Moldovan–American Chamber of Commerce).

Community chambers

Community chambers of commerce started in the UK and later spread to in the US, becoming city chambers of commerce as communities developed and became larger. Community chambers of commerce are smaller and most have a limit on numbers of members.

City chambers

The Marlborough Regional Chamber of Commerce in Marlborough, Massachusetts

The Marlborough Regional Chamber of Commerce in Marlborough, Massachusetts

City chambers of commerce have a long history in the US. The Charleston Chamber of Commerce is one of the oldest, dating back to colonial 1773. That same year, Boston's Chamber of Commerce organized a seminal tax protest: The Boston Tea Party.

In 2005 there were 2,800 chambers of commerce in the United States and 102 chambers representing U.S. businesses overseas. According to the Association for Chamber of Commerce Executives (ACCE), there are approximately 3,000 chambers of commerce with at least one staff person and "thousands more established as strictly volunteer entities".

State chambers

State chambers of commerce are much different from local and regional chambers of commerce, as they work on state and sometimes federal issues impacting the business community. Just as the local chamber is critical to the local business community, state chambers serve a unique function, serving as a third party voice on important business legislation that impact the business community and are critical in shaping legislation in their respective state. State Chambers work with their Governor, state representatives, state senators, US congressional leaders and US Senators. In comparison with state trade associations, which serve as a voice and resource to a particular industry, state chambers are looked to as a respected voice, representing the entire business community to enhance and advocate for a better business environment.

National and international chambers

Understanding the National or International need for understanding and information is the key service that these levels of chambers of commerce provide. These services are in most cases are at no fee or cost to their members, some of the resources offer personal and/or business services that may have a very low fee (Memberships to other association like the NRA etc.).

Compulsory or public-law chambers

Under the compulsory or public law model, enterprises of certain sizes, types, or sectors are obliged to become members of the chamber. This model is common in European Union countries (e.g. France, Germany, Italy, Spain, Austria), as well as Japan and Indonesia. Main tasks of the chambers are foreign trade promotion, vocational training, regional economic development, and general services to their members. The chambers were given responsibilities of public administration in various fields by the state which they exercise in order management. The chambers also have a consultative function; this means the chambers must be consulted whenever a new law related to industry or commerce is proposed.

In Germany, the chambers of commerce and industry (IHK - Industries- und Handelskammer) and the chambers of skilled crafts (HwK - Handwerkskammer) are public statutory bodies with self-administration under the inspectorate of the state ministry of economy. Enterprises are members by law according to the chamber act (IHK-Gesetz) of 1956. Because of this, such chambers are much bigger than chambers under private law. IHK Munich, the biggest German chamber of commerce, has 350,000 member companies. Germany also has compulsory chambers for "free occupations" such as architects, dentists, engineers, lawyers, notaries, physicians and pharmacists.

Continental/private law chambers

Under the private model, which exists in English-speaking countries like USA, Canada or the UK, but as well in Sweden, Finland, Norway and Denmark, companies are not obligated to become chamber members. However, companies often become members to develop their business contacts and, regarding the local chambers (the most common level of organization), to demonstrate a commitment to the local economy. Though governments are not required to consult chambers on proposed laws, the chambers are often contacted given their local influence and membership numbers.

Multilateral chambers

A multilateral chamber is formed of companies (and sometimes individuals) from different countries with a common business interest towards or in a specific country. It can further be active in representing the interests of local and foreign investors in that specific country, achieved through promotion and proactively regarding the general business environment. Multilateral chambers of commerce are independent entities strengthening business relations and interactions between all economic players and their members may benefit from a broad range of activities that enhance the visibility and reputation of their business.

On the basis of direct and indirect methods of exporting, export market organisations in India are classified into the following categories:

(a) Manufacturer Exporters: Manufacturer exporters are the manufacturers who export goods directly to foreign buyers without any intervention from intermediaries. The manufacturer may also appoint agents abroad for selling products. They enjoy several advantages:

- First hand information about foreign markets.
- Exercise a direct control over marketing activities.
- Enjoy full benefit of export incentives.
- Enjoy greater profits and goodwill in the market.

(b) Merchant Exporters: Merchant exporters are the exporters who purchase goods from the domestic market and sell them in foreign countries. They enjoy several advantages:

- Limited capital.
- Specialization in marketing.
- Large market share.

(c) Status Holders: The Government of India introduced the concept of status holders in the in the year 1960. Export House (EH) was the first category introduced by the Government with the objective of promoting exports by providing assistance for building marketing infrastructure and expertise required for export promotion. Thereafter in the year 1981, Trading Houses were introduced in order to develop new products and new markets, particularly for the products of SSIs and Cottage industries. The categorisation, their eligibility and nomenclatures have changed since then. As per the new Foreign Trade Policy 2009-2014, status holders have been categorised as follows on the basis of their export performance:

(d) Service Export House: Considering the increasing share of services in the total export from India, the government introduced the concept of Service Export House in the EXIM policy 2002-07. As per this policy, the service providers who have achieved a stipulated level of export performance are eligible for recognition of status holder. Accordingly they are eligible for all the facilities and incentives, hitherto given to the export and trading houses. These facilities include import of capital goods under EPCG scheme, passenger baggage, import of restricted items, etc. The above categorization also applies to the service providers.

(e) Canalizing Agencies: Canalization of import and export means import and export of commodities through specified government agencies such as State Trading Corporation of India (STC), Metals and Minerals Corporation (MMTC). The items specified in the canalized list can be canalized only through specified canalizing agency.

(f) Export Consortia: In this case, a number of economically independent manufacturers, voluntarily or under the direction of the government, set up a joint organization for co-ordination of their export activities. This has several advantages, such as;

- Price stabilization;
- Saves unproductive expenditures such as advertising;
- Economies of scale.

4.7. Export Organization: Institutions involved in export Promotion: DGFT, FIEO, RBI, CUSTOMS, ITPO, EXIMBANK, ECGC, EPCs, Commercial banks, Commodity Boards.

In India there are a number of organization and agencies that provides various types of support to the exporters from time to time. These export organizations provides market research in the area of foreign trade, dissemination of information arising from its activities relating to research and market studies. So, exporter should contact them for the necessary assistance.

Export Promotion Councils (EPC)

Export Promotion Councils are registered as non -profit organizations under the Indian Companies Act. At present there are eleven Export Promotion Councils under the administrative control of the Department of Commerce and nine export promotion councils related to textile sector under the administrative control of Ministry of Textiles. The Export Promotion Councils perform both advisory and executive functions. These Councils are also the registering authorities under the Export Import Policy, 2002-2007.

Commodity Boards

Commodity Board is registered agency designated by the Ministry of Commerce, Government of India for purposes of export-promotion and has offices in India and abroad. There are five statutory Commodity Boards, which are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

Federation of Indian Export Organizations (FIEO)

FIEO was set up jointly by the Ministry of Commerce, Government of India and private trade and industry in the year 1965. FIEO is thus a partner of the Government of India in promoting India's exports.

Address: Niryaat Bhawan, Rao Tula Ram Marg, Opp. Army Hospital. Research & Referral, New Delhi 110057

Indian Institute of Foreign Trade (IIFT)

The Indian Institute of Foreign Trade (IIFT) was set up in 1963 by the Government of India as an autonomous organization to help Indian exporters in foreign trade management and increase exports by developing human resources, generating, analyzing and disseminating data and conducting research.

Address: B-21 Kutub Institutional Area, Mehrauli Road, New Delhi-110016

Indian Institution of Packaging (IIP)

The Indian Institute of Packaging or IIP in short was established in 1966 under the Societies Registration Act (1860). Headquartered in Mumbai, IIP also has testing and development laboratories at Calcutta, New Delhi and Chennai. The Institute is closely linked with international organizations and is recognized by the UNIDO (United Nations Industrial Development Organization) and the ITC (International Trading Centre) for consultancy and training. The IIP is a member of the Asian Packaging Federation (APF), the Institute of Packaging Professionals (IOPP) USA, the Institute of Packaging (IOP) UK, Technical Association of PULP AND Paper Industry (TAPPI), USA and the World Packaging Organization (WPO).

Address: B-2, MIDC Area, P.B. 9432, Andheri (E), Mumbai 400096.

Export Inspection Council (EIC)

The Export Inspection Council or EIC in short, was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 in order to ensure sound development of export trade of India through Quality Control and Inspection.

Address: 3rd Floor, ND YMCA, Cultural Centre Bldg., 1, Jai Singh Road, New Delhi-110001.

Indian Council of Arbitration (ICA)

The Indian Council for Arbitration (ICA) was established on April 15, 1965. ICA provides arbitration facilities for all types of Indian and international commercial disputes through its international panel of arbitrators with eminent and experienced persons from different lines of trade and professions.

Address: Federation House, Tansen Marg, New Delhi-110001

India Trade Promotion Organization (ITPO)

ITPO is a government organization for promoting the country's external trade. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer-Seller Meets, Contact Promotion Programmes, Product Promotion Programmes, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination.

Address: Pragati Bhawan Pragati Maidan, New Delhi-10001

Chamber of Commerce & Industry (CII)

CII play an active role in issuing certificate of origin and taking up specific cases of exporters to the Govt.

Federation of Indian Chamber of Commerce & Industry (FICCI)

Federation of Indian Chambers of Commerce and Industry or FICCI is an association of business organizations in India. FICCI acts as the proactive business solution provider through research, interactions at the highest political level and global networking.

Address: Federation House, Tansen Marg, New Delhi-110001

Bureau of Indian Standards (BIS)

The Bureau of Indian Standards (BIS), the National Standards Body of India, is a statutory body set up under the Bureau of Indian Standards Act, 1986. BIS is engaged in standard formulation, certification marking and laboratory testing.

Address: 9, Manak Bhavan, Bahadur Shah Zafar Marg, New Delhi-110002

Textile Committee

Textile Committee carries pre-shipment inspection of textiles and market research for textile yarns, textile machines etc.

Address: Textile Centre, second Floor, 34 PD, Mello Road, Wadi Bandar, Bombay-400009

Marine Products Export Development Authority (MPEDA)

The Marine Products Export Development Authority (MPEDA) was constituted in 1972 under the Marine Products Export Development Authority Act 1972 and plays an active role in the development of marine products meant for export with special reference to processing, packaging, storage and marketing etc.

Address: P.B No.4272 MPEDA House, pannampilly Avenue, Parampily Nagar, Cochin-682036

India Investment Centre (IIC)

Indian Investment Center (IIC) was set up in 1960 as an independent organization, which is under the Ministry of Finance, Government of India. The main objective behind the setting up of IIC was to encourage foreign private investment in the country. IIC also assist Indian Businessmen for setting up of Industrial or other Joint ventures abroad.

Address: Jeevan Vihar, 4th Floor, Parliament Street, New Delhi-110001

Directorate General of Foreign Trade (DGFT)

DGFT or Directorate General of Foreign Trade is a government organisation in India responsible for the formulation of guidelines and principles for importers and exporters of country.

Address: Udyog Bhawan, H-Wing, Gate No.2, Maulana Azad Road, New Delhi -110011

Director General of Commercial Intelligence Statistics (DGCIS)

DGCIS is the Primary agency for the collection, compilation and the publication of the foreign inland and ancillary trade statistics and dissemination of various types of commercial information.

Address: I, Council House Street Calcutta-700001,

Commercial Banks

In 1947, at the time of independence India inherited a weak banking structure with only 640 banks, most of which were small. The passing of the Bombay Regulation Act in 1949 was a landmark in the history of commercial banking in India. The Act brought with h the system of licensing of banks. The Reserve Bank of India (RBI) was given immense powers to control the monetary environment of the country. The RBI was nationalized from 1st January 1949, after this the Imperial Bank of India was nationalized and its name changed to state Bank of India in July 1955.14 Commercial banks were nationalized in July 1969 after which sue more Banks were nationalized in April 1980. The Credit Policy has changed significantly over the period 1951-1982. The entire period may be categorized into two phases (a) pre-nationalization of banks period 1951-1968 and (b) post-nationalization period after 1969.

Reserve Bank of India in the Central Bank of India which started function w.e.f 1st April 1935 with its headquarters located in Mumbai. The objective of RBI is to operate the credit and currency system of India and to ensure monetary stability. RBI is playing an active role for the development in the country since beginning. The functions of RBI being multifaceted include financial regulation and its supervision, banker to the Govt. (Central, State) and banker to the bank's monetary management, Govt. debt management, currency management, current and capital A/c management, foreign exchanges reserves management, foreign exchange management. Establishment of RBI was initiated in 1926 by the "Royal Commission on Indian Currency and Finance "recommending to create a Central Bank in India. RBI Act was enacted in 1934. RBI frame the regulating policy in banking and non- banking 335 sectors for the purpose of maintaining the financial health of the country, to protect the interest of the depositors, to provide access on the banking system for the people. Banking Regulation Act 1949 empowered RBI to regulate the commercial banks in India. With global integration process is in rise, mandate of RBI lies to maintain the financial stability in the country

Export-Import Bank of India (**EXIM Bank**) was set up by an Act of the Parliament "THE EXPORT-IMPORT BANK OF INDIA ACT, 1981" for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade and for matters connected therewith or incidental thereto.

The Export Credit Guarantee Corporation of India Limited (ECGC in short) is a company wholly owned by the Government of India. It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce. Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee of India in 1983.

Customs role in foreign trade:

India, the Customs Act, 1962 is the primary law for levy and collection of customs duty on imports and exports of goods from India. Apart from earning revenue, customs duty also aims to restrict imports for conserving foreign exchange, prohibit imports and exports of goods for achieving the policy objectives of the Government and regulate exports. The Customs Tariff Act, 1975 prescribes the rates of Customs Duty on import and export of various goods. For the protection of the domestic industry and facilitating trade, a strict import control regime was implemented with the provisions of Custom clearance. The Customs Act, 1962 contains provisions of confiscation in respect of export goods. The central government has been empowered to make rules in order to carry out the purposes of the Act. Several rules have been framed under this Act, such as Customs Valuation Rules, 1988 for valuation of imported goods for calculating custom duty payable, Customs and Central Excise Duties Drawback Rule, 1971 for calculating rates of duties as drawbacks on exports, etc. However, in case of any conflict between the provisions of the Act and Rules, the provisions of the act shall prevail. With the emergence of economic globalization and growth of international business, international trade facilitation has become an issue of common concern. Without security measures like the provisions of Custom duties, facilitation of trade cannot be achieved. The Central Board of Excise and Customs is a division of the Department of Revenue under the Ministry of Finance, Government of India which undertakes the tasks of formulation of policy concerning levy and collection of Customs and Central Excise duties, prevention of smuggling and administration of matters relating to Customs, Central Excise and Narcotics under the purview of the CEBC.

UNIT- V

ASSESMENT OF PRODUCTS AND MARKETS

5.1. Assessment of Prospects Products and Markets

Definition: Market prospects are a company’s potential future performance in a competitive marketplace. In other words, a company’s market prospects are the company’s forecasted ability to compete in a marketplace.

Both internal and external analysts compare past company performance with current competition and expectations of future products to develop a company’s market prospects. Market prospects can be good or bad and favorable or unfavorable.

Market prospects are often considered one of the building blocks for analyzing a company’s future performance. Investors and creditors are not only interested in whether the business can survive, they want to know if the business can succeed and grow. Investors and creditors tend to look at market prospects, liquidity, solvency, and profitability along with other performance metrics when evaluating the future performance of a company.

A market analysis is a quantitative and qualitative assessment of a market. It looks into the size of the market both in volume and in value, the various customer segments and buying patterns, the competition, and the economic environment in terms of barriers to entry and regulation.

Process to do a market analysis:

The objectives of the market analysis section of a business plan are to show to investors that:

- To know the target market for identified product
- The market is large enough to build a sustainable business

In order to do that I recommend the following plan:

1. Demographics and Segmentation
2. Target Market
3. Market Need
4. Competition
5. Barriers to Entry
6. Regulation

The first step of the analysis consists in assessing the size of the market.

Demographics and Segmentation:

When assessing the size of the market, your approach will depend on the type of business you are selling to investors. If your business plan is for a small shop or a restaurant then you need to take a local approach and try to assess the market around your shop. If you are writing a business plan for a restaurant chain then you need to assess the market a national level.

Depending on your market you might also want to slice it into different segments. This is especially relevant if you or your competitors focus only on certain segments.

Volume & Value

There are two factors you need to look at when assessing the size of a market: the number of potential customers and the value of the market. It is very important to look at both numbers separately, let's take an example to understand why.

Potential customer

The definition of a potential customer will depend on your type of business. For example if you are opening a small shop selling office furniture then your market will be all the companies within your delivery range. As in the example above it is likely that most companies would have only one person in charge of purchasing furniture hence you wouldn't take the size of these businesses in consideration when assessing the number of potential customers. You would however factor it when assessing the value of the market.

Market value

Estimating the market value is often more difficult than assessing the number of potential customers. The first thing to do is to see if the figure is publicly available as either published by a consultancy firm or by a state body. It is very likely that you will find at least a number on a national level.

Methods for building an estimate

There are 2 methods that can be used to build estimates: the bottom up approach or the top down approach.

- The bottom up approach consist in building a global number starting with unitary values. In our case the number of potential clients multiplied by an average transaction value.
- Let's keep our office furniture example and try to estimate the value of the 'desk' segment. We would first factor in the size of the businesses in our delivery range in order to come up with the size of the desks park. Then we would try to estimate the renewal rate of the park to get the volume of annual transactions. Finally, we would apply an average price to the annual volume of transactions to get to the estimated market value.

Target Market

The target market is the type of customers you target within the market. For example if you are selling jewellery you can either be a generalist or decide to focus on the high end or the lower end of the market. This section is relevant when your market has clear segments with different drivers of demand. In my example of jewels, value for money would be one of the drivers of the lower end market whereas exclusivity and prestige would drive the high end.

Now it is time to focus on the more qualitative side of the market analysis by looking at what drives the demand.

Market Need

This section is very important as it is where you show your potential investor that you have an intimate knowledge of your market. You know why they buy!

Here you need to get into the details of the drivers of demand for your product or services. One way to look at what a driver is, is to look at takeaway coffee. One of the drivers for coffee is consistency. The coffee one buys in a chain is not necessarily better than the one from the independent coffee shop next door. But if you are not from the area then you don't know what the independent coffee shop's coffee is worth. Whereas you know that the coffee from the chain will taste just like in every other shop of this chain. Hence most people on the move buy coffee from chains rather than independent coffee shops.

From a tactical point of view, this section is also where you need to place your competitive edge without mentioning it explicitly. In the following sections of your business plan you are going to talk about your competition and their strengths, weaknesses and market positioning before reaching the Strategy section in which you'll explain your own market positioning. What you want to do is prepare the reader to embrace your positioning and invest in your company.

To do so you need to highlight in this section some of the drivers that your competition has not been focussing on. A quick example for an independent coffee shop surrounded by coffee chains would be to say that on top of consistency, which is relevant for people on the move, another driver for coffee shop demand is the place itself as what coffee shops sell before most is a place for people to meet. You would then present your competition. And in the Strategy section explain that you will focus on locals looking for a place to meet rather than takeaway coffee and that your differentiating factor will be the authenticity and atmosphere of your local shop.

Competition

The aim of this section is to give a fair view of who you are competing against. You need to explain your competitors' positioning and describe their strengths and weaknesses. You should write this part in parallel with the Competitive Edge part of the Strategy section.

The idea here is to analyse your competitors angle to the market in order to find a weakness that your company will be able to use in its own market positioning.

One way to carry the analysis is to benchmark your competitor against each of the key drivers of demand for your market (price, quality, add-on services, etc.) and present the results in a table.

Below is an example for a furniture shop in France. As you can see from the table all the actors on the market are currently focused on the low medium range of the market leaving the space free for a high end focused new player.

Barriers to Entry

- Investment (project that require a substantial investment)
- Technology (sophisticated technology a website is not one, knowing how to process uranium is)
- Brand (the huge marketing costs required to get to a certain level of recognition)
- Regulation (licences and concessions in particular)

- Access to resources (exclusivity with suppliers, proprietary resources)
- Access to distribution channels (exclusivity with distributors, proprietary network)

Location (a shop on Regent's Street)

The answer to the questions above will be highly dependent on your type of business, your management team and any relations it might have. Therefore it is hard for me to give any general tips about it.

Regulation

If regulation is a barrier at entry in your sector then I would advise you to merge this section with the previous one. Otherwise this section should be just a tick the box exercise where you explain the main regulations applicable to your business and which steps you are going to take to remain compliant.

5.2.: Identification of new markets for Indian products

HOW TO ENTER A NEW MARKET

1. Commit

It is of foremost importance to clearly identify who you will be selling to. This may sound simple, but there is often an overly optimistic need to capture a larger share of a new market. A smaller market will make it easier to assess customer requirements and ensure that a larger chunk of a smaller market is obtained rather than an insignificant part of a large share. It is also imperative to set a clear timeframe within which the desired target share is to be achieved and results of the move are to be assessed.

2. Identify Entry Points

Once a clear market is identified, it is necessary to identify potential points of entry. To minimize initial investment and maximize future revenues it becomes vital to study key possible entrance points, weigh pros and cons of each and then make an informed decision. The final choice should also ideally allow for future growth possibilities, both inside the new market as well as into adjoining ones. Any entrance point chosen should be assessed against a set of criteria, such as, does it allow access to an underserved market? Is there a strong need that can be fulfilled? Are the key decision makers among the target audience accessible and do they have the funding needed to find the new solution attractive? Are there any existing competitors and is the new solution strong enough to counter their resources and knowledge of the market?

3. Define Market Entry Strategy

All the activity thus far leads right into the roadmap for future steps – the strategy for entry into the market. The first step is to price your product. It needs to strike a balance between affordability for the target audience and feasibility for the business. It also needs to take into consideration existing pricing strategies and how to place the new product within them. Once the price points are defined, the new product or solution can now be positioned accordingly. How do you want to be perceived by the customer? With this target perception in hand, the communication strategy comes into play, where the target audiences as well as the methods to be used to reach them are identified and consolidated. All levels of the target audience need to be considered carefully, including influencers, decision makers, media, end users among others. And once all this is carefully set in place, the distribution model is designed which is the most effective means of putting the product into the user's hands.

4. Assemble Plan

Any strategy needs to be followed up with a detailed action plan. This turns a high level plan into an on-ground implementation solution. This should include details of all required marketing plans and campaigns as well as timelines for all these to be set into motion. Clearly defined milestones such as sales targets, market share etc need to be decided upon with all the key stakeholders. All campaigns and targets need to be communicated to the relevant personnel and clear ownership needs to be assigned for each of these processes to ensure transparency in evaluations. Processes also need to be defined and communicated for all activities such as what will be the sales cycle followed and how will leads be pursued and closed.

5. Research

A well planned approach following the steps above should ensure that your risk is minimized. But to further strengthen and support the plan, some basic research can be carried out on a focus group. Identifying a well-balanced cross section of the target audience and approaching them either in person or via an online survey can help provide some basic results that can provide data to make any changes before a full market entry is committed to.

6. Test

Another risk mitigation strategy is to run a pilot project in the target market. This test needs to be carefully defined so as to ensure that it is big enough to give an accurate depiction of a large scale roll out effort but not so big as to suck in additional resources and commitment. By reaching a few key milestones in the pilot study, any remaining issues can be ironed out before full deployment.

7. Ramping Up

You are now ready for a full scale roll out. Armed with a concrete strategy, a detailed plan of action and results of research and pilot phases, it is now time to grow and try to achieve more market share. The goal should be to target increased market share and not just increased revenues. A focus on market share will mean increasing both marketing and sales efforts simultaneously. As you sell more, the easier it will to sell because there will be more visibility of your brand in the market and general buzz about the new player.

8. Exit Strategy

The last but extremely important step of this process is to plan for both success and failure. What will you do if you achieve phenomenal success? You could commit for the long term or sell while you're ahead and move on to new markets. Or if you fail to achieve the milestones set in the specified time, will you try to learn and continue or cut out before further resources and time are wasted. In any case, a timely move can only be made if a plan is already in place.

TIPS FOR ENTERING NEW MARKETS

- **Choosing the right country or region**; if your growth efforts are towards a new country or region, identify where the demand is strong and the supply weak. Then pick one country and focus a strong strategy. If you plan to target a region, make sure it is one with a similar culture or languages.
- **Check cost of doing business**; is your new target market mired in unnecessary or exceptionally high taxes? Are there import duties that you need to consider? Are there any hidden costs that may emerge later on? All these need to be factored into the plan for entry and whether you will be able to have a competitive pricing strategy.
- **Know the people**; before stepping into a new market, try to get into the minds of the people you'll be selling to. What are their tastes? What do they like to buy? How much are they willing to pay for products and services? How do they like to shop?
- **Know the competition**; who is successful and who is just there? Try your best to learn from success as well as failure so you don't repeat mistakes. If there are too many players already, would it be best to partner up?
- **Choose the right partner**; if you do decide on a business model that supports partnering up, make sure that they have the same way of work as you do. Are they to be trusted? Can you rely on them to do business as you would and ensure that your products/services are marketed and provided as they should?
- **Understand the Challenges**; Make sure that you approach a new market with the appropriate respect. Don't assume that the target audience and the environment will behave as you are used to. Instead, approach each issue as an unpredictable entity and keep an open mind towards solutions
- **Know the law**; Try your best to work with local experts in understanding the laws that govern business in your new market. From personnel laws to taxes and custom duties, there are many different factors to know and learn
- **Begin with the right attitude**; Begin as you mean to continue with the business. Set up collaborative practices, ensure transparent business and be open to changes in your plans.
- **Breaking into a foreign market** – especially one with strict rules and regulations – can be a very daunting task. Often, business owners have the ambition to go international… they're just not quite sure where to start.

Here are the eight strategies that you can use to establish a foothold in a new country. Take a look at the list below and see which one is most suited to your business.

1 – Franchising your brand

Kicking off the list at 1 is franchising. In case you're not familiar with franchising, it works like this:

- You create a successful brand (e.g. a restaurant)
- You allow business owners to open their own branches of your restaurant, aka franchises
- The franchisees pay you a certain fee and sometimes a cut of the profits per year, then they keep the rest
- The good thing about franchising is that it's one of the easier ways to break into new markets. All you have to do is take your existing, successful business model, find a franchisee in your target market, build out the franchise, and open your doors.

The bad thing about franchising is that there is almost always a compromise.

You can scout locations as much as you like, but if you don't have firm brand recognition in the country you're trying to break into, you'll be just another business on the side of the street. That's not the end of the world – many individual business are still popular – but it's important to realise that franchising can only be used for certain businesses, and it has a sizeable amount of risk behind it as you're putting your brand in someone's hands!

2 – Direct Exporting

Direct exporting is the most common of the eight strategies on this list. It's pretty simple – you sell directly to the market that you're trying to break into. For example, if you want to sell to Japan, you get your product into the appropriate Japanese stores and see how it does.

Your friends in direct exporting are your agents and distributors. These people are the branch between you and the stores. Trying to get a foothold with a major Japanese store as a foreigner is a lost cause, but with a reliable agent/distributor (and translation services company) on your side, it's not! In fact, it's easy… your agent/distributor have most of the contacts you need to succeed.

Of course, you'll have to work out shipping logistics and everything else of that nature – but on the surface, direct exporting is very similar to selling products in your domestic market.

3 – Partnering up

Partnering is a relatively vague term. It can be anything, really – you can get a partner in a foreign country to simply help with marketing (and receive a cut of profits), or, you can get a partner in a foreign country who is just as invested in all facets of your business as you are.

We're big fans of partnering. Of course, you have to vet your potential partners thoroughly and make sure that you're doing business with someone who will actually help you – not slow you down. But if you can get a good partner, you'll be able to get a grip on your new market much more easily – he or she will know everything that you don't about the new market.

(In some areas of the world, a partnership is a borderline necessity. For example, in many Asian countries, you simply will not be able to break ground if you're a foreigner – you need a partner in each particular country to help you get by regulations and such.)

4 – Joint Ventures

A JV (joint venture) is a partnership between two companies or people. They link up and become invested in some sort of business project – the investment is almost always an equal 50/50, and profits are split accordingly.

Usually, the two companies stay separate from each other, but work together on one particular venture to try and succeed.

5 – Just buying a company

Buying a company in a foreign land is by far the easiest way to enter a new market.

- You immediately claim market share
- You have an existing customer base and brand image

Even if the government has regulations on the industry for newcomers, you can bypass them with relative ease (and these rules and regulations will actually help you by keeping competition low)

Governments will still treat you as a local firm in most cases in regards to licensing and such

Of course, there are downsides.

You're no longer one company, and your foreign operations in that particular market will be somewhat separate from the rest of your brand's image

It's very expensive, especially if the business you want to buy is thriving

Due diligence on a foreign company – especially one in a more obscure country – is much harder than on a domestic company

6 – Turnkey solutions or products

Do you build something? Maybe your business is in construction or engineering. If you do, it's worth trying to find turnkey projects in foreign countries to bid on.

"Turnkey" is a pretty apt name – a "turnkey product" is where you build something from the ground up, and whoever you turn the product over to just has to "turn the key" before he or she is ready to go.

These are some of the best contracts to get because they almost always come from governments. On the flip side, everyone knows that these are some of the best contracts to get, and you'll often be competing with other foreign and domestic firms for the contract.

7 – Piggyback

In order to piggyback, you need to already be selling product to other domestic companies.

If those domestic companies have international presences, all you have to do is give them a ring and ask the following:

"Hi, can you take my products to your international agencies too?"

Of course, phrase it a bit better than that – but you get the point. You're jumping on the back of your existing business relationship and trying to make it into international markets that way.

8 – Licensing

Licensing is somewhat similar to piggybacking, except instead of talking to domestic firms and asking them to carry the product, you talk to foreign firms and ask them to temporarily own the product.

So for example, if you have a great widget that you feel fits in perfectly with a company's inventory in your new market, all you'd have to do is contact that company and ask.

We consider licensing to be one of the easiest ways to get started, but it's not necessarily an "easy process" overall. You first have to convince the firm that your product is right for them. Then, you need to convince them that it will sell. Then, you need to deal with governments and lawyers to iron out all of the legal aspects of the "sale" of the license.

You don't lose control of your product – it's not the same as selling the rights to your product. You're merely licensing the rights to your product to a foreign company for a limited amount of time.

5.3. African Market

African market places are primarily used for one to do their marketing and trading. The market place is the exact location where buyers and sellers meet. People visit the market for many reasons other than to buy and sell goods. They provide a place to buy needs and sell produce, meet a significant other, settle a legal dispute, catch the latest news, or for religious activities.

The principle

The market principle is the way that many buyers and sellers work together, bargaining, until an agreement is reached on the price. Supply and demand may create instability on any given item. At least one member of any basic group must sell a portion of the production (produce of work or land) in order for his family to be cared for.

Marketing and Trading

Marketing occurs when a producer takes some of his product to market to exchange for other goods. When an entrepreneur purchases and item with the intent of selling it in another market or in the same market at a later time, it is called trading. Most transactions in African markets involve plenty of "haggling." To haggle means "to dispute, especially about a price or the terms of a bargain."

Goods sold

Items at market vary upon location. Because the African economy is mainly agriculture, that is what is usually sold. Many items pass through these markets such as: local produce, craft products, livestock, cloth - everything that is needed to live and provide society with. Produce and products are sold at a rate of supply and demand. What is found in one market place would not necessarily be found in another.

The people of North Africa are skilled in pottery-making and carpet-weaving, so on roadsides they display what they have made for passersby to purchase. In Tangier locally produced oranges, and other fruits and vegetables, are for sale. Melons, peppers, and other exotic fruits and vegetables are sold at an outdoor market in Senegalese.

Measures and Weights

Weights and measures are more or less nonexistent, but in the last few decades - quart beer bottles, standard-size cigarette tin and four gallon kerosene tin, and an empty 30-30 shell casing have all been used as measures. There are also some nonstandard units of measurement.

Money

In our society, money is used to pay fines and taxes. We also use it as a method to compare and contrast goods of different kinds, to facilitate exchange, and to store wealth. Our money is used for general purposes, and is considered "general purpose money." An example of general purpose money in some places in Africa is cowrie shells. Most African money is "special purpose money." An example is the metal "hoes" of the coast of Guinea and Liberia that were used mainly for bride wealth.

Maintenance

In many traditional market places, a shrine can be found which indicates that the market place was consecrated- a religious act. The purpose of the shrine is to maintain the peace in the market place.

All markets are policed by someone. These places in Africa are almost as important politically as socially. Special deputies (or policemen of the local government, special appointees, kinsmen of a chief, or special groups designated by the elders to carry out the task) maintain the market place and keep the peace. Committees of elders took this on as a civic duty to maintain the market place to keep their part of the world on the map. In some parts of Africa, the market administrators use quality control. Unsatisfactory goods, such as rotten meat, cannot be sold. Some authorities are paid a salary by the local government.

Atmosphere and Status

Market places are a great source of entertainment, especially in West Africa and Congo. Each market has its own type of fair or carnival atmosphere. Many parties occur in these settings: work parties, wedding parties, christening parties, and spur-of-the-moment parties. They all come to dance and sing and announce good news to a large crowd.

Prices of items sold at market vary according to the status of the individual. The richer the customer is, the more he is expected to pay - he would be embarrassed to do otherwise. Prices in other areas have been strictly under the control of the king's bureaucracy or of guilds of producers.

5.4. Potential to enter into the SOUTH AFRICA, GHANA, KENYA, NIGERIA, UGANDA, MAURITIUS and TAMZANIA

Potential to enter into the SOUTH AFRICA:

Since the end of apartheid foreign trade in South Africa has increased, following the lifting of several sanctions and boycotts which were imposed as a means of ending apartheid.

South Africa is the second largest producer of gold and is the world's largest producer of chrome, manganese, platinum, vanadium and vermiculite, the second largest producer of limonite, palladium, rutile and zirconium. It is also the world's third largest coal exporter. Although, mining only accounts for 3% of the GDP, down from around 14% in the 1980s. South Africa also has a large agricultural sector and is a net exporter of farming products.

Principal international trading partners of South Africa—besides other African countries—include Germany, the United States, China, Japan, the United Kingdom and Spain. Chief exports include corn, diamonds, fruits, gold, metals and minerals, sugar, and wool. Machinery and transportation equipment make up more than one-third of the value of the country’s imports. Other imports include chemicals, manufactured goods, and lots more, mainly found in other hot country mainly Spanish countries.

During apartheid, South Africa's foreign trade and investment were affected by sanctions and boycotts by other countries ideologically opposed to apartheid. In 1970, the United Nations Security Council, adopted resolution 282 imposing a voluntary arms embargo upon South Africa, and which was extended by subsequent resolutions 418 and 591, declaring the embargo mandatory. In 1978, South Africa was prohibited loans from the Export-Import Bank of the United States which was later followed by a prohibition on IMF loans in 1983. An oil embargo was imposed by OPEC in 1983 which was strengthened by Iran in 1979.

Potential to enter into the GHANA:

The economy of Ghana has a diverse and rich resource base, including the manufacturing and exportation of digital technology goods, automotive and ship construction and exportation, and the exportation of diverse and rich resources such as hydrocarbons and industrial minerals. These have given Ghana one of the highest GDP per capita in West Africa. Owing to a GDP re basement, in 2011 Ghana became the fastest-growing economy in the world.

The Ghanaian domestic economy in 2012 revolved around services, which accounted for 50% of GDP and employed 28% of the work force. Besides the industrialization associated with minerals and oil, industrial development in Ghana remains basic, often associated with plastics (such as for chairs, plastic bags, razors and pens). 53.6% of Ghana's workforce were employed in agriculture in 2013.

Ghana embarked on a currency re-denomination exercise, from Cedi (₵) to the new currency, the Ghana Cedi (GH₵) in July 2007. The transfer rate is 1 Ghana Cedi for every 10,000 Cedis.

Ghana is Africa's second-biggest gold producer (after South Africa) and second-largest cocoa producer. It is also rich in diamonds, manganese ore, bauxite, and oil. Most of its debt was canceled in 2005, but government spending was later allowed to balloon. Coupled with a plunge in oil prices, this led to an economic crisis that forced the government to negotiate a $920 million extended credit facility from the IMF in April 2015.

Potential to enter into the KENYA:

The economy of Kenya is a market-based economy with a liberalized external trade system and a few state enterprises. Major industries include agriculture, forestry, fishing, mining, manufacturing, energy, tourism and financial services. As of 2019, Kenya had an estimated GDP of $99.246 billion and per capita GDP of $2,010 making it the 62nd largest economy in the world.

The government of Kenya is generally investment-friendly and has enacted several regulatory reforms to simplify both foreign and local investment, including the creation of an export processing zone. An increasingly significant portion of Kenya's foreign financial inflows are remittances by non-resident Kenyans who work in the US, Middle East, Europe and Asia.

As of September 2018, economic prospects were positive with above 6% GDP growth expected, largely because of expansions in the telecommunications, transport and construction sectors, and a recovery in agriculture. These improvements are supported by a large pool of highly educated professional workers. There is a high level of IT literacy and innovation, especially among young Kenyans.

In 2018, Kenya ranked 61st in the World Bank ease of doing business rating, up from 80th in 2017 (of 190 countries). Compared to its neighbors, Kenya has a well-developed social and physical infrastructure.

Potential to enter into the NIGERIA:

The economy of Nigeria is a middle-income, mixed economy and emerging market, with expanding manufacturing, financial, service, communications, technology and entertainment sectors. It is ranked as the 27th-largest economy in the world in terms of nominal GDP, and the 22nd-largest in terms of purchasing power parity. Nigeria has the largest economy in Africa; its re-emergent manufacturing sector became the largest on the continent in 2013, and it produces a large proportion of goods and services for the West African subcontinent. In addition, the debt-to-GDP ratio is 16.075 percent as of 2019.

Nigerian GDP at purchasing power parity (PPP) has almost tripled from $170 billion in 2000 to $451 billion in 2012, although estimates of the size of the informal sector (which is not included in official figures) put the actual numbers closer to $630 billion. Correspondingly, the GDP per capita doubled from $1400 per person in 2000 to an estimated $2,800 per person in 2012 (again, with the inclusion of the informal sector, it is estimated that GDP per capita hovers around $3,900 per person). (Population increased from 120 million in 2000 to 160 million in 2010). These figures were to be revised upwards by as much as 80% when metrics were to be recalculated subsequent to the rebasing of its economy in April 2014.

Although oil revenues contribute 2/3 of state revenues, oil only contributes about 9% to the GDP. Nigeria produces only about 2.7% of the world's oil supply (in comparison, Saudi Arabia produces 12.9%, Russia produces 12.7% and the United States produces 8.6%). Although the petroleum sector is important, as government revenues still heavily rely on this sector, it remains a small part of the country's overall economy.

The largely subsistence agricultural sector has not kept up with rapid population growth, and Nigeria, once a large net exporter of food, now imports some of its food products, though mechanization has led to a resurgence in manufacturing and exporting of food products, and the move towards food sufficiency. In 2006, Nigeria came to an agreement with the Paris Club to buy back the bulk of its debts owed from them for a cash payment of roughly US$12 billion.

According to a Citigroup report published in February 2011, Nigeria will have the highest average GDP growth in the world between 2010 and 2050. Nigeria is one of two countries from Africa among 11 Global Growth Generators countries.

Potential to enter into the UGANDA:

The economy of Uganda has great potential and appeared poised for rapid economic growth and development. Uganda is endowed with significant natural resources, including ample fertile land, regular rainfall, and mineral deposits.

Chronic political instability and erratic economic management since the implementation of self-rule has produced a record of persistent economic decline that has left Uganda among the world's poorest and least-developed countries. The informal economy, which is predominantly female, is broadly defined as a group of vulnerable individuals without protections in regards to their work. Women face a plethora of barriers specific to gender when attempting to access the formal economy of Uganda, and research showing prejudice against lending to women in the informal sector. The national energy needs have historically been more than domestic energy generation, though large petroleum reserves have been found in the country's west.

After the turmoil of the Amin period, the country began a program of economic recovery in 1981 that received considerable foreign assistance. From mid-1984 onward, overly expansionist fiscal and monetary policies and the renewed outbreak of civil strife led to a setback in economic performance.

The economy has grown since the 1990s; real gross domestic product (GDP) grew at an average of 6.7% annually during the period 1990–2015, whereas real GDP per capita grew at 3.3% per annum during the same period. During this period, the Ugandan economy experienced economic transformation: the share of agriculture value added in GDP declined from 56% in 1990 to 24% in 2015; the share of industry grew from 11% to 20% (with manufacturing increasing at a slower pace, from 6% to 9% of GDP); and the share of services went from 32% to 55%.

Potential to enter into the Mauritius:

Mauritius has strong and friendly relations with the West, as well as with South Asian countries and the countries of southern and eastern Africa. It is a member of the World Trade Organization, the Commonwealth of Nations, La Francophone, the African Union, the Southern Africa Development Community, the Indian Ocean Commission, COMESA, and the recently formed Indian Ocean Rim Association. Her Majesty Elizabeth II was the head of state of Mauritius.

Trade, commitment to democracy and the country's small size are driving forces behind Mauritian foreign policy. The country's political heritage and dependence on Western markets have led to close ties with the European Union and its member states, particularly the United Kingdom and France. Mauritius' only immediate neighbor is Reunion Island, an overseas department of France that is also part of the European Union.

Considered part of Africa geographically, Mauritius has friendly relations with other African states in the region, particularly South Africa, by far its largest continental trading partner. Mauritian investors are gradually entering African markets, notably Madagascar and Mozambique. Mauritius coordinates much of its foreign policy with the Southern Africa Development Community and the Organization of African Unity. The country is also a member of the Port Management Association of Eastern and Southern Africa (PMAESA).

Relations with France and India are strong for both historical and commercial reasons. Foreign embassies in Mauritius include Australia, South Korea the United Kingdom, People's Republic of China, Egypt, France, India, Madagascar, Pakistan, Russian Federation, Bangladesh and the United States.

Mauritius is also a member of the International Criminal Court with a Bilateral Immunity Agreement of protection for the US-military (as covered under Article 98).

Potential to enter into the TAMZANIA:

Tanzania’s 51-million population consists of mostly young people aged between 0-14 years old and middle-aged people from 25-54 years old. This nation’s latest Gini Index recorded in 2007 was 37.6 with ‘0’ representing perfect income distribution and ‘100’ standing for total inequality. Tanzania’s lowest earning 10% share only 2.8% of the national income while the highest earning 10% enjoy almost 30% of it.

31.6% of Tanzania’s total population are living in urban areas, with the country having a 5.36% annual rate of urbanization. DAR ES SALAAM, Tanzania’s capital city, and Mwanza are Tanzania’s most populated cities.

Products import into Tanzania

- Consumer goods
- Machinery and transportation equipment
- Industrial raw material
- Crude oil

Tanzania’s favourite import partners (percentage of total imports)

- China (27.6%)
- India (24.5%)

Tanzania’s top shipping ports

All sea trades are monitored through Tanzania’s seaports and lake ports, which are managed and operated by the Tanzania Ports Authority located in Dar es, Salaam. Dar es Salaam also happens to be the country’s principal port, accounting for 95% of the total sea trade, and with other main ports being the Tanga and Mtwara ports. Tanzania also has three small seaports, namely Kilwa, Lindi, and Mafia, and eleven lake ports distributed throughout Lake Victoria, Lake Tanganyika, and Lake Nyasa.

Tanzania’s top cargo airports

The Tanzania Airports Authority operates all airports except the Kilimanjaro International, which is owned by the Kilimanjaro Airport Development Company. The main airport of the country, however, is the Julius Nyerere International Airport, which handled a total of 21.2 million tons of cargo in 2014.

Tanzania’s top import regulations

Imports from these seaports and airports have certain rates of the tariff, as exacted upon by the East African Community Customs Union. Raw materials, capital goods, agricultural imports, and certain medicines and medical equipment are at 0%, intermediate goods, and other essential industrial imports are at 10%, and finished goods are at 25%.

Certain commodities are considered as free-import goods, and these include (for over 16 year-olds) 200 cigarettes, 50 cigars, 250 grams of tobacco, 1 imperial pint of spirits, foreign currency, and any noncommercial amount of gifts and other items for personal use. On the other hand, local currency (the Tanzanian shilling) and products such as narcotics, pornography, and such other counterfeit items are prohibited.

Other items that are allowed to be imported but have certain restrictions and requirements such as health certificates, permission from the embassy and bonds include live animals, plants, foodstuff, seeds, weaponry, ammunition, medication, video equipment, radios, tape recorders, and musical instruments.

What are Tanzania’s import tax, duties, and tariffs

Import duties in Tanzania are calculated based on the CIF value which means the sum of the value of imported goods plus the cost of shipping and insurance. Added to duty, there is also Sales tax and Excise duty.

Tanzania abides by the duty and tariff systems East African Community Common External Tariff. Customs duty is on an average rated at 25%. The standard VAT rate when importing to Tanzania is 18% of the CIF value, duty, and other taxes. Excise is charged on alcoholic beverages and tobacco.

A steady growth in Tanzania’s disposable income shows a trend towards citizens shifting towards purchasing beyond their basic necessities. This has enabled rapid growth in the retail sector with shopping malls sprouting rampantly in the urban areas. But while the country moves into the next phase of its economic revolution, open markets and corner shops are still a common feature.

Today, Tanzania has the 9th largest economy in Sub-Saharan Africa. Based on market research, with the country’s significantly reduced inflation rate during the previous years and its steadily increasing GDP, many different businesses from countries around the world are starting to recognize Tanzania’s growing business potential. In this dynamic business environment, it’s important to identify the correct distribution channels for a product to reach its target consumer apart from knowing other local nuances.

Tanzania’s business appeal also depends on its air transport system, political stability, free market economy, and strategic location.

5.5. Export potential of India

Before independence, India used to export tea, jute, cloth, leather, iron and spices. Now India exports machines, engineering goods, chemicals, chemical products, readymade garments, gems, processed foods and handicrafts.

The share of traditional exports like tea, jute and textiles in total exports was 55% in year 1950-51 and decreased to 12% in year 2003-04.

The share of manufactured goods increased from 25% in 1951 to 7.6% in 2003-04.

The chief exports of India are given below:

Main Exports:

The following are the main exports:

(i) Apparels and Cloth:

India exports cotton cloth and apparels. Cotton cloth worth Rs. 14475 crore were exported in 2004-05. Apparels worth Rs. 27810 crore were exported in 2004-05. Main buyers are Australia, Eastern Africa, Sri Lanka, Malaysia, Sudan etc.

(ii) Coffee:

India exports coffee to USA, Italy and Yugoslavia. Coffee worth Rs. 1009 crore was exported in 2004-05.

(iii) Cashew Kernels:

India exports cashew kernels to Russia, USA and Japan. In 2004-05 Cashews worth Rs. 2350 crore were exported.

(iv) Computer and Software:

Computer and software are exported in countries like USA, Germany, Japan, Canada, Kuwait and Sri Lanka. In 2004-05, computer software with Rs. 57050 crore were exported.

(v) Engineering goods:

India exports engineering goods to Sri Lanka, Saudi Arabia, Burma, Nigeria etc. Engineering goods worth Rs. 76650 crore were exported in 2004-05.

(vi) Handicrafts:

Handicrafts made of cottage and small scale industries are exported to USA, Germany, Arab countries. Handicrafts worth Rs. 4205 Crore were exported in 2004-05.

(vii) Gems and Jewellery:

Gems are exported to countries like Hong Kong, U.S.A., Japan and Belgium. Gems worth Rs. 61711 crore were exported.

(viii) Jute Products:

Jute products are exported to U.S.A., Japan, Belgium, Russia, Britain and Canada. In 2004-05 Jute Products worth Rs. 980 crore were exported.

(ix) Leather and Leather products:

India exports leather, shoes and leather products to their countries. The main buyers are U.K., USA, France, Germany and Russia. In 2004-05, leather worth Rs. 10440 crore were exported.

(x) Metallic ores:

India exports ores like manganese, mica and iron to other countries. These ores are exported to USA and Japan. In 2004-05 iron ore worth Rs. 13950 crores and mica worth Rs. 65 crore and Manganese ore worth Rs. 45 crore were exported in 2004-05.

(xi) Oil Cakes:

India exports oil cakes to Japan, Netherlands and Britain. Oil cakes worth Rs. 3125 crore were exported in 2004-05.

(xii) Tea:

India occupies first position in the export of Tea. Britain, U.S.A., Canada, Egypt, Iran & Japan etc. are main buyers. Tea worth Rs. 1795 crore was exported in 2004-05.

(xiii) Tobacco:

India exports tobacco to U.K., Japan, Russia and Nepal. Tobacco worth Rs. 1245 crore was exported in 2004-05.

(xiv) Spices:

Various spices like black pepper, cardamon and chilies are exported. U.K., Germany, Italy, Japan and Russia are main customers. In 2004-05 spices worth Rs. 1796 crore were exported.

5.6. Latin America an analysis of US commercial office on India for investing in selected sector:

Latin American economy

The Latin American economy is an export-based economy consisting of individual countries in the geographical regions of North America, Central America, South America, and the Caribbean. The socioeconomic patterns of what is now called Latin America were set in the colonial era when the region was controlled by the Spanish and Portuguese empires. Up until independence in the early nineteenth century, colonial Latin American regional economies boomed. Many parts of the region had favorable factor endowments of deposits of precious metals, mainly silver, or tropical climatic conditions and locations near coasts that allowed for the development of cane sugar plantations. In the nineteenth century following independence, many economies of Latin America declined. In the late nineteenth century, much of Latin America was integrated into the world economy as an exporter of commodities. Foreign capital investment, construction of infrastructure, such as railroads, growth in the labor sector with immigration from abroad, strengthening of institutions, and expansion of education aided industrial growth and economic expansion. A number of regions have thriving economies, but "poverty and inequality have been deeply rooted in Latin American societies since the early colonial era."

As of 2016, the population of Latin America is 633 million people and the total gross domestic product of Latin America in 2015 was 5.3 trillion USD. The main exports from Latin America are agricultural products and natural resources such as copper, iron, and petroleum. In 2016, the Latin American economy contracted 0.8% after a stagnant 2015. Morgan Stanley suggests that this drop in economic activity is a combination of low commodity prices, capital flight, and volatility in local currency markets. The International Monetary Fund suggests that external conditions influencing Latin America have worsened in the period from 2010–2016, but will show growth in 2017.

Historically, Latin America has been an export-based, with silver and sugar being the motors of the colonial economy. The region remains a major source of raw materials and minerals. Over time, Latin American countries have focused on efforts to integrate their products into global markets. Latin America's economy is composed of two main economic sectors: agriculture and mining. Latin America has large areas of land that are rich in minerals and other raw materials. Also, the tropical and temperate climates of Latin America make it ideal for growing a variety of agricultural products.

Infrastructure in Latin America has been classified as sub-par compared to economies with similar income levels. There is room to grow and some countries have already taken the initiative to form partnerships with the private sector to increase infrastructure spending. The main economies of Latin America are Brazil, Argentina, Colombia, Mexico, and Chile. These economies have been given positive outlooks for 2017 by Morgan Stanley. The Latin American economy is largely based on commodity exports, therefore, the global price of commodities has a significant effect on the growth of Latin American economies. Because of its strong growth potential and wealth of natural resources, Latin America has attracted foreign investment from the United States and Europe.

India–United States relations

India–United States relations, also known as Indian–American relations or Indo–American relations, refers to the international relations between the Republic of India and the United States of America.

Prominent leaders of India's freedom movement had friendly relations with the United States of America which continued well after independence from the United Kingdom in 1947. In 1954, the United States made Pakistan a Central Treaty Organization (CENTO) treaty-ally. India cultivated strategic and military relations with the Soviet Union to counter Pakistan–United States relations. In 1961, India became a founding member of the Non-Aligned Movement to avoid involvement in the Cold War power-play between the United States and the Soviet Union. The Nixon administration's support for Pakistan during the Indo-Pakistani War of 1971 affected relations until the dissolution of the Soviet Union in 1991. In the 1990s, Indian foreign policy adapted to the unipolar world and developed closer ties with the United States.

In the twenty-first century, Indian foreign policy has sought to leverage India's strategic autonomy in order to safeguard sovereign rights and promote national interests within a multi-polar world. Under the administrations of Presidents George W. Bush and Barack Obama, the United States has demonstrated accommodation to India's core national interests and acknowledged outstanding concerns.

Increase in bilateral trade & investment, co-operation on global security matters, inclusion of India in decision-making on matters of global governance (United Nations Security Council), upgraded representation in trade & investment forums (World Bank, IMF, APEC), admission into multilateral export control regimes (MTCR, Wassenaar Arrangement, Australia Group) and support for admission in the Nuclear Suppliers Group and joint-manufacturing through technology sharing arrangements have become key milestones and a measure of speed and advancement on the path to closer US–India relations. In 2016, India and United States signed the Logistics Exchange Memorandum of Agreement and India was declared a Major Defense Partner of the United States.

According to Gallup's annual World Affairs survey, India is perceived by Americans as their sixth favorite nation in the world, with 71% of Americans viewing India favorably in 2015. Gallup polls found that 74% of Americans viewed India favorably in 2017 and 72% in 2019.

In the year 2017, bilateral trade (in both goods & services) grew by 9.8% to reach US$126,100,000,000. India's exports to the US stood at US$76,700,000,000 while USA's exports to India stood at US$49,400,000,000

5.7. Trade Blocks

A trade bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organization, where barriers to trade (tariffs and others) are reduced or eliminated among the participating states.

Trade blocs can be stand-alone agreements between several states (such as the North American Free Trade Agreement) or part of a regional organization (such as the European Union). Depending on the level of economic integration, trade blocs can be classified as preferential trading areas, free-trade areas, customs unions, common markets, or economic and monetary unions.

Use

Historic trading blocs include the Hanseatic League, a Northern European economic alliance between the 12th and 17th centuries, and the German Customs Union, formed on the basis of the German Confederation and subsequently the German Empire from 1871. Surges of trade bloc formation occurred in the 1960s and 1970s, as well as in the 1990s after the collapse of Communism. By 1997, more than 50% of all world commerce was conducted within regional trade blocs.

Economist Jeffrey J. Schott of the Peterson Institute for International Economics notes that members of successful trade blocs usually share four common traits: similar levels of per capita GNP, geographic proximity, similar or compatible trading regimes, and political commitment to regional organization.

Many advocates of global free trade are opposed to trading blocs. Trade blocs are seen by them to encourage regional free trade at the expense of global free trade. Those who advocate for it claim that global free trade is in the interest of every country, as it would create more opportunities to turn local resources into goods and services that are both currently in demand and will be in demand in the future by consumers. However, scholars and economists continue to debate whether regional trade blocs fragment the global economy or encourage the extension of the existing global multilateral trading system.

Terminology

A common market is seen as a stage of economic integration towards an economic union or possibly towards the goal of a unified market.

A single market is a type of trade bloc in which most trade barriers (for goods) have been removed

Advantages and disadvantages

Advantages

Competition: Trade blocs force the manufacturers in participating countries to compete with each other. Increased competition creates pressures for greater efficiency within firms, which results in lower prices for consumers. Home producers have to work with greater efficiency to ensure survival of their goods against the low price imported goods since tariffs are removed. Overseas producers tend to increase their production of goods as they realize that the low price goods that they produce have a better chance of competing with home-produced goods in the market.

Economies of scale: The larger markets created by trade blocs permit companies to take advantage of economies of scale. Since the average cost of each good produced tends to fall as production increases, this results in lower prices for consumers.

Improved Market Efficiency: Increased competition and the removal of tariffs, which may act as a price floor, drive down prices and allow for increased consumption. This reduces deadweight loss and hence improves market efficiency.

Increased foreign direct investment: An increase in foreign direct investment may result from the creation of trade blocs. This can benefit the economies of participating nations by creating jobs in new or expanded businesses.

Trade Effects: Trade blocs eliminate tariffs, which drives down the cost of imports. As a result, consumers can save money by buying imported goods when cheaper than locally produced ones—they can then spend those savings on other goods. Reducing the cost of imports also reduces the cost of locally produced goods that use imported parts or components.

Disadvantages

Concessions: No country wants to let foreign firms gain domestic market share at the expense of local companies without getting something in return. Any country that wants to join a trading bloc must be prepared to make concessions. For example, in trading blocs that involve developed and developing countries, such as bilateral agreements between the U.S. or the EU and relatively poor Asian, Latin American or African countries, the latter may have to allow multinational corporations to enter their home markets, hurting the business of some local firms.

Interdependence: Because trading blocs increase trade among participating countries, those countries become increasingly dependent on each other. A disruption of trade within a trading bloc as a result of a natural disaster, conflict or revolution may have severe consequences for the economies of all participating countries.

Loss of Sovereignty: A trading bloc, particularly when it is coupled with a political goal, is likely to lead to at least partial loss of sovereignty for its participants. For example, the European Union, started as a trading bloc in 1957 by the Treaty of Rome, has transformed itself into a far-reaching political organization that deals not only with trade matters, but also with human rights, consumer protection, greenhouse gas emissions and other issues which are only marginally related.

Regionalism vs. Multinationals: Trading blocs inherently favor their participating countries. For example, among NAFTA partners, the United States, Canada and Mexico, trade has risen to more than 80 percent of Mexican and Canadian trade and more than a third of U.S. trade, according to a 2009 report by the Council on Foreign Relations. However, regional economies establish tariffs and quotas that protect intra-regional trade from outside forces, according to the University of California Atlas of Global Inequality. Rather than pursuing a global trading regime within the World Trade Organization, which includes the majority of the world's countries, regional trade bloc countries contribute to regionalism rather than global integration.

5.8. Regional Economic Cooperation

Regional Economic Cooperation

The emergence of regional trading arrangements in different parts of world shows that such arrangement are now perceived as an effective mechanism to overcome political constraints It has been observed that most important developments in the world trade system in the 1990s has been the development of regional cooperation. The end of the Cold War reduced political strains between nations in Asia as well as globalizing production processes and increasing vertical integration. Advent of Information technology has improved relationships between economies and put remote regions in contact with the world. The private sector provides capital for investment; the public sector provides infrastructure, fiscal incentives, and the administrative framework to attract industry. It has been revealed that Regional economic cooperation in the Asian and Pacific region is a relatively recent phenomenon. Despite the formation of the Non-Aligned Movement and the Group of 77 in the 1960s, Asia Pacific countries make less effort to cooperate at the regional level. When regional groups started to form in the 1970s, political factors were the driving force.

The term Regional economic cooperation is an evolutionary process consisting of several stages. India is a significant discourse partner of the ASEAN-10. The projections for a new two-way wave of investment cooperation between the SAARC and the ASEAN would certainly improve in future, with the expansion of ASEAN-6 to ASEAN-9 by the inclusion of Lao PDR, Myanmar, Vietnam and Cambodia. India has past relationship with countries in the Greater Mekong Sub-region. This requires that SAARC countries achieve speedy economic growth, with greater orientation towards external trade and foreign direct investment. Hence, the prerequisite for developing successful inter-regional economic linkages between the SAARC and other regions would be predicted on the success of regional economic cooperation within the SAARC itself.

Regional Economic Cooperation among developing countries is generally considered as to make an important contribution toward their economic development. The rationale for Regional Economic Cooperation is based on numerous factors. First, it enables the participating countries to overcome small size of their domestic market which is particularly important for small economies that faced with the problem of achieving threshold in many economic and technological activities. Regional Economic Cooperation help the member countries in achieving larger economies of scale in production and attain specialization.

Second, Regional Economic Cooperation enables participating countries to make much fuller use of underutilized economic potential in terms of human, natural and technological resources. Regional Economic Cooperation provides scope for participating countries to expand existing industrial activities and also to start new ones. This helps in industrial diversification and in reducing economic dependence.

Third, Regional Economic Cooperation enables participating countries to exploit the potential of complementarities and also to establish strategic alliance between enterprises with a view to improve their competitiveness in global market.

Fourth, Regional Economic Cooperation produces spillover effects in other areas in terms of increased level of cooperation among service enterprises, academic and research institutes, professional and technical experts and the common people. In this way, Regional Economic Cooperation gives cooperation for in areas such as art, culture, sports and education which enhance quality of human life in participating counties. .

Finally, Regional Economic Cooperation increase trade.

Regional cooperation is now reflected the way to augment economic development and providing economic security within the regions. Trade among ASEAN members accounted for more than 23% of all trade by member nations in 1994, topping that of any of the group's major trading associates. Regional cooperation provides a competitive model to invite investment and technology. Such growth areas will have to be flexible to change where necessary, innovative, and always attentive to the needs of the investors and the businessmen. They also have to be aware that they are competing with much larger countries such as China and India, whose capacities for attracting investors are much greater than their own" (Kruger 1996, 17). Asian capital markets are now observing the global economy, and big companies recognize their need to be involved in this fastest growing region in the world.

There are certain guidelines for promoting Regional Economic Cooperation.

1. Cooperation should be based on equality, equity and mutual benefit taking fully into account the economic social disparity as well as the differences in the level of development among countries in the region.
2. Cooperation should involve commitment towards the common goals on the part of all participating countries with equal respect for each other.
3. Cooperation should be based on consultation, deliberation, and consensus on all economic and other related issues.
4. Cooperation should complement and build upon existing bilateral and other kind of arrangements among member countries.

5. Cooperation should be based on modalities of economic openness and interdependence and should be consistent with principles of multilateral trading system established by GATT.

When describing relationship among India and Japan is in trade system, it is established that Japan and India are working together to advance regional economic cooperation in order to strengthen growth and quicken development across the region. In order to maximize the effects of cooperation, Japan and India will establish a working group / working groups so as to effectively manage regional economic cooperation projects. Japan and India will review ways for cooperation in developing overland cross-border infrastructure facilities with the aim of enhancing regional connectivity. Both countries explore ways for cooperation in improving sea route connectivity between South Asia and Southeast Asia. Japan and India will increase the level of cooperation in energy sector in South Asia.

The probable benefits of economic cooperation among nations are extensively acknowledged. Regional cooperation integration can create new trade, transport, and investment opportunities. Regional Economic Cooperation enables participating countries to overcome the small size of their domestic markets and accomplish economies of scale and greater specialization in production, thus increasing the competitiveness of their products. It can also lead to new supply and value chains, enhance the competitiveness of firms, and lead to resource sharing such as common offshore areas. Consequently, there are many reasons for countries to develop cooperative measures. Other benefit is that access to a broad market enables developing countries both to expand existing industries and to establish new export industries, diversifying exports and reducing their vulnerability to setbacks in a specific product market. Regional cooperation can augment the capacity of developing countries to face emerging challenges that include the application of new technologies. It is progressively clear that regional trade facilitation measures offer major benefits by decreasing the costs of transactions across international borders and eliminating non-border difficulties.

In spite of advantages, there are many obstacles in regional economic cooperation. Political tensions or mistrust thwarts cooperation and many countries may be unwilling or unable to meet high coordination costs or to accept asymmetric distribution of costs and benefits. Regional cooperation agreements may also have difficult to achieve or may fail to deliver the expected results because of weak institutions and a lack of proper enforcement mechanisms to ensure that countries live up to their promises. To summarize, Regional cooperation has been observed as an instrument for promoting economic growth and political stability at international level. Regional cooperation is needed in the case of primary product exports, which would result in greater value addition.