INTERNATIONAL BUSINESS

B.B.A. Second Year

SEMESTER – IV

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B.B.A. 2nd Year Semester – IV

INTERNATIONAL BUSINESS

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a 'A' Grade from the NAAC in the year 2014, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even housewives desirous of pursuing higher studies. With the goal of bringing education in the door step of all such people. Acharya Nagarjuna University has started offering B.A, and B, Com courses at the Degree level and M.A, M.Com., L.L.M., courses at the PG level from the academic year 2021-22 on the basis of Semester system.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers invited respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn facilitate the country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Coordinators, Editors and Lesson -writers of the Centre who have helped in these endeavours.

Prof. P.Rajasekhar
Vice –Chancellor,
Acharya Nagarjuna University

B.B.A -SEMESTER – IV
404BBA21- INTERNATIONAL BUSINESS

Unit-I:
Introduction – Need - - Difference between Domestic and International/Foreign Trade. Difference between globalisation of trade /international trade

Unit-II:
Foreign Exchange: Factors influencing exchange rate fluctuations, Euro market and instruments (LIBOR, MIBOR, etc), Foreign market operations, participants, spot-future forward and option market.

Unit-III:
Balance of Payment: Contents, disequilibria in BOP, measures to bring back equilibrium in BOP, convertibility of currencies, Current account and Capital account convertibility, exchange control, reasons and methods.

Unit-IV:
WTO and Trade blocks - WTO Formulation, advantages and disadvantages of WTOmembership to developing countries. Trade blocks: Reasons for trade block formation, different types of trade blocks - member countries and economies condition and trade commodities of
LAFTA, SAFTA, NAFTA, ASEAN, CARICOM and EU.

Unit-V:
Procedure and Documents: Export and Import procedure, principal and auxiliary documents, bill of lading, consular invoice, commercial invoice, AR and GP forms, Mate receipt, Letter of credit - Packing list - Incentives to exports, recent Exim policy

References:

1. C. Jeevanandam, Foreign Exchange Practice, Concepts and Control, Sultan Chand & Sons.
2. T.S. Balagopal, Export Management, Himalaya Publishing House.
3. K P M Sundaram&Rudradatta, Indian Economy ,S. Chand & Co., New Delhi.
4. Francis Cherumilum, Foreign Trade and Export Management, Himalaya Publication.

MODEL QUESTION PAPER (404BBA21)

B. B. A. Degree Examination

Second Year – Fourth Semester

Paper – IV : INTERNATIONAL BUSINESS

Time : Three hours **Maximum Marks : 70**

Section – A

Answer any FIVE of the following questions. (5 × 4 = 20 Marks)

1. Need of International Business.
2. LIBOR.
3. Exchange Control.
4. Current Account.
5. SAITA.
6. ASEAN.
7. Bill of lading.
8. Letter of credit.

SECTION – B (5 x 10 = 50 Marks)

Answer ALL the following questions.

9. (a) Distinguish between Domestic and International trade.

Or

(b) Difference between globalisation of trade and international trade.

10. (a) Explain various factor influencing Foreign exchange rate.

Or

(b) Explain various markets of Foreign Exchange.

11. (a) Explain the reasons for Disequilibrium in BOP.

Or

(b) What are the measures to bring back equilibrium in Balance of Payments?

12. (a) Explain the advantages and disadvantages of WTO.

Or

(b) Explain various types of Trade blocks.

13. (a) Explain the procedure and documentation of export.

Or

(b) What are the incentives provided by government to exporters?

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Unit No.	Lesson No.	Title of the Lesson	Page No. From – To
Unit - 1	1	International Business	1.1 – 1.14
Unit - 2	2	Foreign Exchange	2.1 – 2.17
Unit - 3	3	Balance of Payments	3.1 – 3.24
Unit - 4	4	World Trade Organisation (WTO)	4.1 – 4.14
	5	Trade Blocks	5.1 – 5.16
Unit - 5	6	Export and Import Procedure	6.1 – 6.27
	7	Foreign Trade Policy (2023–2028)	7.1 – 7.16

Lesson – 1
INTERNATIONAL BUSINESS

Objectives :

After reading this lesson, student will be able to :

- understand the meaning and importance of International Business
- discuss the challenges of International Business
- enumerate the reasons for growing international business
- describe the difference between International Business and International Trade
- explain the advantages of International Business

Structure of the Lesson :

1.1 Introduction

1.2 Meaning of International Business

1.3 Importance of International Business

1.4 Scope of International Business

1.5 Need for International Business

1.6 Significance of International Business

1.7 Nature of International Business

1.8 Challenges of International Business

1.9 Role of International Business in economic Development

1.10 Benefits of International Business

1.11 Difference between International Business and International Trade

1.12 Difference between Domestic and International Business

1.13 Reasons for entering into International Business

1.14 Globalisation and Trade

1.15 Conclusion

1.16 Key Words

1.17 Self Assessment Questions

1.18 Suggested Readings

1.1 INTRODUCTION :

In today's interconnected world, international business has become a key driver of economic growth and global integration. It involves navigating a complex landscape of

diverse cultures, markets, and regulatory frameworks. Successful international businesses capitalize on opportunities, forge strategic partnerships, and leverage technology to overcome challenges, ultimately fostering sustainable growth and fostering a truly global economy.

International business means companies from one country doing business activities in other countries. A famous Indian brand example is Tata. Tata operates in many countries, making cars, steel, and more. When Tata bought Jaguar Land Rover, they showed international business by working in different places. This is tough because they must follow new rules, understand people's likes, and deal with various situations. International business needs to adjust to different cultures and laws while trying to do well and grow around the world.

1.2 MEANING OF INTERNATIONAL BUSINESS :

International business involves transactions and exchanges of goods, services, or resources between individuals, organizations, or governments in different countries. It encompasses various activities, including international trade, investment, finance, marketing, and management. Companies engage in international business to expand their customer base, increase revenue, access new markets, acquire resources, or gain a competitive advantage.

Various factors shape international business, including government policies, cultural differences, economic conditions, legal systems, and technological advancements. To succeed in international business, companies must navigate these complex and dynamic factors and adapt their strategies to meet the needs of diverse markets and stakeholders.

1.3 IMPORTANCE OF INTERNATIONAL BUSINESS :

The scope and Importance of International business are crucial for the growth of the economy in generating employment, earning foreign currency and many more ways.

The importance of international business can be understood through the following points :

1.3.1 Increase Revenue and Brand Awareness :

Your company will be able to explore new markets and draw in new clients due to your international expansion, which will increase your sales and revenue but also the visibility of your brand internationally. Your business can grow sales by entering a new market and extending the shelf life of your goods and services.

1.3.2 Minimizing Reliance on the Current Market :

The chance to lessen reliance on the present market where you are already established exists when a store expands worldwide. Right now, many other businesses in the market are very competitive. You are unable to profit from this market and raise sales.

1.3.3 Collaborate with Skilled Individuals and Utilize the External Resource :

The ability to utilise the other country's resources, such as technology, skill, and understanding in a certain industry, is another significant benefit of expanding your firm

internationally. It enables you to employ better technologies and discover better work practices, ultimately enhancing your company's operations and revenue.

1.3.4 Get a First-Mover Advantage :

The desire to outperform rivals is one of the main drivers behind many businesses seeking to go global. They will benefit greatly from being the pioneer. Customers will be familiar with your brand before those of your rivals. Additionally, changing their habits and thinking maybe challenging when buyers have certain brands in mind. They will visit yours rather than your competitors.

1.4 SCOPE OF INTERNATIONAL BUSINESS :

The scope and importance of **international business** is a very broad and varied area. There are some key areas of scope of **international business** which have been explained below :

- **International trade - International business** involves the trade of goods and services between two countries. This also includes the exchange of intellectual property along with different purchase agreements.
- **International negotiations - International business** between two countries helps the related parties for improving better relations among them as well as resolving disputes between them through these negotiations.
- **Cross-cultural management -** A multicultural environment is created through this **international business,** where they have to manage various people from different cultures who come together under this **international business**. This also helps in improving better communication between the two parties.
- **Global Marketing** - A specific company can target its customers not only in the domestic market but also in the markets of different countries while considering and adjusting their needs according to their culture.
- **Foreign direct investment** - Through **international business**, the company of other countries are starting their investment in different countries whether from greenfield investment or by purchasing or acquiring a company which already exists in the foreign market and has a very good consumer base.
- **Growth opportunities** - The countries that are related to international trade have their own benefit also in the way of creating more job opportunities in their own country and also strengthening their own economy.
- **Exchange of foreign currency -** While the import and export of goods and services happen, the countries exchange their currency for the consideration of the goods and services, improving a country's foreign exchange reserve.

1.5 NEED FOR INTERNATIONAL BUSINESS :

International business plays a significant role in the global economy by promoting economic growth, job creation, and the transfer of technology and knowledge. It fosters competition, innovation, and the efficient allocation of resources, contributing to overall prosperity.

Expanding into global markets can help a business diversify its operations and reduce the risk of relying on one market or group of customers. Diversification can be important for businesses because it can help to reduce the impact of market fluctuations or changes in customer preferences on the business.

The scope of international business is that it creates a large number of employment opportunities for individuals. It also helps in earning foreign currency for the countries that are involved in international business. International business helps the development of both importing and exporting countries.. It provides a platform for the countries and producers to sell their produce to a base of international consumers. In this way, it increases employment opportunities for the people of those nations.

1.6 SIGNIFICANCE OF INTERNATIONAL BUSINESS :

The scope and Significance of International business are crucial for the growth of the economy in generating employment, earning foreign currency and many more ways. The importance of international **business** can be understood through the following points :

- **Economic growth -** By promoting more trade, investment and entrepreneurial activity among the countries plays an important role in the growth of the economy. Through international business job opportunities are generated which increases the income of the individuals.
- **More innovation and technology -** Another **importance of international business** is that In today's globalisation era, everything is conducted through technological support which is also required for companies to improve and speed up their activity.
- **Political cooperation -** Economic interdependence between two countries leads a better negotiation, communication or resolving disputes between two countries which leads to cooperation in various policies like trade policy, environmental policies etc.
- **Cultural exchange - International business** between two different countries promotes the exchange and also understanding of people with different cultures who interact, learn from one another and respect each other's culture.
- **Employment opportunity -** More employment opportunities are created through **international business** which helps in improving the standard of living of people of one country along with the other countries involved.

- **Proper utilisation of resources** - Resources are properly used when the rest of the extra goods are exported to the other country while already meeting the needs of the consumers as per their needs.

1.7 NATURE OF INTERNATIONAL BUSINESS :

Here is some key features of the **nature of international business** that are explained below :

- **Complexity -** Due to the political risk, cultural differences and the different rules and regulations of the different countries the complexity increases in **international business.**
- **Risk and uncertainty -** Currency fluctuation, different political policies and cultural differences involve various risks and uncertainties. The company must develop and acquire a way to cope with all these risks and uncertainty.
- **Geographic spread -** The **scope and importance of International business** across the borders of the countries and deals with other countries with their different culture and economic environment along with the different needs of the target consumers of that country.
- **More potential than the domestic market** - When the company moves from one country to another to serve the needs of the target consumers of that country then there are more growth opportunities for the company than staying within the boundaries of the domestic market.
- **Importance of relationships -** The success of **international business** heavily depends on good relationships with the suppliers, the target customers and the partners of business in different countries to be successful in the global market.

1.8 CHALLENGES OF THE INTERNATIONAL BUSINESS ENVIRONMENT :

The international business environment is complex and dynamic, making it difficult for companies to predict outcomes accurately. Companies must have a thorough knowledge of the international business environment before entering any foreign market to better understand the local regulations, cultural environment, and competitive landscape.

- The international business environment is complex and dynamic, making it difficult for companies to predict the outcomes of their decisions accurately.
- International trade regulations and policies can vary from country to country, making it hard for companies to comply with them at once.
- International markets tend to be more competitive due to differences in the economic environment, political stability, and cultural preferences across different countries.

- Language barriers can become a significant obstacle when conducting International Business, especially if the company doesn't have knowledgeable personnel about different cultures and languages.
- International businesses may face higher costs associated with production or transportation due to exchange rate fluctuations or taxes imposed by foreign countries on imported goods.
- International businesses may also face difficulties regarding intellectual property protection in foreign markets as laws vary from country to country.
- It is subject to political instability and other external factors that can negatively affect a company's operations.

1.9 ROLE OF INTERNATIONAL BUSINESS IN ECONOMIC DEVELOPMENT :

International business plays a very vital role in the development of the economy. Some of the key points are explained below :

- **Creation of employment - Nature of International business** helps in creating employment in the countries involved which increases the income of the individuals by providing them with employment opportunities.
- **Proper utilisation of resources - The importance of international business** is to the proper utilisation of resources is done which helps in meeting the needs of the customers in the domestic market along with meeting the needs of the target customers in a different country.
- **More improvement in technology** - Nowadays more and more use of technology improves the way of dealing with international trade with other countries in a better way. Technology and innovation are the things which are making things easier in **international business.**
- **Better economic policy -** To make **international business** easier many countries are forming better economic and political policies for the ease of trade of goods and services between two countries.
- **Good relations - International business** forms good relations among the countries through better communication and negotiations in case of disputes, which are easily resolved by the two parties.

1.10 BENEFITS OF INTERNATIONAL BUSINESS :

Benefits to countries :

- **Foreign Exchange :** It assists a country in earning foreign exchange, which may then be utilized to buy capital goods, technology, and other products from foreign countries.

- **More Efficient Resource Utilization :** It is based on the comparative cost advantage theory. It entails producing what your country can produce more efficiently and trading the surplus production with other countries to purchase what they can produce more efficiently. In this way, countries can make better use of their resources.
- **Growth Possibilities and Job Opportunities :** Countries can enhance their manufacturing capacity to supply commodities to other countries through external trade. If external trade holds, the production will rise, increasing the GDP level of the country, resulting in economic growth. With more production, the demand for more labor also rises. Therefore, the international business also creates job opportunities.
- **Improved Standard of Living :** International business allows individuals to consume goods and services from other countries. Consumption of a variety of goods and services improves the standard of living of the people.

Benefits to firms :

- **Profit Opportunities :** When compared to local business, international business is more profitable. When domestic prices are lower, businesses can make more money by selling their products in other countries.
- **Increased Resource Utilization :** Many enterprises anticipate international growth and get orders from foreign clients to set up production capabilities for their products that are more in demand in the local market. It enables them to better utilize their excess resources.
- **Growth Prospects :** When demand falls or the domestic market reaches saturation point, business enterprises become irritated. By expanding internationally, such businesses can increase their growth potential significantly.
- **Decrease Competition :** When domestic competition is fierce, internationalization appears to be the only option to achieve success and required growth. Many businesses are motivated to expand into overseas markets because of the fierce competition in the domestic markets.
- **Improved Business Vision :** Many firms' existence and goodwill depend on their ability to expand their worldwide business. The desire to expand and diversify, as well as to take advantage of the strategic advantages of internationalization, is expressed in the desire to become more international.

1.11 DIFFERENCE BETWEEN INTERNATIONAL TRADE AND INTERNATIONAL BUSINESS :

International Trade :

The exchange of goods between different countries of the world is known

as International Trade. International trade, comprising exports and imports of goods is an important component of international business.

International Business :

Those business activities that take place beyond the geographical boundaries of a nation are called International Business. It involves movement of goods, services, capital, technology, intellectual property, like patents, trademarks, copyrights, etc. Foreign currencies are used in international businesses. Such types of businesses require heavy documentation and are subject to many formalities. It also involves a high degree of risk but helps a business to earn foreign exchange, utilise resources efficiently, and improve growth prospects and employment potentials.

Basis	International Trade	International Business
Meaning	The exchange of goods between different countries of the world is known as International Trade.	Those business activities that take place beyond the geographical boundaries of a nation, but also include movement of capital, personnel, technology and intellectual property, are called International Business.
Goods and Services	It includes only movements of goods.	International business includes goods and services such as international travel and tourism, transportation, communication, banking, warehousing, distribution and advertising.
Currency used	International Currency is used in case of International Trade.	International Currency of more than one country is used.
Scope	International trade has a narrower scope.	International business is broader than international trade and includes international trade.
Effect on Foreign Reserve	It has a direct impact on the foreign reserves of a country.	It also has a direct impact on the foreign reserves of a country.
Risk	It involves comparatively less degree of risk.	It involves a high degree of risk.

1.12 DIFFERENCE BETWEEN DOMESTIC BUSINESS AND INTERNATIONAL BUSINESS :

Domestic Business and International Business are two types of conducting business under which an organisation aims at selling its products or services within the geographical boundaries and outside the boundaries of the country respectively.

What is Domestic Business?

Domestic business refers to business where economic transactions are conducted within the geographical boundaries of one country. The buyer and seller in domestic business belong to the same country. It is limited to the territory. In the domestic business, it is very easy to conduct business research. The nature of customers in domestic business is homogeneous. In this, the currency of parent/home country is used for doing business.

What is International Business?

International business refers to business where economic transactions are conducted across borders with several countries in the world. The buyer and seller in international business belong to different countries. It is quite wide. In international business, business research is very expensive and hard to conduct. The nature of customers in international business is heterogeneous. In this different types of currencies of different countries are used for doing business.

Difference between Domestic Business and International Business

Basis	**Domestic Business**	**International Business**
Meaning	The business where economic transactions are conducted within the geographical boundaries of one country.	The business where economic transactions are conducted across borders with several countries in the world.
Nationality of Buyers and Sellers	Both buyers and sellers belong to the same country. It makes it easier for both parties to understand each other and enter into business deals.	Both buyers and sellers belong to different countries, which makes business dealings relatively difficult due to differences in their languages, attitudes, customs, etc.
Nationality of other Stakeholders	Stakeholders(employees, suppliers, creditors, etc.,) are from one nation.	Stakeholders(employees, suppliers, creditors, etc.,) are from different nations.
Mobility of Factors of	Degree of mobility of factors of production(land, labour, etc.) is	Degree of mobility of factors of production(land, labour, etc.) is

Basis	Domestic Business	International Business
Production	more as compared to international business.	less as compared to domestic business.
Nature of Customers	Customers are homogeneous in their tastes, preferences, consumption patterns, and buying behaviour.	Customers are not homogeneous due to different socio-cultural backgrounds, tastes, fashions, languages, beliefs, customs, etc.
Business Systems and Practices	Business systems and practices are homogeneous within a country.	Business systems and practices are less homogeneous as there is difference in development level, infrastructure, market facilities, etc.
Political System and Risks	Domestic business firms are familiar with the political system of their country. As a result, they are in a better position to understand and predict its impact on business.	International business faces difficulties in understanding and coping with the different political systems of every country.
Business Regulations and Policies	Rules, laws, or taxation policies of a single country prevail in domestic business.	Rules, laws, or taxation policies of various countries prevail in the case of international business.
Currency used	Currency of the domestic country is used.	Currency of more than one country is used.
Risk	It involves comparatively less degree of risk.	It involves a high degree of risk.
Order Processing Time	There is a less time gap between order and supply of goods.	There is a wide time gap between order and supply of goods.
Effect on Foreign Reserve	It has no effect on the foreign reserves of a country.	It has a direct impact on the foreign reserves of a country.

1.13 REASONS FOR ENTERING INTERNATIONAL BUSINESS :

The business industry is growing day by day. All companies are looking for the best business opportunities to expand the business and start making more money. After covering the complete local area or the country, there is only one option remaining, and it is the international market. It increases the business level, and that leads to a higher risk of loss as well. Due to it, many people drop the idea of expanding the business to international levels. In this article, you can get some major reasons to enter the international business.

1.13.1 New Market :

In the case of business, new markets always come up with some new opportunities. By entering the international markets, you can get the best opportunity to serve the new markets. It can help you in connecting with the new audience and build some beneficial connections.

1.13.2 Sales Boost :

Keeping the products and services sale high is the main objective of all individuals. In case you do not expand the business and keep its approach and reach limited, you may not achieve the sales-boosting objectives. If you want to increase sales, then you have to target new markets and a big audience base. It can be possible with a broad expansion.

1.13.3 Easy to Deal with Home Market :

It is not easy for everyone to deal with all types of conditions of a single market. In a market, the companies have to face different types of situations, such as – business ups, downs, etc. All individuals need to make sure they are dealing with these business conditions perfectly and come up with the right solution.

In case you expand the business to the global markets, it can provide a perfect opportunity by which you can compensate for the home market's downtime with the uptime in global markets.

1.13.4 Build Reputation :

Having a good reputation is essential for achieving business goals quickly. If you become a part of the international marketplace, you have the best method by which you can dominate the local competitors easily. It helps in getting some popularity in the local market as an exporter and grab the other's attention quickly.

1.13.5 Beat Competitors :

Competition is one of the worst truths of the business industry. There are several companies engaged in offering a similar kind of products and services. Sometimes, the companies are launching substitutes that can lead to a negative or bad impact on everything. All these things lead to several competitors in the race.

When it comes to deal with competitors in the local regions, the best method is expanding your business operations and make it too big by which everyone starts knowing

your name. It helps in becoming popular, and customers start considering you only. As a result, you can beat the competitors easily.

1.13.6 Bigger Customer Base :

Business success completely depends on the customers. In case you do not get success in impressing the customers, you may not achieve the business goals quickly. It is the only way by which you can easily promote your business, products, and services. In case you decide to limit your business activities to the country's borders, you have to deal with a fixed customer base only.

However, changing your business plan and taking it outside the borders can help you build a big audience base where you can present everything effectively and expect to increase sales. Consequently, you have a big base of customers to offer everything and increase the chances of higher conversions.

1.13.7 Government Incentives :

If you focus on the positive impact of becoming an exporter, you can see some legal benefits as well. Increasing export business in the country is highly beneficial for all governments and the country's economy. It is the biggest reason that's why government provide some specific incentives and benefits to the exporters. These benefits can help you establish the business easily in the global market and reduce overall business costing.

1.13.8 Growth Rate :

Business growth depends on multiple factors, such as – business operations, sales, the area you serve, competition, and much more. Growth is not all about increasing business sales and profit in a particular area. The business expansion is also another way of representing the business growth rate. In case you want to keep your business growing, you should try to be a part of the international marketplace.

By becoming a part of the international business marketplace, you can get lots of business expansion and growth opportunities to make things simpler for anyone. You should not miss the chance of entering the international business.

1.13.9 Higher Profits :

All companies have a single motive of making lots of money in the form of profit by which they can create some reserves and plan a better future. It can be possible only by increasing profit levels. The profit levels are completely dependent on sales and other related factors.

When you expand your existing business or commence an international business, you can grab the opportunity of earning higher profits. The biggest thing that can be helpful in making money is currency conversions. Sometimes, the markets of other countries may allow you to sell products with higher profit margins.

1.13.10 Proper Utilization of Resources :

To run a business, you have to use different types of resources and elements.

Sometimes, the companies consider regulating business in the local areas or maximum to the country's boundaries only. After all these things, they may not get the maximum possible outputs from the resources or machines.

In this particular condition, you can expand the business activities to the next levels. You do not have to focus on arranging more resources for all these things because you already have excess. It means pushing your existing resources can help you in boosting the business marketplace and profit levels.

1.14 GLOBALISATION OF TRADE :

Trade globalization is a type of economic globalization and a measure (economic indicator) of economic integration. On a national scale, it loosely represents the proportion of all production that crosses the boundaries of a country, as well as the number of jobs in that country dependent upon external trade. On a global scale, it represents the proportion of all world production that is used for imports and exports between countries.

1.15 CONCLUSION :

Understanding the international business environment is vital for any organisation looking to expand its operations in multiple markets. It helps companies identify opportunities and devise strategies to sustain growth and profitability. You can look at the various online courses by Emeritus on leadership to get a detailed and in-depth understanding of the international business environment. To have a bigger impact on business, raise your leadership potential, investigate cutting-edge growth tactics, and acquire well-rounded business viewpoints.

International business helps in creating job opportunities, maintaining good relations between different countries as well as improving the living standards of people for improving the quality of life of people everywhere. Along with its growth factors, there are certain reasons why an international business might not be that beneficial like improving competition for the domestic company, the foreign company might exploit the resources of the country while May also increase child labour. After all international business has more benefits than that harms. But to reduce the harmful factors, proper and suitable policies are needed to be formulated so that the balance will be maintained.

1.16 KEYWORDS :

International Business :

Business carried out across the national boundaries. Some important forms of international business are: export and import of goods and services which includes appointing foreign agents abroad, management of consulting and turnkey operations, licensing, franchising, joint ventures and collaborations, and wholly owned subsidiaries.

Globalization :

Globalization can be defined as the growth of economic activity spanning politically defined national and regional boundaries.

Multinational Enterprises :

MNEs are the central actors in international business (MNEs) and have played a major role in making the world market 'global'. MNEs are generally defined as organizations whose operations extend beyond the national political boundaries and operate in many nations by making FDI.

FDI :

Foreign Direct Investment (sometimes also referred to as DFI) means direct investment in business operations in a foreign country.

International Trade :

The exchange of goods between different countries of the world is known as International Trade.

1.17 SELF ASSESSMENT QUESTIONS :

1) What are the characteristics of international business? How is it different from domestic business?
2) Define International Business. Explain its Nature, Importance and Scope.
3) Explain the deference between Domestic Business and International Business
4) Explain the deference between International Business and International Trade.
5) Explain various advantages and challenges of International Business.

1.18 SUGGESTED READINGS :

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Dr. N. Prasanna Kumar

Lesson – 2

FOREIGN EXCHANGE

Objectives :

After reading this lesson, student will be able to :

- understand the Currency valued procedure in forex market
- discuss the Factors influencing exchange rates
- understand the Euro Currency market and Instruments in Euro currency Market
- describe the Features and functions of Foreign Exchange Market
- explain role of Participants in Foreign Exchange Market

Structure of the Lesson :

2.1 Introduction

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2.1 INTRODUCTION :

The currency's exchange rate is defined as "the rate at which one country's currency may be converted into another." It may fluctuate daily with the changing market forces of supply and demand of currencies from one country to another. For these reasons; when sending or receiving money internationally, it is important to understand how exchange rates are determined.

Forex markets**:** In foreign exchange markets, currencies are bought and sold. In reality, foreign exchange is traded virtually 24X7. Forex is the world's largest market. Everyday trillions of dollars of transactions are done. The foreign exchange financial market is the most liquid in the world. Traders in this market involve several institutions. The institutions could be the government, central banks and commercial banks. It would also involve institutional investors, forex agents, individuals, and other businesses.

So far, we have discussed the real economy foreign exchange. There is also a speculative foreign exchange market. Here, currencies are bought and sold based on speculation. Speculation is based on the value of one currency with respect to another. If traders believe the value of a currency will go up, it will see more investment. These investments will increase the value of the currency.

2.2 CURRENCY VALUED PROCEDURE :

A currency of a country is valued according to supply and demand. So, it always is in a state of flux. Such kind of exchange rate is known as floating exchange rate. This is the case in a free economy.

Similarly, the value of a rupee is determined by market forces. Factors like imports and exports, interest rates and inflation affect the value of the rupee. It would also depend on political conditions, internally and internationally. Tourism is another factor which influences foreign exchange value. This is why large companies have strategies to manage currency. The idea is to protect their business from currency fluctuations.

2.3 MEANING OF FOREIGN EXCHANGE RATE :

The forex rate is the rate at which a currency is exchanged. For example, if the Indian rupee trades at Rs 72.96 to one dollar, the forex rate for the US dollar for the Indian rupee is 72.96.

This rate can change depending on many factors. Therefore, forex rates are closely watched by currency traders and governments, who take steps to keep the rate advantageous to the country's economic health.

- These exchange rates can have a tangible impact on investor portfolios on a granular level in terms of genuine returns.
- Aside from factors such as interest rates and inflation, the currency exchange rate is

one of the most important determinants of a country's relative level of economic health.

- A higher-valued currency makes a country's imports less expensive and its exports more expensive in foreign markets.
- Exchange rates are relative and are expressed as a comparison of the currencies of two countries.

2.4 FACTORS INFLUENCING EXCHANGE RATES :

Numerous factors determine exchange rates. Many of these factors are related to the trading relationship between the two countries. Remember, exchange rates are relative, and are expressed as a comparison of the currencies of two countries. The following are some of the principal determinants of the exchange rate between two countries. Note that these factors are in no particular order; like many aspects of economics, the relative importance of these factors is subject to much debate.

There are several factors that contribute to a currency's exchange rate. Here are some of the top factors that can affect an exchange rate:

Fig. : 1

2.4.1 Inflation Rates :

Changes in market inflation cause changes in currency exchange rates. A country with a lower inflation rate than another does will see an appreciation in the value of its currency.

The prices of goods and services increase at a slower rate where the inflation is low. A country with a consistently lower inflation rate exhibits a rising currency value while a country with higher inflation typically sees depreciation in its currency and is usually accompanied by higher interest rates.

2.4.2 Interest Rates :

How do interest rates affect money exchange rates? Changes in interest rate affect currency value and dollar exchange rate. Forex rates, interest rates, and inflation are all correlated. Increases in interest rates cause a country's currency to appreciate because higher interest rates provide higher rates to lenders, thereby attracting more foreign capital, which causes a rise in exchange rates.

2.4.3 Country's Current Account/Balance of Payments :

A country's current account reflects balance of trade and earnings on foreign investment. It consists of total number of transactions including its exports, imports, debt, etc. A deficit in current account due to spending more of its currency on importing products than it is earning through sale of exports causes depreciation. Balance of payments fluctuates exchange rate of its domestic currency.

2.4.4 Government Debt :

Government debt is public debt or national debt owned by the central government. A country with government debt is less likely to acquire foreign capital, leading to inflation. Foreign investors will sell their bonds in the open market if the market predicts government debt within a certain country. As a result, a decrease in the value of its exchange rate will follow.

2.4.5 Terms of Trade :

A trade deficit also can cause exchange rates to change. Related to current accounts and balance of payments, the terms of trade is the ratio of export prices to import prices. A country's terms of trade improves if its exports prices rise at a greater rate than its imports prices. This results in higher revenue, which causes a higher demand for the country's currency and an increase in its currency's value. This results in an appreciation of exchange rate.

2.4.6 Political Stability & Performance :

A country's political state and economic performance can affect its currency strength. A country with less risk for political turmoil is more attractive to foreign investors, as a result, drawing investment away from other countries with more political and economic stability. Increase in foreign capital, in turn, leads to an appreciation in the value of its domestic currency. A country with sound financial and trade policy does not give any room for uncertainty in value of its currency. But, a country prone to political confusions may see depreciation in exchange rates.

2.4.7 Recession :

When a country experiences a recession, its interest rates are likely to fall, decreasing its chances to acquire foreign capital. As a result, its currency weakens in comparison to that of other countries, therefore lowering the exchange rate.

2.4.8 Speculation :

If a country's currency value is expected to rise, investors will demand more of that currency in order to make a profit in the near future. As a result, the value of the currency will rise due to the increase in demand. With this increase in currency value comes a rise in the exchange rate as well.

2.5 TYPES OF EXCHANGE RATE SYSTEMS :

There are three types of exchange rate systems that are in effect in the foreign exchange market and these are as follows :

2.5.1 Fixed exchange rate System or Pegged exchange rate system :

The pegged exchange rate or the fixed exchange rate system is referred to as the system where the weaker currency of the two currencies in question is pegged or tied to the stronger currency. Fixed exchange rate is determined by the government of the country or central bank and is not dependent on market forces. To maintain the stability in the currency rate, there is purchasing of foreign exchange by the central bank or government when the rate of foreign currency increases and selling foreign currency when the rates fall. This process is known as pegging and that’s why the fixed exchange rate system is also referred to as the pegged exchange rate system.

2.5.2 Flexible Exchange Rate System :

Flexible exchange rate system is also known as the floating exchange rate system as it is dependent on the market forces of supply and demand. There is no intervention of the central banks or the government in the floating exchange rate system.

2.6 EURO MARKET :

The Euro market is the over-the-counter market for interbank deposits, loans, debt, equity and derivative instruments denominated in a currency foreign to the bank, debtor or issuer of the instrument. Eurocurrency is any currency that is held on deposit with a bank that is foreign to the bank’s own domestic currency or the currency of a financial instrument foreign to that of the debtor’s or issuer’s home country. With the advent of the euro as the currency of the Euro zone, the use of the prefix Euro- to refer to the Euro market and the instruments that are traded in the market has caused great confusion for market practitioners, investors and educators.

2.6.1 Understanding the Euro Market :

A euro market can be used to describe the financial market for euro currencies. A euro currency is any currency held or traded outside its country of issue. For example, a euro

dollar is a dollar deposit held or traded outside the U.S. A key incentive for the development, and continued existence of such a market is that it is free from the regulatory environment (and sometimes political or other country-specific risks) of the "home" country.

The "euro-" prefix in the term arose because originally such currencies were held in Europe, but that is no longer solely the case, and a euro currency can now be held anywhere in the world that local banking regulations permit. The euro currency market is a major source of finance for international trade because of ease of convertibility and the absence of domestic restrictions on trading.

2.6.2 Euro Market as the Single Market of the EU :

The term can also be used to refer to the single market of the European Union. The single market was created by the abolition of restrictions on the movement of goods and services (as well as people) between member countries of the EU. The European Commission describes the single market as "one territory without any internal borders or other regulatory obstacles to the free movement of goods and services.

Eurocurrency Market :

The euro currency market is the money market for currency outside of the country where it is legal tender. The euro currency market is utilized by banks, multinational corporations, mutual funds, and hedge funds. They wish to circumvent regulatory requirements, tax laws, and interest rate caps often present in domestic banking, particu larly in the United States.

The term euro currency is a generalization of euro dollar and should not be confused with the EU currency, the euro. The euro currency market functions in many financial centres around the world, not just Europe.

- The euro currency market is the money market for currency outside of the country where it is legal tender.
- The term euro currency is a generalization of euro dollar and should not be confused with the EU currency, the euro.
- There is also a euro bond market for countries, companies, and financial institutions to borrow in currencies outside of their domestic market.
- Eurocurrency markets can offer better rates for both borrowers and lenders, but they also have higher risks.

2.7 TYPES OF EUROCURRENCY MARKETS :

Eurodollar :

Eurodollars were the first euro currency, and they still have the most influence. It is worth noting that U.S. banks can have overseas operations dealing in euro dollars. These subsidiaries are often registered in the Caribbean. However, the majority of actual trading takes place in the United States.

The euro dollar trades mostly overnight, although deposits and loans out to 12 months are possible. Transactions are usually for a minimum of $25 million and can top $1 billion in a single deposit.

Euro yen :

The offshore euro yen market was established in the 1980s and expanded with Japan's economic influence. As interest rates declined in Japan during the 1990s, the higher rates paid by euro yen accounts became more attractive.1

Eurobond :

There is an active bond market for countries, companies, and financial institutions to borrow in currencies outside of their domestic markets. The first such euro bond was issued by the Italian company Autostrade in 1963. It borrowed $15 million for 15 years in a deal arranged in London and listed on the Luxembourg stock exchange.2 Issuing euro bonds remained popular in Italy, and the Italian government sold US$7 billion in euro bonds in October 2019.3It is essential to avoid confusing euro bonds with euro bonds, which are simply bonds denominated in Euros issued by countries or firms in the euro zone.

Advantages and Disadvantages of Eurocurrency Markets :

The main benefit of euro currency markets is that they are more competitive. They can simultaneously offer lower interest rates for borrowers and higher interest rates for lenders. That is mostly because euro currency markets are less regulated. On the downside, euro currency markets face higher risks, particularly during a run on the banks.

2.8 INSTRUMENTS IN EURO MARKET :

2.8.1 Commercial Paper :

An unsecured, short-term loan issued by a bank or corporation in the international money market, denominated in a currency that differs from the corporation's domestic currency. It is a promissory note with maturity less than a year, generally the period varies between 90days to 180 days. It is a promissory note with maturity less than a year; generally the period varies between 90days to 180 days.

- Generally issue is not underwritten.
- Amount: USD 100,000 or equivalent.
- Issued on Discount to Yield basis, but interest rate works out lesser than that is paid on bank borrowing and higher than that is paid by the bank on deposits.
- They are unsecured instrument

2.8.2 Certificate of Deposit :

A certificate of deposit (CD) is a money market instrument issued by a depository institutions evidence of a time deposit. Small denomination certificates of deposit are issued to retail investors. Euro CDs are issued outside a country but are denominated in that country's currency.

2.8.3 The Eurodollar market instruments: deposits and loans :

Eurodollars deposits are either fixed time deposits or negotiable certificates of deposits. Time deposits are funds being placed in a bank for a fixed maturity at a specified interest rate. A certificate of deposit (CD) are formal negotiable receipts for funds left with a bank for a specified period of time at a fixed or floating rate of interest.

2.8.4 Euro LIBOR :

Euro LIBOR was the London Interbank Offered Rate (LIBOR) denominated in euros. This was the interest rate that banks offered each other for large, short-term loans made in euros. The rate was fixed once a day by a small group of large London banks but fluctuated throughout the day. This market makes it easier for banks to maintain liquidity requirements because they can quickly borrow from other banks with surpluses. However, these banks no longer use LIBOR as their benchmark rate, as it was phased out in the wake of a 2012 fixing scandal; the new benchmark in Europe is the Euro Short-Term Rate.

- Euro LIBOR was LIBOR priced in euros.
- The rate was the key benchmark for large, short-term loans.
- Lending at a published rate allows banks to be more efficient with their capital by lending out surpluses in short-term arrangements.
- Financial markets ceased producing LIBOR (and Euro LIBOR); legacy contracts must transition to a different rate.

2.8.5 Understanding the Euro LIBOR :

The London Interbank Offered Rate was the world's most widely used benchmark for short-term interest rates. It served as the primary indicator for the average rate, at which contributing banks could obtain short-term loans in the London interbank market.
The number of contributor banks varied from time to time, though there were usually between 11 and 16 panel banks.12 There were five major currencies (USD, EUR, GBP, JPY, and CHF). LIBOR set rates for seven different maturities; therefore, a total of 35 rates were posted every business day (number of currencies times the number of different maturities).3

Euro LIBOR's primary function was to serve as a euro-denominated benchmark reference rate for debt instruments, including government and corporate bonds, mortgages, student loans, and credit cards, as well as for derivativessuch as currency and interest swaps, among many other financial products.

2.8.6 Calculation of Euro LIBOR :

Euro LIBOR was determined by surveying a panel of major European banks. These banks submit their estimated borrowing rates for various maturities. The published LIBOR rates were calculated as an average of these submissions after excluding the highest and lowest values.

2.8.7 Euro LIBOR vs. EURIBOR :

LIBOR represented the average interest rate that leading banks in London estimated they would charge for lending to other banks. The Euro Interbank Offered Rate, known as EURIBOR, is a similar reference rate derived from banks across the Euro zone.

EURIBOR is different from Euro LIBOR. While EURIBOR is only available in Euros, LIBOR was available in 5 different currencies. Also, unlike Euro LIBOR, there are no plans to replace EURIBOR as of October 2023; EURIBOR was reformed in 2019 but continues to be used.

2.9 MEANING OF MIBOR (MUMBAI INTERBANK OFFERED RATE)

The MIBOR was launched on June 15, 1998, by the Committee for the Development of the Debt Market, as an overnight rate. The NSEIL launched the 14-day MIBOR on November 10, 1998, and the one-month and three-month MIBORs on December 1, 1998. Since the launch, MIBOR rates have been used as benchmark rates for the majority of money market deals made in India.

Definition :

MIBOR is the acronym for Mumbai Interbank Offer Rate, the yardstick of the Indian call money market. It is the rate at which banks borrow unsecured funds from one another in the interbank market. At present, it is used as a reference rate for floating rate notes, corporate debentures, term deposits, interest rate swaps and forward rate agreements. The pricing of overnight indexed swaps, a type of overnight interest rate swap used for hedging interest rate risk is based on overnight MIBOR.

Description :

Based on the recommendation of the Committee for the Development of Debt Market, the National Stock Exchange (NSE) launched the Mumbai Interbank Offer Rate (MIBOR) and Mumbai Interbank Bid Rate (MIBID) in June, 1998. Subsequently, the NSE developed a benchmark rate for the term money market, like the 14-day, 1-month and 3-month MIBOR. The same was rechristened as FIMMDA-NSE MIBID/MIBOR rate in due course. The rate is computed by polling a representative panel of 30 banks and primary dealers and summarising the quotes that they provided. The next step involves identifying and isolating the noise by eliminating extreme values of the reference rates.

- The Mumbai Inter Bank Overnight Rate, or MIBOR, is the overnight lending offered rate for Indian commercial banks.
- MIBOR is calculated based on input from a panel of 30 banks and primary dealers.
- MIBOR was first established in 1998, and modelled after the more famous London Inter Bank Overnight Rate (LIBOR)

2.10 UNDERSTANDING THE MUMBAI INTERBANK OFFERED RATE :

Banks borrow and lend money to one another on the interbank market in order to maintain appropriate, legal liquidity levels, and to meet reserve requirements placed on them by regulators. Interbank rates are made available only to the largest and most creditworthy financial institutions.

MIBOR is calculated every day by the National Stock Exchange of India (NSEIL) as a weighted average of lending rates of a group of major banks throughout India, on funds lent to first-class borrowers. This is the interest rate at which banks can borrow funds from other banks in the Indian interbank market.

The Mumbai Interbank Offer Rate (MIBOR) is modelled closely on London Inter Bank Overnight Rate (LIBOR). The rate is used currently for forward contracts and floating-rate debentures. Over time and with more use, MIBOR may become more significant.

2.11 MIBOR VS. MIBID :

The Mumbai Interbank Bid Rate (MIBID) is the interest rate that one participating bank would pay another to attract the deposit of funds. The MIBID rate would be lower than the interest rate offered to those wanting to borrow funds, known as Mumbai Interbank Offered Rate (MIBOR), one iteration of an interbank rate, which is the rate of interest charged by a bank on a short-term loan to another bank. This is to provide the bank a profit from the spread of interest earned and paid.

The MIBID is usually lower than the MIBOR because. Banks will try to pay less interest after taking loans and will try to get more interest while offering loans. Together, the MIBID and MIBOR constitute a bid-offer spread for Indian overnight lending rates

2.12 FOREIGN EXCHANGE MARKET :

Every country has their respective currencies which they use in their trade and businesses, but what about in the foreign market? With the lack of versatility of the currencies, they become a hurdle in world trade. To solve this problem, the Foreign Exchange Market was introduced. This is a type of marketplace that will fix the exchange rate for the currencies. Without the foreign exchange market, the world economy would suffer terribly. Thus, it becomes important for us to consider this topic as a prior study. In this context, we will define the foreign exchange market, discuss the types, features, and participants in the same market.

The foreign exchange market is over a counter (OTC) global marketplace that determines the exchange rate for currencies around the world. This foreign exchange market is also known as Forex, FX, or even the currency market.

The participants engaged in this market are able to buy, sell, exchange, and speculate on the currencies. These foreign exchange markets are consisting of banks, forex dealers, commercial companies, central banks, investment management firms, hedge funds, retail

forex dealers, and investors. In our prevailing section, we will widen our discussion on the 'Foreign Exchange Market'.

2.13 FEATURES OF FOREIGN EXCHANGE :

Market This kind of exchange market does have characteristics of its own, which are required to be identified. The features of the Foreign Exchange Market are as follows:

High Liquidity :

The foreign exchange market is the most easily liquefiable financial market in the whole world. This involves the trading of various currencies worldwide. The traders in this market are free to buy or sell the currencies anytime as per their own choice.

Market Transparency :

There is much clarity in this market. The traders in the foreign exchange market have full access to all market data and information. This will help to monitor different countries' currency price fluctuations through the real-time portfolio.

Dynamic Market :

The foreign exchange market is a dynamic market structure. In these markets, the currency values change every second and hour.

Operates 24 Hours :

The Foreign exchange markets function 24 hours a day. This provides the traders the possibility to trade at any time.

2.14 TYPES OF FOREIGN EXCHANGE MARKET :

Spot Market :

In this market, the quickest transaction of currency occurs. This foreign exchange market provides immediate payment to the buyers and the sellers as per the current exchange rate. The spot market accounts for almost one-third of all the currency exchange, and trades which usually take one or two days to settle the transactions.

The key participants in the spot market include commercial, investment, and central banks, as well as dealers, brokers, and speculators. Large commercial and investment banks make up a major portion of spot trades, trading not only for themselves but also for their customers.

Forward Market :

In the forward market, there are two parties which can be either two companies, two individuals, or government nodal agencies. In this type of market, there is an agreement to do a trade at some future date, at a defined price and quantity.

Future Markets :

The future markets come with solutions to a number of problems that are being

encountered in the forward markets. Future markets work on similar lines and basic philosophy as the forward markets.

Option Market :

An option is a contract that allows (but is not as such required) an investor to buy or sell an instrument that is underlying like a security, ETF, or even index at a determined price over a definite period of time. Buying and selling 'options' are done in this type of market.

Swap Market :

A swap is a type of derivative contract through which two parties exchange the cash flows or the liabilities from two different financial instruments. Most swaps involve these cash flows based on a principal amount.

2.15 FUNCTIONS OF FOREIGN EXCHANGE MARKET :

The various functions of the Foreign Exchange Market are as follows :

Transfer Function :

The basic and the most obvious function of the foreign exchange market are to transfer the funds or the foreign currencies from one country to another for settling their payments. The market basically converts one's currency to another.

Credit Function :

The FOREX provides short-term credit to the importers in order to facilitate the smooth flow of goods and services from various countries. The importer can use his own credit to finance foreign purchases.

Hedging Function :

The third function of a foreign exchange market is to hedge the foreign exchange risks. The parties in the foreign exchange are often afraid of the fluctuations in the exchange rates, which mean the price of one currency in terms of another currency. This might result in a gain or loss to the party concerned.

2.16 ADVANTAGES AND DISADVANTAGES OF FOREX TRADING :

Forex markets have key advantages, but this type of trading doesn't come without disadvantages.

Advantages :

One of the biggest advantages of forex trading is the lack of restrictions and inherent flexibility. There's a very large amount of trading volume and markets are open almost 24/7. With that, people who work nine-to-five jobs can also partake in trading at night or on the weekends (unlike the stock market).

There's a large amount of optionality when it comes to available trading options. There are hundreds of currency pairs, and there are various types of agreements, such as a

future or spot agreement. The costs for transactions are generally very low versus other markets and the allowed leverage is among the highest of all financial markets, which can magnify gains (as well as losses).

Disadvantages :

With forex markets, there are leverage risks—the same leverage that offers advantages. Forex trading allows for large amounts of leverage. The leverage allowed is 20-30 times and can offer outsized returns, but can also mean large losses quickly.

Although the fact that it operates nearly 24 hours a day can be a positive for some, it also means that some traders will have to use algorithms or trading programs to protect their investments while they are away. This adds to operational risks and can increase costs.

The other major disadvantage is counterparty risk, where regulating Forex markets can be difficult, given it's an international market that trades almost constantly. There is no central exchange that guarantees a trade, which means there could be default risk.

2.17 PARTICIPANTS IN FOREIGN EXCHANGE MARKET :

There are a variety of participants in the foreign exchange market - from small retail investors and beginner traders to large hedge funds and commercial banks.
While there is a large number of participants in the market with different goals and motives, we can generally place them into a few categories to understand more easily how the FX market functions.

The FX (foreign exchange) market is the largest financial market in the world. Banks, commercial companies, hedge funds, central banks, and individual speculators participate in it and exchange currencies on a daily basis for both speculative and hedging purposes.

According to the latest survey conducted by the Bank of International Settlements (BIS), the daily turnover in the OTC FX market stood at $6.6 trillion in 2019 (vs. $5.1 trillion in 2016). The U.S. Dollar was the most traded currency - being on one side of 88% of all transactions. The Greenback was followed by the Euro at 32% and the Japanese Yen.

2.17.1 Commercial banks :

Commercial banks are one of the most important participants in the foreign exchange market. They trade on their own behalf but also provide a channel for their clients to participate in the market. They are essential for providing liquidity and are the backbone of the forex market.

Commercial banks do not only help their customers facilitate their trades but also participate in the market as speculators. Those desks are known as "proprietary trading desks" and the mission of the prop traders is to make a profit for the bank. Following the financial crisis of 2008, banks have become more risk-averse, and prop trading dwindled. However, it can still be found within the banks, especially in countries with less regulatory restrictions.

Commercial banks are amongst the best-informed market players, simply due to the infrastructure, amount of capital available, and perhaps most importantly - their knowledge about the market. Commercial banks can see a significant amount of flow going through the market - from central banks to hedge funds and investment funds. This information gives them a significant advantage.

2.17.2 Hedge funds :

Hedge funds are the most prominent members of the group of speculators. While there are several types of hedge funds, the ones that are most active in the FX market are the global macro funds and the currency funds. Macro funds trade in many markets globally, while currency funds are focused on opportunities in the FX market. Hedge funds can handle huge positions in the market and are important participants.

Many traders are probably familiar with the story of how George Soros broke the Bank of England in 1992. While the hedge fund industry has changed a lot since then, it still can have a large impact on markets, especially when many of those funds go after the same trade. This category also includes some smaller participants, like CTAs and system funds.

2.17.3 Real money :

Investment funds that do not use leverage, hence the term 'real money'. Those are usually pension and mutual funds, which manage large sums of money and use the FX market for transactions when dealing in foreign securities. For example, buying a large amount of UK stocks at the London Stock Exchange will require the purchase of the local currency, in this case, the Pound Sterling.

2.17.4 Retail traders :

Individual traders usually access the market through a retail broker, but may also use a prime broker if they have the necessary capital. Given the small amount of money needed to open a trading account, retail traders have access to utilise leverage.

It is difficult to estimate the volume of global retail trading, but from the same survey conducted by the Bank of International Settlements latest in April 2019, $201 million was traded by retail traders. Volumes have been steadily rising and this trend is unlikely to change soon, as the currency market remains very attractive for individual traders.

2.17.5 Sovereign wealth funds :

State-owned investment funds manage the country‘s money and invest it in various markets. They usually exist in countries that have large inflows of foreign currency, like Qatar from selling natural gas, or Kuwait selling oil. Sovereign wealth funds manage huge amounts of money and hence, their transactions can have a large impact on the FX market.

2.17.6 Prime brokers :

Firms that offer liquidity, leverage, and supporting services to other market participants. Most major banks have prime brokerage operations, but there are also non-bank prime brokers active in the business. The clients of prime brokers are usually other

institutional participants, but in some cases, an individual trader can also use a PB, if he meets the requirement set by the broker.

2.17.7 Retail brokers :

Brokerage firms that allow individual forex traders to access the FX market. They can be market makers, STP brokers, or ECNs. Market makers take the opposite side of all the client's trades and are basically acting as dealers, not brokers. STP (straight-through-processing) brokers direct most or all orders directly to the market, while an ECN allows you to trade with various other participants and the broker has no conflict of interest at all.

2.17.8 Proprietary trading firms :

Firms hire individual traders to trade the company's money and give them in return a certain share of the profits they have realised. The trader can benefit from professional tools that would be too expensive to purchase as an individual, a network of fellow professional traders, and capital allocation that can easily reach seven-figure amounts for successful traders.

2.17.9 Money transfer/remittance companies :

Companies specialising in money transferring have been able to significantly gain market share in the past 10 years. This was primarily driven by digitalisation and consumers becoming more informed. They are often able to beat the exchange rates offered by traditional banks, and given that remittances by foreign workers have a large impact on the economy of certain developing countries, their significance is growing. Money transfer companies generally do not engage in speculative trading.

2.17.10 Foreign exchange fixing :

The foreign exchange fix is a benchmark that is based on trades that were executed in a particular time window. At the fix, banks guarantee to their clients the market mid-rate (the rate between the bid and the ask price).

The most famous fix is the WM/Reuters fix at 4 PM London Time, which is based on trades taking place in a one-minute window. The WM/Reuters fix is important because it is used to calculate major equity benchmarks.

In 2013, there was a scandal surrounding the WM/Reuters fix amid allegations that traders at major banks were colluding to manipulate the exchange rates. It resulted in significant fines for multiple banks and the launch of reforms to make the FX market more transparent.

2.17.11 Commercial companies :

This group includes various corporations, like multinational firms or exporters/importers. Their main goal is not to make a profit from currency trading but rather to hedge their currency exposure or get the foreign currency they need to pay their workers in other countries and similar.

2.17.12 Governments and central banks :

Central banks intervene in the market when their currency becomes a problem for the domestic economy, by either being too strong or too weak. This applies to all exchange-rate regimes – the floating, pegged, and fixed.

For example, the SNB has been very active during the past few years, when it has tried to weaken the Swiss Franc against the Euro. Furthermore, we can take the Hong Kong Dollar as an example of the pegged exchange-rate regime. USD/HKD is allowed to trade within a 7.75 to 7.85 range, which means that the Hong Kong Monetary Authority (HKMA) will sell it when it gets too close to the upper range and buy it when it gets too close to the lower range of the band.

Central banks are also active in the market when they have to manage their foreign currency reserves. For example, if the HKMA has bought US Dollars to weaken the Hong Kong Dollar, it may wish to exchange those US Dollars for another currency, like the Euro or the Australian Dollar. The Asian central banks are quite often doing this, as they have to intervene much more than central banks in, say, Europe, where most currencies are floating.

2.18 CONCLUSION :

The foreign exchange market is a decentralized and over-the-counter market where all currency exchange trades occur. It is the largest (in terms of trading volume) and the most liquid market in the world. On average, the daily volume of transactions on the forex market totals $5.1 trillion, according to the Bank of International Settlements' Triennial Central Bank Survey (2016). The forex market major trading centres are located in major financial hubs around the world, including New York, London, Frankfurt, Tokyo, Hong Kong, and Sydney. Due to this reason, foreign exchange transactions are executed 24 hours, five days a week (except weekends). Despite the decentralized nature of forex markets, the exchange rates offered in the market are the same among its participants, as arbitrage opportunities can arise otherwise.

2.19 KEY WORDS :

Forex Market :

The foreign exchange market is a global marketplace for exchanging national currencies.

Inflation :

Inflation is the rate of increase in prices over a given period of time.

Exchange Rate :

An exchange rate is a relative price of one currency expressed in terms of another currency (or group of currencies).

Eurocurrency Market consists of banks that accept deposits and make loans in foreign currencies outside the country of issue.

Primary Market is a market where the sale of a new common stock by corporations to initial investors occurs.

Secondary Market is a market where the previously issued common stock is traded between investors.

2.20 SELF ASSESSMENT QUESTIONS :

1. What is meant by 'Foreign Exchange Market'? Explain its Characteristics.
2. What are the constituents of a 'Foreign Exchange market'?
3. Explain various types of exchange rate system
4. Examine the objective of the interest swap market.
5. What are the important foreign exchange rate determinants? Describe briefly each of them
6. Describe the major participants of foreign exchange market.

2.21 SUGGESTED READINGS :

1. Alan C Shapiro, Multinational Financial Management (2002), Prentice-Hall of India, New Delhi.
2. K K Dewett, Modern Economic Theory (2006), S.Chand & Company Ltd, New Delhi.
3. Francis Cherunilam : International Economics, Tata Mc Graw Hill Pub Ltd, New Delhi.
4. Ian H Giddy: Global Financial Markets, AITBS Publishers and Distributors, New Delhi.
5. C. Jeevanandam, Foreign Exchange: Practice, Concepts, Sultan Chand & Sons, New Delhi.

Dr. N. Prasanna Kumar

Lesson – 3
BALANCE OF PAYMENTS

Objectives :

After reading this lesson, student will be able to :

- understand the meaning and calculation of Balance of Payments
- discuss the Causes of BoP Disequilibrium and Measures to control disequilibrium
- enumerate the Measuring of Convertibility of Currency
- describe the Deficit and surplus in BoP
- explain the Current Account Convertibility and Capital account Convertibility
- understand the objectives and methods of exchange control.

Structure of the Lesson :

3.1 Introduction

3.2 Implementation of BoP

3.3 How BoP is divided

3.4 BoP Deficits

3.5 BoP Surplus

3.6 Causes of BoP Disequilibrium

3.7 Measures to control disequilibrium

3.8 How the BoP is balanced

3.9 Liberalising the BoP

3.10 Measuring of Convertibility of Currency

3.11 Types of Convertibility of currency

3.12 How a Convertible currency works

3.13 Current Account Convertibility

3.14 Current Account Convertibility in India

3.15 Advantages of current account convertibility

3.16 Capital account Convertibility

3.17 Benefits of Capital account convertibility

3.18 Capital account Vs Current account Convertibility

3.19 Exchange Control

3.20 Objectives of Foreign Exchange Control
3.21 Methods of Exchange Control
3.22 Consequences of Exchange control
3.23 Conclusion
3.24 Key Words
3.25 Self Assessment Questions
3.26 Suggested Readings

3.1 INTRODUCTION :

The balance of payment is the statement that files all the transactions between the entities, government anatomies, or individuals of one country to another for a given period of time. All the transaction details are mentioned in the statement, giving the authority a clear vision of the flow of funds.

After all, if the items are included in the statement, then the inflow and the outflow of the fund should match. For a country, the balance of payment specifies whether the country has an excess or shortage of funds. It gives an indication of whether the country's export is more than its import or vice versa.

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions in a specific period. The BOP is usually calculated every quarter and every calendar year.

All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

- The balance of payments (BOP) is the record of all international financial transactions made by the residents of a country.
- There are three main categories of the BOP: the current account, the capital account, and the financial account.
- The current account is used to mark the inflow and outflow of goods and services into a country.
- The capital account is where all international capital transfers are recorded.
- In the financial account, international monetary flows related to investment in business, real estate, bonds, and stocks are documented.

- The current account should be balanced versus the combined capital and financial accounts, leaving the BOP at zero, but this rarely occurs.

3.2 IMPORTANCE OF BALANCE OF PAYMENT :

A balance of payment is an essential document or transaction in the finance department as it gives the status of a country and its economy. The importance of the balance of payment can be calculated from the following points:

- It examines the transaction of all the exports and imports of goods and services for a given period.
- It helps the government to analyse the potential of a particular industry export growth and formulate policy to support that growth.
- It gives the government a broad perspective on a different range of import and export tariffs. The government then takes measures to increase and decrease the tax to discourage import and encourage export, respectively, and be self-sufficient.
- If the economy urges support in the mode of import, the government plans according to the BOP, and divert the cash flow and technology to the unfavourable sector of the economy, and seek future growth.
- The balance of payment also indicates the government to detect the state of the economy, and plan expansion. Monetary and fiscal policies are established on the basis of balance of payment status of the country.

3.3 HOW THE BALANCE OF PAYMENTS (BOP) IS DIVIDED :

The BOP is divided into three main categories: the current account (which includes a goods and services account, a primary income account, and a secondary income account), the capital account, and the financial account. Within these three categories are subdivisions, each of which accounts for a different type of international monetary transaction.

3.3.1 The Current Account :

The current account is used to mark the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account.

Visual Trade :

This is the net for export and import of goods (material). The balance of this visible trade is known as the trading balance. There is a trade deficit where imports are higher than exports and the remainder of the trade when exports are higher than imports.

Invisible trade :

This is the net for export and import services (intangibles). Tasks mainly

include shipping, IT, banking, and insurance services.

Transfers to and from abroad :

This refers to non-elementary payments - for example, gifts or donations sent by a citizen of a country by a non-resident relative.

Salary receipts and payments :

This includes payments and receipts. These are usually leased locally, interest rates, and interest on investments.

Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold, or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation (such as the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights.3

Goods and services together make up a country's balance of trade (BOT). The BOT is typically the biggest bulk of a country's balance of payments, as it makes up total imports and exports. If a country has a BOT deficit, it imports more than it exports, and if it has a BOT surplus, it exports more than it imports.5

Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly workers' remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aid that is directly received.

3.3.2 The Capital Account :

The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of nonfinancial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, such as a mine used for the extraction of diamonds.

Loans and loans :

These include all loans and loans granted or received abroad. It includes both private equity loans, as well as state-owned loans.

Investments to/from abroad :

These are investments made by non-citizens with shares in the home country or investments in real estate.

Stored foreign exchange reserves :

Foreign exchange funds are held by the central bank to regulate the exchange rate and ultimately balance the BOP.

The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets.

3.3.4 The Financial Account :

In the financial account, international monetary flows related to investment in business, real estate, bonds, and stocks are documented. Also included are government-owned assets, such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund (IMF), private assets held abroad, and direct foreign investment. Assets owned by foreigners, private and official, are also recorded in the financial account.

3.4 BALANCE OF PAYMENT DEFICIT :

A balance of payment deficit in a country can arise if said country imports more capital, goods and services than it exports.

A balance of payments deficit means the nation imports more commodities, capital and services than it exports. It must take from other nations to pay for their imports.
The nation could use its reserves of foreign exchange in order to balance any shortfall in its BoP :

It is an unfavourable situation when the country's import is more than its export of goods and services. It means that a country is spending money more than it earns. In this case, it has to borrow to pay for its imports. Thus, it creates a problem for the economy. Under this :

- Payment made by the country is certainly more than the receipts received by the country.
- This means that a country's foreign currency outflows exceed its inflows within a specific period.
- In simple words, Credit Side < Debit Side

Balance is in deficit when :

(Current Account + Capital Account Total Receipts) < (Current Account + Capital Account Total Payments)

- When the foreign exchange is being sold by the reserve bank when there is a deficit, it is known as official reserve sale.
- The decrease or increase in official reserves is known as the overall balance of payments deficit or surplus.

- The fundamental hypothesis is that the monetary authorities are the final financiers of any deficit in the BoP(or the recipients of any surplus.
- Official reserve transactions are relevant under the reign of the fixed exchange rates than when exchange rates are floating.

3.5 BALANCE OF PAYMENTS : SURPLUS

It is a favourable situation when the country's export is more than its import. The country can create more capital to pay for its domestic productions. An increase in the level of production will ultimately help in the short-term growth of a country. Under this:

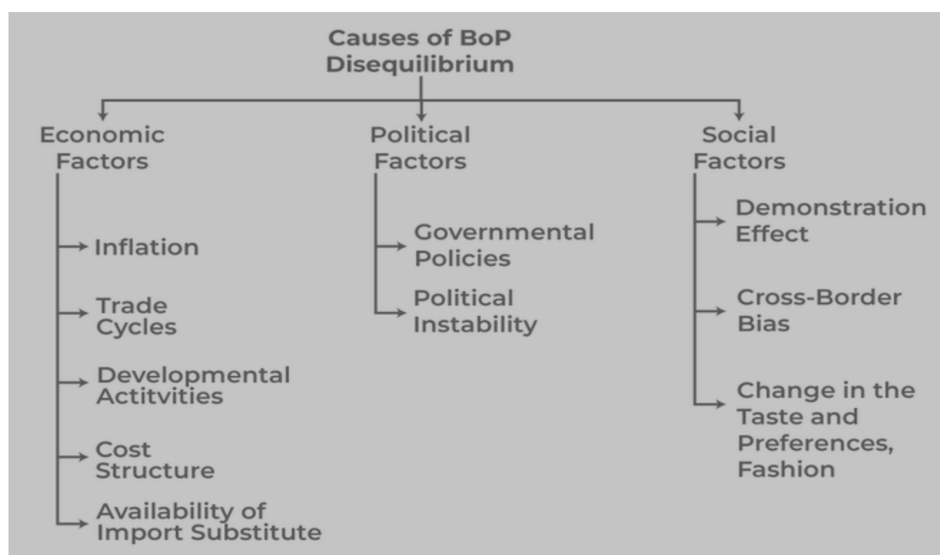
- Payment made by the country is certainly less than the receipts received by the country.
- This means that a country's foreign currency inflows exceed its outflows within a specific period.
- In simple words, Credit Side > Debit Side

(Current Account + Capital Account Total Receipts) > (Current Account + Capital Account Total Payments)

3.6 CAUSES OF BOP DISEQUILIBRIUM :

Several reasons such as differences in the value of exports and imports cause disequilibrium in the balance of payments. The disequilibrium may be either in minus, deficit, unfavourable side or plus, surplus, favourable side. Let us see the favourable and unfavourable balance of Payments concepts below :

- Disequilibrium in the balance of payment means its condition of Surplus or deficit.
- A Surplus in the BOP occurs when Total Receipts exceeds Total Payments. Thus, BOP= CREDIT>DEBIT. A Deficit in the BOP occurs when Total Payments exceeds Total Receipts. Thus, BOP= CREDIT<DEBIT.



1. Economic Factors :

(i) Inflation :

Generally, the country's price and cost structure affect the volume of exports and the BoP position. Inflation means a persistent rise in the price of goods and services over a period of time. This increases the cost of living. For example, in the 90s, a movie ticket cost around ₹ 20, but now the average price is ₹ 200, thus, it shows a continuous increase in the price. In the context of BoP, it increases the price, due to higher salaries, and higher prices for raw materials, which makes export expensive and imports cheaper; eventually resulting in a BoP deficit.

(ii) Trade Cycles :

There are four phases in the business/ trade cycle, i.e., Boom, Recession, Depression, and Recovery. Boom and Recovery bring positive changes in the economy; in terms of an increase in the level of investment, income, and production. However, recession and depression bring negative changes to the organization in terms of a decrease in the level of investment, revenue, and production. In the context of BoP; in case of recession or depression, production within boundaries may not be able to accomplish the demand in the domestic market, which eventually leads to the BoP Deficit**,** due to higher imports. On the other hand, if there is a boom or recovery there is a demand for goods in the foreign market, which increase the export and ultimately leads to a BoP Surplus**.**

(iii) Developmental Activities :

Usually, developing countries, like India depend upon developed countries, like the USA for certain imports of goods and services. This leads to an increase in the level of imports, which results in the deficit of the BoP account of developing countries. In case imports fall then the deficit may reduce.

(iv) Change in the Cost Structure of the Business Partner :

Cost of production plays an important role in deciding whether the country will export its goods and services or not. The company can reduce its cost with the help of the latest technology available in the market. Due to the latest technology, production cost fall, and then the price of the goods and services fall, which leads to a rise in the exports, which results in a BoP Surplus. On the other hand, the domestic cost of production rise, and the price of the goods and services rise, which leads to an increase in the imports which results in a BoP Deficit.

(v) Availability of Import Substitute :

Import substitution refers to the blocking of the imported goods in the country so that there is a boost of domestically produced goods in the economy. If the country can develop a substitute, then there will be a BoP Surplus due to lessor imports. But in case, the country can substitute its imports then there will be a BoP Deficit.

2. Political Factors :

(i) Government Policies :

Policy is the plan of action chosen by the government. The main purpose of making policies is that it provides directions on how things should be done and the reason why it is done. In case government makes policies that favour imports, then there is a BoP Deficit**.** But in case government makes policies that favour exports, then there will be a BoP Surplus**.**

(ii) Political Instability :

It is a situation in which there is an imbalance in the structure of the government. There is a chance of government collapse in a short time. This instability may lead to an increase in the payments, and it will reduce the capital receipts, thus it will initiate a BoP Deficit**.** However, if the economy is stable, then receipts are more than payments causing a BoP Surplus**.**

3. Social Factors :

(i) Demonstration Effect :

It is human nature, that a person is attracted to the things that he/she does not have. Generally, humans observe the action and behaviour of others and try to imitate them. In economics, the demonstration effect means the habit of the individual to consume the things consumed by others. In case Indians want to imitate western culture, then there will be a rise in the imports, which will result in an adverse level of BoP for the country. But if Indians prefer domestically produced goods over foreign goods then there will be a BoP Surplus.

(ii) Cross-border Bias :

In case of bias, there will be cheaper exports and expensive imports, which will cause a BoP Deficit**.**

(iii) Change in the Taste and Preferences, Fashion :

It means special liking of one thing over the other. **For example,** some people may prefer western clothes, like jeans and tops, while others prefer traditional clothes like saree and suits. Thus, taste and preference depend upon the individual to individual. In case favourable changes in demand for a domestic product take place in the foreign market, then it will increase the rise in exports and will ultimately cause a BoP Surplus. On the other hand, if unfavourable changes in demand for a domestic product take place in the foreign market, then it will increase the rise in imports and will ultimately cause a BoP Deficit.

3.7 MEASURES TO CORRECT DISEQUILIBRIUM IN THE BALANCE OF PAYMENTS :

1. Promotion of Exports :

Promotion of export is the best measure to correct an adverse balance of payments. For this all taxes on export goods be withdrawn, export industries should be provided new materials and transport facilities at reduced prices, so that prices of these goods remain low.

2. Increase in Production :

Increase in production will lead to excess of final goods so a country can export the excess of final goods to different countries.

3. Trade Agreement :

More trade agreements should be done with foreign countries to promote our foreign trade and exports.

4. Encouragement of foreign investment :

Foreign industries and MNCs are encouraged to invest their capital in India. Special facilities are provided to attract foreign capital. It leads to an inflow of foreign capital.

5. Attraction to foreign tourists :

The government should spend a lot of money to develop picnic spots and resorts in different parts of the country. A large amount of foreign exchange can be earned from foreign tourists.

6. Devaluation of Indian Currency :

Lowering the value of the domestic currency in terms of foreign currency in terms of foreign currency in terms of foreign currencies is called devolution. The exchange rate of the currency may be reduced by the government. Foreign goods will become costly and local goods will become cheap. Imports will be cut down and exports will be pushed up.

3.8 HOW THE BOP IS BALANCED :

The current account should be balanced against the combined capital and financial accounts; however, as mentioned above, this rarely happens. We should also note that with fluctuating exchange rates, the change in the value of money can add to BOP discrepancies.
If a country has a fixed asset abroad, this borrowed amount is marked as a capital account outflow. However, the sale of that fixed asset would be considered a current account inflow (earnings from investments). The current account deficit would thus be funded.
When a country has a current account deficit that is financed by the capital account, the country is actually foregoing capital assets for more goods and services. If a country is borrowing money to fund its current account deficit, this would appear as an inflow of foreign capital in the BOP.

3.9 LIBERALIZING THE BoP :

The rise of global financial transactions and trade in the late 20th century spurred BOP and macroeconomic liberalization in many developing nations. With the advent of the emerging market economic boom, developing countries were urged to lift restrictions on capital- and financial-account transactions to take advantage of these capital inflows.

Many of these countries had restrictive macroeconomic policies, by which regulations prevented foreign ownership of financial and nonfinancial assets. The regulations also limited the transfer of funds abroad.

With capital and financial account liberalization, capital markets began to grow, not only allowing a more transparent and sophisticated market for investors but also giving rise to foreign direct investment (FDI).

For example, investments in the form of a new power station would bring a country greater exposure to new technologies and efficiency, eventually increasing the nation's overall gross domestic product (GDP) by allowing for greater volumes of production. Liberalization can also facilitate less risk by allowing greater diversification in various markets.

3.10 MEANING OF CONVERTIBILITY OF CURRENCIES :

A convertible currency is any nation's legal tender that can be easily bought or sold on the foreign exchange market with little to no restrictions. A convertible currency is a highly liquid instrument as compared with currencies that are tightly controlled by a government's central bank or other regulating authority.

Currency convertibility can be defined as the ability to exchange one currency for another at a given conversion rate and in terms of the usability of a currency for foreign transactions. Various degrees of convertibility can be identified, ranging from the extremes of total convertibility to total inconvertibility. Total convertibility refers to the unrestricted exchange of the currency of a country into all other currencies without limitation on the usability of the currency for any foreign transaction. This would be achieved if the country had no exchange controls or restrictions vis-à-vis the rest of the world, as well as no quantitative or financial barriers to external transactions. By contrast, total inconvertibility refers to the complete inability, de facto and de jure, to exchange the currency of a country into any other currency or to use it for any foreign transaction. This would be the situation in a country that had instituted exchange controls and restrictions and/or quantitative or financial barriers that completely cut off all external transactions. Along this spectrum, the degree of convertibility of a currency can be identified by the effectiveness of exchange controls and restrictions and of quantitative or financial barriers to external transactions.

- A convertible currency or hard currency is a currency that can be traded on forex markets with little to no restrictions.
- A convertible currency is a reliable store of value, meaning an investor will have no trouble buying and selling the currency.

- Some common fully convertible currencies include the U.S. dollar, Euro, Japanese Yen, and the British pound.

3.11 TYPES OF CONVERTIBLE CURRENCIES :

Fully Convertible :

Perhaps because major fiat currencies are no longer tied to the gold standard, the popularity of foreign exchange trading has increased in recent years. However, for the most part, currencies such as the U.S., Canadian, and Australian dollar, along with the Japanese Yen, Euro, and British pound still account for the vast majority of trading.
One major advantage of the U.S. dollar is that central banks hold it as their main reserve. Furthermore, a number of asset classes are denominated in U.S. dollars, meaning payments and settlements are made in U.S. dollars.

Partially Convertible :

Currencies such as the South Korean won and Chinese Yuan are known as partially convertible currencies. A partially convertible currency is the legal tender of a country that is traded in low volumes in the global foreign exchange market. The governments of these countries place capital controls that limit the amount of currency that can exit or enter the country.

Non – convertible :

Nearly all countries have currencies that are at some level at least partially convertible. However, currencies such as the Brazilian real, Argentinian peso, and Chilean peso are considered non-convertible because it is virtually impossible to convert them into another legal tender, except in limited amounts on the black market.

Convertible Virtual Currency :

The rise in popularity of cryptocurrencies in recent years has brought about yet another term: convertible virtual currency. This refers to digital currencies such as bitcoin, Ether, and Ripple, which are unregulated but can be used as a substitute for real and legally recognized currency even though they do not have the status of legal tender.

3.12 HOW A CONVERTIBLE CURRENCY WORKS :

There are hundreds of fiat currencies around the world; however, some are more stable and liquid than others. Fully convertible currencies are those typically backed by nations that are economically and politically stable. For example, the most tradable currencies in the world are, in order, the U.S. dollar, the Euro, the Japanese Yen, and the British pound.1 Convertible currencies are useful to forex investors because they can be confident these currencies' prices are relatively stable in the short term.

The level of convertibility of a nation's currency is also an important concept in the field of international trade. For example, a company would much rather do business in a nation whose currency has a high level of convertibility so it can protect itself from paying unexpected fees or jumping through regulatory hoops. Dealing with a fully convertible

currency allows companies to do business across borders with confidence and gives them access to transparent pricing. Also, a convertible currency is more liquid, which reduces volatility.

On the other hand, developing countries or those with more authoritative governments are more likely to place restrictions on the exchange of their currency with another. Currencies from these countries are typically less stable and may come from economies with high inflation rates. Non-convertible currencies are also more illiquid.

3.13 CURRENT ACCOUNT CONVERTIBILITY :

When you make payments, current account convertibility refers to your ability to freely change your rupees into other internationally accepted currencies and vice versa. It is the free trade in commodities to change native currency into a foreign currency and vice versa (services, transfers, or income from investment). If you want to know What Is Current Account Convertibility in details keep reading this article till the end.

Currencies can be converted to foreign exchange markets by individuals and corporations. In order to satisfy their international commitments, exporters, importers, residents, businesses, foreign investors, domestic investors abroad, etc. want to transform their domestic money into foreign currency.

The term “current account convertibility” refers to the movement of funds into and out of an account that is not linked to any sort of capital income or expense. Transactions which are considered part of current account convertibility usually include commercial problems such as the purchase of goods or services such as the acquisition of a new kitchen appliance or the payment of the plane fare for the package of travel. This is distinct from capital account convertibility, which would entail transactions like making loan payments or utilizing cash to buy investments that are liabilities or capital assets.

Current account convertibility occurs when the transactions in question necessitate some form of currency conversion to be performed. For instance, if a customer in the United States wanted to buy a CD from a customer in the United Kingdom using cash from his or her checking account, the transaction would require currency conversion from US dollars to British pounds.

Similarly, if a client wanted to buy and import items from a foreign provider, there’s a significant probability that a currency conversion would be necessary, which would need knowing the current exchange rate and applying it to the transaction.

3.14 CURRENT ACCOUNT CONVERTIBILITY IN INDIA :

Current account convertibility allows for the free movement of foreign currency for imports and exports, internal and external foreign currency transactions, access to foreign currency for medical and tourism purposes, travel, studying abroad, and other uses at current market prices. However, capital account convertibility in India is still only partially convertible.

This indicates that Indians have a capacity under current account convertibility to acquire and sell goods and services, but still need regulatory approval when investing or purchasing assets outside of India for a specific limit. Additionally, in certain sectors such as insurance or retail (certain investments are limited in a particular percentage), FDI restrictions persist, and regulatory permits continue in these areas to be necessary to achieve increased investment limits.

3.15 ADVANTAGES OF CURRENT ACCOUNT CONVERTIBILITY :

- **Facility to freely transmit your foreign income to India :** Current account convertibility enables you to receive and convert the income sent by your family members working abroad, without going through a complicated procedure prior.

- **Promote international trade :** Current account convertibility facilitates the conversion of foreign currency into domestic currency and vice versa. This helps to integrate trade across countries around the world. By eliminating trade barriers, it increases international trade links among countries.

- **Encouragement to exports :** A major advantage of current account conversion is that it promotes exports by improving profits. Export convertibility grows because the exchange rate of the market exchange is higher than the government fixed exchange rate. This means that exporters can receive more foreign exchange rupees from exporters' exports (e.g. US dollars). In particular, currency convertibility favors low-import exports.

- **Imports and exports can be carried out at market-determined rates :** Before the free current account conversion, one must either forfeit a portion of their foreign exchange receivable to Indian rupees at the rates specified by RBI or convert it to Indian rupees. Previously, the rate decided was usually lower than the market rate. This enables you to convert your foreign currency at the market-determined rate that is fairer than pre-determined rates.

- **Encouragement to import substitution :** Imports become more expensive following a currency's convertibility because the free or market-determined exchange rate is higher than the prior government-regulated exchange rate. This discourages imports and encourages the replacement of imports.

- **An incentive to send remittances from abroad :** Rupee convertibility gave more incentives for Indian employees residing overseas and NRIs to send remittances of foreign exchange. It also makes illegal remittances like "hawala money" and gold smuggling less appealing.

- **A self-balancing mechanism :** The self-balancing mechanism is another key advantage of current account convertibility. When the balance of payments is in deficit due to exchange rates being overvalued, the currency of the country is under convertibility and it degrades, boosting its exports, on the one hand, by cutting prices and discouraging imports, on the other, by increasing prices. This automatically corrects the balance of payments deficit without the Government

or its Central Bank interference. Instead, the balance of payments is excess because the exchange rate is undervalued.

- **Comparative advantage specialization :** Another advantage of currency convertibility gives a production pattern in line with its relative advantage and resources for different trading countries. When currencies are convertible, the exchange rate simply represents the purchasing power of the currencies, which is based on prices and expenses in different nations. Exports will be encouraged since prices in a competitive market reflect reduced pricing for those goods in which the country has a comparative advantage. On the other hand, in a country that has a comparative disadvantage, it will be prone to import such products into production. As a result, currency convertibility ensures specialization and international trade based on comparative advantage, which benefits all countries.
- **Integration of the World Economy :** Lastly, currency convertibility promotes global economic integration. Currency convertibility facilitates the growth of trade and capital flows between countries by providing simple access to foreign exchange. Trade and capital flow between countries will expand, ensuring significant economic growth in the world's economies. Indeed, currency convertibility is regarded to be a precondition for globalization success.

3.16 CAPITAL ACCOUNT CONVERTIBILITY :

Capital account convertibility pertains to the degree of ease and freedom in converting a country's currency into foreign currencies and vice versa, particularly in relation to capital account transactions. It involves the ability to exchange domestic financial assets for foreign financial assets based on prevailing market exchange rates. Full capital account convertibility implies the unrestricted movement of capital.

In the case of India, the government opted for limited capital account convertibility due to an unfavourable current account situation, marked by a significant current account deficit. The objective was to ensure the availability of foreign exchange at a reasonable cost for essential imports of goods and commodities.

India adopted a cautious approach to granting full capital account convertibility for the rupee, taking into account the lessons learned from the Mexican crisis and the subsequent East Asian crisis. The experience of partial capital account convertibility during specific circumstances validated this strategy.

While complete capital account convertibility can attract capital inflows, it also carries the risk of capital outflows during adverse conditions. Such outflows can lead to increased exchange rate volatility and potentially result in a crisis, similar to what transpired during the

- Capital Account Convertibility means that the currency of a country can be converted into foreign exchange without any controls or restrictions.

- In other words, Indians can convert their Rupees into Dollars or Euros and Vice Versa without any restrictions placed on them. The reason why it is called capital account convertibility is that the conversion of domestic currencies into foreign currencies is allowed in the capital account and not only the current account.
- Capital account refers to expenditures and investments in hard assets, physical premises, and factories as well as investments in land and other capital-intensive items. Current account on the other hand, refers to investments that are short term in duration and hence, they fall under the current account head.
- As we shall discuss later, there is a significant difference between capital and current accounts as they are different in the period of holding and the kind of investments made.
- A precondition for many countries to get IMF (International Monetary Fund) or World Bank assistance is to make their currencies capital account convertible so that foreign investors have the exit option quickly and without hassles in times of economic crises.

Partially and Fully Convertible Currencies :

- Partially convertible currencies are those where the currency can be converted in the current account. This means that investors can invest in stock markets and bond markets of the target countries with an option to repatriate their holdings.
- Further, ordinary citizens can convert their domestic currencies to dollars for expenses like going abroad for work, tourism, and education.
- On the other hand, capital account convertibility or fully convertible currencies are those where just about anybody can convert the local currency for foreign currency without any questions or restrictions placed on such conversions.
- The key aspect here is that many countries do not allow their currencies to be fully convertible if they do not hold significant foreign exchange reserves. This is also the reason why capital controls are imposed in times of economic crises to prevent a capital flight from these countries.
- Many Asian countries have learnt from the bitter experience of the Asian financial crisis of 1997 and the Russian Default of 1998 where full convertibility lead to a stampede of foreign investors fleeing the countries in the aftermath of the economic crisis.
- The other aspect here is that even in the European Union, capital controls are being planned to contain flight of capital to other countries as the Eurozone crisis deepens.

Impact on Countries :

- The previous sections discussed the difference between fully convertible and partially convertible currencies. The impact of convertibility on economies is felt in the way assets held in the domestic country can be repatriated with ease or partially.

- For instance, in India where the currency is partially convertible, investors cannot liquidate their assets and leave the country without approval.
- On the other hand, they can repatriate the money that they have invested in the stock market, as was the case in recent months.
- The effect of this is that many foreign companies do not hold assets like buildings, premises, and other items that fall in the capital account. They also tie up with local companies because in times of crisis, they can exit the joint venture easily and get back their monies invested in the merged entity.
- As for other countries in South East Asia that were fully convertible, the Asian financial crisis of 1997 was a wakeup call for them as investors fled the country and capital flight accelerated leading to a near collapse of the economies in the region with the exception of Singapore.

3.17 BENEFITS OF CAPITAL ACCOUNT CONVERTIBILITY :

Capital account convertibility, when implemented effectively and accompanied by sound regulations and oversight, can bring numerous benefits to an economy. Here is an analysis of the same.

Improved access to international financial markets :

Capital account convertibility enables individuals, businesses, and financial institutions to access global financial markets more easily. This increased access allows for the availability of substantial funds and a broader range of investment opportunities.

Lower cost of capital :

With capital account convertibility, the cost of capital can potentially decrease. As capital flows more freely, it encourages competition and attracts foreign investment, leading to greater availability of funds at more competitive interest rates.

Enhanced financial competitiveness :

Capital account convertibility fosters financial competitiveness by providing Indian investors with the opportunity to purchase and hold foreign equities and assets. This diversification of investment portfolios helps mitigate risks and potentially offers higher returns.

Easier external commercial borrowing :

Full capital account convertibility allows Indian corporations to obtain external commercial borrowing without requiring approval from regulatory bodies like the Reserve Bank of India (RBI) or the government. This facilitates the borrowing process, reduces bureaucracy, and promotes easier access to global funding sources.

Facilitation of foreign currency transactions :

Under capital account convertibility, Indian residents are allowed to hold and transact in foreign currency-denominated deposits with Indian banks. This flexibility enables

smoother cross-border transactions and provides individuals with more options for managing their international financial dealings.

Increased participation of financial institutions :

With capital account convertibility, a larger number of financial institutions, including non-bank financial companies (NBFCs), gain access to the global financial market. This expansion of participation supports the growth and development of the financial sector and promotes broader market integration.

Global gold trading and loan issuance :

Capital account convertibility permits the global trading of gold and allows banks and financial entities to issue loans denominated in foreign currencies. These provisions enable greater flexibility in gold transactions and enhance the availability of funding options for individuals and businesses.

3.18 CAPITAL ACCOUNT CONVERTIBILITY VS CURRENT ACCOUNT CONVERTIBILITY :

The following table gives a comprehensive analysis of Capital Account Convertibility vs Current Account Convertibility :

Definition :

The ease and freedom to convert domestic financial assets into foreign financial assets and vice versa.

The freedom to conduct international trade in goods and services and settle cross-border payments.

Focus :

Deals with capital flows and investments across borders.

Deals with trade flows and transactions in goods and services.

Components :

Includes foreign direct investment (FDI), portfolio investment, loans, remittances, and repatriation of funds.

Comprises merchandise trade (exports and imports), services trade (e.g., tourism, transportation, and financial services), and unilateral transfers (e.g., foreign aid and remittances).

Purpose :

Promotes financial market integration, attracts foreign investment, and encourages capital flows into and out of the country.

Facilitates international trade, ensures smooth cross-border transactions, and supports balance of payments stability.

Impact on Economy :

Can lead to increased economic growth and access to global capital markets, but also exposes the economy to risks like capital flight and financial instability.

Affects a country's trade balance, competitiveness, and overall economic stability.

A deficit or surplus in the current account can impact exchange rates and reserves.

Convertibility Level :

Can range from limited (with restrictions and controls on capital flows) to full convertibility (unrestricted movement of capital).

Typically allows for higher degrees of convertibility, with fewer restrictions on current account transactions. Certain restrictions may still exist for specific goods or services.

3.19 EXCHANGE CONTROL :

Exchange controls are government-imposed limitations on the purchase and/or sale of currencies. These controls allow countries to better stabilize their economies by limiting in-flows and out-flows of currency, which can create exchange rate volatility. Not every nation may employ the measures, at least legitimately; the 14th article of the International Monetary Fund's Articles of Agreement allows only countries with so-called transitional economies to employ exchange controls.

Understanding Exchange Controls :

Exchange control is a governmental restriction on private transactions in foreign exchange. These systems serve as a primary means of preventing or redressing an unfavorable payment residue by minimizing foreign exchange purchases to an amount that is not more than foreign exchange receipts.

Many western European countries implemented exchange controls in the years immediately following World War II. The measures were gradually phased out, however, as the post-war economies on the continent steadily strengthened; the United Kingdom, for example, removed the last of its restrictions in October 1979. Countries with weak and/or developing economies generally use foreign exchange controls to limit speculation against their currencies. They often simultaneously introduce capital controls, which limit the amount of foreign investment in the country.

Countries with weak or developing economies may put controls on how much local currency can be exchanged or exported—or ban a foreign currency altogether—to prevent speculation.

Exchange controls can be enforced in a few common ways. A government may ban the use of a particular foreign currency and prohibit locals from possessing it. Alternatively, they can impose fixed exchange rates to discourage speculation, restrict any or all foreign exchange to a government-approved exchanger, or limit the amount of currency that can be imported to or exported from the country.

The foreign exchange pool is rationed to cater for "essential" or priority payments abroad. It involves controlling the trading of foreign currency and transfers across national borders. The government will determine how foreign exchange earned by individuals and businesses is spent. It will be mandatory for all earned foreign exchange to be sold at the central bank at a predetermined rate.

Factors that Lead Governments to Impose Exchange Controls :

The justification and motivation for the imposition of foreign exchange controls vary from country to country and their respective economic situations. Below are some of the justifications:

- Capital flight at unprecedented levels, mainly due to speculative pressure on the local currency, fear, and extremely low confidence levels.
- A marked decline in exports resulting in a Balance of Payments (BOP) deficit
- Adverse shifts in terms of trade
- War/conflict budgeting. The BOP may be in disequilibrium due to war, drought, etc.
- Economic development and reconstruction

3.20 OBJECTIVES OF FOREIGN EXCHANGE CONTROL :

1. Restore the balance of payments equilibrium :

The main objective of introducing exchange control regulations is to correct the balance of payments equilibrium. The BOP needs realignment when it is sliding to the deficit side due to greater imports than exports. Hence, controls are put in place to manage the dwindling foreign exchange reserves by limiting imports to essentials items and encouraging exports through currency devaluation.

2. Protect the value of the national currency :

Governments may defend their currency's value at a certain desired level through participating in the foreign exchange market. The control of foreign exchange trading is the government's way to manage the exchange rate at the desired level, which can be at an overvalued or undervalued rate.

The government can create a fund to defend currency volatility to stay in the desired range or get it fixed at a certain rate to meet its objectives. An example is an import-dependent country that may choose to maintain an overvalued exchange rate to make imports cheaper and ensure price stability.

3. Prevent capital flight :

The government may observe increased trends of capital flight as residents and non-residents start making amplified foreign currency transfers out of the country. It can be due to changes in economic and political policies in the country, such as high taxes, low interest rates, increased political risk, pandemics, and so on.

The government may resort to an exchange control regime where restrictions on outside payments are introduced to mitigate capital flight.

4. Protect local industry :

The government may resort to exchange control to protect the domestic industry from competition by foreign players that may be more efficient in terms of cost and production. It is usually done by encouraging exports from the local industry, import substitution, and restricting imports from foreign companies through import quotas and tariff duties.

5. Build foreign exchange reserves :

The government may intend to increase foreign exchange reserves to meet several objectives, such as stabilize local currency whenever needed, paying off foreign liabilities, and providing import cover.

3.21 METHODS OF EXCHANGE CONTROL :

Some of the standard foreign exchange control measures are:

1 – Exchange pegging :

Exchange pegging, or a mild exchange control system, is the government's attempt to maintain a rate of exchange at desired levels. Governments maintain exchange equalization funds in foreign currencies. The U.S. exchange stabilization fund is one such example.

2 – Full-Fledged System of Exchange Control :

The government controls the exchange rate and all foreign exchange transactions in this system. The control authority receives all export and other transaction receipts. In this sense, the government is the only foreign exchange dealer.

3 – Compensating Arrangement :

This concept works similarly to a **barter** system where one country exchanges goods or services on mutual understanding, agreeing on a particular exchange rate.

4 – Clearing Agreement :

A clearing agreement is between two or more nations to exchange products and services at predetermined exchange rates for payments. The payment is made exclusively in the purchasers' home currencies. The **central banks** satisfy the remaining unpaid claims at the end of the predetermined periods. It does this through transfers of gold, an approved third currency, or any other means.

5 – Payments Arrangements :

The payment arrangement maintains the conventional method of sending money overseas through the **currency market**. In addition, each nation consents to set up a system of control wherein its population is compelled to buy products and services from other nations. This should be in quantities equal to what that other nation paid to the first nation for those goods and services.

3.21 CONSEQUENCES OF EXCHANGE CONTROLS :

Exchange controls can be effective in some instances, but they can also come with negative consequences. Often, they lead to the emergence of black markets or parallel markets in currencies. The black markets develop due to higher demand for foreign currencies that is greater than the supply in the official market. It leads to an ongoing debate about whether exchange controls are effective or not.

Advantages & Disadvantages :

Control measures prevent volatile foreign exchange markets and sudden rate swings. They prevent capital outflows. Exchange control is used to allocate available foreign currency to suit the country's interests and control local demand for foreign currency to safeguard the nation's foreign exchange reserves.

However, one major drawback of these restrictions is that they create black markets for foreign currencies. In addition, they can also hurt international trade in the long term, negatively impacting investments.

Types of Foreign Exchange Control :

There may be five types of Exchange Control :

1. **Mild System of Exchange Control :**

   Under mild system of exchange control, also known as exchange pegging, the Government intervenes in maintaining the rate of exchange at a particular level. Under this system, the Government maintains on 'Exchange Equalization Fund' in foreign currencies.

   The British Exchange Equalization Account and U.S. Exchange Stabilisation Fund were two examples of mild control. In case the demand for dollar goes up and as a result the value of pound falls, the U.K. Government would sell dollars for pounds and thus restrict the fall in the value of pound by increasing the supply of dollars.

2. **Full Fledged System of Exchange Control :**

   Under this system, the Government does not only Peg the Rate of Exchange but have complete control over the entire foreign exchange transactions. All receipts from exports and other transactions are surrendered to the control authority i.e., Reserve Bank of India. The available supply of foreign exchange is then allocated to different buyers of foreign exchanges on the basis of certain pre-determined criteria. In this way the Government is the sole dealer in foreign exchange.

3. **Compensating Arrangement :**

   Compensating arrangement per-takes of the character of the old-fashioned barter deal. An example would be the sale by India of cotton goods of a particular value to Pakistan, the latter agreeing to supply raw cotton of the same value to India at

a mutually agreed exchange rate. Imports thus compensate for exports, leaving no balance requiring settlement in foreign exchange.

4. **Clearing Agreement :**

   A clearing agreement consists of an understanding by two or more countries to buy and sell goods and services to each other, at mutually agreed exchange rates against payments made by buyers entirely in their own currency.

   The balance of outstanding claims are settled as between the central banks at the end of stipulated periods either by transfers of gold or of an acceptable third currency, or the balance might be allowed to accumulate for another period, pending an arrangement whereby the creditor country works of the balance by extra purchases from the other country.

5. **Payments Arrangements :**

   In a payments arrangement the usual procedure of making foreign payments through the exchange market is left intact. But each country agrees to establish a method of control whereby its citizens are forced to purchase goods and services from the other country in amounts equal to the latter's purchase from the first country. Another type of payments agreement is one designed to collect past debts.

3.23 CONCLUSION :

The balance of payment (BOP) is a statement that documents all transactions from one nation to another between entities, government agencies, and people during a specific time period. The statement includes all transaction information, giving the authorities a clear picture of the money movement. After all, the fund's intake and outflow should be equal if the items are listed on the statement. The balance of payment for a country reveals whether it has a financial surplus or deficit. It indicates if a country's exports exceed its imports or vice versa.

Exchange controls can be enforced in a few common ways. A government may ban the use of a particular foreign currency and prohibit locals from possessing it. Alternatively, they can impose fixed exchange rates to discourage speculation, restrict any or all foreign exchange to a government-approved exchanger, or limit the amount of currency that can be imported to or exported from the country.

3.24 KEYWORDS :

Foreign exchange :

Foreign exchange, or forex, is the conversion of one country's currency into another. In a free economy, a country's currency is valued according to the laws of supply and demand.

Balance of Payments :

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions in a specific period. The BOP is usually calculated every quarter and every calendar year.

Current Account :

The current account balance of payments is a record of a country's international transactions with the rest of the world. The current account includes all the transactions (other than those in financial items) that involve economic values and occur between resident and non-resident entities.

Capital account :

The capital account, on a national level, represents the balance of payments for a country. The capital account keeps track of the net change in a nation's assets and liabilities during a year. The capital account's balance will inform economists whether the country is a net importer or net exporter of capital.

Trade deficit and Surplus :

A country that imports more goods and services than it exports in terms of value has a trade deficit or a negative trade balance. Conversely, a country that exports more goods and services than it imports has a trade surplus or a positive trade balance.

Disequilibrium of BoP :

Disequilibrium in the balance of payment means its condition of Surplus or deficit. A Surplus in the BOP occurs when Total Receipts exceeds Total Payments.

Exchange control :

Exchange controls are government-imposed limitations on the purchase and/or sale of currencies. These controls allow countries to better stabilize their economies by limiting in-flows and out-flows of currency, which can create exchange rate volatility.

3.25 SELF ASSESSMENT QUESTIONS :

1. What are the major foreign exchange markets in the world? What are the most common types of foreign exchange transactions?
2. What are foreign exchange risks and how can they be avoided? What is speculation? Discuss its role.
3. What are the main types of foreign exchange regimes?
4. What is Balance of payments? How to calculate BoP?
5. What is disequilibrium in BoP? Explain the Causes of BoP Disequilibrium
6. Explain the objectives and methods of Foreign Exchange Control
7. What is Current Account Convertibility? Explain Its Pros and corns?
8. What is capital Account Convertibility? Explain Its Pros and corns?

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Lesson – 4

WORLD TRADE ORGANISATION (WTO)

Objectives :

After reading this lesson, student will be able to :

- understand the role of International organisations in International Business
- study the Objectives and features of World Trade organisation
- understand the principles and agreements of World Trade organisation
- study the key functions and organisational structure of World Trade organisation
- understand the role of World Trade organisation in International trade
- enumerate the World Trade organisation in global economic development
- study the WTO and Sustainable Development goals

Structure of the Lesson :

4.1 Introduction

4.2 Role of international organisations in regulating trade between countries

4.3 Role of WTO in International Business

4.4 Key Objectives of WTO

4.5 Features of WTO

4.6 Organisational structure of WTO

4.7 WTO Agreements

4.8 Key Functions of WTO

4.9 Principles of WTO

4.10 WTO and Sustainable Development goals

4.11 Conclusion

4.12 Key Words

4.13 Self Assessment Questions

4.14 Suggested Readings

4.1 INTRODUCTION :

In an increasingly interconnected and interdependent world, some issues are too big for countries to handle on their own. Countries need to work together, and they do so in part through international organizations that facilitate cooperation and encourage diplomatic solutions to global trade.

In an increasingly globalized world, international organizations play an important role in importing and exporting. Their functions include maintaining standards to ensure safety, helping developing countries achieve economic security and establishing norms regarding how countries make trade agreements and resolve conflicts.

4.2 ROLE OF INTERNATIONAL ORGANISATIONS IN REGULATING TRADE BETWEEN COUNTRIES :

With the increasing forces of globalisation the need for trade regulation in an unbiased and objective manner increases. This role has been assumed by World Trade Organisation (WTO) and its functions include administration of trade agreements, serving as a forum for trade negotiations, dealing with trade disputes between its members, and monitoring policies of its members related to trade.

Established in January 1, 1995, WTO comprises 159 members and it is based in Geneva, Switzerland (Annual Report, 2013). There are contradicting assessments of WTO performance in terms of regulating trade between counties in an effective manner. You can read more scope, contribution and criticism related to WTO here.

On one hand, WTO has been praised for such positive impacts as stimulating economic growth and increasing the level of employment, encouraging good governance practices, contributing to peace and stability and settling trade disputes amongst its members (Ahern and Fergusson, 2010).

On the other hand, WTO critics argue that the organisation has made a counter-productive impact on development of a range of its members, and it also has been blamed for neglecting environmental issues. Moreover, WTO has been criticised on the grounds of political bias for serving as an instrument at the hands of its few hegemonic members.

Moreover, there are other international organisations which are parts of United Nations Organisations (UN) such as World Bank, and International Monetary Fund (IMF), that have certain impacts in international trade practices.

UN in general, and its Economic and Social Council in particular can be specified as another international organisation that does have impact on trade regulation between countries. Comprising 54 members for three-year terms, the Economic and Social Council aims to promote international cooperation in order to achieve economic and social development.

Millennium Development Goals is one of the most noteworthy economic initiatives proposed by the UN Economic and Social Council. The initiative involves decreasing the numbers of people that have income of less than USD 1 per day by 50 percent, assisting in provision of primary education for all children around the globe, and decreasing the number of people with no access to sanitation and drinking water by twice by the year of 2015 (Lei singer et al., 2010).

However, the extent of effective achievement of this aim is impacted by a set of factors that include lack of capacity, influence of politics, disagreement amongst members in terms of the choice of tools to deal with economic issues and others.

IMF belongs to UN system and it aims to achieve effective monetary cooperation in international level and reduce global poverty through its programs and initiatives. IMF has certain impact in trade between countries, although this impact is indirect and insubstantial. Specifically, reduction on the level of global poverty according to IMF aims and objectives can facilitate opening of new segments in the global marketplace and can cause new businesses to join the global marketplace.

4.3 ROLE OF (WORLD TRADE ORGANISATION) WTO IN INTERNATIONAL BUSINESS :

International trade refers to the sale and purchase of goods and services across international borders. This trade is carried out through a contract between two or more parties, which is regulated by the World Trade Organisation (WTO). The WTO is the only international organisation that regulates rules and regulations for trade carried out by different nations. The main purpose of the WTO is to ‘open trade for all’ so that every nation can benefit from it.

Various nations exercise their supreme economic sovereignty while regulating the import and export of goods and services in and out of their territory. Some of them believe the use of foreign goods in their territory is an infringement of their territorial integrity or an incursion of their uniqueness. This results in various kinds of “trade barriers” between the countries, which consequently leads to difficulties in international trade. Moreover, it led to the unavailability and scarcity of certain commodities in the state markets. This necessitated the formation of international organisations in order to remove trade barriers and ease international trade. As a result, firstly, in 1947, the General Agreement on Trade and Tariffs (GATT) came into existence, and later it was replaced with the World Trade Organisation (WTO), which is playing a significant role in promoting international trade at present.

WTO plays a very indispensable role in promoting, regulating or supervising international trade. Its very purpose, since its inception, has been to encourage progressive liberalisation in trade by removing different kinds of trade barriers and opening up the markets, which is crucial for overall economic development and well-being. Its main function is the negotiation of trade rules or agreements, which provides the countries with an opportunity to show their commitment to liberalising international trade. WTO’s trading principles, like transparency in trade rules, non-discrimination, etc., further provide it with a robust structure to fulfil its commitments to promoting international trade. It created an

opportunity for even developing countries to make their markets accessible to other countries and achieve economic growth and development. The WTO has been successful in establishing many trade agreements that liberalise trade between countries. Moreover, its Dispute Settlement Body has proven effective in many trade-related disputes.

4.4 KEY OBJECTIVES OF WTO :

The welfare of the people :

The main objective of the WTO is to improve the lives of people by raising their living standards, creating jobs, raising their incomes, or expanding the trade of goods and services globally. It helps developing or under-developed countries enhance their trade capacity so that they can achieve economic growth and stability.

Negotiating trade rules :

WTO strives to remove trade barriers or any other obstacles from the way of the progressive international trading system. These negotiations help the countries open their markets for trade. But at the same time, some trade barriers were maintained in order to protect the interests of consumers or the environment, etc.

Supervising WTO agreements :

WTO agreements provide the rules for conducting international trade and commerce. It binds the signatory countries to limit their trade policies in accordance with these agreement provisions. These agreements strive to protect and help producers of goods and services, importers or exporters in conducting their businesses, and others involved in these trading activities.

Ensuring open trade :

The main objective behind the emergence of the WTO is to maintain the free flow of trade as much as possible without any undesirable consequences like unfair competition, hegemony in a certain variety of goods or services, biassed trade policies, etc. WTO helps the inclusion of developing countries in the international trading system and helps them to achieve economic growth and ensure full employment. It oversees the trade rules and policies governing international trade and ensures that they are transparent and easily predictable.

Dispute settlement :

In conducting international trade, several trade disputes also arise due to the conflicting interests of one nation and those of another nation. These disputes have been settled or negotiated by the WTO, which also involves the interpretation of WTO agreements. The WTO, as a neutral body, settles these disputes in accordance with the Dispute Settlement process provided in WTO agreements.

4.5 FEATURES OF WTO :

The major features of the World Trade Organization are

The scope of WTO is far more expensive than the erstwhile General Agreement on Trade and Tariff. For instance, GATT solely focused on goods while excluding textiles and agriculture. On the other hand, WTO covers all goods, services, and investment policies along with intellectual property.

WTO Secretariat has formalized and bolstered the mechanisms for the review of policies as well as the settlement of disputes. This aspect has become crucial due to the proliferation of member countries and more goods and services being covered by the WTO.Another important consideration in this regard is the substantial increase in open access to different international markets.

There are rules implemented for the protection of small and weak countries against the discriminatory trade practices of developed countries.

National Treatment articles and Most Favored Nation (MFN) clause permits equal access to markets for just treatment of both domestic and foreign suppliers.

Each member country of the WTO carries a single voting right and all members enjoy privilege on the global scale.

The WTO agreements encompass all the member states and act as a common forum of deliberation for the members.

4.6 ORGANISATIONAL STRUCTURE OF WTO :

The World Trade Organization (WTO) is an international organization that deals with the global rules of trade between nations. It provides a framework for negotiating and formalizing trade agreements and a dispute resolution process. The structure of the WTO consists of several key components :

- Ministerial Conference: The highest decision-making body of the WTO is the Ministerial Conference, which consists of trade ministers from all WTO member countries. It meets approximately every two years to make decisions on various trade-related issues, including the negotiation of new trade agreements.
- General Council: The General Council is responsible for overseeing the day-to-day operations of the WTO. It meets regularly and carries out functions such as monitoring trade policies, handling trade disputes, and coordinating negotiations.
- Councils and Committees: The WTO has numerous specialized councils and committees that focus on specific trade areas, such as goods, services, intellectual property, and trade and development. These bodies facilitate negotiations, monitor the implementation of trade agreements, and address trade issues within their respective domains.
- Secretariat: The WTO Secretariat, based in Geneva, Switzerland, serves as the administrative arm of the organization. It provides support for negotiations, helps member countries with dispute settlement procedures, and conducts research and analysis on trade-related matters.

- Dispute Settlement Body (DSB): The Dispute Settlement Body is responsible for resolving trade disputes between member countries. It includes panels and an Appellate Body that reviews panel reports. The DSB ensures that trade disputes are settled according to WTO rules.
- Trade Policy Review Body: The Trade Policy Review Body conducts periodic reviews of the trade policies and practices of member countries. These reviews aim to increase transparency and encourage members to adhere to their trade commitments.
- Trade Facilitation Agreement (TFA) Committee: The TFA Committee oversees the implementation of the Trade Facilitation Agreement, which aims to simplify and streamline customs procedures to facilitate trade.
- Subsidiary Bodies: There are various subsidiary bodies and working groups that focus on specific issues, such as agriculture, technical barriers to trade, sanitary and phytosanitary measures, and trade-related aspects of intellectual property rights (TRIPS).
- Specialized Agreements: The WTO administers several specialized agreements that cover trade in goods, services, and intellectual property. Notable agreements include the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- Trade Negotiations: The WTO conducts negotiations on various trade issues, including the Doha Development Agenda (DDA), which addresses trade-related development concerns. Negotiations involve member countries and are aimed at liberalizing trade and updating trade rules.
- Working Parties for Accession: Countries seeking to join the WTO go through a process of negotiation and accession. Working parties are established to facilitate the accession process by addressing trade-related issues and commitments.

The WTO operates on principles of non-discrimination, transparency, and rules-based trade. Its structure and functions are designed to promote global trade, resolve trade disputes, and provide a forum for member countries to negotiate and manage their trade relations. The organization plays a significant role in shaping international trade policies and practices.

The WTO has nearly 153 members accounting for over 97% of world trade. Around 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus.

A majority vote is also possible but it has never been used in the WTO and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments.

The WTO's top level decision-making body is the Ministerial Conferences which meets at least once in every two years. Below this is the General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members'

capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPs) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements.

4.6.1 Secretariat :

The WTO secretariat, based in Geneva, has around 600 staff and is headed by a Director-General. Its annual budget is roughly 160 million Swiss Francs. It does not have branch offices outside Geneva. Since decisions are taken by the members themselves, the secretariat does not have the decision making the role that other international bureaucracies are given.

The secretariat s main duties to supply technical support for the various councils and committees and the ministerial conferences, to provide technical assistance for developing countries, to analyze world trade and to explain WTO affairs to the public and media. The secretariat also provides some forms of legal assistance in the dispute settlement process and advises governments wishing to become members of the WTO.

4.7 WTO AGREEMENTS :

The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATI).

GATT is now the WTO's principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement and trade policy reviews.

The complete set runs to some 30,000 pages consisting of about 30 agreements and separate commitments (called schedules) made by individual members in specific areas such as, lower customs duty rates and services market-opening.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each country promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

4.7. (a) Goods :

It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important, rules, particularly non-discriminations since 1995, the updated GATT has become the WTO s umbrella agreement for trade in goods.

It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping.

4.7. (b) Services :

Banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.

These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

4.7. (c) Intellectual Property :

The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information such as trade secrets "intellectual property" should be protected when trade is involved.

4.7. (d) Dispute Settlement :

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore, for ensuring that trade flows smoothly.

Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgments by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

The system encourages countries to settle their differences through consultation. Failing that, they can follow a carefully mapped out, stage-by-stage procedure that includes the possibility of the ruling by a panel of experts and the chance to appeal the ruling on legal grounds.

Confidence in the system is bourne out by the number of cases brought to the WTO, around 300 cases in eight years compared to the 300 disputes dealt with during the entire life of GATT (1947-94).

4.7. (e) Policy Review :

The Trade Policy Review Mechanism's purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting and to assess their impact. Many members also see the reviews as constructive feedback on their policies.

All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

4.8 KEY FUNCTIONS OF THE WTO :

Implementation of the WTO agreements :

WTO ensures that governments of every member country make their trade policies in accordance with the WTO agreements. WTO councils and committees ensure that WTO agreements are properly implemented and all other requirements have been satisfied. To monitor the status of such implementation, all members have to undergo a periodic review of their trade policies.

Trade negotiations :

This is one of the most important functions of the WTO. WTO agreements include goods, services, and intellectual property. These agreements are not fixed, they may be negotiated according to the situation of one or more countries and their commitments to open trade markets. The WTO provides exceptions to various principles of trade enshrined in WTO agreements. New rules or agreements are also added from time to time.

Settling of disputes :

Settling disputes arising between countries or with respect to trade is essential for the system of international trade to run smoothly. The process for settling such disputes is provided in WTO agreements. So, if any country thinks that its rights under any agreement have been infringed, it can bring such disputes to the WTO. The WTO appoints independent experts to resolve its disputes based on the interpretation of provisions of the WTO agreements and other relevant factors.

Help countries build trade capacity :

The WTO empowers developing countries to boost their trading capacity and help them develop the skills and infrastructure required to expand their trade. It conducts various missions or courses, especially focused on developing countries. Even in WTO agreements, special provisions were provided for developing countries.

Enhancing cooperation between states and non – state factors :

WTO remains in constant touch with various non-governmental organisations (NGOs), media, parliamentary members, other international organisations, and the general public in order to get their opinions on various aspects of WTO and ongoing negotiations and maintain their cooperation in the international trading system.

Conducting economic research :

The WTO conducts research in the field of trade and other economic activities and also collects and disseminates various data and information in support of its activities.

4.9 PRINCIPLES OF WTO WITH RESPECT TO THE TRADING SYSTEM :

No discrimination in trade :

According to the WTO agreements, countries cannot discriminate between two countries as trading partners. They cannot grant some countries special favours in trade by lowering rates of customs duty or taxes, etc. Every WTO member should be treated likewise. This principle is known as Most-Favoured Nation (MFN) treatment. It means that if one nation lowers its trade barriers or opens its market, it has to do the same for all other countries, which are its trading partners. However, there are some exceptions to this general principle that are allowed. For example, a government can set up a free trade agreement for certain goods to be traded with certain countries.

Free trade :

The WTO conducts its activities on the principle of "free trade" or "progressive liberalisation". It encourages nations to open their markets, lower their trade barriers, or restrict customs duties, import bans, or quotas. Since its inception, it has continuously worked on this principle through various rounds of negotiations and agreements, persuading countries by highlighting the benefits of opening markets for international trade.

Transparency in the trading system :

It is the duty of the WTO to ensure that the trade policies and rules of each member country are transparent and easily predictable. These policies should not be subject to too many recurring changes, they should be stable enough to avoid any inconsistencies in their understanding by other countries. By discouraging quotas or import limits, which can lead to red-tapism or unfair play, one can maintain stability or predictability.

Fair competition :

The WTO is dedicated to establishing open and fair competition in the international trading system. As it is based on the principle of non-discrimination in trade, it is successfully establishing secure conditions for fair and undistorted competition.

Economic development and reform :

WTO helps in the development of nations. It has provided special provisions for developing nations, allowing them certain trade concessions. Certain agreements by the WTO provide developing countries with a 'period of transition' so that they may easily adjust to new situations.

Building trade capacity of developing countries by the WTO :

The WTO plays an important role in uplifting developing countries, which make up three-fourths of its total membership. Through various assistance programmes or partnerships, the WTO tries to increase the capability of developing nations to carry out trade and business so that they can present themselves in the global market. Various training courses and programmes were conducted jointly with other international organisations, in

order to build their trade capacities. This guidance is provided on any subject, whether related to participation in the WTO, help in negotiations, implementation of its commitments, etc. The least developed countries among them were getting special attention and help with trade/ tariff data related to their export interests and participation in the WTO.

Committee on Trade and Development (CTD) :

It is the main body in the WTO responsible for the coordination of work on development. It works on a variety of issues related to trade in developing countries, like the implementation of WTO agreements, technical assistance, and increased participation. It approves, monitors, and provides guidance for technical assistance programmes conducted by the WTO. The Doha Declaration mandates it to review all special and differential provisions for developing countries in order to strengthen them and make them more suitable and effective for them.

Aid for Trade initiative :

The Aid for Trade initiative was launched by the WTO in December 2005 at the Sixth WTO Ministerial Conference held in Hong Kong, China. It works on the basis of a biennial work programme. It was designed to help developing nations build trade capacity by opening opportunities for them to enhance their infrastructure and improve their ability to earn benefits. The theme for the 2020-2022 Aid for Trade Work Programme is “Empowering Connected, Sustainable Trade.” This work programme is dedicated to carrying out an analysis of the opportunities offered by digital connectivity and sustainability. More than 400 billion dollars has been disbursed until now for supporting the Aid for Trade projects.

Enhanced Integrated Framework (EIF) :

The Enhanced Integrated Framework is the main mechanism through which less developed economies can access Aid for Trade projects. It bridges the gap between demand and supply for the Aid for Trade programmes and mainstreams them into their national development plans. It provides a way for the least developed countries (LDCs) to set their priorities regarding trade-related assistance and capacity building and to channel their demands through the Aid for Trade process through the EIF process for accessing resources. The EIF Trust Fund provides funding to LDCs and enables them to take advantage of the benefits of Aid for Trade.

Standards and Trade Development Facility (STDF) :

The Standards and Trade Development Facility (STDF) is the joint brainchild of the heads of FAO, OIE, WHO, the World Bank, and the WTO and was launched at the Doha Ministerial Conference in November 2001. It plays a key role in helping developing economies meet international standards for food security, animal and plant health, and other trade requirements on the way to accessing global markets. It complements the Aid for Trade initiative through other projects and monitoring of aid flows. The STDF Trust Fund, supervised by the STDF Secretariat and totaling over 50 million dollars, has been supporting many projects in Africa, Asia-Pacific, Latin America, etc.

Assistance and training :

The WTO ensures that each country is able to take full advantage of the multilateral trading system and, therefore, organises many technical assistance programmes throughout the year. Under the WTO Secretariat, these assistance programmes are coordinated by the Institute for Training and Technical Cooperation (ITTC) on the basis of training and assistance plans. The Committee on Trade and Development supervises all these activities. These training and technical assistance courses were made in accordance with each country's specific needs and requirements.

WTO's dispute settlement mechanism :

The dispute settlement mechanism provided by the WTO is very essential for the smooth functioning of the multilateral trading system and the effectiveness of its rules and agreements. It contributes to maintaining stability in the global economy.
Any dispute brought to the WTO has to go through various stages of dispute resolution. There are two ways of dispute resolution:

1. Mutual agreement,
2. Adjudication

4.10 WTO AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGS):

In addition to strengthening and liberalising international trade, the WTO also plays a significant role in the achievement of the UN's Agenda for Sustainable Development Goals (SDGs) by 2030 in the areas related to poverty alleviation, food security, health, education, the environment, etc. The SDGs recognise the contribution of trade and the WTO in achieving these goals, as the WTO, by implementing certain trade reforms and agreements, is helping the countries achieve economic growth and development, which are part of the SDGs. The WTO is monitored on an annual basis by the UN's High-Level Political Forum (HLPF) on its efforts to achieve SDGs related to trade.

No poverty :

Opening markets and trade can grow more opportunities for low-income countries and can uplift their living standards through increased competition, better prices of goods and services, and more choices for consumers.

Zero hunger :

The WTO also plays an important role in achieving food security through its reformed trade policies for agricultural goods. By eliminating subsidies on agricultural produce, fairer prices in competitive markets can be ensured.

Good health and well-being :

WTO also plays a significant role in ensuring affordable medicines to all countries, especially the least developed nations.

Decent work and economic growth :

By increasing trade capacities and creating various economic opportunities for the countries that were less developed, it ensures good economic growth and a decent work environment for them.

Reduced inequalities :

WTO seeks to bridge the gap between developing and developed nations through various initiatives based on the principle of "Special and Differential Treatment for Developing Countries," which especially focuses on developing nations taking into account their capacity constraints.

4.11 CONCLUSION :

The World Trade Organization (WTO) is an intergovernmental organization that regulates and facilitates international trade.[6] With effective cooperation in the United Nations System,[7] governments use the organization to establish, revise, and enforce the rules that govern international trade.[6] It officially commenced operations on 1 January 1995, pursuant to the 1994 Marrakesh Agreement, thus replacing the General Agreement on Tariffs and Trade (GATT) that had been established in 1948. The WTO is the world's largest international economic organization, with 164 member states representing over 98% of global trade and global GDP.

4.12 KEY WORDS :

World Trade organisation :

The World Trade Organization (WTO) is an intergovernmental organization that regulates and facilitates international trade. With effective cooperation in the United Nations System,[7] governments use the organization to establish, revise, and enforce the rules that govern international trade.

Trade Agreements :

Trade agreement any contractual arrangement between states concerning their trade relationships. Trade agreements may be bilateral or multilateral—that is, between two states or more than two states.

Trade Disputes :

A disagreement between countries about the products they trade with each other, for example, about import taxes or limits on the number of goods that can be imported: a trade dispute with sb All trade disputes with Japan had been settled.

Imports and exports :

Exporting refers to the selling of goods and services from the home country to a foreign nation. Whereas, importing refers to the purchase of foreign products and bringing them into one's home country. Further, it is divided in two ways, which are, Direct.

International trade :

International trade is an exchange involving a good or service conducted between at least two different countries. The exchanges can be imports or exports. An import refers to a good or service brought into the domestic country.

Borrowings :

Borrowing is a temporary possession of money with the intent to repay the amount borrowed. In a financial sense, if you borrow money, you assume a debt to the lender, this debt contains the principal amount plus interest.

Trade restrictions :

A trade restriction is an artificial restriction on the trade of goods and/or services between two countries. It is the by product of protectionism.

4.13 SELF ASSESSMENT QUESTIONS :

1. Briefly explain the role of International Organisations in International Business
2. Explain the Functions and principle of world Trade Organisation.
3. Explain the role of World Trade Organisation in international Business
4. Explain Objectives and Function of World Trade Organisation in International Trade.
5. Discuss the WTO and the Sustainable Development Goals (SDGs).

4.14 SUGGESTED READINGS :

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Lesson – 5
TRADE BLOCKS

Objectives :

After reading this lesson, student will be able to :

- Understand the importance of Regional Trade Grouping in International Business
- know the various stages of Regional Trade Grouping and cooperation
- know the advantages and disadvantages of Regional Trade Grouping
- study the various important regional trade groups in international business
- understand the functions and importance of various Regional Trade Grouping in International Business.

Structure of the Lesson :

5.1 Introduction to Regional Trade grouping and cooperation
5.2 Types or stages of Regional Trade Blocks
5.3 Advantages of Regional Trade Blocks
5.4 Disadvantages of Regional Trade Blocks
5.5 Major Regional Trade Blocks
5.6 Conclusion
5.7 Key Words
5.8 Self Assessment Questions
5.9 Suggested Readings

5.1 INTRODUCTION :

Regional trade blocs/ groupings are groups of countries that have formed a regional economic alliance in order to promote trade and economic cooperation within the region. Regional trade blocs are often formed as a way to reduce barriers to trade and to promote economic integration among member countries. A regional trading bloc (RTB) is a co-operative union or group of countries within a specific geographical boundary. RTB protects its member nations within that region from imports from the non-members. Trading blocs are a special type of economic integration.

There are many different types of regional trade blocs, and they vary in terms of the level of economic integration and cooperation that they promote. Some regional trade blocs are relatively loose arrangements that focus on reducing tariffs and other trade barriers, while

others are more comprehensive and involve the creation of a single market or customs union among member countries.

Regional trade blocs can have a significant impact on international trade and economic relations, as they can create large markets and can shape the rules and standards that govern trade within the region. Regional trade blocs can also have implications for the global trading system, as they may create trade blocs that are larger than individual countries and that may have more bargaining power in negotiations with other countries or trade blocs.Examples of regional trade blocs include the European Union, the North American Free Trade Agreement (NAFTA), and the Association of Southeast Asian Nations (ASEAN).

5.2 TYPES / STAGES OF REGIONAL TRADE GROUPS :

Trade blocs can be stand-alone agreements between several states (such as the North American Free Trade Agreement (NAFTA) or part of a regional organization (such as the European Union). Depending on the level of economic integration, the trade blocs can fall into the 6 different categories, such as preferential trading areas, the free trade areas, the customs unions, the common markets, the economic union & the monetary unions, & the political union.

Preferential Trade Area :

Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.

Free trade area :

Free Trade Areas (FTAs) are created when 2 or more countries in a region agree to reduce or eliminate barriers to trade on all the goods coming from other members. This is the most basic form of economic cooperation. Member countries remove all barriers to trade among themselves but are free to independently determine trade policies with non member nations. An example is the North American Free Trade Agreement (NAFTA).

Customs union :

This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with non-member countries in a similar manner. The customs union involves the removal of the tariff barriers among the members, as well as the acceptance of the common (unified) external tariff in contradiction to the non-members. This means that the members may negotiate as a single bloc with third parties, such as with other trading blocs, or with the WTO. The Gulf Cooperation Council (GCC) Cooperation Council for the Arab States of the Gulf is an example.

Common market :

A ‘common market’ is the first significant step towards full economic integration, & occurs when member countries trade freely in all economic resources – not just tangible

goods. This means that all barriers to trade in goods, services, capital, & labor are removed. In addition, as well as removing tariffs, non-tariff barriers are also reduced & eliminated. For a common market to be successful there must also be a significant level of harmonization of macroeconomic policies, & common rules regarding monopoly power & other anti-competitive practices. There may also be common policies affecting key industries, such as the Common Agricultural Policy (CAP) & Common Fisheries Policy (CFP) of the European Single Market (ESM). This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor & capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations. The primary advantage to the workers is that they no longer need the visa or work permit to work in another member country of the common market. An example is the Common Market for Eastern & Southern Africa (COMESA).

Economic & monetary union :

This type is created when countries enter into an economic agreement to remove barriers to trade & adopt common economic policies. An example is the European Union (EU). Monetary union is a type of trade bloc which is composed of an economic union (common market & customs union) with a monetary union. Monetary union is established through a currency-related trade pact. An intermediate step between pure monetary union & a complete economic integration is the fiscal union. Economic & Monetary Union of the European Union with the Euro for the Euro-zone members is the example of monetary union.

Political union :

In order to be successful the more advanced integration steps are typically accompanied by the unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of the supranational bodies, & gradual moves towards the final stage, a "political union". Political union is a final stage in the economic integration with more formal political links among the countries. A limited form of the political union may exist when two or more countries share common decision-making bodies & have common policies. It is the unification of previously separate nations. The unification of West & East Germany in 1990 is **an example** of the total political union.

5.3 ADVANTAGES OF REGIONAL TRADE GROUPS :

Free trade within the bloc: Knowing that they have free access to each other's markets, members are encouraged to specialize. This means that, at a regional level, there is the wider application of the principle of the comparative advantage.

Market access & trade creation :

Easier access to each other's markets means that trade between members is likely to increase. Trade creation exists when free trade enables high-cost domestic producers to be replaced by lower-cost & more efficient imports. Because low-cost imports lead to lower-priced imports, there is a 'consumption effect', with increased demand resulting from lower prices. These agreements create more opportunities for countries to trade with one another by

removing the barriers to trade & **investment.** Due to a reduction or removal of tariffs, cooperation results in cheaper prices for consumers in the bloc countries.

Economies of scale :

Producers can benefit from the application of scale economies, which will lead to lower costs & lower prices for consumers.

Jobs :

Jobs may be created as the consequence of increased trade among the member economies. By removing the restrictions on the labor movement, economic integration can help expand job opportunities.

Protection :

Firms inside the bloc are protected from cheaper imports from outside, such as the protection of the EU shoe industry from cheap imports from China & Vietnam.

Consensus & cooperation :

Member nations may find it easier to agree with smaller numbers of countries. Regional understanding & similarities may also facilitate closer political cooperation.

5.4 DISADVANTAGES OF REGIONAL TRADE BLOCS / GROUPS :

Loss of benefits :

The benefits of free trade among the countries in different blocs is lost.

Distortion of trade :

Trading blocs are likely to distort world trade, & reduce the beneficial effects of specialization & the exploitation of comparative advantage.

Inefficiencies & trade diversion :

Inefficient producers within the bloc can be protected from more efficient ones outside the bloc.

For example, inefficient European farmers could be protected from low-cost imports from developing countries.

Trade diversion arises when the trade is diverted away from efficient producers who are based outside the trading area. The flip side to trade creation is trade diversion. The member countries may trade more with each other than with non member nations. This might mean increased trade with less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the bloc agreement acting as a trade barrier. In essence, the regional agreements have formed new trade barriers with countries outside of the trading block.

Retaliation :

The development of 1 regional trading bloc is likely to stimulate the development of others. This can lead to the trade disputes, such as those between the EU & NAFTA, including the recent Boeing (US)/ Airbus (EU) dispute. The EU & US have a long history of the trade disputes, together with the dispute over US steel tariffs, which were declared illegal by the WTO in 2005.

Employment shifts & reductions :

Countries may move production to cheaper labor markets in member countries. Similarly, workers may move to gain access to better jobs & wages. Sudden shifts in employment can tax the resources of the member countries.

5.5 MAJOR REGIONAL TRADING GROUPS IN THE WORLD :

Trade blocks are the groups of countries which are establishing the preferential trade arrangements among member countries. It is a group of countries within a specific geographical boundary. There are four types of trading bloc such as preferential trade area, free trade area, customs union and common market. Here is the list of 10 major regional trade blocs across the world.

- ASEAN
- APEC
- BRICS
- EU
- NAFTA
- CIS
- COMESA
- SAARC
- MERCOSUR
- IOR-ARC
- SAFTA

The main advantages of trade blocks results from an increase in FDI (Foreign Direct Investment) and tariffs are removed. Trade blocs are special type of economic cooperation and also protects its member countries within that region to imports from non-member countries. Let's take a look at the trade analysis of major regional trade blocks.

5.5.1 ASEAN – Association of South East Asian Nations :

ASEAN was established on 8th August 1967 in Bangkok, Thailand. There are 10 member countries of ASEAN including Brunei, Malaysia, Singapore, Vietnam, Indonesia, Laos, Cambodia, Thailand, Philippines and Myanmar. The main goals of ASEAN are to

increase economic growth, social progress and promote regional space and stability. It aims to transform ASEAN into a single entity. Singapore is the biggest trading market of ASEAN countries. As per the trade map, ASEAN exports of goods to the global market worth USD 890 billion and imports worth USD 846 billion in the year 2017. However, the exports were USD 1183 billion and imports were USD 1105 billion during 2016.

The major goal of ASEAN was to hasten economic growth and, as a result, social and cultural progress. A secondary goal was to foster regional peace and stability based on the rule of law and the UN charter's principles.

Objectives of ASEAN :

- Increase economic growth and through that 'social progress and cultural development'
- Enhance regional peace and stability built on the rule of law and the principles of the United Nations Charter

India and ASEAN :

- The relationship between India and the Association of Southeast Asian Nations (ASEAN), which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, has progressed at a rapid rate since its inception nearly a decade ago
- In 1992, India was invited to join ASEAN's sectoral conversation
- During the fifth ASEAN Summit in Bangkok in 1995, ASEAN invited India to join the organisation as a full dialogue partner
- In 1996, India also joined the ASEAN Regional Forum. Since 2002, India and ASEAN have held annual summits
- India and the ASEAN nations signed a Free Trade Agreement (FTA) in Thailand in August 2009. According to a press statement from the Ministry of Commerce and In industry, between 2013 and 2016, ASEAN member countries and India will lower import duties on more than 80% of traded products under the ASEAN-India FTA
- The FTA on products was accepted by Singapore, Malaysia, and Thailand in January 2010
- The FTA is planned to be operationalized by the remaining seven ASEAN countries byAugust 2010
- India and ASEAN are now in the process of drafting agreements on services trade and investment
- The services talks are conducted on a request-offer basis, in which both parties submit requests for the opportunities they seek, and the receiving country responds with offers based on the requests

5.5.2 APEC – Asia Pacific Economic Cooperation :

APEC also referred to member economies and accounting approximately 60% of the world's GDP. It is responsible for facilitating economic growth, cooperation, trade and investment in this region. APEC consists of 21 member countries including Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taipei, Thailand, United States and Vietnam. APEC exports of goods stood at USD 8021 billion and imports stood at USD 7997 billion during the year 2016. China and United States are the biggest trading countries.

Objectives of APEC :

- To Sustain the growth and development of the region for the common good its peoples and, in this way, to contribute to the growth and development of the world economy.
- To enhance the positive gains, both for the region and the world economy,resulting from increasing economic interdependence,including by encouraging the flow of goods, services, capital and technology.
- To develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies.
- To reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.

5.5.3 BRICS :

BRICS is an association of five national economies such as Brazil, Russia, India, China and South Africa. However, South Africa has joined this group in the year 2010 and earlier it was known as BRIC. The total exports of BRICS amounted to USD 2902 billion and imports amounted to USD 2339 billion during 2017. China is the largest trading country in terms of both imports and exports among these countries and recorded 70% of BRICS exports and 65% of BRICS imports.

Objectives of BRICS :

BRICS aims to increase economic and political stability. It is believed that by the end of 2050, these countries will be the main places where products, services, and raw materials come from. The main objectives of BRICS can be summarised as under-

- The main goal is to increase, deepen, and broaden cooperation among its member countries in order to promote growth that is sustainable, fair, and good for everyone.
- All of the members' growth and progress are taken into account.
- To ensure that the economic strengths of each country are used to build relations and eliminate competition where possible.

- BRICS is becoming a new and promising diplomatic and political group with goals that go far beyond the original goal.
- Initially, it was only expected to solve global financial problems and change the way institutions worked.

5.5.4 EU – European Union :

European Union is the most integrated trade block in the world and formed in the year 1951. It has built a single Europe-wide market and also launched Euro as a single currency for regional trading. European Union goods exports to the global market worth USD 5887 billion and imports worth USD 5785 billion during the year 2017.

EU consists of 28 member countries which are Austria, Belgium, Bulgaria, Denmark, Finland, Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, United Kingdom, Cyprus, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. European Union comprises five EU institutions namely European Parliament, Council of the EU, European Commission, Court of Justice and Court of Auditors.

Objectives of European Union :

The European Union has grown from an economy-only organisation to one with a more holistic mission. Article 3 of the Lisbon Treaty fully encapsulates the organisation's goals.

- Promote peace and well-being among the citizens
- Offer freedom, security and justice without internal borders
- Work towards the sustainable development of Europe while promoting equality and social justice
- Establish an economic union with Euro as the currency
- Contribute to the sustainable development, peace, and security of the planet

The EU also aims to combat social exclusion and discrimination, respecting the rich cultural and linguistic diversity. Promoting scientific and technological progress in the organisation is also a priority, directly influencing the region's sustainable development.

For the years 2019-2024, the European Council has laid down a new strategic agenda, highlighting the following four priorities :

- Protecting citizens and freedoms
- Developing a strong and vibrant economic base
- Building a climate-neutral, green, fair and social Europe
- Promoting European interests and values on the global stage

5.5.5 NAFTA – North America Free Trade Agreement :

NAFTA was established on 1st January 1994 and comprises three giant member countries which are Canada, United States and Mexico. USA and Canada provide highly industrialized environment for manufacturing & services growth while Mexico provides cheaper resources. NAFTA is responsible to eliminate trade barriers among its member countries, promote a free trade environment and to increase investment opportunities. NAFTA goods exports stood at USD 2376 billion and imports stood at USD 3262 billion during the year 2017. United States is the largest trading country among NAFTA countries.

Functions of NAFTA :

The NAFTA agreement has six main functions to achieve along with other rights. According to Article 102, the following are the NAFTA objectives. Let us look at them:

- Eliminating trade barriers and enabling the cross-boundary transfer of products and services.
- Promoting fair competition within the area.
- Increasing investment opportunities across the country's borders.
- Providing enough protection and enforcement of intellectual property rights.
- Creating effective procedures for implementing the agreement and for trade disputes.
- Developing trilateral, multilateral, and regional relations to expand trade benefits

5.5.6 CIS – Commonwealth of Independent States :

The Commonwealth of Independent States [CIS] is an association that coordinates to facilitate the free movement of goods, services, labour force, and capital between its member states. It was established in 1991, and 12 countries are its member. It was formed post the dissolution of the Soviet Union. The Commonwealth of Independent States [CIS] functions based on the Charter that was adopted Council of Heads of State on the 22nd of January 1993. CIS group was founded in the year 1991 and it is a group of 12 member countries including Azerbaijan, Armenia, Russia, Ukraine, Kazakhstan, Belarus, Turkmenistan, Uzbekistan, Georgia, Moldova, Kyrgyzstan and Tajikistan. According to CIS countries trade data, the contribution of CIS nations in the world's exports was 2.6% in 2016, which declined from 2015's 3%. And in world's imports, countries of CIS region contributed 2% in both the years.

Commonwealth of Independent States [CIS] Objectives :

Commonwealth of Independent States [CIS] encourages economic, political, and military cooperation among the member states and is defined as the regional intergovernmental organization in Eastern Europe and Asia

1. Supporting economic and social developments in the member countries with a common economic space.

2. Ensure human rights and fundamental freedom as per the principles recognized universally.

3. Ensure international peace and security to facilitate cooperation between the member states.

4. And peacefully resolve disputes and conflicts between the member states.

5.5.7 COMESA – Common Market for Eastern and Southern Africa :

COMESA exists as an organization of independent sovereign states that have agreed to cooperate in developing the regional or global trade. It is an economic union of southern and eastern African countries. It consists of 19 member countries such as Burundi, Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. COMESA exports recorded USD 65.93 billion and imports recorded USD 142.29 billion during the year 2016. Egypt is the largest trader among COMESA countries.

Objectives of COMESA :

(a) The need to create and maintain: full free trade area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers;

(b) A customs union under which goods and services imported from non-COMESA countries will attract an agreed single tariff (Common External Tariff) in all COMESA Member States;

(c) Free movement of capital and investment supported by the adoption of a common investment area so as to create a more favourable investment climate for the COMESA region;

(d) Gradual establishment of a payment union based on the COMESA Clearing House and the eventual establishment of a common monetary union with a common currency; and (e) Gradual Relaxation and Eventual Elimination of Visa Requirements leading to the Free Movement of Persons, Labour, Service, Right of Establishment and Residence.

5.5.8 SAARC – South Asian Association for Regional Cooperation :

SAARC provides a platform for the people of South Asian countries to work together in a spirit of trust and understanding. It was founded on 8th December 1985 and its member states include Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka. SAARC exports of goods to the world worth USD 330 billion and imports worth USD 481 billion in the year 2016. India is the biggest trading country in both imports and exports among SAARC members. SAARC organize summits annually and the country hosting the summit holds the chair of the association. The SAARC's headquarters and secretariat are located in Kathmandu, Nepal.

SAARC Objectives :

- To advance the welfare of South Asians and to enhance their standard of living;

- To promote the region's economic growth, social advancement, and cultural development while giving everyone the chance to live in dignity and reach their full potential;
- To encourage and reinforce South Asian countries' collective self-reliance;
- To foster understanding, trust, and respect for one another's concerns;
- To encourage active cooperation and mutual aid in the realms of economics, society, culture, technology, and science;
- To improve collaboration with other emerging nations;
- To improve their mutual cooperation in international platforms on issues of common interest; and
- To collaborate with regional and global groups that share similar goals.

SAARC Functions :

- To raise the standard of living of South Asians in order to improve their well-being.
- Everybody is able to live their lives to the fullest extent of their potential and dignity, contributing to social, cultural, and economic progress.
- To advance and reinforce the idea of self-sufficiency among South Asian nations.
- To support the member nations in their efforts to coordinate and collaborate with other developing nations.

SAARC Principles :

- Adherence to the values of sovereign equality, territorial integrity, political independence, non-intervention in the internal affairs of other States, and mutual benefit.
- Bilateral and multilateral cooperation must still exist, but this new form of cooperation must enhance it.
- Such cooperation must not conflict with duties under bilateral and multilateral agreements.

5.5.9 MERCOSUR :

MERCOSUR stands for Mercado Comun del Cono Sur which means Southern Common Market and it was established on 26th March 1991. It is tariff union of South American countries covering the market of Brazil, Argentina, Venezuela, Paraguay and Uruguay. Its associate members include Bolivia, Chile, Colombia, Ecuador and Peru. Its main goals are to accelerate sustained economic development. MERCOSUR is one of the fastest growing trading blocks in the world. Spanish and Portuguese are the major languages spoken in this region. MERCOSUR global exports worth USD 292 billion and imports worth USD 237 billion during the year 2017.

Mercosur's main objective is to increase the efficiency and competitiveness of the all member economies by opening markets, promoting economic development in the framework of a globalized world, improving infrastructure and communications, making better use of available resources, preserving the environment, generating industrial complementation and coordinating macroeconomic polices. Achieving a common external tariff is one of the main goals of the block.

5.5.10 IOR-ARC – Indian Ocean Rim Association for Regional Cooperation :

IOR-ARC comprises 21 member countries such as Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Somalia, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, UAE and Yemen. Initially IOR ARC consisted of 7 countries only but it has expanded to include other countries as well. It aims to promote sustainable growth and development of its members. IOR-ARC exports worth USD 1875 billion and imports worth USD 1847 billion during 2016.

Objectives & Priority Areas of Cooperation :

The objectives of IORA are as follows:[6]

1. To promote sustainable growth and balanced development of the region and member states
2. To focus on those areas of economic cooperation which provide maximum opportunities for development, shared interest and mutual benefits
3. To promote liberalisation, remove impediments and lower barriers towards a freer and enhanced flow of goods, services, investment, and technology within the Indian Ocean rim.

Indian Ocean Rim Association (IORA) has identified six priority areas, namely :

1. maritime security,
2. trade and investment facilitation,
3. fisheries management,
4. disaster risk reduction,
5. academic and scientific cooperation and
6. Tourism promotion and cultural exchanges.

5.5.11 Latin American Free Trade Association (LAFTA) :

Latin American Free Trade Association (LAFTA), an organization comprised of eleven nations dedicated to furthering economic integration in Latin America. Established by a treaty signed in Montevideo, Uruguay, on February 18, 1960, the Latin American Free Trade Association (LAFTA) served as a forum for the creation of greater economic ties among Latin American nations. The Montevideo agreement was initially signed by representatives of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Uruguay. Bolivia, Paraguay, and Venezuela became members shortly thereafter.

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Headquarters are in Montevideo, Uruguay. ALADI replaced the Latin American Free Trade Association (LAFTA; Asociación Latinoamericana de Libre Comercio), which had been established in 1960 with the aim of developing a common market in Latin America. Although the initial membership consisted of the aforementioned countries and the initial goal was a free-trade area, the ultimate objective of LAFTA is to establish a common market embracing all countries of Latin America.

The treaty signed at Montevideo proposed the gradual easing of trade barriers between the member nations, culminating with completely free trade by 1973. A permanent body was created to facilitate periodic tariff reductions and regular negotiations between the members. LAFTA met with some early success, as these nations had traded very little in the years preceding the agreement. However, progress toward integration moved slowly throughout the 1960s as the disparities of the member nations became more apparent. The goal of the LAFTA is the creation of a free trade zone in Latin America. It should foster mutual regional trade among the member states, as well as with the U.S. and the European Union. To achieve these goals, several institutions are foreseen :

- the council of foreign ministers
- a conference of all participating countries
- a permanent council

The LAFTA agreement has important limitations: it only refers to goods, not to services, and it does not include a coordination of policies. Compared e.g. to the European Union the political and economic integration is very limited.

Frustrated by the slow process of integration, the LAFTA nations signed the Caracas Protocol in 1969, thereby extending the deadline for free trade to 1980. The divisiveness and imbalance that had threatened LAFTA throughout the 1960s only increased during the 1970s. Many members, whose level of industrialization at this time might be described as intermediate, felt ill-equipped to compete with the large industrialized nations—Argentina, Brazil, and Mexico. The perceived inequity inherent in LAFTA led to the 1969 ratification of the Andean Pact by Bolivia, Chile, Colombia, Ecuador, Peru, and, later, Venezuela, which pursued their own agendas for integration independent of LAFTA, an action which further inhibited LAFTA's original goal of free trade throughout the hemisphere. In 1980, the year in which free trade in Latin America was to have occurred, the members of LAFTA formed the Latin-American Integration Association (LAIA), initiating a renewed effort toward integration.

In the early 1990s, the United States began establishing free-trade agreements with individual countries. The most prominent among them was the North American Free Trade Agreement (NAFTA), which created a free-trade zone between Mexico, Canada, and

the United States. This new trade again sparked interest in a larger free-trade area of the Americas. Consequently, in 1993 the Organization of American States proposed the Free Trade Area of the Americas (FTAA) to be implemented in 2005. However, as of 2007, political opposition in the United States and Latin America has prevented its adoption. Nevertheless, more Latin American countries have established free-trade agreements with the United States, and in 2004 the United States and Central America signed a free-trade pact. In 2007 the United States was still in the process of negotiating economic agreements with Peru and Colombia.

5.5.12 Caribbean Community (CARICOM) :

Caribbean Community (CARICOM)**,** organization of Caribbean countries and dependencies originally established as the Caribbean Community and Commons Market in 1973 by the Treaty of Chaguaramas. It replaced the former Caribbean Free Trade Association (CARIFTA), which had become effective in 1968. The treaty spurred the development of associate institutions, including the Caribbean Development Bank and the Organization of East Caribbean States, both of which promote economic growthand cooperation.

Members include Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, and the Turks and Caicos Islands have associate member status, and Aruba, Colombia, the Dominican Republic, Mexico, Puerto Rico, and Venezuela maintain observer status. The permanent secretariat has its headquarters in Georgetown, Guyana.

The permanent secretariat has its headquarters in Georgetown, Guyana. CARICOM's main purposes are to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared, and to coordinate foreign policy.

The Caribbean Community has three areas of activity: economic integration (that is, the Caribbean Common Market which replaces CARIFTA); cooperation in non-economic areas and the operation of certain common services; and coordination of foreign policies of independent member states.

CARICOM's main purposes are to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared, and to coordinate foreign policy. Its major activities have centred on coordinating economic policies and development planning; it also devises and institutes special projects for the less-developed countries within its jurisdiction. In the late 1980s, CARICOM's heads of government declared their support for the creation of a regional common market, and, in 1990, members agreed to develop common protectionist policies for trade with countries outside the organization, though many members were slow to implement these and other decisions. In July 2001 the heads of government revised the Treaty of Chaguaramas, establishing the Caribbean Community and the CARICOM Single Market and Economy (CSME), which would harmonize economic policy and create a single currency. Movement

toward a single market and economy was delayed over disagreements about the division of benefits, but in January 2006 the Caricom Single Market (CSM)—which removed barriers to goods, services, trade, and several categories of labour—was implemented by all member states except The Bahamas and Haiti. A year earlier, CARICOM had officially inaugurated the Caribbean Court of Justice (CCJ), which replaced the Judicial Committee of the Privy Council in London. CCJ serves as the final court of appeal for CARICOM members and also handles regional trade disputes.

5.6 CONCLUSION :

Regional trade blocs are groups of countries that have formed a regional economic alliance in order to promote trade and economic cooperation within the region. Regional trade blocs are often formed as a way to reduce barriers to trade and to promote economic integration among member countries. There are many different types of regional trade blocs, and they vary in terms of the level of economic integration and cooperation that they promote. Some regional trade blocs are relatively loose arrangements that focus on reducing tariffs and other trade barriers, while others are more comprehensive and involve the creation of a single market or customs union among member countries.

5.7 KEYWORDS :

Regional trade groups :

Regional trade agreements generally take on one of four forms: free trade areas, customs unions, common markets and economic unions. Free trade areas occur when member countries eliminate tariffs and trade barriers, but maintain individual foreign trade policies.

Economic union :

An economic union is an agreement between two or more nations to allow goods, services, money and workers to move over borders freely. The countries may also coordinate social and financial policies to support this common market.

Political union :

The union is recognised internationally as a single political entity. A political union may also be called a legislative union or state union. A union may be effected in many forms, broadly categorized as: Incorporating union. Incorporating annexation.

Free trade area :

A free trade area is a region in which a number of countries have signed a free trade agreement and maintain little or no barriers to trade in the form of tariffs or quotas among one another.

Customs union :

A customs union is an agreement between two or more countries to remove trade barriers and lower or eliminate tariffs. Members of a customs union generally apply a

common external tariff on imports from non-member countries. The European Union (EU) is an example of a customs union.

Common market :

A common market is a formal agreement where a group is formed amongst several countries that adopt a common external tariff. In a common market, countries also allow free trade and free movement of labor and capital among the members of the group.

5.8 SELF ASSESSMENT QUESTIONS :

1. Define the role and importance of regional trade groupings in International business
2. Explain the types or stages of regional trade groupings
3. Explain the advantages and disadvantages of regional trade groupings
4. Narrate the objectives and functions of SAARC and EU
5. Briefly explain the objectives and functions of NAFTA and BRICS.

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Lesson – 6
EXPORT AND IMPORT PROCEDURE

Objectives :

After reading this lesson, student will be able to :

- understand the benefits and objectives of Export and Import
- know the process and Formalities of Registration of export organisation
- understand the procedure of export and Import
- describe the basic and essential documents for export and Import
- understand the Importance of Exports incentives
- explain the various types of export Incentives

Structure of the Lesson :

6.1 Introduction

6.2 Benefits of Exports

6.3 Objectives of Export Trade

6.4 Export Procedure

6.5 Documents required for exporting

6.6 Formalities of Registration

6.7 Foreign exchange Formalities

6.8 Principal and Auxiliary Documents

6.9 Incentives to Exports

6.10 Importance of Exports incentives

6.11 Implementation export Incentives

6.12 Top Export incentives in India

6.13 Merchandise Export from India scheme

6.14 Conclusion

6.15 Key Words

6.16 Self Assessment Questions

6.17 Suggested Readings

6.1 INTRODUCTION :

Exporting is defined as the sale of products and services in foreign countries that are

sourced or made in the home country. Importing is the flipside of exporting. Importing refers to buying goods and services from foreign sources and bringing them back into the home country.

Exports are explained as the goods and services manufactured in one country and acquired by citizens of another country. The export of good or service can be anything. This trade can be done through shipping, e-mail, transmitted in private luggage on a plane. Basically, if the product is manufactured domestically and traded in a foreign country, it is known as an export.

In International trade, exports are one of the components. The other component is imported which means the goods and services purchased by a country's citizens that are manufactured in a foreign country. Both the export and import combined contribute to the country's trade balance. Whenever the country's export is more than the import, it is called a trade surplus. However, when the import is more than the export, it is known as a trade deficit.

Companies export because it's the easiest way to participate in global trade, it's a less costly investment than the other entry strategies, and it's much easier to simply stop exporting than it is to extricate oneself from the other entry modes. An export partner in the form of either a distributor or an export management company can facilitate this process.

6.2 BENEFITS OF EXPORTING :

- **Market.** The company has access to a new market, which has brought added revenues.
- **Money.** Not only has Vitrac earned more revenue, but it has also gained access to foreign currency, which benefits companies located in certain regions of the world, such as in Vitrac's home country of Egypt.
- **Manufacturing.** The cost to manufacture a given unit decreased because Vitrac has been able to manufacture at higher volumes and buy source materials in higher volumes, thus benefitting from volume discounts.

6.3 OBJECTIVES OF EXPORT TRADE :

(1) Sale of Surplus Production

- A country may produce more than it requires.
- Then, in that case, the surplus may be sold to foreign countries.

(2) Optimum Utilization of Domestic Resources

- Every country has some natural resources in plenty.
- These resources can be utilized to increase the production and sell to those countries where these are in shortage.

(3) Employment Opportunities

- International business helps the business enterprises to focus on more production which requires more manpower that means more employment opportunities.

(4) Earning of Foreign Exchange

- A country with surplus production may earn foreign exchange by selling goods and services to other countries.

(5) Increase the National Income

- Earning of foreign exchange due to exports add to the national income of a country.
- This help in improving the standard of living of people.

Import and Export is the most favoured mode of entering into International Business. But are the procedure and documentation required to suffice this mode are as smooth as it seems? Let's understand the Export Procedures and Documentations.

Exports, like the import system, are held to be one of the major components of international trade. Moreover, after the LPG initiative, exporting and importing have heightened its pace of development. Exporting done by the country is bound to many formalities both legal and compulsory made by the exported nation. In this section, we will know about these formalities that stimulate domestic economic activity. The business exports its goods and services to other nations by adhering to basic principles and law and thus this is very important in the study of export and import fields.

6.4 EXPORT PROCEDURE :

Export Procedure In general, an export procedure initiates with the willingness to send the goods and services to other foreign nations at some price, these procedures of export are stated below :

Step – 1 : Receipt Order The Indian exporter will receive the order either directly from the importer or through the indent houses.

Step – 2 : Obtaining License and Quota After receiving the order from the importer, the Indian exporter is required to obtain an export license from the Government of India, for this the exporter needs to apply to the Export Trade Control Authority and get a valid license for this.

Step – 3 : Letter of Credit The exporter then asks the importer for the letter of credit, if the importer does not send the letter of credit along with the order.

Step – 4 : Fixing the Exchange Rate The rate at which the home currency can be exchanged with the foreign currency is then fixed. The foreign exchange rate fluctuates from time to time so they need to fix the rate of exchange.

Step – 5 : Foreign Exchange Formalities As per the Foreign Exchange Regulation Act of India (FERA), every exporter of the goods is required to furnish a declaration in the form prescribed in a manner in the Act.

Step – 6 : Preparation for Executing the Order The exporter should make the required arrangements to execute the order:

Step – 7 : Formalities by a Forwarding Agent Then the formalities are to be performed by the agent which includes obtaining a permit from the customs department, preparing the shipping bill, paying the dues after disclosing the required details of the product being exported.

Step – 8 : Bill of Lading The Indian exporter of the goods presents the receipt copy to the shipping company and issues the Bill of Lading.

Step – 9 : Shipment Advice to the Importer The Indian exporter sends shipment advice to the importer of the goods to inform him about the shipment of the goods.

Step – 10 : Presentation of Documents to the Bank The Indian exporter needs to confirm that he possesses all the necessary shipping documents.

Step – 11 : The Realization of Export Precedes The exporter of the goods needs to comply with banking formalities after submission of the bill of exchange.

Export Procedure and Documentation :

In the previous section, we have learned about the export procedure formalities here we will know about the documentation necessary –

Step – 1 : Receive an Inquiry the first step in the shipping documentation process is when someone urges them to buy products.

Step – 2 : Screen the Potential Buyer and Country After you receive the inquiry from the buyer, the process is to check their business potentiality to do business with them.

Step – 3 : Provide a Performa Invoice after screening the buyer; we need to provide the Performa invoice for the transaction.

Step – 4 : Finalize the Sale The buyer will either reject or accept your proposal thus finalizing the sale.

Step – 5 : Prepare the Goods and the Shipping Documents Commercial Invoice, Packing List, Certificate of Origin, Shipper's Letter of Instruction, Bills of Lading all need to be prepared

Step – 6 : Run a Restricted Party Screening Again, the process needs to be run, before the goods ship for export.

Step – 7 : Miscellaneous Forms and Ship Your Goods There may be other documents that need to be prepared before exporting the goods.

6.5 DOCUMENTS REQUIRED FOR EXPORTING :

When deciding which documents are necessary for an export procedure, the best place to start is with your overseas customer/importer or a freight forwarder. You may help your customer in clearing items with customs in the target market by gathering precise information. Commonly used expert documents are :

Pro Forma Invoice – The document provides a description of the products, such as Price, quantity, weight, kind, and so on, and is a statement by the seller to provide the customer with the products and services at the given date and price.

Commercial Invoice – The commercial invoice is a legal document that is exchanged between the seller and the buyer that clearly outlines the items being sold as well as the price the customer is to pay.

Packing List – This list includes the invoice number, seller, buyer, shipper, carrier, date of shipping, mode of transport, itemized quantity, description, package type, package quantity, total net, and gross weight (in kilograms), packaging markings, and measurements.

Air Waybill – An air waybill is a document that accompanies goods carried by an international air carrier. The paperwork contains complete information about the package and enables tracking.

Export Licenses – A government document that allows the transfer of specified commodities in precise quantities to a specific destination for a defined end-use is known as an export license.

6.6 FORMALITIES OF REGISTRATION AND EXPORT DOCUMENTATION :

Export is a very wide concept with a lot of preparations which is required by an exporter before starting the export business.

- Establishing an Organization
- Opening a Bank Account
- Obtaining Permanent Account Number (PAN)
- Obtaining Importer-Exporter Code (IEC) Number
- Registration cum membership certificate (RCMC)
- Selection of product
- Selection of Markets
- Finding Buyers
- Sampling
- Pricing / Costing

- Negotiation with Buyers
- Covering Risks through ECGC
- Preparation for Executing an Order

The exporter must make the following arrangements in order to carry out the order :

- Marking and packaging of products to be exported in accordance with the importer's standards.
- Obtaining an inspection certificate from the Export Inspection Agency after scheduling a pre-shipment inspection.
- Getting an insurance policy from the Export Credit Guarantee Corporation (ECGC) to safeguard against credit risks.
- Obtaining the necessary marine insurance coverage.
- Appoint a forwarding agent, often known as a custom house agent, to handle customs and other related issues.

Formalities by a Forwarding Agent :

- The agent must complete the following formalities:
- The forwarding agency must first get permission from the customs authority before exporting the items.
- To the shipping business, agents must provide all needed data about the products to be shipped, such as kind, amount, and weight.
- A shipment bill/order must be prepared by the forwarding agent.
- The forwarding agency is responsible for duplicating the port challans and paying the fees.
- The loading of the products on the ship is the responsibility of the ship's captain. The loading must be done in the presence of customs authorities and on the basis of the shipping order.
- When the cargo is loaded into the ship, the ship’s master provides a receipt for them.

6.7 FOREIGN EXCHANGE FORMALITIES :

Under exchange control laws, an Indian exporter must comply with specific foreign exchange procedures. Every exporter of products is obliged under the Foreign Exchange Regulation Act of India (FERA) to provide a declaration in the form provided in a way. According to the declaration :

- The foreign exchange gained by the exporter on exports must be disposed of in the manner and within the timeframe stipulated by the RBI.

- Authorized foreign exchange dealers are needed to handle shipping documentation and discussions.
- Only permitted methods will be used to collect payment for the products shipped.
- Surrender the foreign exchange to approved dealers through the exchange control authority.

6.8 PRINCIPAL DOCUMENTS :

Some of the most important documents used in import trade are as follows :

(i) Indent

(ii) Bill of Lading

(iii) Bill of Entry

(iv) Letter of Credit

(v) Bill of Sight

(vi) Dock Challan

(vii) Dock Warrant.

There are many documents used in import trade which have already been discussed in the Import Procedure.

Following are the principal documents used in exporting :

(i) Documents related to goods

(a) Export Invoice :

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

(b) Consular Invoice :

A consular invoice is a document certifying a shipment of goods and shows information such as the consignor, consignee, and value of the shipment. Generally, a consular invoice can be obtained through a consular representative of the destination country and must be certified by the consul of the country of destination, who will stamp and authorize the invoice.

Understanding Consular Invoice :

The consular invoice is required by some countries to facilitate customs and collection of taxes. The process of submitting and authorizing a consular invoice is called consularization and it can help speed up the process of importing goods into a new country.

- A consular invoice is a document specifying the contents and details of a shipment certified by the consul of the country the merchandise is being sent to.

- Customs officials use the invoice to confirm what's in the shipment, the number of goods, and the cost—and thus determine the import duty.
- The export price is scrutinized relative to the market price in the original country to make sure an unfair trade practice called "dumping" is not taking place.
- With dumping, an exporter sells goods in a foreign market for less than what they cost at home to have a competitive advantage over other suppliers.

Commercial Invoice :

In order to complete the consularization process, the company or individual seeking to export the goods must file the paperwork and pay any associated fees for processing. Once the paperwork has been processed, the exporter is given a copy of the invoice and the second copy is filed with the customs office. A consular invoice contains information about the product, its destination, and the declared value of the product. You can expect the invoice to list the following :

- Date
- Exporter
- Port of destination
- Port of loading
- Description of goods
- Carrier
- Amount of charges
- Value of shipment
- Marks and numbers
- Name of certifier

The commercial invoice is one of the most important documents in international trade and ocean freight shipping. It is a legal document issued by the seller (exporter) to the buyer (importer) in an international transaction and serves as a contract and a proof of sale between the buyer and seller.

Unlike the Bill of Lading, the commercial invoice does not indicate the ownership of goods nor does it carry a title to the goods being sold. It is, however, required for customs clearance purposes to calculate and assess the duties and taxes due.

The commercial invoice details the price(s), value, and quantity of the goods being sold. It should also include the trade or sale conditions agreed upon by both buyer and seller of the transaction being carried out.

It may also be required for payment purposes (such as in the event of payment

via Letter of Credit and may need to be produced by the buyer to its bank to instruct the release of funds to the seller for payment

AR and GP Forms :

Guaranteed Remittance (GR) / Exchange Control Copy / SDF Form :

This form has been prescribed by the RBI to ensure that the foreign exchange receipts in respect of exports are repatriated to India. It is to be prepared in duplicate. Both the copies have to be submitted to the customs authorities at the port of shipment. Customs authorities will certify the value declared by the exporter on both the copies of GR form and will also record the assessed values. The original will be sent to RBI directly and return the duplicate copy to the exporter. The duplicate copy is submitted by the exporter to the negotiating bank along with other documents after the shipment. The negotiating bank sends the duplicate copy to the RBI after the export proceeds have been realized.

ARE – 1 Form :

These forms are meant for applying for the removal of excisable goods for export by sea.

- **AR-4** form is used for applying for excise inspection at the factory
- **AR-4 A** form is used when goods are to be exported under a claim for rebate of excise duty or under bond

ARE 1 form (Application for removal of excisable goods) is a very important document prescribed by CBES for the exemption/drawback of excise duty. Exporters are exempted from the payment of excise duty, and the exemption can be availed by two methods.

(1) Exporter can pay the excise duty, export the cargo and draw back the duty paid earlier.

(2) Alternatively, the exporter can export the cargo under Bond .i.e. without payment of Excise duty.

In either case, the ARE-1 form formalities have to be completed by the exporter as a pre-shipment document. ARE-1 is to be filled in and submitted to the excise department at least 24 hrs. In advance along with the request for inspection, sealing and certification by the department. If the export is done by paying duty, then the specified copies of ARE-1 can be used for drawback. In case of EPCG, it is used for completing the export obligation given under bond to the government, and for discharging the bond on such completion.

(c) Packing List :

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

A Packing List is an important export document that provides the exporter, overseas freight forwarder and international customer or importer with required details about the contents of the shipment being exported from India. It includes information like weight, country of origin, name of the vessel, purchase order number, details of the consignee, place of delivery, etc. A Packing List helps the transport and logistics partner to have all the required details of the shipment being carried by them. This is a mandatory document and must accompany every export shipment from India.

As per the Foreign Trade Policy in India, every international shipment exported from India must be accompanied by either an invoice and Customs Packing List or a Commercial Invoice-cum-Packing List. To facilitate smooth and easy export procedure, the government has reduced the number of documents to be submitted to the customs department. It has merged Commercial Invoice and Packing List, allowing exporters to submit a combined document at the time of shipment.

While the two export documents have been merged, they cannot substitute the other.

A Commercial Invoice specifies the import or export goods value, while the Packing List consists of accurate examination and information of contents of the package like weight and measurement[2].

Both these documents are different and hold varied but high significance during customs clearance.

Importance of Packing List for exports :

As a key document required for exports, below are a few reasons why Packing List is important while exporting :

- It indicates the quantity or number of the product(s) being shipped – as a guide for the customer or importer.
- It aids in booking shipments with overseas shipping lines and carriers and getting an International Bill of Lading.
- It provides the requisite details needed for Certificate of Origin.
- It acts as proof of a Material Safety Data Sheet for shipping dangerous goods.
- It helps international customs broker make accurate cargo entries in their country's import database.
- It is considered a supporting document for a Letter of Credit-based (LOC) reimbursement.
- It also serves as a supporting document for any dispute between the carrier and exporter regarding the shipment's contents.

(d) Certificate of Origin :

This is a certificate which specifies the country in which the goods are being produced which entitles the importer to claim tariff concessions or other exemptions on goods originating from certain pre-specified countries.

(e) Certificate of Inspection :

For ensuring quality, the government has made it compulsory for certain products to be inspected by some authorised agency like Export Inspection Council of India (EICI) which issues the certificate that the consignment has been inspected as required under the Export (Quality Control and Inspection) Act, 1963, and satisfies the conditions relating to quality control and inspection as applicable to it, and is export worthy.

(ii) Documents Related to Shipment :

Bill of Entry :

Imported goods have to go through a few legal procedures in the importing country on their arrival. Bill of entry is one such legal document which is filed by the importers or custom clear agents on the imported goods. Bill of entry is one of the important documents in the international trading market.

When goods are imported, a legal document is filed by the importer or a customs agent on their arrival. This legal document is called a bill of entry. The bill of entry forms an important part of the customs clearance procedure and is submitted to the customs department.

The bill of entry can be issued either for bond clearance or home usage. Only after issuing the bill of entry, the importer can claim ITC on the goods. This bill of entry is issued by two entities—firms that import goods from foreign countries and firms that sell goods in India after purchasing them from SEZ.

The format of the bill of entry is fairly simple and includes some important details like port code and license number, importer's name and address, customs house agent code, importer's export code (IEC), country of origin and its code, country of consignment and its code, port of shipment, vessel's name and some important details about the goods.

After the bill of entry is filed, the concerned goods are examined by a customs officer after which the importer has to pay taxes like GST, IGST and customs duty. These are paid to clear the goods and the importer can claim ITC compensation cess for GST and IGST but not for the customs duty.

The bill of entry will include the IGST, GST and customs duty paid by the importer as well. Along with this the bill will have two sections for signatures of both, the importer and the customs agent. Only after both these parties sign the bill, the bill becomes valid and verified.

(b) Mate's Receipt :

The mate's receipt indicates the name of the vessel, berth, date of shipment,

description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. And is given by the commanding officer of the ship to me exporter after the cargo is loaded on the ship.

A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship. The port superintendent, on receipt of port dues, hands over the mate's receipt to the C&F agent.

(c) Shipping Bill :

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

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

(d) Bill of Lading/Airway Bill :

Bill of lading is issued by the shipping company after receipt of the freight, which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination. In the case the goods are being sent by air, this document is referred to as airway bill.

A bill of lading (BL or BoL) is a legal document issued by a carrier (transportation company) to a shipper that details the type, quantity, and destination of the goods being carried. A bill of lading also serves as a shipment receipt when the carrier delivers the goods at a predetermined destination. This document must accompany the shipped products, no matter the form of transportation, and must be signed by an authorized representative from the carrier, shipper, and receiver.

- A bill of lading is a legal document issued by a carrier to a shipper that details the type, quantity, and destination of the goods being carried.
- A bill of lading is a document of title, a receipt for shipped goods, and a contract between a carrier and a shipper.1
- This document must accompany the shipped goods and must be signed by an authorized representative from the carrier, shipper, and receiver.
- If managed and reviewed properly, a bill of lading can help prevent asset theft.
- There are different types of bills of lading, so it's important to choose the right one.

Understanding Bills of Lading :

The bill of lading is a legally binding document that provides the carrier and the shipper with all of the necessary details to accurately process a shipment.1 It has three main functions :

- It is a document of title to the goods described in the bill of lading.
- It is a receipt for the shipped products.
- It represents the agreed terms and conditions for the transportation of the goods.

Types of Bills of Lading :

There are several types of bills of lading. Some of the most common include :

- Inland bill of lading
- Ocean bill of lading
- Through bill of lading
- Negotiable bill of lading
- Nonnegotiable bill of lading2
- Claused bill of lading
- Clean bill of lading
- Uniform bill of lading

(d) Marine Insurance Policy :

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

A marine policy covers loss or damage to cargo or goods during transportation from the point of origin to the point of destination. There are several types of marine insurance policies, including those for road, rail, air, and sea transportation, as well as those for courier and postal services.

Types of Marine Insurance in India :

Before purchasing marine insurance, you should be informed of the various types available so that you can select the one that suits your needs the most. Different types of marine insurance are as follows:

(e) Marine cargo insurance :

Cargo owners face the danger of cargo mishandling at the terminal as well as during the ship's voyage. It is also possible that your cargo has been misplaced, damaged or lost. Marine cargo insurance is offered in exchange for an adequate premium payment, to safeguard the cargo owner from financial damages resulting from such incidents. It includes

third-party liability insurance, which covers any damage caused by your cargo to the port, ship, railway track, other cargo, or individuals.

2. Hull & machinery insurance :

Without masts, the hull is the main supporting structure on a vessel. Thus, hull insurance protects the insured in the event of a ship disaster. It is commonly used by ship owners. Along with hull insurance, machinery insurance should be purchased to cover the ship's machinery. It protects the insured against operational, mechanical, and electrical ship machinery damage. Because both portions cover the entire ship, the insurance provider issues it as Hull and Machinery Insurance.

3. Liability insurance :

The ship could be involved in a collision, crash or piracy attack. In such cases, the valuable cargo is put at great risk. Furthermore, the lives of crew members and others on the ship are in jeopardy. The appropriate liability insurance protects the ship owner from any such obligations caused by situations beyond his control.

4. Freight insurance :

This section addresses the loss of freight. If the goods are lost or damaged, or the ship is lost, the shipping business will not be held liable. This insurance can compensate them for their loss.

Why is Marine Insurance important for businesses?

Business items are the source of revenue for most businesses. Insuring them against any untoward incident while they are being transported helps secure the fortunes of your business. The importance of this policy cannot be overstated. Business shipments are typically high in value and any damage can impact the company directly. You are probably worried about plenty of things already if you are making a move for personal or professional reasons. Knowing that all your household items are safe means that you can breathe easy about this thing at least.

What is covered in Marine Insurance?

Some of the most prevalent areas covered by marine insurance are :

- Total loss protection
- Sinking, stranding, fire, and explosion
- Earthquake or lightning strike
- Unpredictable administrative costs
- Cargo loss during loading or unloading
- Dumping or washing overboard
- Natural disasters

- Accident, collision, overturning, derailment
- Average in general

What all are not covered by Marine Insurance?

- The insured committed a 15avour act.
- Liquid leakage, normal weight loss or volume loss, or normal wear and tear of the insured item.
- Packing is inadequate or unsuitable.
- The subject matter insured has a vice or nature inherent in it.
- Delay of goods
- Owners, managers, charterers, or operators of the vessel defaulting on their financial obligations.
- Unsuitability/unseaworthiness of the conveyance

(iii) Documents Related to Payment :

Letter of Credit :

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

A Letter of Credit is a contractual commitment by the foreign buyer's bank to pay once the exporter ships the goods and presents the required documentation to the exporter's bank as proof.

As a trade finance tool, Letters of Credit are designed to protect both exporters and importers. They can help you win business with new clients in foreign markets. This means the exporter gets a guarantee of payment while offering the importer reasonable payment terms.

Before Applying for a Letter of Credit :

Letters of Credit are one of the most secure payment instruments available but can be labor-intensive and relatively expensive due to bank fees. They are recommended for use in higher-risk situations, when the importer's credit is unacceptable or not available, when dealing with a new or less-established trade relationship or when extended payment terms are requested.

The required documents are detailed and prone to errors and discrepancies. To avoid payment delays and extra fees, documents required by the Letter of Credit should be prepared by trained professionals.

Additionally, the exporter should consult with their bank before the importer applies for the Letter of Credit. Ask about:

- What type and size of export transactions are suitable for a Letter of Credit?
- How much does a Letter of Credit cost? Who pays the fees?
- How are disputes resolved between importer and exporter?

How to Apply for a Letter of Credit :

1. The exporter and their bank must be satisfied with the creditworthiness of the importer's bank. Once the Sales Agreement is completed, the importer applies to their bank to open a Letter of Credit in 16avour of the exporter.
2. The Importer's bank drafts the Letter of Credit using the Sales Agreement terms and conditions and transmits it to the exporter's bank. The exporter's bank reviews and approves the Letter of Credit and sends it to the exporter.
3. The exporter ships the goods in the manner provided for in the letter of credit and submits the required documents to their bank. A freight forwarder may be used to assist in this process.
4. The Exporter's bank checks the documents for compliance with the Letter of Credit terms and conditions. Any document errors and discrepancies must be amended and resubmitted. After approval, the exporter's bank submits the complying documents to the importer's bank.
5. The importer's bank releases payment to the exporter's bank. The importer's account is and their bank releases the documents to the importer to claim the goods and clear customs.

(b) Bill of Exchange :

Bill of exchange is a written instrument drawn by the exporter on the importer asking the latter to pay a certain amount to a certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

A "bill of exchange" is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay on demand or at fixed or determinable future time a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

A promise or order to pay is not "conditional", within the meaning of this section and section 4, by reason of the time for payment of the amount or any instalment thereof being expressed to be on the lapse of a certain period after the occurrence of a specified event which, according to the ordinary expectation of mankind, is certain to happen, although the time of its happening may be uncertain.

The sum payable may be "certain," within the meaning of this section and section 4, although it includes future interest or is payable at an indicated rate of exchange, or is payable at the current rate of exchange, and although it is to be paid in stated instalments and

contains a provision that on default of payment of one or more instalments or interest, the whole or the unpaid balance shall become due.

Where the person intended can reasonably be ascertained from the promissory note or the bill of exchange, he is a "certain person" within the meaning of this section and section 4, although he is misnamed or designated by description only.

An order to pay out of a particular fund is not unconditional within the meaning of this section; but an unqualified order to pay, coupled with –

(a) an indication of a particular fund out of which the drawee is to reimburse himself or a particular account to be debited to the amount, or

(b) a statement of the transaction which gives rise to the note or bill, is unconditional. Where the payee is a fictitious or non-existing person the bill of exchange may be treated as payable to bearer.

(c) Bank Certificate of Payment: Bank certificate of payment is a certificate that the necessary documents relating to the particular export consignment have been presented to the importer for payment and the payment has been received in accordance with the exchange control regulations.

6.9 INCENTIVES TO EXPORTS :

Exporting goods and services is the primary source of foreign exchange earnings, which is a key component of domestic revenue. To export, you need a developed economy and the ability to produce goods attractive to foreign buyers. This means successful exporters have a significant market share within their country.

Export incentives are provided to exporters as an acknowledgement for bringing in foreign exchange, and to compensate for the infrastructural obstacles and costs that they face. India's Foreign Trade Policy (FTP) 2015-20 highlights various export incentives made available by the government through the DGFT, as updated and extended till Sept 2021.

India has thousands of exporters and businesses selling internationally via various mediums, including the increasingly popular ecommerce exports. A thriving and growing India-based ecommerce market is a major outlet for this nation's export potential.

The Indian Government aims to increase its gross domestic product (GDP) from its current $3.3 trillion to $5 trillion by 2025. To reach this goal, the country must increase its exports to $1 trillion at the same time. One way to do this is through export incentives, which offer financial and non-financial incentives for exporters. This means that every export business needs to be aware of these incentives to succeed. In this blog, you will learn about India's different export incentive schemes and their associated benefits.

To encourage more and more sellers to export from India and provide benefits to them in their businesses, the Government of India provides export incentives to exporters. This not only helps exporters and their businesses but also motivates them to contribute to the growing export trade of the country with a sense of pride.

What are export incentives?

Export incentives are certain benefits exporters receive from the government as acknowledgement for bringing in foreign exchange and as compensation for the costs they incur on sending goods and services out of the country. Export incentives can take the form of :

- Subsidies that lower export prices
- Tax concessions such as duty exemptions (which enable duty-free import of inputs for export production) and duty remissions (which enable post-export replenishment of duty on inputs used in export product)
- Credit facilities such as low – cost loans
- Financial guarantees such as provisions covering bad loans

In India, export incentives are in line with the government's flagship "Make in India" and "Atmanirbhar Bharat" (Self-sufficient India) programmes. The former aims to *transform* India into a manufacturing major while the latter advocates *self-sufficiency*. These incentives are highlighted in a document called the foreign trade policy, which is a set of guidelines and strategies for the import and export of goods and services. The policy is formulated for a period of five years. The current one is valid till March 31. A new one will come into effect from April.

6.10 IMPORTANCE OF EXPORT INCENTIVES :

China's success as an exporting nation lies in its manufacturers receiving a wide range of government incentives (including hefty tax rebates) to produce almost exclusively for foreign markets. Here's how export incentives benefit countries and exporters :

- They bring in foreign exchange. Countries need foreign exchange reserves to make international trade transactions easier, pay for imports, pay back foreign loans, use as a cushion against economic collapse, currency devaluation and other such events, etc
- They create jobs by helping businesses grow and expand their workforce
- They create higher wages (especially for skilled, experienced and urban workers in India, as per this World Bank report)
- They lower the current account deficit, which is the deficit caused when a country imports more than it exports. India's current account deficit has averaged 2.2% of GDP in the past decade (worth around $15 billion in July-September 2020)
- They encourage self-reliance by reducing dependence on foreign goods
- All of this means export incentives contribute to overall economic growth

6.11 IMPLEMENTATION OF EXPORT INCENTIVES :

In India, the foreign trade policy and many of the export incentives it highlights are formulated and implemented by the Directorate General of Foreign Trade (DGFT) under the

Ministry of Commerce and Industry. Then there is the Central Board of Indirect Taxes and Customs (CBIC), which devises policy regarding the levy and collection of customs duty, central excise duties and Goods and Services Tax (GST). One of its arms, the Directorate General of Export Promotion (DGEP), deals with “refund issues arising out of export”, “looks into policy issues relating to export promotion schemes”, and recommends changes/improvements in customs-related procedures and policies. Furthermore, some financial incentives are implemented by the Reserve Bank of India, the country’s central bank.

A country’s export incentives might be considered as unfair trade practice by another country. When disputes arise between countries over the level of government involvement in foreign trade, these are settled by the World Trade Organisation (WTO). As a rule, the WTO discourages (even prohibits) government incentives barring those implemented by least-developed countries.

How do export incentives work in India?

Export incentives in India are economic assistance given to exporters like low-cost loans, tax exemptions, subsidies and government-financed advertisements, among others, it helps them reduce the overall export cost, thus helping them set competitive prices in the global market. All government incentives by countries must be in compliance with the World Trade Organization (WTO), which keeps a check on legal and ethical world trade practices.

6.12 TOP EXPORT INCENTIVES FOR EXPORTERS IN INDIA :

Below are a few export incentives schemes in India that helps MSMEs and sellers avail benefits :

1. SEIS (Service Exports from India Scheme) :

SEIS were introduced to encourage sellers who export notified services. Under this export scheme, an incentive of 3-7% of the net foreign exchange earnings is provided to service exporters. The requirement from an exporter is to have an active IEC with minimum net foreign exchange earnings worth US$ 15,000 (INR 11L approx) to be eligible for a claim under the scheme.

2. RoDTEP (Rebate of Duties & Taxes on Exported Products scheme) :

Replacing the old MEIS (Merchandise Exports from India Scheme) in a phased manner from December 2020, the RoDTEP is the new export incentive scheme that offers refund on all hidden and other taxes that were not refunded any other export incentive scheme. This can be central and state taxes on transportation fuel used on export products, duties on electricity used for product manufacturing, toll tax, stamp duties on import-export legal paperwork, etc.

3. EPCG (Export Promotion Capital Goods Scheme) :

Under this scheme, capital goods (goods that are used to manufacture other products like leather used to make leather bags, etc) used in the pre-production, production, and in

post-production of final export products can be imported at 0% customs duty, also called Zero duty EPCG. This scheme also helps reduce the service exporter's capital costs.

4. RoSCTL (Rebate on State & Central Taxes and Levies scheme) :

The The new export incentive scheme — RoSCTL, introduced in 2019, is applicable on all readymade apparel and textiles like bedsheets, clothing, garments, carpets, rugs, etc. This scheme grants refund on taxes such as VAT on transportation fuel, captive power, 'mandi' tax and electricity duty.

5. AAS (Advance Authorization Scheme) :

Advance Authorization Scheme (AAS) allows duty-free imports of raw materials, which are required to produce and manufacture final export products. The provision covers fuel, packaging material, and some wastage during the production of the final product. It allows exporters to import raw materials at 0% import duty if those raw materials will be used to manufacture export products.

6. NIRVIK Scheme :

Providing high insurance cover, reduced premium for small exporters and a simplified claim settlement process, the NIRVIK scheme was introduced by the ECGC (Export Credit Guarantee Corporation of India). It is primarily an insurance cover guarantee scheme that provides a cover of up to 90% of the principal and interest, as against the current credit guarantee of only up to 60% loss.

7. EOU Scheme (Export Oriented Units) :

The EOU scheme was introduced in 1980 with the aim to encourage exports by creating additional production capacity, earn foreign exchange to the country and to generatinge additional employment. 2 It provides a few waivers and concessions in compliance and taxes to the exporters. The companies that are set to export their 100% production of goods are allowed to set up an Export Oriented Unit (EOU).

8. GST refund for exporters :

GST (Goods & Services Tax) Act offers a few schemes to exporters in India: LUT Bond Scheme – Exporters can export goods without paying any GST by obtaining a 'Letter of Undertaking' (LUT) bond. IGST Refund – Exporters can pay Integrated GST on exports, and later claim the refund of that amount from the customs department. 1% GST benefit for merchant exporters – Merchant exporters can get export goods from local suppliers at a 0.1% concessional GST rate.

9. Duty Free Import Authorisation (DFIA Scheme) :

The purpose of the Duty Free Import Authorization (DFIA) scheme is to allow the duty-free imports of raw materials. This export incentive scheme enables duty-free imports of fuel, oil, inputs, energy resources, and the catalyst consumed/ utilized in the process of production of export products. Imports under this scheme shall be exempted only from the payment of Basic Customs Duty (BCD).

10. Duty Drawback Scheme (DBK Scheme) :

This scheme is a special rebate under Section 75 of the Indian Customs Act on exported products or materials. It allows exporters to get concessions or compensation on applicable products used in the processing of goods that are manufactured in India and then exported to foreign countries.

11. Duty Entitlement Passbook (DEPB) Scheme :

The DEPB scheme consists of two parts — post-export DEPB and pre-export DEPB (eliminated with effect from April 1, 2000). Exporters can avail this scheme after the export at predetermined credit on the FOB (Free On Board) value of products. The DEPB rates depend on the FOB value or value cap, whichever is lower. The key benefit of this scheme is that it can be availed on all import goods except restricted products such as gold, gold pens, gold watches, nibs, etc.

12. Interest Equalisation Scheme (IES) :

This export incentive scheme provides pre- and post-shipment export credit to exporters. It is implemented as well as governed by the Reserve Bank of India (RBI) and respective banks. The scheme provides 5% of interest to all manufacturers in the MSME sector and 3 % financial support to all exporters in 416 tariff lines.

13. Market Access Initiative (MAI) Scheme :

The MAI scheme provides financial assistance in export promotion activities to export promotion organizations, trade promotion organizations, national-level institutions, research institutions, exporters, laboratories, etc.

14. Transport and Marketing Assistance Scheme (TMA Scheme) :

The TMA scheme provides financial support to transport and marketing of agricultural products. It is extended to all exporters of eligible agricultural products who are registered with the concerned Export Promotion Council as per the Foreign Trade Policy. The scheme remained in operation for exports up to 31.03.2021.

Other export incentives :

1. **GST benefits :**

   Exporters are entitled to the following refunds and benefits under the GST regime :

   - **IGST refund** – All exports are subject to IGST, which can be reclaimed by filing for a refund with the customs department.
   - **LUT Bond Scheme** – Exporters can export goods/services without paying GST by furnishing a Letter of Undertaking (LUT) bond. An exporter with a GST registration can log in to their profile on the GST website to furnish the document. This scheme saves traders the trouble of claiming and pursuing a refund.

- **1% GST benefit for merchant exporters** – Merchant exporters are entitled to procure goods meant for export from a domestic supplier at a 0.1% concessional GST rate.

2. Status Holder Certificate :

The DGFT offers exporters deemed to have contributed to India's foreign trade star ratings as a one-, two-, three-, four- and five-star export house. Ratings depend on export performance in the current and past three financial years. The certificate is valid for five years or till March 31, 2021 (when the current foreign trade policy lapses). Status holders receive non-financial privileges such as faster customs clearance, preference in import duty payment, exemptions from furnishing bank guarantee, from compulsory negotiation of documents from banks and from guaranteed remittance (GR) procedures. (GR is an RBI foreign exchange control mechanism).

3. Market Access Initiative (MAI) :

This scheme aims to explore new markets and support export promotion activities there. Activities include market studies, publicity campaigns, brand promotion, setting up showrooms/warehouses, participation in international trade fairs, reimbursement of air fare for participation in international events, refund of registration charges paid to the importing country in the case of pharmaceuticals, biotechnology, chemicals, farm and food products. Benefits under MAI are allocated through the Export Promotion Councils.

4. Towns of Export Excellence :

Not a scheme that benefits exporters directly, this initiative instead recognises towns exporting goods worth Rs 750 crore and more as towns of export excellence. It provides financial assistance under MAI guidelines to recognised associations within these towns to fulfil their export potential.

5. Deemed Export Benefit Scheme :

This DGFT-implemented scheme extends the benefits enjoyed by exporters to suppliers of domestically produced goods (services not included) who contribute indirectly to exports or contribute to government-specified infrastructure projects. In a deemed export transaction, the goods don't leave the country and are paid for in Indian or foreign currency. The following goods qualify as deemed exports :

- Goods supplied against Advance Authorisation, Advance Authorisation for Annual Requirement and DFIA
- Goods supplied to EOU/STP/EHTP/BTP units
- Capital goods supplied to an EPCG licence holder
- Goods supplied for UN projects, nuclear power projects and projects funded by bilateral/multilateral agencies

- As such, deemed exports are eligible for Advance Authorisation, DFIA and Duty Drawback benefits as well as exemption or full refund of terminal excise duty. Unlike exports, deemed exports incur GST, though a full refund of this tax can be claimed.

1. **Gold Card Scheme :**

Under this RBI scheme, banks offer exporters bearing good track records a Gold Card that comes with a three-year credit limit with automatic renewal, an additional 20% credit limit to meet sudden expenses, reduced banking service charges, relaxed security and collateral norms, and preference in granting of Packing Credit in Foreign Currency (PCFC), which is a type of pre-shipment finance.

2. **Interest Equalisation Scheme (IES) :**

Another RBI scheme, IES extends pre- and post-shipment export credit (credit extended before and after shipment of the goods) at a 5% interest rate for MSME manufacturers and 3% for all other exporters.

3. **Nirvik Scheme :**

This is an insurance scheme implemented by the Export Credit Guarantee Corporation of India (ECGC). It provides a cover of up to 90% of the principal and interest, reduced premiums for small exporters and an easier claim settlement process. It includes pre- and post-shipment export credit.

4. **Transport and Marketing Assistance (TMA) :**

Specific to agricultural exports (including marine and plantation goods), this DGFT scheme reimburses exporters a certain portion of their freight cost. The aim is to make Indian agricultural products more competitive. Refunds are provided through a direct bank transfer.

5. **Production-Linked Incentive (PLI) scheme :**

One of the latest initiatives from the government, the PLI scheme attempts to boost domestic manufacturing and improve competitiveness in 10 high-potential sectors. It offers a 4%-6% incentive on incremental sales of goods manufactured in India for five years subsequent to the base year (2019-2020). The sectors covered are :

- Electronic / technology products
- Automobiles and components
- Pharmaceuticals
- Telecom and networking products
- Textile products
- Food products
- Solar photo-voltaic modules

- White goods (ACs & LED)
- Advance chemistry
- Speciality steel

6.13 MERCHANDISE EXPORTS FROM INDIA SCHEME (MEIS) :

MEIS was introduced in the Foreign Trade Policy (FTP) for the period 2015-2020. The MEIS was launched as an incentive scheme for the export of goods. The rewards are given by way of duty credit scrips to exporters. The MEIS is notified by the DGFT (Directorate General of Foreign Trade) and implemented by the Ministry of Commerce and Industry.

Background to MEIS :

MEIS replaced the various export incentive schemes which gave different types of duty credit scrips namely, Focus Market Scheme (FMS), Focus Product Scheme (FPS), Vishesh Krishi Gramin Udyog Yojana (VKGUY), Market Linked Focus Product Scheme (MLFPS) and Agri Infrastructure incentive scheme. All duty credit scrips issued under the earlier incentive schemes were transferred to the MEIS.

MEIS Incentive :

Under the FTP 2015-20, MEIS intends to incentivise exports of goods manufactured in India or produced in India. The incentives are for goods widely exported from India, industries producing or manufacturing such goods with a view to making Indian exports competitive.

MEIS covers goods notified for the purpose of the scheme. The incentives under the schemes are calculated as a percentage, which is 2%, 3% or 5% of the realised FOB (free-on-board) value exports in free foreign exchange or FOB value of exports as per shipping bills in free foreign exchange. The incentives are allotted through a MEIS duty credit scrip. The 'free foreign exchange' will include foreign exchange earned through international credit cards and other instruments allowed by the Reserve Bank of India (RBI).

MEIS Incentive Application Procedure :

You should make an online application in form ANF 3A through a digital signature to claim duty credit scrip entitlements under MEIS. The applicant has to furnish hard copies of the application filed with DGFT, EDI (Electronic Data Interchange) shipping bills, Bank Realisation Certificate obtained electronically (e-BRC) and RCMC. However, if the application is made through EDI ports, then the applicant is not required to submit hard copies, but only export promotion copies of non-EDI shipping bills and proof of landing.

The applicant shall file separate applications for each port. The applicant is not required to submit any documents in original but should retain the original documents for a period of three years. The application should be filed within a period of:

- 12 months from the LEO (Let Export) date or

- 3 months from the date of – uploading of the EDI shipping bills onto the DGFT server by customs, or printing of shipping bills for non-EDI shipping bills, whichever is later.

Usage of MEIS Incentive :

The duty credit scrips can be utilised to pay customs duties on import of inputs or goods, safeguard duty, anti-dumping duty and any other customs duty under FTP 2015-20. The scrips can also be transferred as well as used for importing goods against them. Exporters can request for a split of the duty credit scrip with a condition of each scrip valuing to at least Rs 5 lakh.

The request can also be made after the issue of scrip, with the same port of registration as applicable for the original scrip. However, the procedure is applicable only in respect of EDI (Electronic Data Interchange) enabled ports. In the case of non-EDI ports, a duty credit scrip cannot be split after it is issued. The scheme provides the flexibility of import and payment to exporters and has removed many structural inefficiencies of the earlier incentive schemes.

Goods Notified Under MEIS.

MEIS incentivises close to 5,000 items classified and notified under various ITC (HS) codes and with corresponding reward rates ranging from 2% to 5%. The items are notified by the DGFT.

Ineligibility of Benefits Under MEIS :

The sectors or segments mentioned below are not entitled to MEIS incentives: – SEZ / EOU / EHTP / FTWZ products exported through DTA units. – Supplies made to SEZ units from DTA units. – Deemed Exports. – Export of imported commodities covered under paragraph 2.46 of FTP. – Export commodities which are subject to a minimum export duty or export price. – Exports via trans-shipment, meaning thereby exports that are emerging in the third country but trans-shipped through India. – Exports initiated by units in Free Trade and Warehousing Zones (FTWZ).

Duration of MEIS :

The MEIS incentives are applicable from 1 April 2015 until the validity of the FTP 2015-20, which is 31 March 2020.

6.14 CONCLUSION :

Typically, the procedure for import and export activities involves ensuring licensing and compliance before the shipping of goods, arranging for transport and warehousing after the unloading of goods, and getting customs clearance as well as paying taxes before the release of goods. The Directorate General of Foreign Trade (DGFT) is the governing body that promotes and facilitates imports and exports under the Ministry of Commerce and Industry. DGFT is also responsible for setting India's foreign trade policy. Furthermore, the updated policy is released every five years by March 31 and was due to be updated in 2023.

However, the release of the policy for 2028 is extended for an additional six months due to the pandemic. Despite the delay, the current provisions are still in accordance with the Foreign Trade Policy, 2023-28.

6.15 KEYWORDS :

Letter of Credit :

A Letter of Credit is a contractual commitment by the foreign buyer's bank to pay once the exporter ships the goods and presents the required documentation to the exporter's bank as proof. As a trade finance tool, Letters of Credit are designed to protect both exporters and importers.

Bill of Lading :

A bill of lading (BL or BoL) is a legal document issued by a carrier (Transportation Company) to a shipper that details the type, quantity, and destination of the goods being carried. A bill of lading also serves as a shipment receipt when the carrier delivers the goods at a predetermined destination.

Import and Export Code :

IEC or Importer Exporter Code is a unique 10-digit alpha numeric code issued on the basis of PAN of an entity. To import or export in India, IEC Code is mandatory.

Export Incentives :

Export incentives are regulatory, legal, monetary, or tax programs that are designed to encourage businesses to export certain types of goods or services. Exports are goods that are produced in one country and are then transported to another country for sale or trade.

Performa Invoice :

A proforma invoice is a preliminary bill or estimated invoice which is used to request payment from the committed buyer for goods or services before they are supplied. A proforma invoice includes a description of the goods, the total payable amount and other details about the transaction.

Merchandise :

Merchandise refers to any type of goods, including personal or commercial products, as well as commodities that are sold to members of the public (retail) or other businesses (wholesale).

6.16 SELF ASSESSMENT QUESTIONS :

1. Explain the procedures of registration formalities and export & Import
2. Describe the general provisions for exports and imports.
3. Explain the Important documents related to export

4. Define Commercial Invoice. Explain its contents
5. What is Letter of Credit? Explain its Importance in Export
6. What is Export Incentives? Explain various types of Export incentives

6.17 SUGGESTED READINGS :

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Lesson – 7

FOREIGN TRADE POLICY (2023–2028)

Objectives :

After reading this lesson, student will be able to :

- understand the basic structure of India s foreign trade policy
- discuss the four pillars and futures of latest foreign trade policy
- understand the objectives of latest foreign trade policy
- describe the outcomes of new foreign trade policy
- explain the Highlights of latest foreign trade policy

Structure of the Lesson :

7.1 Introduction to India's foreign trade policy

7.2 Four pillars of Foreign Trade policy

7.3 Trade Facilitation and Ease of doing Business

7.4 Export Promotion Initiation

7.5 Aims of New Foreign Trade Policy

7.6 Expectations from new foreign trade policy 2023– 28

7.7 Highlights of India s Foreign Trade Policy

7.8 Conclusion

7.9 Key Words

7.10 Self Assessment Questions

7.11 Suggested Readings

7.1 INTRODUCTION TO INDIA'S FOREIGN TRADE POLICY :

The foreign trade policy in India is basically a set of guidelines for the import & export of goods & services. The policy is formulated by the DGFT (Directorate General of Foreign Trade), which is the governing body to promote & facilitate the exports & imports of the goods under the Ministry of Commerce & Industry.

The policy is notified for the period of 5 years and is updated on 31st March every year and comes to effect on 1st April. Though the policy covers the aspect of **imports & exports**, its primary aim is to facilitate trade by reducing the cost of transaction & time & by making the Indian exports competitive globally.

India's Foreign Trade Policy (FTP) 2023-28 aims to promote economic growth and simplify foreign trade operations. The policy emphasizes ease of doing business, reduction in transaction costs, and e-initiatives, along with initiatives to promote exports, boost manufacturing, and facilitate e-commerce exports. The policy proposes the implementation of the Districts as Export Hubs initiative to support decentralized export promotion.

7.2 FOUR PILLARS OF FOREIGN TRADE POLICY (2023–2028) :

- Incentive to Remission,
- Export promotion through collaboration - Exporters, States, Districts, Indian Missions,
- Ease of doing business, reduction in transaction cost and e-initiatives, and
- Emerging Areas – E-Commerce Developing Districts as Export Hubs and streamlining Special Chemicals, Organisms, Materials, Equipment, and Technologies (SCOMET) policy.

SALIENT FEATURES

- Targets **$2 trillion** exports by 2030
- Continuous and responsive framework with no end date
- Making rupee a global currency
- Making India a trade hub
- Digitisation and faster processing of applications
- Amnesty scheme for shortfall in export obligations
- Restructuring of Department of Commerce
- Over 50% reduction in threshold for recognition of star trade houses

- **Process Re-Engineering and Automation :**
  - The policy emphasizes **export promotion and development**, moving away from an incentive regime to a regime which is facilitating, based on technology interface and principles of collaboration.
  - **Reduction in fee structures** and **IT-based schemes** will make it easier for MSMEs and others to access export benefits.
  - Duty exemption schemes for export production will now be implemented through Regional Offices in a rule-based IT system environment, eliminating the need for manual interface
- **Towns of Export Excellence (TEE) :**
  - Four new towns, namely **Faridabad, Mirzapur, Moradabad, and Varanasi**, have been designated as TEE in addition to the existing **39 towns.**

- The TEEs will have priority access to export promotion funds under the MAI scheme and will be able to avail **Common Service Provider (CSP)** benefits for export fulfillment under the **Export Promotion Capital Goods (EPCG) Scheme.**

- **Recognition of Exporters :**
  - Exporter firms recognized with 'status' based on export performance will now be partners in capacity-building initiatives on a best-endeavor basis.
  - Similar to the **'each one teach one' initiative, 2-star and above status holders would be encouraged** to provide trade-related training based on a model curriculum to interested individuals.
  - Status recognition norms have been re-calibrated to enable more exporting firms to achieve **4 and 5-star ratings,** leading to better branding opportunities in export markets.

- **Promoting Export from the Districts :**
  - The FTP aims at building partnerships with State governments and taking forward **the Districts as Export Hubs (DEH) initiative** to promote exports at the district level and accelerate the development of grassroots trade ecosystem.
  - Efforts to identify export worthy products & services and resolve concerns at the district level will be made through an institutional mechanism – **State Export Promotion Committee and District Export Promotion Committee** at the State and District level, respectively.
  - **District specific export action plans to be prepared for each district** outlining the district specific strategy to promote export of identified products and services.

- **Streamlining SCOMET Policy :**
  - India is placing more **emphasis on the "export control" regime** as its integration with export control regime countries strengthens.
  - There is a wider outreach and understanding of SCOMET among stakeholders, and the policy regime is being made more robust to implement international treaties and agreements entered into by India.
  - A robust export control system in India **would provide access of dual-use High end goods and technologies to Indian exporters** while facilitating exports of controlled items/technologies under SCOMET from India.

- **Facilitating E-Commerce Exports :**
  - Various estimates suggest e-commerce export potential in the range of **USD 200 to USD 300 billion by 2030.**

- FTP 2023 outlines the intent and roadmap for establishing e-commerce hubs and related elements such as **payment reconciliation, book-keeping, returns policy, and export entitlements.**
- As a starting point, the consignment wise cap on E-Commerce exports through courier has been raised **from ₹ 5Lakh to ₹ 10 Lakh in the FTP 2023.**
- Depending on the feedback of exporters, this cap will be further revised or eventually removed.

▪ **Facilitation under (EPCG) Scheme :**

- The EPCG Scheme, which allows import of capital goods at zero Customs duty for export production, is being further rationalized. Some key changes being added are :
    - **Prime Minister Mega Integrated Textile Region and Apparel Parks** (PM MITRA) scheme has been added as an additional scheme eligible to claim benefits under CSP(Common Service Provider) Scheme of EPCG.
    - Dairy sector to be exempted from maintaining Average Export Obligation – to support the dairy sector to upgrade the technology.
    - **Battery Electric Vehicles (BEV)** of all types, Vertical Farming equipment, Wastewater Treatment and Recycling, Rainwater harvesting system and Rainwater Filters, and Green Hydrogen are added to Green Technology products – will now be eligible for reduced Export Obligation requirement under EPCG Scheme

▪ **Facilitation under Advance authorization Scheme :**

- Advance authorisation Scheme accessed by DTA (Domestic tariff area) units **provides duty-free import of raw materials for manufacturing export items** and is placed at a similar footing to EOU and SEZ Scheme.
- **Special Advance Authorisation Scheme** extended to export of Apparel and Clothing sector on self-declaration basis to facilitate prompt execution of export orders.
- **Benefits of Self-Ratification Scheme** for fixation of Input-Output Norms **extended to 2 star** and above status holders in addition to Authorized Economic Operators at present.

▪ **Amnesty Scheme:**

- Under the amnesty scheme, **an online portal will be launched for registration** and a six-month window will be available to exporters to avail the scheme.
- It will **cover all pending cases of default in export obligation of**

authorisations, these can be regularised on payment of all customs duties exempted in proportion to unfulfilled export obligation.

Ease of Doing Business, Reduction in Transaction Cost and E-Initiatives :

The Foreign Trade Policy (FTP) for 2023-28 in India aims to simplify the approval process for businesses, reduce transaction costs, and introduce e-initiatives. Key initiatives include online approvals without physical interfaces, reduced user charges for MSMEs, e-certificates of origin, and paperless filing of export obligation discharge applications. The goal is to make it easier and more cost-effective for businesses to engage in foreign trade and promote economic growth.

7.3 TRADE FACILITATION AND EASE OF DOING BUSINESS :

Online filing of documents/applications :

In line with Digital India, now hardcopies of application and specified documents like certificated from CA, CS etc would not be required to be submitted to RA, under chapter 3 & 4 of FTP. It has been decided to develop an online procedure to upload digitally signed documents by CA/CS.

Online inter-ministerial consultation :

With the objective to reduce time for approval, it is proposed to implement online inter ministerial consultation in a phased manner.

Simplification of procedures / processes, digitization and e-governance :

1. **EPCG Authorization :** Under EPCG scheme, obtaining and submitting a certificated from independent Chartered Engineer, confirming the use of spares, tools, refractory & catalyst imported for final redemption of EPCG authorization has been dispensed with

2. **Record Maintenance :** The EPCG Authorization Holders were required to maintain records for a period of three years after redemption of Authorization. In current policy announcement, this requirement is decreased to period of two years.

3. **Exporter Importer Profile :** A new facility has been created to upload documents in Exporter/Importer profile. Once profile is uploaded, there will be no need to submit copies of permanent records, documents etc repeatedly with each application

4. **Communication with Exporters/Importers :** Certain information like mobile number, email address etc have been added as mandatory field, in IEC database. This information once provided by exporters, would help in better communication with exporters. SMS/email would be sent to exporters to inform them about issuance of authorizations or status of their application

5. **Online message exchange with CBDT & MCA :** It has been decided to have online message exchange with CBDT for PAN data and with Ministry of

corporate Affairs for CIN and Din data. This integration would obviate the need for seeking information from IEC holders for subsequent amendment/ updation of data in IEC database

6. **Communication with Committees of DGFT :** For faster and paperless communication with various committees of DGFT, dedicated e-mail addresses have been provided to each norms committee; Import Committee and Pre-Shipment Inspection Agency for faster communication.

7. **Online application for refunds :** Online filing of application for refund of TES is being introduced for which a new ANF has been created.

7.4 EXPORT PROMOTION INITIATIVES :

The FTP 2023-28 has introduced initiatives to promote exports and facilitate trade in India. These include rationalizing export performance thresholds for recognition of exporters as status holders, allowing merchandising trade involving shipment of goods from one foreign country to another, accepting rupee payments under FTP schemes, and declaring four new towns of export excellence. These initiatives will reduce transaction costs and enable more exporters to achieve higher status, ultimately promoting international trade and economic growth.

Export Promotion Initiatives : FTP 2023-28

Districts as Export Hubs Initiative :

The Districts as Export Hubs Initiative is a strategy proposed under the Foreign Trade Policy (FTP) 2023-28 of India to boost exports through decentralized export promotion. The initiative proposes various strategies such as creating institutional mechanisms, identifying potential export products, building capacity for new exporters, addressing infrastructure and logistics bottlenecks, and converging ongoing schemes to support these initiatives. The implementation of these strategies is expected to create an enabling environment for exports at the district level, leading to increased foreign trade and economic growth for India.

Districts as Export Hubs Initiative : FTP 2023-28

E-Commerce Exports Initiatives :

The Foreign Trade Policy (FTP) 2023-28 has introduced measures to facilitate e-commerce exports in India. E-commerce exporters will now be eligible for the same benefits as traditional exporters, and necessary IT systems will be enabled within the next six months to streamline e-commerce export facilitation. Dak Ghar Niryat Kendras and designated hubs with warehousing facilities will also be operationalized to facilitate cross-border e-commerce and reduce the cost and time involved in logistics. These initiatives will help boost India's exports, contribute to the country's economic growth, and help small and medium-sized businesses, artisans, weavers, craftsmen, and MSMEs reach international markets.

E-Commerce Exports Initiative : FTP 2023-28

Initiatives to Boost Manufacturing in India :

The Foreign Trade Policy (FTP) 2023-28 has announced initiatives to boost manufacturing in India. These initiatives include the addition of the PMMITRA scheme to the EPCG scheme, exemption for the dairy sector, eligibility for reduced export obligation requirements for green technology products, self-declaration basis for the Apparel and Clothing sector, extension of the self-ratification scheme, and double weightage for Fruits and Vegetables exporters. These initiatives are expected to encourage investment, promote sustainable manufacturing practices, simplify processes, and provide support to key sectors. The implementation of these initiatives is expected to contribute to the Make in India initiative and promote India's position as a leading manufacturing hub.

Initiatives to Boost Manufacturing in India : FTP 2023-28

Special One-Time Amnesty Scheme for Default in Export Obligations :

The Foreign Trade Policy (FTP) 2023-28 has introduced a special one-time amnesty scheme for exporters who are unable to fulfill their export obligations against the EPCG and Advance Authorizations. This scheme provides relief to exporters and allows for one-time settlement of default in export obligation. The maximum interest payable under this scheme is capped at 100% of duties exempted, and the scheme is only applicable to cases of default due to genuine reasons. The scheme is available for a limited period until 30.09.2023.

Special One -Time Amnesty Scheme for Default in Export Obligations : FTP 2023-28

Streamlining SCOMET Licensing Procedure :

The Foreign Trade Policy (FTP) 2023-28 emphasizes streamlining the licensing process for Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) to promote ease of understanding and compliance by industry. This is in line with India's international commitments under various export control regimes. Recent policy changes aim to simplify the licensing of certain SCOMET items, making it easier for industry to obtain licenses for these items. The policy also aims to simplify policies for the export of dual-use high-end goods and technology, making India more competitive in the global market.

Streamlining SCOMET Licensing Procedure : FTP 2023-28

Future of Foreign Trade Policy :

The Foreign Trade Policy 2023-28 is designed to be adaptable and responsive to the changing trade environment. It emphasizes wider engagement with states and districts to promote grassroots exports, streamlining e-commerce exports, setting sector-specific targets to achieve the one trillion-dollar merchandise export goal by 2030, creating a consultative mechanism to resolve trade issues, working towards making Indian Rupees a global currency, and restructuring the Department of Commerce for future readiness.

7.5 AIMS OF NEW FOREIGN TRADE POLICY :

- Boost the exports of both services & goods. This aim will be achieved by addressing various constraints related to regulatory, policy & framework that helps in lowering the transaction costs & helps in ease of business doing.
- Help the districts to reach its potential as an Export Hub. The commerce department through DGFT engages with the State Governments & the Union Territories for the implementation of the initiative.
- Improvise the infrastructure for the operations of domestic services & manufacturing sectors to correct the trade imbalance in India.
- Regular meetings will be held with the chambers of commerce, industry associations, and export promotion councils to take their inputs.

7.6 EXPECTATIONS FROM NEW FOREIGN TRADE POLICY 2023– 28

The Covid-19 had devastating consequences on International Trade and it is still affecting the industry and country experiencing a dramatic dip in both import and export. Though the situation is improving the road to recovery is not easy, and that is the reason a new foreign trade policy must deliver. Depending on the suggestions received from Import-Export industries, export promotion councils, some key expectations from Foreign trade policy 2023-2028 are discussed below .

The new FTP would play a vital role in achieving the target of a $5 trillion economy by 2025, with the proper strategic planning and effective implementation of all the policies and procedures India can be placed on the right path. To achieve the target India has to boost the export of both goods and services by systematically addressing domestic and global constraints by reducing the transaction cost, implementing WTO compliant policies, and enhancing the ease of doing business.

Before introducing the new foreign trade policy Government has taken various decisions such as the replacement of the MEIS (Merchandise Exports from India Scheme) Scheme with the RoDTEP (Remission of Duties and Taxes on Export Products) Scheme which was not compliant with WTO norms, the extension of the ROSCTL (Rebate of State and Central Taxes and Levies) scheme for garment exporters till March 2024.

The Ministry of Commerce has taken various measures to enhance the ease of doing business for Importers and Exporters have launched an online portal for - 24X7 auto Issuance of IEC, Online Platform for e-issuance of Preferential Certificates of Origin, Paperless issuance, and redemption of AA/EPCG License, helpdesk services for Exporters & Importers, E-issuance of licenses for import/export of restricted items, paperless processing and e-verification of the authenticity of DGFT issued documents.

Some key expectations are :

WTO compliant tax incentives :

The government has introduced the Remission of Duties or Taxes on Export Products (**RoDTEP**) to end the need of the hour, i.e. WTO compliant tax benefits. The RoDTEP became effective from 1st January, 2021 and it replaces MEIS but the rates & conditions of the scheme is yet to be announced.

Infrastructure upgrade :

The trade infrastructure needs to be developed and thus, the government has introduced a scheme in 2017 to develop the trade infrastructure for the export sector. The scheme was introduced for a period of 3 years.

Digitalisation :

The process of digitalisation makes the whole process of import & export paperless and online. This helps in bringing a transparency in the trade happens globally. Thus, the policy must be formulated to make the whole process digitalised.

Easy access to credits :

There is a problem that goes way back, related to lending money to MSMEs because they lack adequate collateral. There is a demand of credit access from the exporters especially **MSMEs**. This policy can help to start or open up the alternate avenues and the advisory group has advised to increase the borrowing limits at the Export Import Bank of India.

Tax breaks :

The government must support in respect of easing & lowering the tax rates. The confederation of Indian Industry proposes to simplify the import duty structure, i.e., high duties on finished goods & lower or minimal duties on the raw materials.

Import wish list :

India's import community has a wish list that includes permission to import capital goods on self – certification basis & to import prohibited goods with the approval of Central Government or Inter – Ministerial Standing Committee.

Export awareness :

There are many exporters who lacks awareness in respect of trade opportunities. The Indian government must formulate policy in such a way that it consists of workshops & awareness programs to make the exporters aware about the international laws, global markets, etc.

7.7 HIGHLIGHTS OF INDIA'S FOREIGN TRADE POLICY :

Niryat Bandhu Scheme :

Through outreach programmes, training, and counselling, DGFT has developed the

Niryat Bandhu Scheme to guide aspiring exporters through the complexities of international business. In order to increase exports, MSME clusters have indeed been identified for targeted interventions due to the growth of small and medium-sized businesses and their contribution to employment.

With the support of Export Promotion Councils as well as other interested knowledge partners in the academic and research community, outreach activities will be structured in order to accomplish the scheme's goal. In addition, all stakeholders—including Customs, the ECGC, banks, and the relevant Ministries—will try to work together for the best possible resource utilization.

Targeting for $5 trillion economy :

The Hon Prime Minister of India Shree Narendra Modiji has the vision of making the Indian Economy $5 Trillion by 2025 and appealed to the citizen to be "Vocal for Local" and "Be Local and Go Global". To achieve the dream, India needs to register a GDP growth rate of 8% or more in the next few years and triple its exports to $1 trillion by 2025. The advisory group has suggested the reformation of labor laws, reducing the capital cost, selecting the right trading partner, sector-specific strategy to promote the export, etc

Implementation of District Export Hubs :

The "District Export hub initiative" will be a significant part of the new policy which aims to help small businesses and farmers in providing export opportunities through eCommerce and digital marketing platforms. The following objective shall be fulfilled under this initiative.

- The Government will identify the potential goods and services in each district,
- Will identify the Agricultural and Toy Clusters,
- Set up district export promotion committees (DEPCs), which will make action plans to promote district export.
- Mapping of GI (geographical indications) products.

Correcting Trade imbalance :

There is persistent demand from the industry to correct the imbalances in India's International trade processes; discussion has been done to reduce the constraints in the global market regarding the policy and procedure of FTP, lower the transaction cost, and enhancing the ease of doing business.

Electronic IEC :

For the purpose of conducting exports and imports from some other country, an import exporter code, or even in colloquial terms, an export permit, is required. IEC application online filing has been made easier by DGFT.

By using a secured electronic mode, the Electronic Bank Certificate (e-BRC) initiative allows the DGFT to obtain key information about the realization of export proceeds

straight from the banks. This opens the door for the implementation of various export promotion programmes without requiring any direct contact with the stakeholders. With 14 State Governments, a Memorandum of Understanding (MOU) has indeed been signed regarding the sharing of e-BRC data in order to provide GST refunds for exporters.

In addition, agreements have been made with the Enforcement Directorate, Agricultural Directorate, Agricultural Processed Food Products Export Development Authority, and the Goods and Services Tax Network (GSTN).

Exporter Importer Profile :

To upload different types of documents and to cut down on transaction costs and processing times, an exporter importer file is created. One of the system's highlights is the elimination of the need to repeatedly submit original documents or duplicates of them to the Regional Authority with each application once the documents have been uploaded.

Online Filing of Applications :

Application filing is now simpler than ever before thanks to digitization. The DGFT has made it easier to submit applications online for IEC and different Authorizations/scripts. The organisation has developed a web interface for online application submission. The application fee may be paid online, and the applicable fees may be paid using the available banking services. The completed applications are registered and sent electronically to the relevant DGFT Regional Authority, where they are then processed and authorizations or scripts are issued.

MSME's :

Additionally, it is anticipated that the foreign trade policy 2021–26 will increase MSMEs and e-commerce exports and identify new industries to increase domestic export.

MSMEs and new export potential are anticipated to be a priority of foreign trade policy from 2021 through 2026. The federal government stated plans to create a new mechanism in March 2021 to strengthen import screening in order to defend domestic firms. The foreign trade policy 2021-26, which is anticipated to start next month, would contain specifics on the new screening procedure. E-BRC

Online Inter – Ministerial Consultation :

In a recent phenomenon, exporters now have the option to upload copies of all required documents, such as technical specs, literature, and the like, in the following file types: PDF, JPG, JPEG, or GIF.

- Fixing of standards with prior approval from norms committees.
- Exporting prohibited goods.
- Import of prohibited goods.
- SCOMET objects

Except for drawings for machines and agriculture that are challenging to scan and upload, exporters are no longer required to submit hard copies of their applications. Application processing will be done online.

Facility for CA / CS / Cost Accountant :

Chartered Accountants, Company Secretaries, and Cost Accountants can now use an electronic process to publish their digitally signed documents. The exporter must use this feature to connect the digitally uploaded annexure to their online application.

Electronic Data Interchange :

To facilitate exports and advance good governance, the DGFT established the EDI system. Exporters and importers now have less physical contact with government departments because the official body has established a secure EDI message exchange for activities involving documentation, such as Customs, banks, and EPCs. It also results in the exemption of transaction cost.

Export Consignment :

Export shipments will be handled immediately and without exception. Instead, the concerned authorities may request an undertaking from the exporter before releasing such a shipment.

Withdrawal of Seizure of Export – Related Stock :

The manufacturing process is hindered and the delivery schedule is hampered by seizures, so agencies should refrain from making any. If there is prima facie evidence of a serious irregularity, some agencies are still allowed to conduct the seizure; however, in this case, the seizures must be forced to withdraw in under seven days unless such defaults are proven.

Round – the – Clock Customs Clearance :

At 19 seaports and 17 air cargo complexes, there is now 24-hour customs clearance service. All Bills of Entry at 19 seaports and 17 air cargo complexes are now eligible for the 24-hour customs clearance service. In addition, Merchant Overtime Charges (MOT) are not required to be paid for the services rendered by Customs officers at airports and ports open around the clock.

Single Window Interface :

SWIFT, or Single Window Interface for Facilitating Trade, was established to make business more easily accessed. By using the system, importers can submit an Integrated Declaration to Customs electronically from a single location. Without going to them directly, other regulatory organisations grant the required permissions.

Authorized Economic Operator (AEO) Programme :

To the advantage of companies involved in international trade, Indian Customs have

created the Authorised Economic Operator (AEO) program in accordance with the WCO's Safe Framework of Standards (FOS). Benefits include the following :

- Secure supply chain from the exporting to the importing point.
- Possibility of adhering to security standards when working with foreign importers or exporters on contracts.
- Enhanced border clearance privileges in nations that have signed a Mutual Recognition Agreement (MRA).
- Minimal disruption to cargo flow following a security-related disruption.
- Decrease in dwell time and associated expenses.
- Advice or assistance from customs on unforeseen problems encountered by trade with customs of nations with which India has partnered with MRA.

Facility of Filing Shipping Bills :

Now, shipping bills can be submitted online prior to a shipment. The filing deadline for air shipment bills is seven days, whereas the deadline for sea shipment bills is fourteen days.

Facilitating Export of Perishable Export Products :

A single window system was implemented to make it easier to export perishable agricultural products and lower the costs of handling and transportation. The Delhi-based Agricultural and Processed Food Products Export Development Authority will grant accreditation to multifunctional nodal organizations under this system (APEDA).

Time Release Study :

The WCO developed a special tool known as the time release study to assess the overall performance of Customs. In addition, the tool aids in locating obstructions that prevent customs release or bottlenecks in the global supply chain. It will now be used by Indian Customs at significant Customs locations every six months.

Towns of Export Excellence :

Specified towns with a goods turnover of ₹ 750 Crores or more may be notified as TEE based on its export potential. Handloom, handicraft, agriculture and fisheries sectors will have a threshold limit of ₹ 150 Crores. Tee's will be provided with the following benefits

- Priority financial aid under the MAI scheme will be given to recognised associations of units for export promotion projects in marketing, building capacity, and technological services.
- These common service providers will be qualified for authorization under the EPCG scheme.

National Committee on Trade Facilitation (NCTF) :

After India ratified the WTO trade facilitation agreement, the National Committee on Trade Facilitation (NCTE) was established. It was created to make it easier to coordinate domestically and put TFA provisions into effect.

E-Mail Notification Service :

In order to provide importers with information on all significant import clearance stages, the Central Board of Excise and Customs (CBEC) has started an email notification service.

The facility of Deferred Payment :

The CBEC has also made it possible to defer paying customs duties as a further measure to facilitate trade. The facility is thought to be available to certified importers under the AEO program.

7.8 CONCLUSION :

The key highlights of India's Foreign Trade Policy 2023-28 include initiatives to simplify the approval process, reduce transaction costs, and promote international trade. The policy emphasizes the importance of e-commerce exports, manufacturing, and decentralized export promotion. These initiatives aim to improve India's position as a leading manufacturing hub, increase foreign trade, and promote economic growth.

7.9 KEYWORDS :

Single Window Interface (SWIFT) :

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E-Commerce Exports Initiatives :

The Foreign Trade Policy (FTP) 2023-28 has introduced measures to facilitate e-commerce exports in India. E-commerce exporters will now be eligible for the same benefits as traditional exporters, and necessary IT systems will be enabled within the next six months to streamline e-commerce export facilitation

Districts as Export Hubs :

Districts as Export Hubs initiative, products with export potential have been identified from all 765 districts of the country. One District One Product - Districts as Export Hubs

Initiative (ODOP - DEH) is not a scheme but rather an initiative aimed at fostering balanced regional development across all districts of the country.

Time Release Study :

The WCO developed a special tool known as the time release study to assess the overall performance of Customs. In addition, the tool aids in locating obstructions that prevent customs release or bottlenecks in the global supply chain.

Towns of Export Excellence (TEE) :

Four new towns, namely Faridabad, Mirzapur, Moradabad, and Varanasi, have been designated as TEE in addition to the existing 39 towns.

Electronic Data Interchange :

To facilitate exports and advance good governance, the DGFT established the EDI system. Exporters and importers now have less physical contact with government departments because the official body has established a secure EDI message exchange for activities involving documentation, such as Customs, banks, and EPCs. It also results in the exemption of transaction cost.

Excisable goods :

Excisable goods means any goods produced or manufactured in India and subject to duty of excise under Central Excise and Salt Act 1944(1of 1944).

Consumer Goods :

Consumer Goods means any consumption goods, which can directly satisfy human needs without further processing and includes consumer durables and accessories thereof.

7.10 SELF ASSESSMENT QUESTIONS :

1. Briefly explain basic basic structure of India s foreign trade policy.
2. Discuss the four pillars and futures of latest foreign trade policy.
3. What are the objectives of latest foreign trade policy?
4. Describe the outcomes of new foreign trade policy.
5. Explain the Highlights of latest foreign trade policy.
6. What are the new initiatives of government in latest foreign trade policy?

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