International Business

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Lecture - 40
Export-Import Plan, Foreign Trade Promotion Measures, Schemes, Trade Regulations

Welcome friends. In the last lecture, we started with the Foreign Trade Promotion Measures right. So, we try to understand, what is basically Trade Promotion. Trade promotion, largely is sometimes also called as export promotion and it is basically, it comprises a substantial part of the GDP of any country right.

So, in the last lecture, we also discussed about what are the different processes, how to how if you want to start an export and import business, how you can start, so what are the guidelines and then, we also learned about how what are the problems that somebody faces while starting in you know business export import business.

And then, lastly, we talked about; finally, we talked about how does you know how does the process happen that means, somebody when there is an importer and he tries to import a good how when he gives an order, how does the exporter take the order and then what is the entire process that happens and finally, how it goes to a customs check and finally, goes to the product goes to the you know the importer and there is a financial transaction which we discussed. Today, we will talk about we will start the lecture with imports right.

So, as we have understood that exports and imports are the two sides of the coin. So, why import? First of all, let us talk about why import. So, what are the basic reasons for importing right? Any company, for that imports for 3 reasons right.

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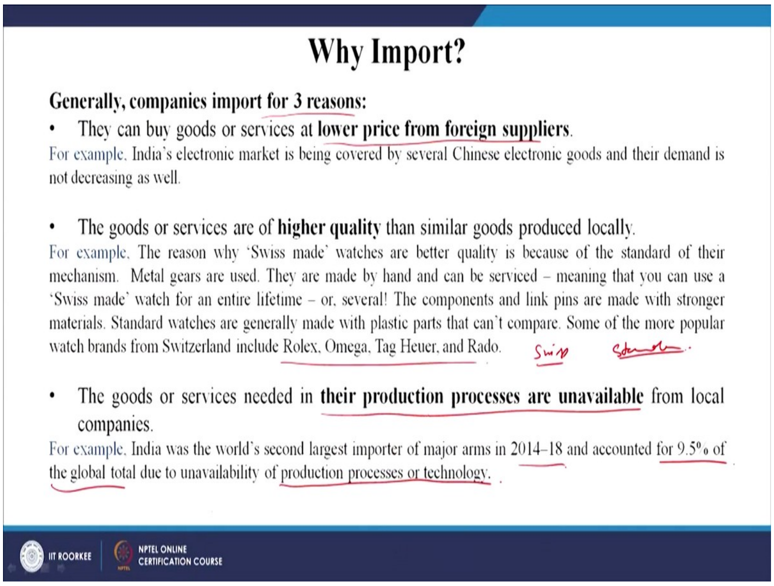

So, what are the 3 reasons for which generally, we import? First reason is that we can buy goods or services at a lower price from the foreign suppliers. So, the first reason, the for you know for example, today if you look at the Chinese market, there is a lot of demand of Chinese products.

The reason being that even things many of the products which were manufacturing in India, they have been stopped and people are have stopped manufacturing rather they are gone into trading. So, what they are doing is they are buying it from China, they are going and buying it from China and selling it in India.

So, basically, it is all because of the low-price right. So, when foreign supplies can you know supply at a low price, why should manufacturer domestic producer make it. But although it does not look good because then, it effects the employment and other factors, but then that is a fact of life. The second point is that sometimes the goods or services are of higher quality right, then similar goods produced locally. So, if you are product in the local market is of inferior standard right, then in that case people go for an import process.

For example, Swiss made watches are better quality and that is because of the standard of their mechanism. Metal gears are used; they are made by hand and can be serviced. Meaning that you can use a Swiss made watch for an entire lifetime right, even several.

The components and link pins are made with stronger materials. Standard watches are generally made with plastic.

If you look at a Swiss watch which is Switzerland, it comes from Switzerland and any other standard watch, a normal watch, so the difference is that it is made of very good components although is if you look at the other side, the components that we make here use here are basically with plastic parts and that cannot be compared when you talk about the longevity of the product.

Some of the more import you know popular brands are these for example; but yes, there is a cost attached to it, I am not denying that. But then, the point is if there is a demand for such higher quality products in the market and in India, suppose or any other country you are unable to produce it, then automatically, there would be an importing right. It completely depends on the demand. So, third thing is the goods and services needed in their production processes are unavailable from local companies.

Example, India was the world's second largest importer of major arms in 14-18 and accounted for 9.5 percent of the global total due to unavailability of production processes or technology. Many a times because of the lack of technology, we are unable to produce some of the components or some of the products in the domestic market. So, and that case you know because of the lack of the production process, we depend on imports ok.

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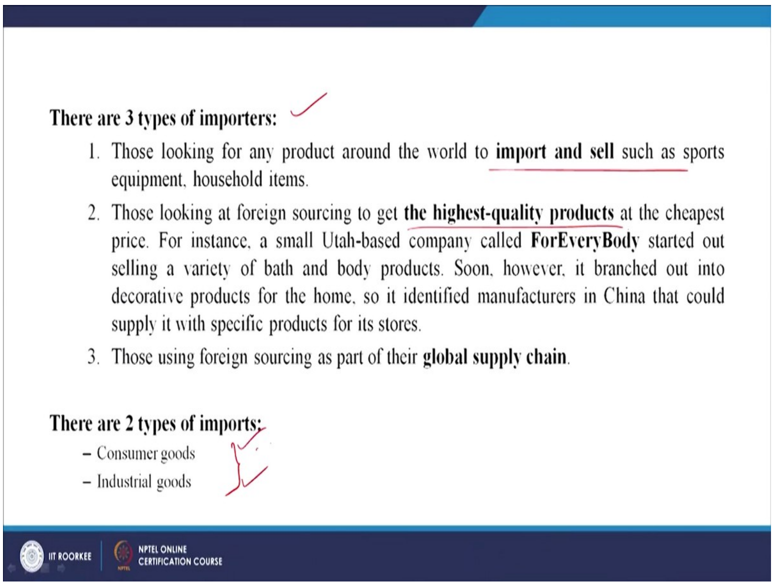

There are 3 types of importers again. So, who are who are then? What they are doing? Importers those looking for any product around the world to import and sell such as sports equipment, household items right. Second, importers those looking at foreign sourcing to get the highest quality products right.

So, these people, they want to import and sell general products and these for the high quality products at the cheapest price. For instance, a small Utah-based company called ForEveryBody started out selling a variety of bath and body products. Soon, however, it branched out into decorative products for the home, so it identified manufacturers in China that could supply it with specific products for its stores.

You can get several examples of this also right. So, many a times, when we do not get high quality products, we depend on other markets. Third point is those using foreign sourcing as part of their global supply chain and when it comes to the types of imports, basically what we deal with is we deal with consumer goods right or industrial goods.

So, industrial goods are generally parts which are used for the you know in the industrial B2B market right. For example, which are directly not used by end consumer, but they are used for by the manufacturers as a part of the process in the production process so that some end product is manufactured maybe a consumer good product is made out of it right. So, this is consumer goods and this is the industrial goods right.

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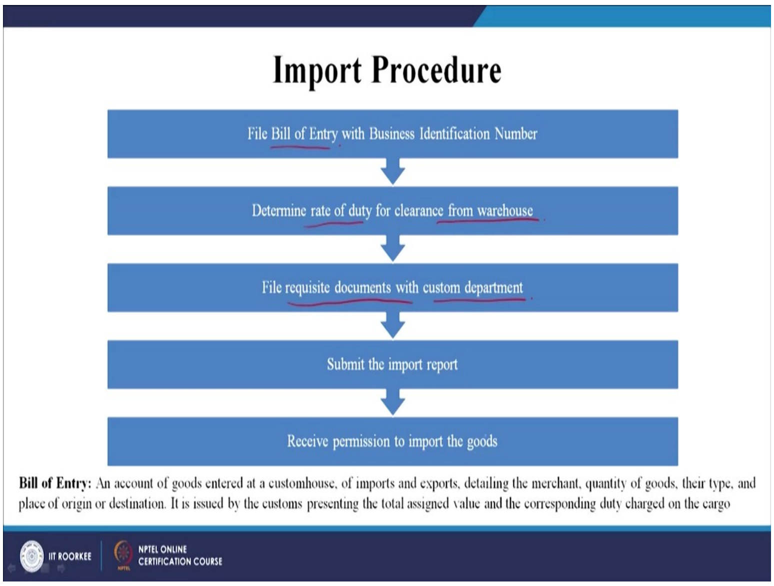

Now, when a you know, when somebody wants to import, let us say products, now how would it import? So, what is the import procedure, let us look at it. So, first step is file a bill of entry with business identification number. Now, what is bill of entry? So, bill of entry is written here, if you can see.

It is an account of goods entered at a custom house of imports and exports detailing the merchant, quantity of goods, their type and place of origin or destination that means, it contains all the details about the products, who makes it and you know what kind of products, you know the type and where it is originated, everything it is issued by the customs presenting the total assigned value and the corresponding duty charged on the cargo.

So, this bill of entry this is the first step. So, file a bill of entry. So, what one wants in everything. Then, the second step is to determine the rate of duty for clearance from the warehouse right. So, what is the rate of duty being charged on a particular product? So, every product that the duty charge may be different right. Third step is to file the requisite documents with the custom department right. So, there are necessary documents which have to be shown right. Finally, submit the import report and receive permission to import the goods.

So, if anybody wants to import certain materials, be it a very important you know working process material, part of the production process or a final good; for example, a let us say a perfume or any luxury product or anything, for that there is an import process. So, these are the steps one has to follow right. Now, when one gets into import, there is one important intermediary called the broker.

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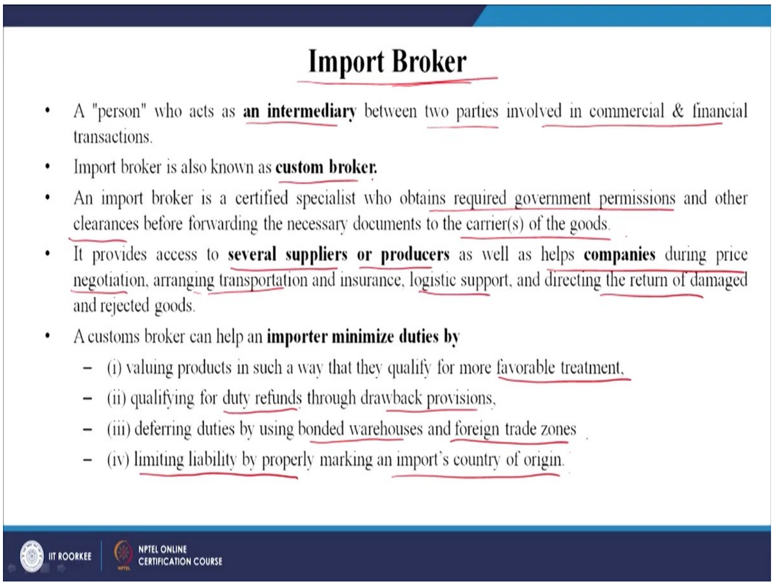

Now, who is this import broker; what does he do? Let us talk about it. He is very important. A person who acts as an intermediary between two parties involved in commercial and financial transactions.

So, what is it saying? A broker is also known as a custom broker is one, who acts as an intermediary between two parties right. The import broker is a certified specialist; he is a certified specialist who obtains the required government permission. Because permission is one is a very critical thing when it comes to export and import right. So, getting permissions from you know different places is a very troublesome thing. So, the broker comes in handy here, he comes plays a vital role and other clearances before forwarding the necessary documents to the carrier of the goods.

The import broker also provides access to several suppliers or producers as well as helps companies during price negotiation, arranging transportation and insurance, logistic support, directing the return of the damage that means, reverse you know supply chain, return of damaged and rejected goods.

So, in all these processes the import broker comes handy. Obviously, he charges a bit. A customs broker can help an importer minimize duties by how can he help the importer, let us see. Valuing the products in such a way that they qualify for more favorable treatment, some products will get a favorable treatment.

So, he helps in valuing this product so that they qualify for the favorable treatment. Qualifying for duty refunds right, so if there is a refund scheme, he helps you to get that through drawback provisions right. So, as in India also we had I mean almost all the places, we have duty drawback schemes right. Then, differing duties by using bonded warehouses and foreign trade zones. Finally, limiting liability by properly marking an imports country of origin. So, a custom broker helps in the in the importing process through all these different measures ok.

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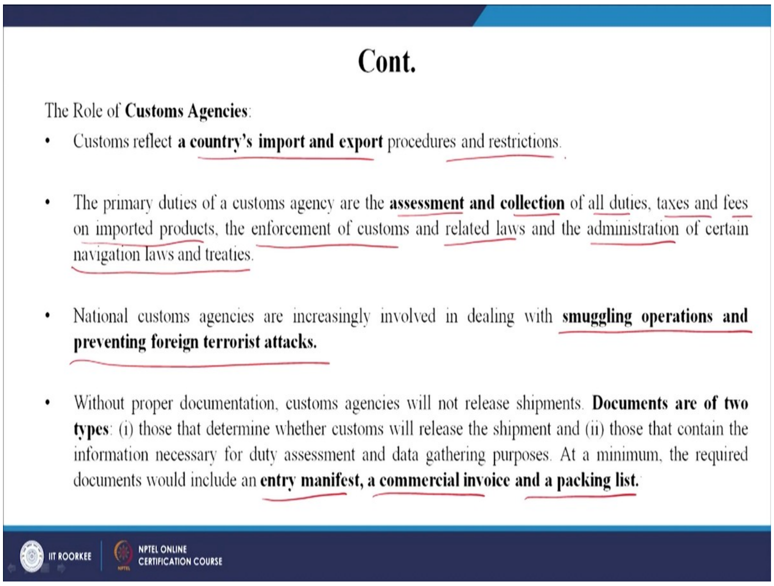

Now, there are custom agencies. So, the role of the custom agencies. Customs reflect a country's import and export procedures and let us say restrictions right. So, every country, we have a custom agency, who check, who make, who ensure that the right things are coming into the country and nothing wrong is happening out there.

So, who are they and what they are doing? The primary duties of a custom agency is the assessment and collection of all duties taxes and fees on the imported products. So, they are there to collect the duties and taxes. The enforcement of customs and related loss and administration of certain navigation laws and treaties.

So, they also take care of the laws and regulations right. The national customs agencies are increasingly involved in dealing with smuggling operations and preventing foreign terrorist attacks because they have been because they are one of the major checkpoints, they are able to find out what is being stolen into the country or outside the taken out of the country right. So, they try to filter out these things and they also help in preventing foreign terrorist attacks. Without proper documentation custom agencies will not release shipments right, so you need to have the right documents.

So, the documents are of two types; those that determine whether customs will release the shipment and those that contain the information necessary for duty assessment and data gathering purposes. So, how much tax would be levied; what kind of products they are being you know moved, all these things the customs, the documents need to be there. So, at a minimum, the required documents would include an entry manifest, a commercial invoice and a packaging list. So, what are the items, who is making?

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So, how what is the purpose? Everything will be detailed in there right. How does an export import business plan look like now right? So, when we are talking about we have talked about export, now import.

So, when somebody wants to start a have a business plan, how would it look like? A detailed business plan is an essential element in the implementation of a good trade strategy. So, first it starts with the executive summary. So, when somebody wants to have an export import business plan, so these are some of the key features. So, it starts with the executive summary which has the key elements of the export plan.

So, what you are exporting; how much you are exporting, everything description of the business and the target market the first step right. Second, the description of the company, the business history, the goals and objectives, the export team, the core competency of the team right.

So, first you need to started with the executive summary; what is details of the plan, then about the company who is doing the you know export. Third, it helps in the marketing research, target countries and the market conditions right. Fourth, it helps in the marketing decisions. So, the marketing mix elements. So, what are the marketing mix elements?

So, the marketing mix elements are basically like the four Ps of marketing we say. The product, so price. What so, what is the product; what is the price; so, how it will be made available? So, this marketing mix basically, it helps in the marketing decisions. Then, it helps in legal decisions by making legal agreements and protections.

It helps in manufacturing and operations through the location and capacity; personal strategies like short term and long term need; financial decisions, funding and risk. So, what is the funding and what is the kind of risk involved in it and finally, the implementation schedule, operational timeline, contingency plan and performance milestone.

So, an export import business plan, tomorrow if you are asked to make export import business plan, remember that you need to understand these features. So, these 9 important points, if one can explain; then, it becomes little clear. It is a, there is a clear export import business plan right. So, this gives and helps also to people who may be thinking of getting into something some of sort of a business. Now, yes, one important thing is we need to understand what are the key documents; when you are entering into the such a business, what are the key documents?

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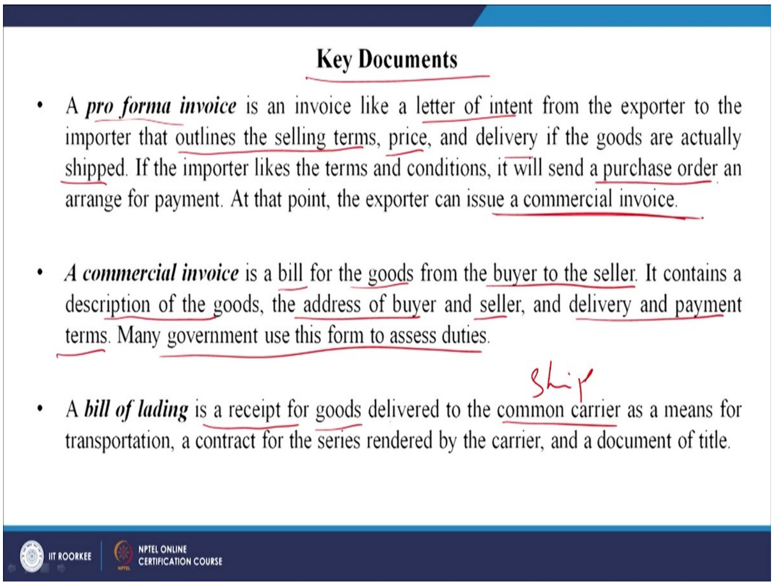

So, there are some key documents which you should be aware of. So, first term is called a proforma invoice. What is it? It is an invoice like a letter of intent right from the exporter to the importer. So, the exporter gives to the importer that outlines the selling terms. What is the selling term? The price, the delivery, if the goods are actually shipped right. If the importer likes the terms and condition, it will send a purchase order so right. So, first is the letter of intent. Then, if it is yes, it goes for a yes; then, there is a purchase order right.

An arrange for payment is done at that point, the exporter can issue a commercial invoice. So, now, from here we move into a commercial invoice, where he now actually sends a order right. Now, what is the commercial invoice? It is a bill for the goods from the buyer to the seller. So, the importer right from the importer to the exporter right. It contains a description of the good.

So, what does the importer want; what does the buyer want actually; what is the description of the good? The address of the buyer and seller and delivery and payment terms, many government use this form to assess duties. So, this is the commercial invoice is used to assess the duties basically.

The third another important document is the bill of lading. Now, what is bill of lading? It is a receipt for goods delivered to the common carrier right as a means for transportation. So, the common carrier could be a ship or you know through shipping or through air whatever, transportation a contract for the series rendered by the carrier and a document of the title. So, it is a receipt of the goods delivered right.

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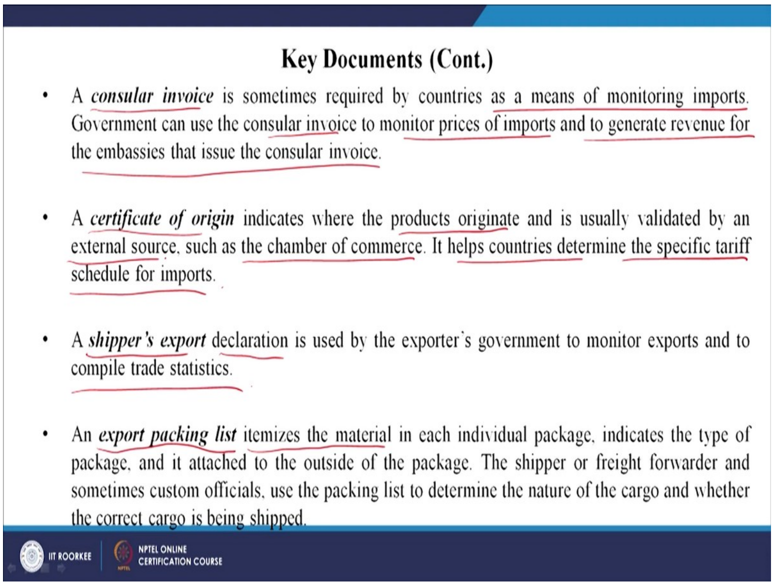

Then, comes a consular invoice. Now, what is a consular invoice? It is sometimes required by countries as a means of monitoring the imports right. Government can use the consular invoice to monitor prices of the imports and to generate revenue for the embassies that issue the consular invoice. So, the consular invoice is sometimes required by countries for these purposes the next important document is a certificate of origin.

Now, these are very important documents if you are really thinking of or even you know of an export import business. So, these documents have to be understood very deeply. It should be very clear with them. The certificate of origin indicates where the products originated and is usually validated by an external source.

So, somebody has to also validate right such as the chamber of commerce, it helps countries determine the specific tariff schedule for the inputs. The next document is a shipper's export; declaration is used by the exporters government right, the country to monitor exports and to compile the trade statistics right.

Another key document is called the export packing list. So, it itemizes the material in each individual package. So, there are different the packages are being made and they has been shipped. So, what is there in the package, each individual package, it is written down. It indicates the type of package and it attached to the outside of the package right. So, it is there as a like a label outside the package. So, everybody can read and see understand what is there inside. The shipper or freight forwarder and sometimes custom official use the packaging list to determine the nature of the cargo and whether the correct cargo is being shipped right.

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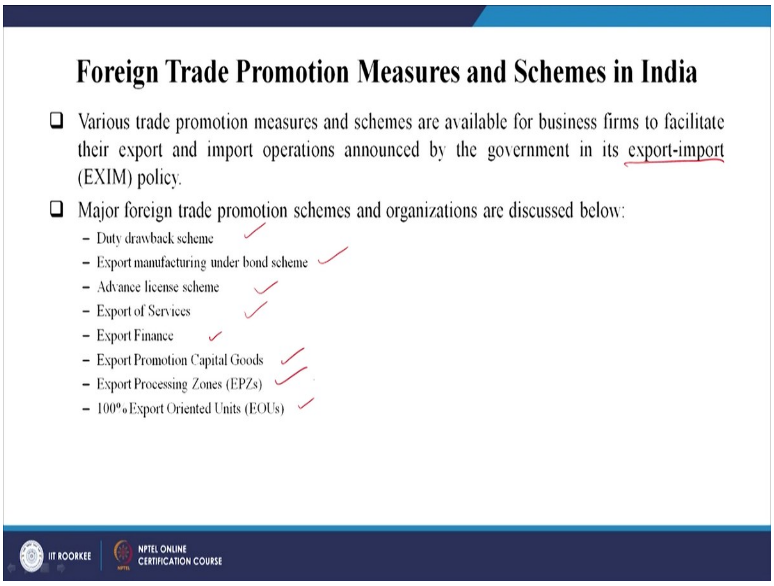

So, these are some of the documents which we talked off and these documents are very important and they need to be understood, whenever one wants to get into a business plan, export import business right. Now, from here we will move into some of the schemes in India right. For example, what is been followed in India. So, some promotional measures and schemes which the government of India is doing for enhancing you know export promotion right or trade promotion right.

So, various trade promotion measures and schemes are available for business firms to facilitate their export and import operations ok. So, which comes under the basically is known as the export import policy largely. So, what are the major foreign trade promotion schemes and organizations, we will discuss. So, now, first we will talk about the you know schemes and later on, the organizations. So, there are few schemes for example, when it when you talk about export import and you know there are these schemes one needs to be aware. So, first is the duty drawback scheme right.

I will explain each one of them. Then, the export manufacturing under bond scheme; advanced license scheme; export of services; export finance; export promotion of capital goods; export processing zones and export-oriented units right. So, these are some kind of schemes which the government has been doing and it has been an always in a dynamic mode, it has been constantly changing and trying to upgrade right.

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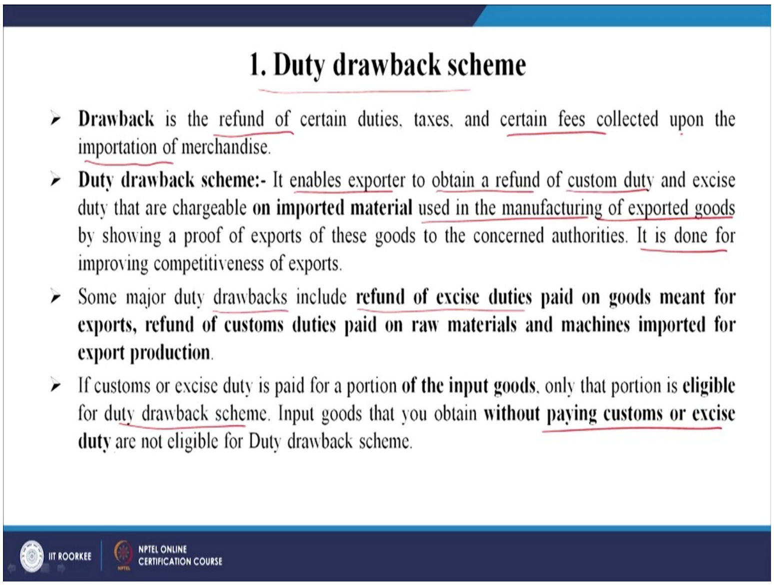

So, let us start with one by one. So, first is the duty drawback scheme. Now, what is this duty drawbacks scheme? So, if you can see; if you can understand from the word itself right drawback. So, it is a refund of certain duties, taxes and certain fees collected upon the import importation of merchandise. Like for example, you pay a tax and then, you get a refund of the tax sometimes right, when you have paid more right. So, in that case similarly, we have a duty drawback in which the extra you know taxes are being or duties are being paid back to the one who has paid you right.

So, when you have collected the merchandise and you have paid some duties or suppose, you are the let us say importer right or exporter whatever. So, then you need to you will be paid back a part of the fund right, which you have paid extra. So, what is the what happens here? It enables the exporter. So, the exporter, it helps the exporter to obtain a refund of the custom duty and excise duty that has chargeable on the imported material right, used in the manufacturing of exported goods. So, suppose, I am an exporter and I am exporting certain goods. To make those goods, I have imported certain products right, some to add value to my to the product.

So, when I imported those products. So, there was some charged you know on some customs duty and excise duty on me. So, now, by showing a proof of exports, after using these goods and exporting the final value-added product, when I show a proof of these exports to the concerned authorities, I get back a kind of a refund right. So, it is done for basically improving competitiveness of exports.

So, many a times, there are certain products which are very much important and without it the production cannot happen right. So, first once the exporter pays whatever it has to and then, after you know making the final production, it can show the proof the documents and then get back the refunds ok.

But some major drawbacks include of this drawback scheme. The refund of excise duties paid on goods meant for exports, refund of custom duties paid on raw materials and machines imported for the export production.

So, there are some of the major drawbacks that means, this drawback does not mean, please understand not a weakness, this is a drawback means refund. So, these are kind of a refund which you get right. So, do not confuse the word with drawback as you know general in English dictionary, we say drawback as a its a lacuna or weakness not that it is a refund right.

So, some major duty refunds include this right. If customs or excise duty is paid for a portion of the import goods, suppose customs or excise duty is paid for a part of the import goods, only that portion is eligible for duty drawbacks scheme right. Import goods that you obtained without paying customs or excise, are not eligible. Obviously, what you have paid for, you will get back only that much right.

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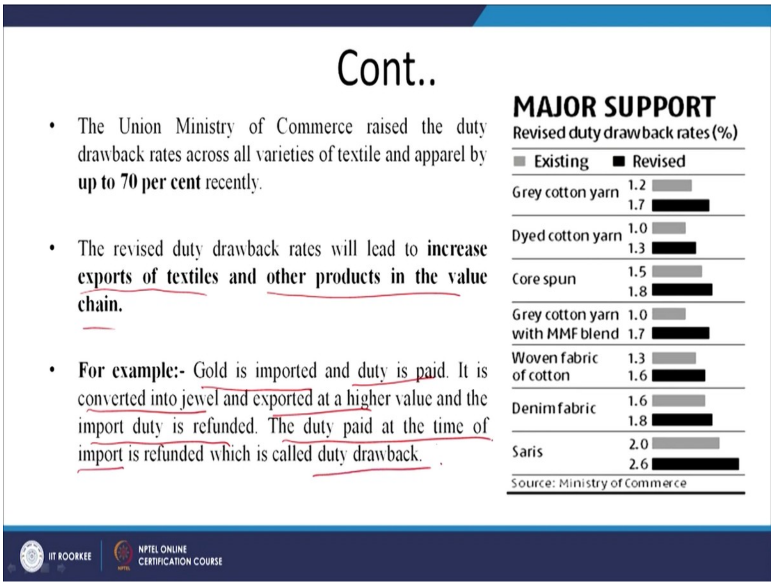

The Union Ministry of Commerce raised the duty drawback rates across all varieties of textiles and apparel by up to 70 percent recently right. I think this is given to you. So, major support. Revised duty drawback rates existing and revised. So, gray cotton yarn. So, it was earlier it is earlier you know 1.7, now it is 1.2 right.

Now, dyed cotton yarn, it is 1, earlier 1.3. Core spun 1.5, 1.8. So, it has you know it has changed right. So, these are the revised rates. The revised duty draw back rates will lead to increase exports of textiles and other products in the value chain. For example, look at it. Gold is imported right and duty is paid, it is converted into jewel, jewelry not jewels and jewelry right and exported at a higher value and the import duty is refunded.

So, whatever you know you had paid that is refunded. The duty paid at the time of import is refunded which is called the duty drawback. So, I hope you are clear. It is given on certain items in which you are using it as a part of your production system and then, then after doing a value addition, you are selling the final product, you get back on only that part of the metal which is an integral part on which you are eligible right. So, this is what it happens. The second part is export manufacturing under bond scheme.

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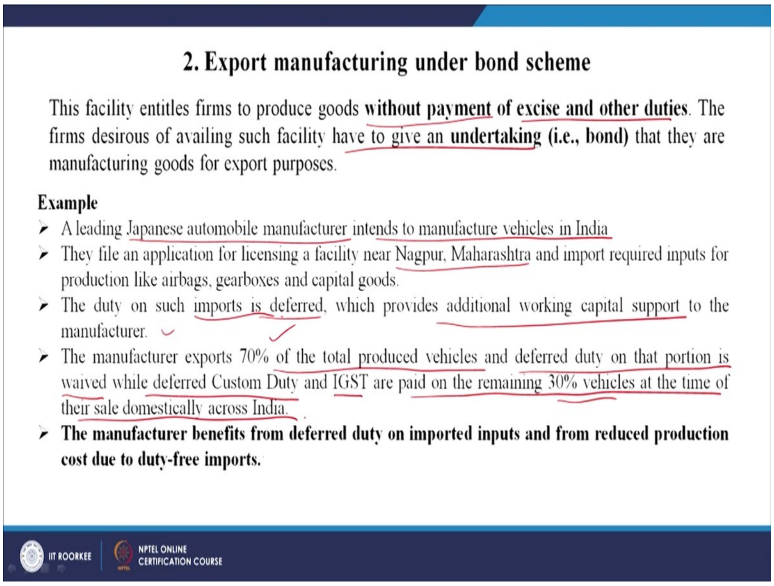

Now, what is this scheme? This facility entitles forms to produce goods without payment of exercise and other duties. What it is saying? Without payment of exercise and other duties. The firms desirous of availing such facility have to give an undertaking or a bond, that is why bond scheme that is they are manufacturing goods for export purpose. The government tries to create scheme so that to encourage people to get into exporting right.

Let us take this example. A leading Japanese automobile manufacture intends to manufacture vehicles in India, they file an application for licensing a facility near let us say Nagpur, Maharashtra. In fact, this is a real case, only the name has not been given to you. So, an import requires inputs for production like airbags, gearboxes and capital goods. The duty on such imports is deferred which provides additional working capital. When the duty is not charged, so what happens? There is an additional extra money is there with the producer.

So, additional working capital support to the manufacturer. The manufacturer gets some additional working capital right because it does not have to pay for the imports right. The manufacturer exports 70 percent of the total produced vehicles. And deferred duty on that portion is waived, while deferred custom duty and IGST are paid on the remaining 30 percent of the vehicles at the time of their sale domestically across India. So, to encourage export, the government does all these schemes right.

So, on the 70 percent, they are not paying; only on the remaining 30 percent, they are paying right. The manufacturer benefits from the deferred duty on imported inputs and from reduced production cost due to duty free imports. So, this is a also an very important scheme right. The third scheme and which would be maybe the last today for us, we will discuss is called the advanced advance license scheme.

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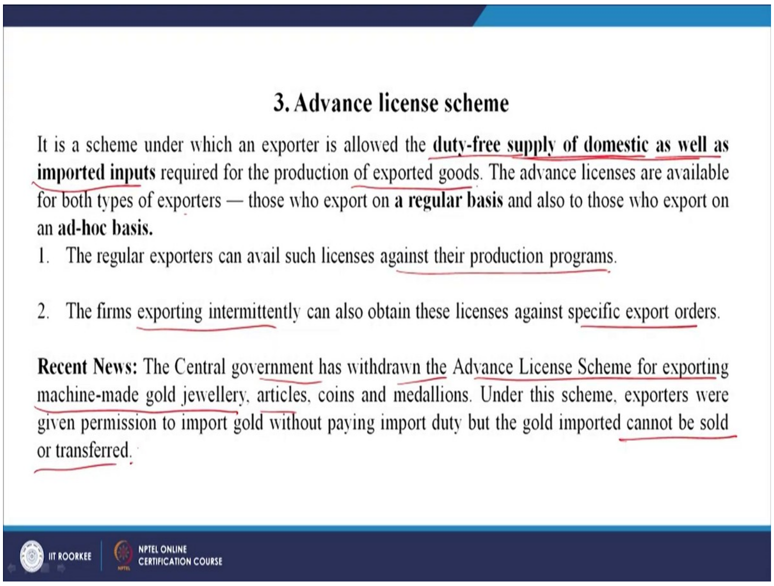

Now, what is this? It is a scheme under which an exporter is allowed the duty free supply of domestic as well as imported inputs. So, the government is trying to encourage to produce more, required for the production of the exported goods right. So, duty free supply of domestic as well as imported inputs.

The advanced licenses are available for both type of exporters, those who export on a regular basis and those who do on a export on a ad-hoc basis sometimes they do. The regular exporters can avail such license against the production programs. The firms exporting intermittently sometimes only, can obtain these licenses against specifics export orders right.

Recently, the central government has withdrawn the advanced license scheme for exporting machine made gold jewelry, articles, coins and medallions. Under this scheme, exporters were given permission to import gold without paying import duty, but the gold imported cannot be sold or transferred. That is the only condition. You cannot sell it or transfer right, but you can use it to make value added products right. So, today, we will wind up here.

So, I hope you have understood a bit, what is how we started with why import and then, what are the processes that need to be kept in mind; what is an export; good export business plan, when you are exporting what things one should keep in mind and what are the different schemes put forth by the government. So, that you know to in which they are trying to encourage more export. Because obviously, we understand that the more the export more the value of exports, the more is the surplus you know revenue with us.

That means, we get more we have more money with us, we earn more and if you are importing more and exporting less, then we are in a deficit case. So, any government would try to been a surplus case right. So, we will continue from here with the other different schemes in the next lecture.

So, thank you for today.