INTERNATIONAL MARKETING

PGDM-204

BLOCK 1:

INTRODUCTION TO INTERNATIONAL MARKETING

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INTERNATIONAL MARKETING

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

INTERNATIONAL MARKETING

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INTERNATIONAL MARKETING

BLOCK 1: INTRODUCTION TO INTERNATIONAL MARKETING

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Block Introduction

International marketing refers to the marketing of product to people or companies outside the domestic market. Since today, business is done on global basis; you need to learn about it. It will help you to know how to sell your products globally and grow your business.

In this block, you will learn the basics of international marketing, the environments prevailing in international marketing sphere and the regulations pertaining to international trade. You will learn fundamental elements of international marketing the environment in which international trade takes place, the challenges faced in the international trade and the laws, rules and regulation under which the international trade is done. You will get opportunities at the regular intervals to check your understanding. You will also encounter a few case studies and assignments which will help you enhance your understanding of the topic and retain the newly acquired knowledge.

Unit 1 introduces you to basic aspects of international marketing. You will learn what is meant by economic self-reliance, Swadeshi and trade deficit, what is the reason for poor state of affairs of country's exports. The unit further details international marketing scenario and the distinction between domestic marketing and international marketing. Unit 2 describes international marketing environment covering World Trade Organization, United Nation Conference of Trade and Development, duties, trading blocks, and barriers in trade and tariff. Unit 3 introduces you to the legal aspects of international trade covering domestic and international laws, practices, credit contract and trade disputes.

Block Objective

After learning this block, you will be able to understand:

- How to define basic elements of international marketing.
- How to describe the environment prevailing in international marketing.

- How to describe the key laws and regulatory guidelines related to international marketing.

Block Structure

Unit 1: **Basics of International Marketing**

Unit 2: **International Marketing Environment**

Unit 3: **Regulatory Environment for International Trade**

UNIT 1: BASICS OF INTERNATIONAL MARKETING

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- The India's trade deficit.
- The reasons behind India's poor export growth.
- The national economic self-reliance.
- The meaning and importance of self-reliance and the concept of 'Swadeshi'.
- The meaning of international marketing.
- The meaning of global or perish.
- The globalization of Indian economy.
- Distinguish Between Domestic Marketing and International Marketing.

1.1 Introduction

You will learn the basics of international marketing here; what is trade deficit, what it the reason of India's export growth; why do we need globalisation; what domestic marketing is and what is international marketing.

You will get knowledge checks after every topic to check your understanding. The unit will further offer you assignments, activities and case studies to help you apply newly acquired knowledge and increase hold on the subject.

1.2 National Economic Self-Reliance

1.2.1 Introduction

Many developing countries adopted the programmes of import liberalization and export promotion in the 1960s and achieved remarkable success. Such countries included Japan, Singapore, Hong Kong, South Korea and Taiwan. The success of these countries has prompted many economists and international agencies, such as the IMF and the World Bank, to advocate import liberalization and export promotion as a panacea for many economic ills, facing developing countries like India. Following the footsteps of such countries, the Government of India adopted the policy of trade liberalization in 1991. The trade policy of 1991 introduced many reforms to open up the Indian economy to foreign trade and to integrate it with the global economy in the new international economic order that is taking shape with the setting up of the WTO (World Trade Organization) in 1995.

1.2.2 India's Trade Deficit

India plays a relatively small role in the world economy. Until the 1980s, the Indian Government did not make exports a priority, as they were of the strong opinion that international trade was biased against developing countries and that prospects for exports were severely limited. Therefore, the government aimed at self-sufficiency in most products through import substitution, with exports covering the cost of residual import requirements. Foreign trade was subjected to strict government controls, which consisted of an all-inclusive system of foreign exchange and direct controls over imports and exports. As a result, India's share of world trade shrank from 2.4% in 1951 to a mere 0.4% in 1980.

Later due to oil price hike in the 1970s, which contributed to balance of payments difficulties, the governments placed more emphasis on the promotion of exports. They hoped exports would provide foreign exchange needed for the import of oil and high-technology capital goods. Nevertheless, in the early 1990s, India's share of world trade stood at only 0.5%. In 1992, imports accounted for 9.3% of GDP and exports for only 7.7% of GDP.

The 1979 increase in the price of oil produced a Rs. 58.4 billion deficit in 1980, close to 5% of GNP. The deficit was barely reduced in nominal rupee terms over the next five years, although it improved considerably as a share of GNP (to 2.3 percent in 1984) and in dollar terms (from US$ 7.4 billion in 1980 to US$ 4.3 billion in 1984). Pressure on the balance of trade continued through the late 1980s and worsened with the attempted annexation of Kuwait by Iraq in August 1990, which led to a temporary but sharp increase in the price of oil. In 1990, the balance of India trade deficit reached a record level in rupees (Rs. 106.5 billion) and in dollars (US$ 6 billion). Import controls and devaluation of the rupee allowed the trade deficit to fall to US$ 1.6 billion in 1991. However, it widened to US$ 3.3 billion in 1992 before falling to an estimated US $1 billion in 1993. However, one optimistic sign, noted by India's minister of finance in March 1995, was that exports had come to finance 90% of India's imports, compared with only 60% in the mid-1980s.

1.2.3 Reasons for Poor Growth of India's Exports

A brief account of the major problems of India's export sector is given below:

a. **High Costs:** In a large number of cases, a high domestic cost is an inhibiting factor.

b. **Poor Quality Image:** India has a very poor quality image abroad.

c. **Unreliability:** Besides quality, Indian exporters have been regarded as unreliable on many issues, like going back on a contract and refusing to fulfill it on its original terms and also failure to provide prompt after sales service.

d. **Supply Problems:** A serious drawback of Indian export sector is its inability to provide continuous and smooth supply in adequate quantities in respect of several products.

e. **Faceless Presence:** Although India is an important supplier of several commodities in foreign markets, her presence in these markets is faceless in the sense that the consumers do not know that these commodities are Indian.

f. **Infrastructural Bottlenecks:** Infrastructural shortages such as energy shortages, inadequate and unreliable transport and communication facilities hinder growth in exports due to higher production costs.

g. **Structural Weakness:** A major handicap of the Indian export sector is its structural weakness due to the absence of a systems approach to the process of management, marketing, information, planning and decision-making.

h. **Uncertainties, Procedural Complexities and Institutional Rigidities:** One of the defects of our trade policy regime has been the uncertainty about future policies, incentive schemes, etc.

i. **Inadequacy of Trade Information System:** An efficient Trade Information System is essential for success in the dynamic global market. But we do not have an easy access to market intelligence and information.

1.2.4 Self-Reliance

A) Meaning of Self-Reliance

Self-reliance refers to a country's ability to cater to its need of goods and services from domestic sources; it shouldn't depend upon imports for anything. If a country imports, it has to part with foreign exchange which diminish its economic ability.

B) Importance of Self-Reliance for Indian Economy

India faced many problems after independence like shortage of food grains, lack of capital, outdated technologies and underdeveloped industrial as well as agriculture sector. To understand Indian economy, you need to analyze these factors. Then, you will understand why self-reliance is important for India.

a) **Shortage of Food grains:** After independence, India faced severe shortage of food grains which led to unrest in the country. The situation forced India to enter into agreement with the US for the import of food grains under the programme PL-480. It provided short-term relief to the country, but produced various repercussions like political blackmailing, adverse impact on domestic producers and others.

b) However, after the withdrawal of the PL-480 and subsequent Green Revolution have solved India's food grain problem. Today, the country has sufficient food grains production.

c) **Underdevelopment of Industrial Structure:** India didn't have industry at all when it got independent. As soon as the planning process began, it focused on industrial developed. The Second Five Year Plan laid great emphasis on industry developed and set up many basic and heavy industries like iron and steel, coal, cement, heavy chemical and others. The Second Five Year Plan is remembered as industrial plan today.

d) **Scarcity of Capital:** India also faced scarcity of capital. It was low on savings and mostly faced deficit in balance of payments. When a country with weak economy take loan from a developed country or financing body, the donor impose strict conditions realizing the weak bargaining power of recipient country which affects its decision-making abilities.

e) **Obsolete Technology:** India's technologies are outdated. They are not capable of providing economic thrust that India needs. The country badly needs to focus on R&D to keep pace with the world.

C) India's Achievements towards Self-Reliance

India has achieved a little bit in self-reliance like food grains production, capital equipment manufacturing, science and technology, and capital formation, but a lot more has to be done.

a) **Self Sufficiency in Food grains:** As a result of Green Revolution, India produces enough food grains now. It has taken almost 10 years, but has produced fantastic results. This is a major achievement.

b) **Self-Reliance in Capital Equipment:** Due to the boost of Second Five Year Plan, India's public and private sector have also developed capability of manufacturing of machinery, plant and many more capital equipment. India can set up industrial plants with indigenous know-how machines.

c) **Self-Reliance in Science and Technology:** India has taken giant strides in short span of time in science and technology. We have started quite late compared to developed countries, but we are able to launch satellites in space on our own. We can send our device on Mars on far less cost in comparison to many developed country. We today have technical know-how of many critical technologies. We do turnkey projects and produce atomic energy on our own abilities.

d) **Self-Reliance in Capital Formation:** We have also made considerable headway in domestic savings. India GDS which was earlier 8.9% is now stands at 25%. We are less dependent on foreign aid now. However, no country today can progress today without foreign investment we all know.

e) **Balance of Payments Deficit and Self-Reliance:** Although India's balance of payments position has always remained unfavourable, through a conscious effort the conditions since 1993-94 have been distinctly favourable. In addition, a noteworthy feature in India's balance of payments in recent years has been improvements in the invisible account due to mainly a spurt in tourism earnings and shift of private transfers from illegal channels to banking channels.

f) **Energy Crisis and Self Reliance:** At present India is facing a serious energy crisis and until it is solved the country cannot hope to become self-reliant. Along with the acute shortage of power and energy resources in the country there is also the problem of high losses in transmission and distribution. The subsidized rates offered to the agricultural consumers have led to inefficient use of electricity. India has to depend on foreign MNCs for setting up power projects. These MNCs use the opportunity to their advantages.

1.2.5 Concept of Swadeshi

The concept of SWADESHI emphasises full internal liberalisation and selective external liberalisation.

a) Internal liberalisation means end of license raj so as to permit domestic companies to set up production capacities as per their own plans.

b) Selective external liberalisation means permitting foreign collaboration only in selective areas as per national priorities.

Check your progress 1

1. What do you understand by trade deficit?
   a. Monetary difference between import and export
   b. Monetary difference between export and GDP
   c. Monetary difference between current year export and previous year
   d. Monetary difference between current year import and previous year
2. Which of the following factors was a wakeup call to India for trade deficit?
   a. World Trade Organization notice
   b. Annexation of Kuwait by Iraq in 1990
   c. US sanctions against India in 1999
   d. Oil price hike in 1970

1.3 International Marketing

1.3.1 Introduction

International marketing is a broader concept and includes export marketing. Export marketing is concerned with the production of goods in one country and marketing them in different countries of the world while international marketing is a broader concept and includes globalisation, MNCs and TNCs, joint ventures and foreign collaborations.

1.3.2 International Marketing

Definition of International Marketing

'International marketing is a process of planning and implementing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges between nations that satisfy individual and organisational objectives.' **-** American Marketing Association

Features of International Marketing

The features of international marketing are:

a. **Large Scale Operations:** Price is a vital factor. It shows the exporter ability to sell goods on reduced price. Large scale operations, bulk transactions, full capacity utilization, help reduce overall cost leading to reduced price.

b. **Dominance of MNCs/TNCs from Developed Countries:** The international trade is dominated by MNCs and TNCs originating from developed countries.

c. **Trade Barriers:** Trade barriers are planned restrictions to slow down free movement of goods from one country to another. These are done to protect domestic industry. There are two types of barriers; tariff and non-tariff. Tariff barriers are taxes and duties and non-tariff are licenses and quotas.

d. **Trading Blocs:** Trading blocs are the associations of countries situated in a particular region whereby they come to common understanding regarding rules and regulations to be followed while exporting and importing goods among them; for example, European Union (EU).

e. **International Marketing Research:** The needs of people of an area differ from the needs of the people of another area. That's why; marketing research should be done to understand the needs of the people of the area.

f. **Importance of Advanced Technology:** Advance technology is critical today in business. The US, Japan, Germany and others dominate international business due advance technology only.

g. **Foreign Exchange Regulations:** Currencies of different countries are valued differently due to conversion rate which changes frequently. For this reason, a country had its own rules for the collection of export proceeds and the payment for import to another country.

h. **Three-faced Competition:** International market is very competitive. An exporter faces three kinds of competitions.

1. First, he has to compete with other exporters in his own country.
2. Second, he has to compete with exporters from other countries.
3. Third, he has to find out most competitive supplier in his own country.

i. **International Organizations:** International trade is done as per the rules and regulations of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organisation (WTO). These organizations are responsible for promoting international trade.

Importance of International Marketing

No country in the world is self-sufficient in all its domestic requirements. International trade plays an important role in the economic development of a country.

a. **Division of Labour and Specialisation:** Certain countries enjoy comparative cost advantage in the production of specific commodities due to favourable climatic conditions, technical know-how, easy access to raw materials and efficient human resource. Such countries produce commodities in excess of their requirements and exchange surplus production with other countries for the commodities they are deficient in.

b. **Increases National Income and Per-capita Income:** Due to division of labour and specialisation, each country produces commodities for which it is best suited and exports surplus production. Similarly, each country imports commodities for which it has comparative cost disadvantage. This generates additional income and saves real income by making available imported articles at competitive rates.

c. **Facilitates Transfer of Technology:** Some countries like Japan, USA, UK and Germany are highly developed in terms of technology while most of the Afro-Asian and South American countries are backward in technology. This directs the flow of technology from technically advanced countries to technically backward countries of the world.

d. **Resolves Balance of Payments Crisis:** Balance of payments may be defined as the difference between the monetary value of exports and imports of a country. When the outflow of foreign currency exceeds the inflow, a country suffers from an unfavourable balance of payments. In order to solve such imbalance a country needs to export.

e. **Global Peace:** In the age of nuclear weapons, there is a greater need of promoting dialogue between various countries of the world. International trade may be a medium for promoting exchange of ideas and thoughts and thereby help promoting international peace and friendly relations among the countries of the world.

f. **Optimum Utilization of Resources:** A country can make optimum utilisation of its natural and human resource by promoting exports.

g. **Employment Opportunities:** Development of exports brings about multiple increases in employment opportunities. It also creates employment in other related service sectors such as banking, insurance, advertising, transport, etc.

h. **Research and Development:** International market is highly competitive. In order to survive cut-throat competition at international level, every firm operating at the global level needs to undertake continuous research and development. This leads to development of technology in countries of the world.

Special Problems of International Marketing

The process of International marketing is highly complex. Exporter as well as importer has to follow rules and regulations of his country and other country. Moreover, they face other problems like competition, currency fluctuation and long distance. Read further to learn the problems like these.

a. **Long Distance:** Trading companies can be situated in any corner of the world. Goods have to cover long distance which exposes to various kinds of risks. However, goods can be insured against perils of sea. Moreover, long distance also causes delay in delivery in most cases.

b. **High Risks and Uncertainties:** International trade is exposed to commercial and political risks. Political risk may occur due war or internal aggression and commercial can be caused insolvency of importer or failure to accept goods by the importer. However, insurance covers are offered by the Export Credit and Guarantee Corporation of India (ECGC) against such risks.

c. **Customs Formalities:** Custom laws are lengthy and complicated. Each country has its own laws. Sometimes, these laws create barriers in free movement of goods. To ease the issue, exporters take services of the Clearing and Forwarding (CandF) agents.

d. **Trade Barriers:** Trade barriers are planned restrictions to slow down free movement of goods from one country to another. These are done to protect domestic industry. There are two types of barriers; tariff and non-tariff. Tariff barriers are taxes and duties and non-tariff are licenses and quotas.

e. **Three-faced Competition:** An exporter faces three kinds of competitions.

   First, he has to compete with other exporters in his own country.

   Second, he has to compete with exporters from other countries.

   Third, he has to find out most competitive supplier in his own country.

f. **Payment Difficulties:** Different countries have different currencies and conversion rates. These rates are subject to fluctuations. Thus, an exporter may suffer a loss if there is a change in the exchange rate after entering into a contract with a foreign buyer. Losses on account of fluctuations in the exchange rates can be eliminated by entering into forward contracts.

1.3.3 Global or Perish - Meaning

Globalisation of business has become a subject of very serious discussions in the national economic policies and corporate sector. The subject has assumed a great significance in the light of recent changes in the global business environment and the national economic policy. In fact, the very first objective of the Foreign Trade Policy is to establish the framework for globalisation of India’s foreign trade. Globalisation means integration of the national economy of the country with rest of the world and opening up of the economy for foreign direct investment by liberalising the rules and regulations and by creating favourable socio-economic and political climate for global business.

‘Globalise or Perish’

In the wake of recent developments in the international environment, the slogan ‘Export or Perish’, coined by Shri Pandit Jawaharlal Nehru, needs to be replaced by the slogan ‘Globalise or Perish’. Globalisation has become the need of hour and India must keep pace with the changing international scenario.

1.3.4 Globalisation of the Indian Economy

Why an Indian Firm should globalise?

a. **Profit Advantage:** Though the margin of profit in the international market is low due to intense competition, it certainly increases the overall profitability of the organisation due to economies of scale.

b. **Growth Opportunities:** Global market is spread all over the world. The enormous growth potential of many foreign markets is a very strong attraction for domestic companies to globalise.

c. **Domestic Market Constraints:** Some companies may globalise in order to avoid constraints in the domestic market.

d. **Competition:** Liberalisation and globalisation of Indian economy has increased competition from foreign MNCs. Hence, in order to survive intense competition, Indian companies will have to globalise.

e. **Government Policies and Regulations:** The incentives and assistance provided by the government and encouraging EXIM policy for internationalisation may also initiate globalisation.

f. **Spin-off Benefits:** Globalisation provides certain spin-off benefits, viz., greater market share, economies of scale, easy access to imported capital goods, etc.

Why should India Globalise?

Although India has several handicaps, there are also a number of favourable factors for globalisation of Indian business.

a. **Human Resources:** Though labour productivity in India is low, given the right environment Indian labour can perform excellently. While several countries are facing labour shortage, India has ample and cheap labour.

b. **Wide Base:** India has a variety of other natural resources which provide a wide base for development of industrial units in India.

c. **Growing Entrepreneurship:** In the recent years, there has been a considerable growth in the number of new and dynamic entrepreneurs who could make significant contribution to the globalisation of Indian business.

d. **Growing Domestic Market:** The growing domestic market enables the Indian companies to consolidate their position and to gain more strength to make entry into foreign markets or to expand their foreign business.

e. **Niche Markets:** A market niche is a small segment of the market, which is ignored or overlooked by the major players. Such niches are particularly attractive for small companies.

f. **Expanding Markets:** The growing population and disposable income and the resultant expanding international market provide enormous business opportunities to Indian manufactures.

g. **Transnationalisation of the World Economy:** Transnationalisation of the world economy due to the growing interdependence and globalisation of markets is an external factor encouraging globalisation of Indian business.

h. **NRIs:** The large number of non-resident Indians, who are resourceful in terms of capital, skill, experience, exposure and ideas, are assets which can contribute to the globalisation of Indian business.

i. **Competition:** The growing competition both from within the country and aboard provokes many Indian companies to look to foreign markets seriously to improve their competitive position and to increase the business.

j. **Economics Liberalisation:** The economic liberalisation in India such as delicensing of industries, removal of restrictions on trade, privatisation, liberal import policy towards foreign capital and technology, etc., would encourage globalisation of Indian business.

1.3.5 A Note on Multinational Corporations (MNCs)

A multinational corporation is an enterprise whose ownership and activities are spread in more than one country and its various branches function independently. It is a giant firm with its headquarter located in one country but conducts a variety of business operations like manufacturing, marketing, servicing, etc., in several other countries. The profit and income flows that they generate are part of the foreign capital flows moving between countries.

Advantages of MNCs to the Host Country

a. MNCs bring about increase in the national income and per-capita income of the host country.

b. They bring about increase in the level of investment, employment and income in the country they operate.

c. They help the host country to lower trade deficit by promoting export and substituting import.

d. They help in job creation.

e. They discourage protectionalism, increase competition among local companies.

f. They create robust marketing infrastructure.

g. They help fast industrialisation and improve people's standard of living.

Advantages of MNCs to the Home Country

a. MNCs create opportunities for domestic companies to sell globally.

b. They create job opportunities domestically and globally.

c. They earn valuable foreign exchange for the country and therefore, strengthen the balance of payments condition of the home country.

Disadvantages of MNCs to the Home Country

a. Profits of MNCs are returned to the overseas head office.

b. The multinational may operate against the interest of the host country.

c. The multinational may force its overseas branches to buy supplies from the head office.

d. Due to their large size and huge resources, they may influence host nation politics.

1.3.6 Distinguish between Domestic Marketing and International Marketing

Following are the differences between domestic and international marketing:

Domestic Marketing	**International Marketing**
1. Meaning :-	
Domestic marketing is the process of planning, organizing, directing and controlling activities related to exchange of goods between the different regions of a some country.	International marketing is the process of planning, organizing, directing and controlling activities related to exchange of goods between the different countries of the world.

2. Scope :-	
The scope of domestic marketing is narrow and is restricted to the political boundaries of a county.	The scope of international marketing is wider as the whole world constitutes a market.
3. Trade Barriers :-	
In domestic markets, artificial restrictions in the form of tariff and quota are negligible or are not present at all.	In international market, there are severe restrictions in the form of tariff and quota in order to restrict the volume of trade.
4. Government Control :-	
The government exercises less control over domestic trade.	The international trade is subject to strict government controls and restrictions.
5. Product Strategy :-	
Due to similar socio-economic environment, a single product (Product Standardisation Strategy) can be marketed throughout the country.	Due to different socio-eco environment in different countries, a variety of goods (Product Adaptation Strategy) needs to manufactured.
6. Competition :-	
The degree of competition in domestic market is low as the domestic markets are generally protected by the government from external competition.	An exporter faces an intense competition in the world market from exporters from his own country, from other countries and local suppliers in the importing country.
7. Scale of Operations :-	
Since the degree of competition in the domestic market is low, a firm can afford to operate on a smaller scale.	In order to compete at the international level, a firm has to operate at the optimum level in order to reduce its cost of production.
8. Mobility of Factors of Production :-	
Factors of production such as land, labour and capital are freely mobile in the domestic market.	There are strict restrictions on the mobility of factors of production in the international market.

Check your progress 2

1. What do you understand by trading block? Give an example.
   a. Trading block is an association of MNCs to make standard goods.
   b. Trading block is an association of countries coming to a common understanding related to import and export of goods
   c. Trading block is a group of countries as prescribed by United Nations Organization
   d. Trading block is a group of companies for the supply of nuclear fossil fuel
2. What rules each country follow for the collection of export proceeds and payment for imports?
   a. Rules agreed by the trading companies
   b. Rules as prevailed in international trade
   c. Rules specified by the country's government
   d. Rules prescribed by International Monetary Fund
3. What do you understand by balance of payments?
   a. Difference between the monetary value of exports and imports of a country.
   b. Making monetary value of exports equal to the value of imports
   c. Balance amount remaining after making partial payment
   d. Excess amount laying in foreign exchange

1.4 Let Us Sum Up

In this unit, we have learnt the basics of international marketing. We have learnt that India has huge trade deficit because its export is poor. India's poor export growth is attributed to various factors like high costs, poor quality, unreliability, supply problems, infrastructural bottlenecks, uncertainties and others. India needs to develop its infrastructure and produce high quality goods to become an exporting nation.

We have understood the meaning of self-reliance and Swadeshi. Self-reliance means that the country can meet all its requirements of goods and services from domestic sources and it doesn't need to depend upon imports. India has achieved self-reliance in some of the fields like food grains, capital equipment and others.

Now, we understand that the international marketing refers to the planning, pricing, promoting and directing the flow of goods and services to other countries for profit. India must become a manufacturing and exporting nation at par with the international standard. Otherwise, Indian industry will perish.

India has vast human and natural resources and can keep pace with the international business.

1.5 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-d)

Check your progress 2

Answers: (1-b), (2-c), (3-a)

1.6 Glossary

1. **Swadeshi -** Swadeshi refers to the concept of full easing of rules and regulations for doing business in domestic market and permitting of foreign collaboration only in selective area as per national priorities.
2. **Domestic market -** It refers to the market within our own country.
3. **International market -** It refers to the market outside domestic market spread across more than one country.
4. **IMF -** It stands for International Monetary Fund. It works for global economic cooperation and sustainable growth, financial stability, international trade, employment and reduction of poverty around the globe.
5. **World Bank -** It is an international financial institution responsible for providing loans to developing countries for taking programmes for reduction of poverty.
6. **WTO -** It stands for World Trade Organisation. It is an intergovernmental organization responsible for making guidelines for international trade.

7. **World economy -** It is the exchange of goods and services covering all countries of the world.
8. **Capital goods -** It refers to the durable goods that is required for the production of goods and services like machinery, motor vehicles etc.
9. **GDP (Gross domestic product) -** The monetary value of all goods and services produced within a country in a specific time period is known as GDP of that country.
10. **GNP (Gross national product) -** It is the market value of all the products and services produced in one year by labour and property supplied by the citizens of a country.
11. **GDS (Global Distribution System) -** It is a network operated by a company that enables automated transactions between third parties and booking agents in order to provide travel-related services to the end consumers.
12. **MNC (Multinational Corporation) -** It is an organization that owns or controls production of goods or services in one or more countries other than their home country. Its head quarter is based in one country known as home country.
13. **TNC (Transactional Corporation) -** It is an organization which owns and controls the production of goods and services outside own country where they operate.

1.7 Assignment

Study and write a report on any Multi National Company in our country.

1.8 Activities

Visit a national manufacturer whose product is well placed in domestic market but doesn't have good exposure in international market which it can rightfully claim.

1.9 Case Study

Making your customers your biggest advocates -

The brief

Hertz Europe car rental is a major travel sector business with over 4m vehicle rentals per year across Europe. With a mixture of 'corporately owned' markets including the big five – UK, France, Germany, Italy, Spain; plus independent franchised markets including Sweden, Portugal, Austria the need for leadership is clear, but the reality across diverse markets and businesses is a real challenge.

Viasat Broadcasting operates free-TV and pay-TV in Scandinavia and Eastern Europe, with emerging market operations in the Baltics, Russia and the Ukraine. In total Viasat operates pay-TV platforms in 35 markets. The emerging Eastern European markets are fast paced and dynamic, with multiple languages, with social, regulatory and political challenges, and with distinctive local cultures.

For both businesses, effective customer service is a 'must have' which acts as a hygiene factor customers expect. Also for both businesses, exceptional customer service can act as a differentiator when compared with competitors. So putting the customer at the centre of business thinking is an important element of strategy.

Strategy

Well executed 'Voice of the customer' programmes can give businesses an opportunity to understand and respond to customer needs and opinions. Businesses which can build systems which capture customer feedback, and use it to trigger change can gain a market advantage.

Net Promoter (NPS) has become the benchmark for voice of the customer programmes. Since the first thinking was published in 2003, NPS has gathered momentum to become the most popular and most effective mechanism for capturing and acting on customer feedback.

NPS invites customers to answer a few short questions, then to explain their answers in their own words. The key question "Would you recommend us to your friends and family" has been proven to correlate most closely with business performance.

Actions

At Hertz we focused on understanding and acting on NPS customer feedback from members affiliated with Hertz through different levels of membership. This understanding drove several strategic initiatives including treating high value customers better and making major capex investment in ‘fast-track’ facilities at major airports.

At Viasat we advocated a new strategy of making customers into ‘ambassadors’ who would recommend the product and brand – so initiating a new Net Promoter programme became crucial to the strategy, with regular NPS reporting becoming the key measure of progress, and of the success of the strategy.

The big difference

At Hertz the focus on high value customers led to improvements in spend and revenue varying from +12% to +25%, with an ROI of up to 40:1. Meanwhile the agenda for capex investment in major airports led to 4 facilities upgrades in the first year and a further 8 in year 2. These locations saw performance improvement of up to +10% in NPS score, +15% in airport market share and +20% in revenues from high value customers.

At Viasat the new strategy gave a shared sense of purpose across several emerging markets. The shared strategy led to a clear management agenda, so that markets could exchange learnings and define best practice. Within 3 months NPS scores started to improve, within 9 months NPS scores had improved by an average of +18%, and customer churn had reduced from 15%-25% to below 11% for the emerging markets.

1.10 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.
4. International Marketing by Rakesh Mohan Joshi.
5. International Marketing by Michael Czinkota and Illka A Ronkainen.
6. International Marketing by R Srinivasan.
7. International Management by John B Cullen.
8. A Strategic prespective by K Praveen Parboteeah.

UNIT 2: INTERNATIONAL MARKETING ENVIRONMENT

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- About international marketing environment.

- The trade barriers in international marketing.
- The role of World Trade Organization.
- The work of United Nations Conference of Trade and Development.
- The trading blocs prevailing in international marketing environment.
- The difference between tariff barriers and non-tariff barriers.

2.1 Introduction

The unit primarily introduces you to international marketing environment. You will learn what kind of challenges you will face when you market your product globally; which international organizations regulate the international trade; what are trading blocs and how it impede the trade and what are Advalorem duty and Specific duty.

2.2 Introduction to International Marketing Environment

International marketing is influenced by internal as well as external factors. These factors affect the nature and scope of companies working globally. You can describe these factors as:

a. Favourable or unfavourable

b. Liberal or conservative

c. Progressive or regressive

The factors constituting international business environment can be categorized as:

Endogenous Factors:

Endogenous factors are internal factors which can be controlled and influenced by the company.

Exogenous Factors:

Exogenous factors are external factors which cannot be controlled and influenced by the company. They create constraints for the company.

These factors change frequently and the company needs to adjust itself to survive. If it doesn’t do so, it gets out of business in the long run.

The analysis of endogenous factors shows company's strength and weakness and the analysis of exogenous factors shows opportunities and threats to the business.

2.2.1 Components of International Marketing Environment

The international marketer's task is more complicated than that of the domestic marketer because the international marketer must deal with two levels of uncontrollable uncertainty – one at the domestic level and the other at the international level.

The various factors constituting the international marketing environment are as under:

(a) **Social and Cultural Environment:** The biggest environment is the social environment because business is carried on by the people (businessmen), for the people (consumers) and through the people (executives and workers). Social and cultural factors are:

- Attitude of the consumers and management
- Changes in the population pattern
- Influence of religion and tradition
- Spread of education and its quality
- Role of social and cultural institutions
- General standard of living

(b) **Technological Environment:** Technology changes rapidly and the firm, which cannot adjust to such a changing technological environment, may not survive. The technological environment consists of:

- State of indigenous technology
- Intermediate or appropriate technology
- Transfer of technology
- Technological collaborations
- Policy and legal framework for research and development
- Fiscal incentive for research and development

(c) **Economic Environment:** International business is mainly affected by the economic policies adopted by the governments of various countries. The global economic environment has become favourable due to the establishment of the WTO and emergence of the global market. The changes in the international economic environment have been revolutionary after 1990. The following factors determine international economic environment:

- Type of economy selected by the country
- Continuous growth in industrial output in terms of quality and quantity
- Moderate and forward-looking government policies
- Increasing employment and income
- Equal wealth distribution
- Control over monopolies

(d) Political Environment: Politics has great effect on international business. Whenever, government changes or its policies change, it creates hurdles in international business operation. A country's political environment consists of following factors:

- Socialist or capitalist country
- Dual party political system or multi-party political system
- Political viewpoint of the government
- Judiciary system
- Legislative system
- External affairs policies and relationship with other countries

(e) International Environment: International environment also affects international marketing environment. International environment is made up of:

- International politics and occurring changes
- International socio-economic changes
- Foreign capital contribution
- Export and import
- MNCs and TNCs functioning
- International trade cycles

- Relations and agreements between different countries
- War and peace situations

(f) Legal Environment: In socialist as well as capitalistic economy, government controls the private sector through its policies, regulations and legislation which consists of following factors.

- Industrial planning and policies
- Tax structure and subsidies to private sector
- Control on import controls, Chargeable tariff and duties
- Licensing system prescribed in the country
- Policy for Foreign Direct Investment (FDI)
- Policy for joint ventures and foreign collaborations

(g) Ecological Environment: International marketing environment is also affected the Acts and regulations made to protect the environment which is a major concern to many countries

Check your progress 1

1. Which of the following environments is considered biggest in international marketing?
   a. Social and cultural environment
   b. Technological environment
   c. Economic environment
   d. Political environment
2. Which of the following factors help shape legal environment?
   a. Industrial planning and policy
   b. Tax structure and subsidy
   c. Control over monopolies
   d. Import and export
   e. Both a & b

2.3 Trade Barriers

2.3.1 Definition of Trade Barriers

Trade barriers are planned restrictions to slow down free movement of goods from one country to another. There are various kinds of trade barriers like taxes, quotas, duties, foreign exchange, trading blocs and trading agreements and others.

You can classify trade barriers in two categories like tariff barriers and non-tariff barriers. Tariff barriers are fiscal controls and non-tariff barriers are quantitative restrictions.

2.3.2 Objectives of Trade Barriers:

(a) **To Protect Home Industries from Foreign Competition:** In developing countries where industries are nascent stage, cost of production is high and quality is poor. Such industries need protection which the government provides them. Otherwise, they cannot stand up to foreign industries.

(b) **To Promote New Industries and Research and Development:** Research and development in developing countries also need protection to survive against foreign giants whom the government provides them by creating trade barriers. Otherwise, developing countries won't be able to develop their own technologies.

(c) **To Conserve Foreign Exchange Reserves:** Exports make the country earn foreign exchange whereas imports make the country spend foreign exchange. To conserve foreign exchange, the country needs to discourage imports and encourage exports. Therefore, the country creates trade barriers to discourage imports.

(d) **To Maintain Favourable Balance of Payments:** For the similar reason as for foreign exchange, the country creates trade barriers to maintain favourable balance of payments. When the country exports, it earns foreign exchange whereas when it imports, it spends foreign exchange. The country needs to maintain a balance between expenditure and earnings.

(e) **To Protect Economy from Dumping:** Dumping refers to the business activity where a foreign company sells its products on lower price than the current market price to expand its market. Many Chinese companies indulge in such acts; it is alleged. Such an act makes domestic companies hard to compete; many are forced to shut down business. To discourage such acts, governments create trade barriers.

(f) **To Curb Conspicuous Consumption:** Diamonds, gold and luxurious goods are bought when the price is high which is known as conspicuous consumption. This consumption cannot be curtailed by charging high duties and hence, quotas are used for their curtailment.

(g) **To Make Economy Self-reliant:** Initially, infant industries need protection from the government. Gradually, these protected industries develop competitive strength. At that juncture, the domestic market can be thrown open to foreign competitors to enable domestic companies to improve further. This gradually makes the country self-reliant.

(h) **To Mobilize Public Revenue:** In every economy the government undertakes various developmental activities, which require enormous finance. Customs duties charged on import and export of goods can serve as a significant source of finance for such purposes.

(i) **To Counteract Trade Barriers Imposed by Other Countries:** Sometimes, in order to counteract trade barriers imposed by other countries, a country may be forced to impose trade restrictions.

2.3.3 Types of Tariff Trade Barriers

Tariffs are extensively used trade barriers. Tariffs are in the form of customs duties and taxes imposed on internationally traded commodities when they cross the national boundaries.

Classification of Tariffs on the basis of Origin

(a) **Export Duties:** Export duty is a tax imposed on commodities exported from a country. Generally, no duties are levied on exports. However, a country may impose a duty on exports with the following objectives:

- To earn revenue, if demand for exported products is inelastic.
- To check outflow of commodity, deficient in supply in the domestic market.

(b) **Import Duties:** Import duty is a tax imposed on commodities imported by a country. Such duties are generally levied with the following objectives:

- To protect domestic producers from international competition.

- To conserve foreign exchange.
- To promote the use of Swadeshi.

(c) Transit Duties: Transit duty is a tax imposed on a commodity when it passes through the national frontiers of a country, originating from and designed for other countries. Such duties are levied by countries having strategic location from international trade point of view. For example, Port of Singapore.

Classification of Tariff on the basis of Criteria

(a) Specific Duties: Specific duty is imposed as per the number of items exported or imported. The value of items is not considered.

(b) Advalorem Duties: Advalorem duty is a duty imposed on the total value of a commodity imported or exported. In this case, the physical units of commodity are not taken into consideration.

(c) Compound Duties: Compound duty is the combination of specific and advalorem duties. In this case, the quantity as well as the value of the commodity is taken into consideration while computing tariff.

Classification on the basis of Purpose

(a) Revenue Tariff: Revenue tariff is the tariffs imposed in order to earn revenue for the country. Generally, the rates of such duties are low and are levied on the items of mass consumption. Revenue tariff also serves other objectives like discouraging imports or giving protection to home industries.

(b) Protective Tariff: Protective tariff is imposed in order to protect infant industries by restricting or eliminating competition from foreign companies. The rate of protective duties is quite high. However, such duties may give rise to many anti-social activities like smuggling and black marketing.

(c) Anti-dumping Duties: Dumping is the strategy by which foreign companies try to penetrate into overseas markets by selling goods at a very low price. Once established, such companies charge high prices and exploit the market. In order to eliminate the effect of dumping, anti-dumping duties have been devised.

(d) Countervailing Duties: Countervailing duties are similar to anti-dumping duties to some extent. In many countries (including India), duty drawback is given to exporters in order to enable them to sell their products at competitive rates in the world market. To countervail the effect of such incentives, countervailing duties have been devised.

2.3.4 Types of Non-Tariff Trade Barriers

Quantitative restrictions are more effective than tariff barriers. These restrictions are known as non-tariff trade barriers.

(a) **Quota:** Quota means a restriction on the physical volume of import or export of a commodity. There are different types of quotas:

- **Tariff Quota:** Under tariff quota, import or export of a commodity up to a specific limit is allowed duty free or at a lower rate of tariff.
- **Mixing Quota:** Under mixing quota, a manufacturer has to use certain quantity of domestic raw materials in combination with the imported raw materials to manufacture finished products for exports.
- **Unilateral Quota:** Under the unilateral quota system, a country on its own fixes the maximum quantity of a commodity to be imported or exported without consulting other countries.
- **Bilateral Quota:** Under the bilateral quota system, importing and exporting countries fix up quotas in consultation with each other.

(b) **Import Licensing:** As a part of liberalisation process, a majority of items have been deli censed for international trade in many countries. However, there are a number of items, which are subject to compulsory licensing.

(c) **Consular Formalities:** Under consular formalities, an exporter is required to obtain a consular certificate from the consulate of importing country situated in his country. Penalties are levied for non-compliance with such formalities.

(d) **Trading Blocs:** Trading blocs are the regional associations of countries whereby they come on to common understanding regarding rules and regulations to be followed while exporting and importing goods among them. Such blocs offer special concessions and preferential treatment to member countries. As a result, trade with non-members is discouraged.

(e) **Customs Regulations:** All the countries of the world have laid down complicated customs regulations in order to put a check on excessive inflow and outflow of goods. They affect the free movement of goods between countries.

(f) **State Trading:** Import and export of certain commodities have been taken over by the government in many countries. There is an exclusive monopoly of governments in such sectors. Such action on the part of the government puts check on the activities of private individuals; for example, Minerals and Metals Trading Corporation (MMTC) in India.

(g) **Export Obligation:** Many countries have imposed compulsory export obligations in order to compensate for the outflow of foreign exchange due to imports. Thus, it becomes obligatory for every importer to export goods of certain value as specified by the EXIM Policy.

(h) **Foreign Exchange Regulation Act** (FERA) 1973 used to regulate transactions in foreign currency. However, after the Full Convertibility of Rupee, the Foreign Exchange Management Act (FEMA) has replaced the FERA. There are three ways of controlling transaction in foreign currency:

- **Blocked Currency:** It is a political weapon to cut off all imports or imports above a certain limit. Blockage is accomplished by refusing to allow importers to exchange national currency for seller's currency.
- **Differential Exchange Rate:** It is particularly an ingenious method of controlling imports whereby lower exchange rate is fixed for desirable imports and higher one is fixed for undesirable imports.
- **Government Rationing:** The government may also ration the use of foreign currency whereby all receipts and payments of foreign currency may be routed through the government agency.

(i) **Boycott:** A government boycott is an absolute restriction against the import of certain goods from other countries.

Check your progress 2

1. Which of the following can be considered as trade barriers?
   a. Tariff
   b. Taxes
   c. Politics
2. Does a country willingly create trade barriers?
   a. Yes
   b. No

2.4 World Trade Organisation (WTO)

WTO - Objectives

World Trade Organization (WTO) was established on 1st January 1995 with the following objectives:

(a) To raise the standards of living.

(b) To ensure full employment and a large and steadily growing volume of real income and effective demand.

(c) To expand production of goods and services and international trade.

(d) To allow for the optimal use of the world's resources in accordance with the objective of sustainable development.

(e) To protect and preserve the environment.

(f) To ensure that developing countries secure a share in the growth in international trade commensurate with the needs of their economic development.

(g) To effect substantial reduction in tariffs and other barriers to trade and to eliminate the discriminatory treatment in international trade relations and;

(h) To develop an integrated, more viable and durable multilateral trading system.

Impact of WTO on Indian Industries

Indian businesses are adopting new strategies to survive under the new rules of World Trade Organisation.

Earlier India had only process patent where you can make identical product by new process. Now, India is forced t abandon this law. It has to accept product patent now where you cannot make identical product by any process. Product will be patented now.

Moreover, India also gets standard protection to its copyrights, trademarks and layout design and product rights when it implements WTO's Trade Related Intellectual Property Rights (TRIPs). However, some exporters fear that some products may be banned due patent law violations.

Some impending problems are specialty agriculture produce like Basmati will require patent to be exported; auto ancillary, software programmes and data application and pharmaceuticals may also face patent issues.

Likely impact of WTO new rules on some of the crucial sectors of India is the following.

(a) **Agriculture**: The WTO agreement on agriculture demands:

- Reduction in domestic subsidies
- Reduction in subsidies to exports
- Reduction in tariff
- Compulsory market access to all companies

Critics opine that all these restrictions will damage Indian agriculture badly and farmers will be worse affected. They are already committing suicide due failure to pay loan due drought. It will be difficult to sell domestic rice, rubber, coconuts, vegetables and fruits if the same items are cheaply imported from other countries.

However, some critics believe otherwise. They say that international trade is greatly distorted. Industrialised nations have been giving massive domestic subsidies to their agriculture sector which has resulted in production surpluses and dumping of agriculture products in the international market. These nations have agreed to reduce subsidies and tariff which will provide greater access to Indian agriculture produce in the international market.

Critics say that this will aid to national rural employment and will provide safety to food security. Additionally, India is not subject to subsidy reduction rule as countries having lower than $1000 per capita income annually don't fall under this rule.

(b) **Pharmaceuticals:** India has a strong and efficient pharmaceutical industry which has grown to lack of patent protection in the country. Indian companies produce many lifesaving drugs which sold cheaply compared to their counterparts in developed countries.

The Indian Patents Act may be replaced or cease to exist as WTO new rule is accepted. Today, India produces 70% of the drugs required. It is famous for high quality cheap drugs. Product patent rules and Exclusive Marketing Rights (EMR) under WTO may change the scene.

(c) **Information Technology:** India will be greatly benefitted under WTO IT agreement. Indian IT companies may become giants in providing value added services due to highly skilled and low cost IT professionals.

(d) **Textiles and Clothing:** India will be beneficiary in textile and clothing also. WTO agreement demands the elimination of Multi-Fiber Agreement (MFA) which will boost textile export from India and attract investment in this sector. At the same time, the textile import from the countries like the US, China, Taiwan, Indonesia and others will force smaller players here to upgrade their mills and produce high quality textiles.

(e) **Liquor Companies:** Liquor sector is one of the most vulnerable sectors due to WTO rules. Currently, the government charges 233% tariff on liquor import which has to be slashed making way for foreign brands. The move will affect the domestic industry greatly. However, liquor companies are preparing for the changed scenario.

(f) **The Services Sector:** After the economic liberalization, Indian service sector has grown considerably. The industry is set to be affected by the WTO rules namely Most Favoured Nation (MFN) treatment and transparency by way of publication of all laws and regulations.

India will be forced to open up its service sector which will bring in foreign players creating tougher competition for domestic players.

However, some critics say it won't create a major problem as India has competitive advantages in many areas such as construction, engineering, software and many other professional services.

Trade Related Aspects of Intellectual Property Rights (TRIPs)

Ideas and knowledge are becoming important components of trade. Most of the value of new medicines and other high technology products lies in the amount of invention, innovation, research, design and testing involved. The creators of such products can be given the right to prevent others from using their inventions, designs and other creations. These rights are known as 'intellectual property rights'.

TRIPs agreement sets out the minimum standards of protection to be adopted by the parties in respect of the seven areas of intellectual property rights, viz., copy rights, trade marks, geographical indications, industrial designs, patents, layout designs of integrated circuits and trade secrets. A transition period five years has been given to all developing countries to give effect to the provisions of the TRIPs agreement.

General Provisions and Basic Principles

The protection and enforcement of intellectual property rights has two objectives:

a) Promotion of technological innovation

b) Transfer and dissemination of technology to the shared advantage of producers and consumers.

Areas of Intellectual Property Rights

(a) Copy Right and Related Rights:– Copyright and other related rights are protected under Berne Convention, 1971. Copy right protection shall extend to expressions and not to ideas, procedures, and methods of operation or mathematical concepts as such. Computer programmes, whether in source or object code, shall be protected as literary works under the Berne Convention. Compilation of data or other materials, whether in machine or other form, constitute intellectual creations and shall be protected as such.

(b) Trade Marks: Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertaking shall be capable of constituting a trademark. The owner of such trade mark shall have the exclusive right to prevent all third parties from using identical trademarks.

(c) Geographical Indications: Geographical indications which identify a good as originating in the territory of a member or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.

(d) Industrial Design: Members shall provide for the protection of independently created industrial designs that are new or original wherein the owner shall have the right to prevent third parties selling or importing articles bearing a design, which is a copy of the protected design.

(e) Patents: Patents shall be available for any inventions, whether products or processes in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.

(f) Layout-Design (Topographies) of Integrated Circuits: - Members should provide protection to the layout designs of integrated circuit. Importing, selling or otherwise distribution of such circuits for commercial purpose, without the authorisation of the right holder shall be considered as unlawful.

Trade Related Investment Measures (TRIMs)

Taking into account the trade, development and financial needs of the developing country members, particularly those of the least developed countries, the Agreement of Trade Related Investment Measures (TRIMs) was accepted. This Agreement applies to the investment measures related to trade in goods only.

The Agreement recognizes that certain investment measures restrict and distort trade. It provides that no contracting party shall apply any TRIM inconsistent with Articles III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT. This includes measures which require particular levels of local procurement by an enterprise or which restrict the volume or value of imports such as an enterprise can import the value of goods related to the level of products it exports ("trade balancing requirements"). The agreement requires mandatory notification of all non-conforming TRIMs and their elimination within two years for developed countries, within five years for developing countries and within seven years for least-developed countries.

General Agreement on Trade in Services (GATS)

The General Agreement on Trade in Services (GATS) is an international trade agreement that came into effect in 1995 and operates under the umbrella of the World Trade Organization (WTO). It is the first and only set of multilateral rules covering international trade in services.

The aim of the GATS is to gradually remove all barriers to trade in services. The agreement covers services as diverse as banking, education, healthcare, rubbish collection, tourism or transport. The GATS agreement specifically states that the negotiations "shall take place with a view to promoting the interests of all participants on a mutually advantageous basis" and "with due respect for national policy objectives and the level of development of individual Members".

Check your progress 3

1. Now, Indian companies are allowed to produce similar product using different process?
   a. True
   b. False

2. The WTO agreement on agriculture supports________________?

a. Higher use of pesticides
b. Tariff reduction
c. Labor reduction
d. Domestic subsidies reduction
e. Both b & d

2.5 United Nations Conference on Trade and Development (UNCTAD)

UNCTAD - Functions

The main functions of UNCTAD are:

(a) To promote international trade and economic development of less developed and developing countries;

(b) To promote trade and economic co-operation particularly between countries at different stages of economic development and having different economic and social systems;

(c) To formulate the principles and policies for international trade and problems related to economic development;

(d) To secure execution of the principles and policies framed for international trade and solving problems related to economic development;

(e) To promote a more equitable international economic order;

(f) To secure a larger voice for developing countries in decision-making.

Since 1964, the UNCTAD has conducted so far ten conferences at different places, with an interval of four years.

UNCTAD - Generalised System of Preferences (GSP)

At the Second UNCTAD Conference, which was held at New Delhi in 1968, Generalised System of Preferences (GSP) was introduced.

The Generalised System of Preferences (GSP) is a scheme launched by the UNCTAD to encourage exports from developing countries to developed countries. Under this scheme, the developed countries are expected to grant a special duty concession on imports of specified manufacturers and semi-manufacturers from the developing countries.

The European Economic Community (EEC) countries and a number of other countries, such as the USA, the USSR, Japan, Norway, New Zealand, Finland, Sweden, Czechoslovakia, Hungary, Switzerland, Austria, Canada, Australia, Bulgaria and Poland have introduced the GSP.

The GSP facility is subject to the following conditions:

(a) The GSP facility is available only to the developing countries.

(b) It is available only on the products included in the GSP list.

(c) The value added requirements and process criteria must be complied with.

(d) It is subject to certain stringent quantitative limitations.

(e) It is applicable for a period of 10 years from its institution by the preference granting countries.

(f) The preferential rates of duty under the scheme differ from country to country.

Objectives of GSP

(a) To promote exports from developing countries of the world and thereby to promote their economic development.

(b) To improve competitiveness of exporters from the developing countries by giving them an exemption or concession in duties.

(c) To promote market accessibility of products from LDCs and thereby help such countries in the process of industrialisation.

Check your progress 4

1. Which of the following bodies is mainly responsible for the economic development of less developed and developing countries?

a. WTO c. GATT

b. UNCTD d. IMF

2. Which of the following encourage exports from developing country to developed country?

   a. WTO
   b. GATT
   c. GSP
   d. IMF

2.6 Trading Blocs

Meaning of Trading Blocs

Trading Blocs are the associations of countries situated in a particular region whereby they come on to a common understanding regarding rules and regulations to be followed while exporting and importing goods among them. Such blocs have liberal rules for member countries while a separate set of rules is laid for non-members, for example, European Union (EU), Association of South East Asian Nations (ASEAN).

Types of Trading Blocs

Trading blocs take several forms, depending upon the degree of cooperation, dependence and inter-relationship among participating nations. On the basis of degree of integration among different economies, trading blocs can be of the following types:

(a) **Regional Cooperation:** Regional cooperation is the most basic form of economic cooperation. In regional cooperation, the participating nations agree to participate jointly in developmental efforts of the region as a whole. For example, South Asian Association for Regional Cooperation (SAARC)

(b) **Free Trade Area:** This is the simplest form of economic integration which provides for internal free trade between member countries. Each member is allowed to determine own commercial policy with respect to non-members, for example, Latin American Free Trade Association (LAFTA).

(c) **Customs Union:** A customs union is a more advanced form of economic integration which not only provides for internal free trade between the member countries but also adopts a uniform commercial policy against the non-members, for example, European Economic Community (EEC).

(d) **Common Market:** A common market allows free movement of labour and capital within the common market in addition to having free movement of goods between the member countries and having common commercial policy is respect to non-members.

(e) **Economic Union:** In case of economic union the member countries have same economic policies, including monetary and fiscal policy, in addition to the features of common market. For example, the European Union (EU) has introduced a common currency Euro 2000.

(f) **Political Union:** Political union is the ultimate type of economic integration whereby member countries achieve not only monetary and fiscal integration but also political integration.

Opportunities and Threats of Trading Blocs

Opportunities

(a) Elimination of trade barriers within the region would encourage the efficient firms to expand their business activities in all countries within the region.

(b) Healthy competition within the region would help the less efficient firms in acquiring competencies in order to challenge the efficient firms.

(c) The overall business performance in terms of productivity, quality, price, delivery and customer service will improve.

(d) Consumers get better quality goods and services at competitive price.

(e) Employment opportunities in the region increase.

Threats

(a) The removal of trade barriers provides opportunities to the efficient firms to enter the different markets within the region. This endangers the survival of the less efficient firms.

(b) The resources of the less efficient countries are exploited by the firms from the advanced countries of the region.

(c) The less developed countries of the region mostly become consumption centers while the advanced countries of the region become the production centers.

(d) The less developed countries become still poorer whereas the advanced countries of the region become still richer.

(e) It discourages trade with non-members as trade with non-members is subject to strict rules and trade barriers.

Check your progress 5

1. Trading blocs have one set of rules for members and another set of rules for non-members?
   a. True
   b. False
2. Which of the following is an opportunity provided by a trading bloc?
   a. Less developing countries becoming consumption centers
   b. Exploitation of resources of less efficient countries
   c. Production of better quality goods at competitive price
   d. Increased productivity of all member countries
   e. Both c & d

2.7 Distinguish between Tariff Barriers and Non-tariff Barriers

Tariff Barriers	Non-tariff Barriers
1. Meaning:	
Tariff barriers are in the form of taxes and duties charged on commodities imported and exported.	Non-tariff barriers are quantitative restrictions on physical units of a commodity imported or exported.
2. Types:	
Tariff barriers are classified on the basis of origin, purpose, criteria and relations between the trading countries.	Non-tariff barriers are in the form of quotas, licensing, consular formalities, foreign exchange restrictions, etc.

3. Objectives:	
The objective of tariff barriers is to increase the price of imported goods and thereby reduce their consumption and import.	The objective of non-tariff barriers is to restrict the quantity of import so as to provide protection to domestic industries.
4. Nature:	
It is an indirect method of curtailing imports by increasing the price of imported articles.	It is a direct method of curtailing imports by imposing restrictions on the physical quantity of imports
5. Effectiveness:	
As a method of controlling imports, tariffs may not be effective as people may continue to buy imported goods at a higher price.	As a method of controlling imports, non-tariff barriers may be more effective as they directly control the total volume of goods imported.
6. Revenue:	
Tariff barriers generate revenue for the government in the form of taxes and duties.	Non-tariff barriers do not generate any revenue for the government.
7. Popularity:	
As a method of curtailing imports, tariff barriers are more popular and used frequently.	As a method of curtailing imports, non-tariff barriers are used rarely.

Check your progress 6

1. Which of the following barriers is aimed at protecting domestic industry?
   a. Tariff barriers
   b. Non-tariff barriers

2.8 Distinguish between Advalorem Duty and Specific Duty

Specific Duty	Advalorem Duty
1. Meaning:	
Specific duty is a duty imposed on each unit of a commodity imported or exported.	Advalorem duty is a duty imposed on the total value of commodity imported or exported.
2. Convenience:	
Specific duty is easy to calculate and administer as it can simply be calculated by multiplying the rate of duty with number of units imported or exported.	Advalorem duty is difficult to calculate, as it requires a proper assessment of the value of goods imported or exported.
3.Nature of Goods:	
Specific duty is levied on such goods whose quantification in terms of number of units is possible. For example, number of T. V. sets and metres of cloth.	Advalorem duty is levied on such goods whose quantification in terms of number of units is not possible. For example, rare paintings and statues.
4. Popularity:	
In spite of advantages over advalorem duty, specific duty is not very popular as most of the countries use advalorem duties.	Generally most of the countries charge duties on the basis of value of goods imported or exported, i.e., advalorem duties.
5. Main Considerations:	
In this case value of commodity is not taken into consideration. For example, Rs. 5 on each meter of cloth imported or Rs. 500 on each T. V. set imported.	In this case physical units of commodity are not taken into consideration. For example, 5% of F. O. B. value of cloth imported or 10% of C.I.F. value of T.V. sets imported.

Check your progress 7

1. Which of the following duty is levied on the total value of the commodity?
   a. Specific duty
   b. Advalorem duty
2. Which duty is levied on the commodity which cannot be counted?
   a. Specific duty
   b. Advalorem duty
3. Which of the following duty is mostly charged in international trade?
   a. Specific duty
   b. Advalorem dut

2.9 Let Us Sum Up

In this unit, we have learnt that international marketing environment refers to those internal and external factors which impact the international business. These factors can be liberal or conservative, favourable or unfavourable, or progressive or regressive depending upon the situation. Some of the factors can be controlled by the company whereas some cannot.

There are various types of international marketing environment like social and cultural, technological, economic, political, international, legal and ecological.

We have understood the trade barriers. It refers to restriction on the movement of goods from one country to another. Governments create these barriers intentionally to protect domestic industry where it is not able to compete with mighty foreign players. There are many benefits of trade barriers like protection to nascent industries, conservation of foreign exchange, managing balance of payment and protection to economy from dumping. Trade barriers are of two types, tariff and non-tariff. We have identified the role WTO and UNCTAD. They are established to promote international trade.

Many countries around the world form association between themselves to protect their business. These associations are known as trading blocs. They have different rules and regulations for members and non-members.

2.10 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-b)

Check your progress 2

Answers: (1-e) (2-a)

Check your progress 3

Answers: (1-b), (2-c)

Check your progress 4

Answers: (1-b), (2-c)

Check your progress 5

Answers: (1-a), (2-a)

Check your progress 6

Answers: (1-b)

Check your progress 7

Answers: (1-b), (2-b), (3-b)

2.11 Glossary

1. **Endogenous Factors -** The endogenous factors consist of internal factors which a business unit can control and influence.
2. **Exogenous Factors -** Exogenous factors are external factors which are uncontrollable by the company. They create constraints for the company.
3. **Export duty -** is a tax imposed on commodities exported from a country.
4. **Import duty -** is a tax imposed on commodities imported by a country.
5. **Transit duty -** is a tax imposed on a commodity when it passes through the national frontiers of a country.

6. **Specific duty -** is a duty imposed on each unit of a commodity imported or exported.

7. **Advalorem duty -** is a duty imposed on the total value of a commodity imported or exported.

8. **Compound duty -** is the combination of specific and advalorem duties.

9. **Revenue tariff -** is the tariffs imposed in order to earn revenue for the country.

10. **Protective tariff -** is imposed in order to protect infant industries by restricting or eliminating competition from foreign companies.

11. **Dumping -** is the strategy by which foreign companies try to penetrate into overseas markets by selling goods at a very low price.

12. **Countervailing -** duties are similar to anti-dumping duties to some extent.

2.12 Assignment

Find out the detail information about SAFTA.

2.13 Activities

Visit an MNC and find out which kind of trade barriers they find most unfriendly in India.

2.14 Case Study

Pepsi Learn to Compete in India

Following liberalization of the Indian economy and the dismantling of complicated trade rules and regulations, foreign investment increased dramatically. Processed foods, software, engineering plastics, electronic equipment, power generation, and petroleum industries all benefited from the policy changes.

Despite its huge population, India had not been considered by foreign beverage producers to be an important market. In addition to the deterrents imposed by the government through its austere trade policies, rules, and regulations, local demand for carbonated drinks in India was very low compared with countries at a similar stage of economic development. In 1989, the average Indian was buying only three bottles a year, compared with per-capita consumption rates of 11 bottles a year in Bangladesh and 13 in Pakistan, India's two neighbors.

PepsiCo entered the Indian market in 1986 under the name "Pepsi Foods Ltd. in a joint venture with two local partners, Voltas and Punjab Agro." As expected, very stringent conditions were imposed on the venture. Sales of soft drink concentrate to local bottlers could not exceed 25 percent of total sales for the new venture, and Pepsi Foods Ltd. was required to process and distribute local fruits and vegetables. The government also mandated that Pepsi Food's products be promoted under the name "Lehar Pepsi" ("lehar" meaning "wave"). Foreign collaboration rules in force at the time prohibited the use of foreign brand names on products intended for sale inside India. Although the requirements for Pepsi's entry were considered stringent, the CEO of Pepsi-Cola International said at that time, "We're willing to go so far with India because we want to make sure we get an early entry while the market is developing."

In keeping with local tastes, Pepsi Foods launched Lehar 7UP in the clear lemon category, along with Lehar Pepsi. Marketing and distribution were focused in the north and west around the major cities of Delhi and Mumbai (formally Bombay). An aggressive pricing policy on the one-liter bottles had a severe impact on the local producer, Pure Drinks. The market leader, Parle, preempted any further pricing moves by Pepsi Foods by introducing a new 250-ml bottle that sold for the same price as its 200-ml bottle.

Pepsi Foods struggled to fight off local competition from Pure Drinks' Campa Cola, Duke's lemonade, and various brands of Parle. The fight for dominance intensified in 1993 with Pepsi Food's launch of two new brands, Slice and Teem, along with the introduction of fountain sales. At this time, market shares in the cola segment were 60 percent for Parle (down from 70 percent), 26 percent for Pepsi Foods, and 10 percent for Pure Drinks.

Seasonal Sales Promotions—2006 Navratri Campaign in India the summer season for soft drink consumption lasts 70 to 75 days, from mid-April to June. During this time, over 50 percent of the year's carbonated beverages are consumed across the country.

The second-highest season for consumption lasts only 20 to 25 days during the cultural festival of Navratri ("Nav" means nine and "ratri" means night). This traditional Gujarati festival goes on for nine nights in the state of Gujarat, in the western part of India. Mumbai also has a significant Gujarati population that is considered part of the target market for this campaign.

For its part, PepsiCo also participates in annual Navratri celebrations through massive sponsorships of "garba" competitions in selected venues in Gujarat.

Then there is the mega offer for the people of Ahmedabad, Baroda, Surat, and Rajkot where every refill of a case of Pepsi 300-ml. bottles will fetch one kilo of Basmati rice free." These four cities are located in the state of Gujarat. Basmati rice is considered premium quality rice. After the initial purchase of a 300-ml bottle, consumers can get refills at reduced rates at select stores.

The TV Campaign Both Pepsi-Cola in TV campaigns employing local and regional festivals and sports events. A summer campaign featuring 7UP was launched by Pepsi with the objectives of growing the category and building brand awareness. The date was chosen to coincide with the India–Zimbabwe One-Day cricket series. The new campaign slogan was "Keep It Cool" to emphasize the product attribute of refreshment.

Questions

1. What characteristics have played in favour of PepsiCo India? Discuss.

2.15 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.

UNIT 3: REGULATORY ENVIRONMENT FOR INTERNATIONAL TRADE

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- How to acquaint the students with the various regulations in international trade.

- The legal aspects connected with international marketing.
- About the SEZ's and the current foreign trade policy of India
- Legal aspects of international trade disputes
- Major laws governing India's export import trade
- About international commercial practices

3.1 Introduction

One of the distinctive features of international marketing is that exporters have to deal with different legal systems. An Indian manufacturer operating in domestic market is well aware of the fact that he is governed by the Indian laws and is subject to the jurisdiction of Indian Courts. But an Indian exporter exporting his products to an importer, says in the USA, must contend with the fact that US laws may also have influence over their contractual relations as well as settlement of dispute, if any and arising out of the contract. This is technically referred to as the conflicts of laws, which can be settled in advance by incorporating specific provisions in the contract as to the proper law governing the contract and jurisdiction.

3.2 Regulations for International Trade

3.2.1 Introduction

At the same time, since the buyer and the seller are at a great geographical distance from each other, many intermediaries like shipping companies, airlines, insurance companies and banks are involved the transaction. These intermediaries are from different countries and trade terms and usages differ across the countries. Therefore, it is advisable for the exporters to enter into written export contracts, incorporating all the necessary details, so as to avoid all future conflicts and disputes.

3.2.2 Major Laws Governing India's Export Import Trade

The major laws influencing Indian exporters and importers are:

1. Customs Act, 1962.
2. Customs Tariff Act, 1975.

3. Foreign Exchange Regulations Act (FERA), 1973.
4. Foreign Exchange Management Act (FEMA), 2000.
5. The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act (COFEPOSA), 1974.
6. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act (SAFEMA), 1976.
7. Foreign Trade Development and Regulation Act, 1992.
8. The Prevention of Money Laundering Bill, 1999.
9. The Customs House Agents Licensing Regulations, 1984.
10. Baggage Rules, 1998.
11. Customs and Central Excise Duties Drawback Rules, 1995.
12. Central Excise Act, 1944.
13. The BIS (Certification) Regulations, 1988.
14. Pre-shipment Inspection and Quality Control Act, 1963.
15. International Commercial Practices.

Foreign Trade (Development and Regulation) Act, 1992

Under the authority of this Act, the office of Director General of Foreign Trade (DGFT) brings out the export import policy and lays down the procedures. The policy determines among other things:

(a) Whether export of a product is banned;

(b) Whether the export of the product is subject to quota restrictions or licensing arrangements;

(c) Whether export of a product is canalised through a Government undertaking; and

(d) Whether there is any floor price regulation regarding that product.

No export or import shall be made by any person except in accordance with the provisions of this Act, the orders and rules made under this Act and the export and import policy.

Objective of the Act

The objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into and augmenting exports from India and for matters connected therewith or incidental thereto.

Main Provisions of the Act

(a) **Development and Regulation:** The Act empowers the Central Government to make provisions for the development and regulation of foreign trade by facilitating imports and increasing exports.

(b) **Prohibition and Restriction:** The Act also empowers the Central Government to make provisions for prohibiting, restricting and otherwise regulating the import or export of goods as and when required.

(c) **Export Import (EXIM) Policy:** The Act lays down that the Central Government may from time to time formulate and announce the EXIM policy and may also amend it keeping in mind the national priorities.

(d) **Director General of Foreign Trade (DGFT):** As per this Act, Central Government can appoint the Director General of Foreign Trade (DGFT) who is responsible for advising in the formulation of the EXIM policy and its execution.

(e) **Importer Exporter Code Number (IEC No.):** The DGFT can issue, suspend or cancel Importer Exporter Code Number under this Act.

(f) **Search, Inspection and Seizure:** Where any contravention of any condition of the license is suspected, any person authorised by the Central Government may search, inspect and seize such goods, documents and conveyances subject to such requirements and conditions as may be prescribed.

(g) **Penalty for Contravention:** Where any person makes or attempts to make any export or import in contravention of any provisions of this Act or the EXIM Policy, he shall be liable to a penalty not exceeding one thousand rupees or five times the value of the goods involved, whichever is more.

Foreign Exchange Regulation Act, 1973

The Foreign Exchange Regulation Act (FERA), 1973 expired on 1st June 2000. The Foreign Exchange Management Act (FEMA), 2000 has taken its place. The FEMA is more transparent in its application. It has laid down the areas where specific permission of the Reserve Bank or Government of India is required. In rest of the cases no such permission would be needed and a person can remit funds and acquire assets, incur liability in accordance with the specific provisions laid down in the Act or Notifications issued by the Reserve Bank or Government of India under the Act.

Main Provisions of the Act

(a) Application of FEMA may be seen broadly from two angels:

- **Capital Account Transactions:** Capital account transactions relate to movement of capital. For example, transactions in property and investments and lending and borrowing money
- **Current Account Transactions:** Transactions which do not fall in capital account category are current account transactions. Such transactions are permitted freely subject to a few restrictions as given below:
  - Certain current account transactions would require RBI permission if they exceed a certain ceiling.
  - A few current account transactions need permission of appropriate Government of India authority irrespective of the amount.
  - There are seven types of current account transactions, which are totally prohibited. These include transactions relating to lotteries, football pools, banned magazines and a few others.

(b) The Act provides that:

For all cash exports, the foreign exchange proceeds from exports must be brought back to India within 180 days, except where exports are made on deferred payment terms or on consignment basis.

- Under FEMA (Foreign Exchange Management Act), effective from June 2000, there is no longer any ceiling as a percentage of FOB value of exports for payment of commission. The erstwhile ceiling of 12.5% of FOB value of exports has been abolished.

- Residents going abroad for business purposes or for participating in conferences or seminars will not need RBI permission to avail foreign exchange up to US $ 25,000 per trip irrespective of the period of stay.
- The Exchange Earner's Foreign Currency (EEFC) account holders and Residents Foreign Exchange (RFC) account holders are permitted to freely use the funds held in such accounts for payment of all permissible current account transactions.

(c) The Act also contains comprehensive and transparent rules for foreign investment in India and Indian investments abroad and permits Indian companies engaged in certain specified sectors to acquire shares of foreign companies engaged in similar activities by share, swap or exchange through issue of ADRs/GDRs up to certain specified limits.

(d) FEMA is a civil law unlike FERA. Contravention under FEMA will be dealt with through civil procedures. Unlike in FERA, the burden of proof under FEMA will be on the enforcement agency and not on the implicated. FEMA describes elaborate redressal machinery for total justice and fairness to the implicated while deciding on the question of contravention.

C) Pre-shipment Inspection and Quality Control Act, 1963

According to the Export (Quality Control and Pre-shipment Inspection) Act, 1963, 90% of export items are required to go for pre-shipment inspection. The Government has done so to promote quality to match international standards.

Some of these items are:

(a) Food and agricultural products;

(b) Chemicals and allied products;

(c) Engineering goods;

(d) Textiles;

(e) Coir, jute and leather products such as footwear, etc.

The Act empowers the Government to:

(a) Notify commodities, which shall be subjected to Quality Control or Inspection or both, prior to the export.

(b) Specify the type of Quality Control or Inspection, which will be applied to a notified commodity.

(c) Establish, adopt or recognise one or more standard specifications to a notified commodity.

(d) Prohibit the export in the course of international trade of a notified commodity, unless it is accompanied by a certificate under Section 7 that the commodity satisfies the conditions related to Quality Control or Inspection or it has affixed or applied to it a mark or seal accepted by th0e Central Government that it conforms to the standard specifications applicable to it.

For carrying out pre-shipment inspection of various goods a number of existing agencies, both the Government as well as private, have been recognised under the Exports (Quality Control and Inspection) Act, 1963. To supplement the work of the agencies, the Government has also established five Export Inspection Agencies, one each at Mumbai, Kolkata, Cochin Chennai and Delhi in 1966 exclusively for export inspection. The Export Inspection Agencies (EIAs) has a network of nearly 62 offices throughout India. These EIAs have certain specific areas under their jurisdiction.

Inspection by Buyer's Agency

Sometimes, the foreign buyers lay down their own standards and specifications, which may or may not be equivalent with the Indian standards including stipulations under the Quality Control Regulations. For this purpose the overseas buyers nominate their own persons or agencies to supervise the production of goods and carry out inspection before the shipment.

Customs Act, 1962

The Customs Department is vested with the task of carrying out physical as well as documentary check on all the goods crossing the Indian customs frontier. All export consignments will be checked by the customs authorities at port or airport with a view to ascertaining that the goods being shipped are those which are declared in the documents and that no under or over invoicing is involved.

3.2.3 International Commercial Practices

Apart from the Indian laws, import and export contracts are also subject to the provisions of certain international commercial practices, which may have a bearing on export-import contracts. In this connection, the following two documents prepared by the International Chamber of Commerce, Paris, are widely used in international business:

(a) **Uniform Customs and Practice for Documentary Credits (UCP), 1993:** In order to ensure uniformity of interpretation in international trade, the International Chamber of Commerce has worked out the Uniform Customs and Practices for Documentary Credits. These have been revised and brought up to date several times. Presently, they are applied in nearly all the countries. The latest in the line of revisions is the UCP 500 (w.e.f. from 1st January 1994), which updates and consolidates the previous UCP 400. The UCP for documentary credit has been subscribed to by India also.

(b) **INCOTERMS, 2000:** In order to have uniform export terms for delivery of goods and payment, there are several trade terms that are used at the international level. These terms define the various trade terms like, FOB, CandF, CIF, etc., and codify the respective rights and obligations of the two parties under various contract terms. These terms are codified by the International Chamber of Commerce (ICC). They are titled 'INCOTERMS'.

Uniform Customs and Practice for Documentary Credits (UCP), 1993

The UCP 500 contains 49 articles. Some of which have been explained here:

Application of UCP

This article states that all letters of credit, including standbys, are issued subject to UCP 500. Great care should be taken to avoid accepting credits that are not issued subject to UCP 500.

Meaning of Credit

A Credit refers to an arrangement where a bank on the request and instructions of a customer:

- Makes payment to a third party
- Accepts bills of exchange drawn by the third party
- Authorises another bank to make payment to a third party or accepts bills of exchange
- Authorises another bank to negotiate against stipulated documents.

Essentially, a credit is any instrument issued by a bank subject to UCP 500 that contains a conditional undertaking to effect payment provided that its terms and conditions have been complied with.

Revocable V/S Irrevocable Credits

A credit may be either revocable or irrevocable. A revocable credit can be amended or canceled by the issuing bank at any moment and without prior notice to the Beneficiary. All credits issued should be irrevocable so as to prevent the applicant from canceling or amending the credit without the permission of the beneficiary.

It is preferable for the credit to state whether it is revocable or irrevocable. However, in the absence of wording to the contrary, all letters of credit are considered to be irrevocable.

Standard for Examination of Documents

(a) Banks should examine stipulated documents minutely; the documents must be in compliance with the terms.

(b) Banks are supposed to examine the documents within seven day and inform the party of the acceptance or refusal as the case may be.

(c) However, banks assume no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document(s).

Check your progress 1

1. Under which law, the Director General of Foreign Trade brings out the export import policy and lays down procedure?
   a. Export Import Policy
   b. International Commercial Practices
   c. Foreign Exchange Regulations Act (FERA), 1973
   d. Foreign Trade Development and Regulation Act, 1992
2. What do you know about INCOTERMS, 2000?
   a. It lists standards for the examination of documents.
   b. It lists international contract laws prescribed the UN.
   c. It lists uniform export terms for delivery of goods and payment.
   d. It lists uniform customs and practices for documentary credits.

3.3 Legal Aspects of Export Contract

3.3.1 Introduction

An international marketer has to face a number of legal issues in implementation of the corporate export marketing plan. The basic legal issues can broadly be classified into.

(a) Those relating to export-import contracts;

(b) Those relating to the relationship between the exporter and agents or distributors;

(c) Those relating to products, viz. branding, product liability and promotion;

(d) Those relating to credit contracts, i.e., letter of credit.

(e) Those relating to settlement of international trade disputes.

3.3.2 Legal Aspects of Export Contract

Meaning of Export Contract

A written agreements signed by both, the importer and exporter for the supply of goods. It can take many forms like. However, a fairly large part of India's exports is carried out without the backing of written export contracts.

Elements of Export Contract

There is no standard format of export contract as the elements of export contract may vary from individual to individual, transaction to transaction and country to country. The elements of an export contract also depend upon the nature of product being exported. However, some of the elements of the export contract are common. These elements are:

(a) Product standards and specifications such as quantity, quality specifications, price per unit, total contract price;

(b) Currency, Taxes and Charges;

(c) Packing specifications and Marking and Labeling;

(d) Mode of transport and Time and place of delivery;

(e) Marine insurance;

(f) Inspection and Documentation;

(g) Mode of payment, Terms of delivery and Credit period, if any;

(h) Warranties and after sales service;

(i) Provisions relating to export and import licenses and permits;

(j) Laws governing contract, Jurisdiction and Procedure for settlement of disputes.

FOB Contract

FOB is the most frequently used price quotation in the international market. Under this quotation, the exporter undertakes to pay all expenditure till the loading of goods on board the ship, including documentation charges. All expenditure thereafter, such as ocean freight, marine insurance, unloading charges, etc., are borne by the importer.

The Seller's Obligations

(a) To provide goods and the commercial invoice, or its equivalent electronic message, in conformity with the contract of sale.

(b) To obtain any export license or other official authorisation and carry out all the customs formalities necessary for the exportation of the goods.

(c) To deliver the goods on board the vessel at the port of shipment on the date, or within the period stipulated.

(d) To give the buyer sufficient notice that the goods have been delivered on boards the vessel.

(e) To pay the costs of checking quality, measuring, weighing, counting, packing and marking of the goods.

The Buyer's Obligations

(a) To pay the price as provided in the contract of sale.

(b) To obtain import license or other official authorisation and carry out all customs formalities for the importation of the goods.

(c) To take the delivery of the goods when the goods have been delivered according to the terms.

(d) To set aside the required space and give notice to the exporter; and

(e) To bear all costs and risks of the goods from the time when they shall have effectively passed the ship's rail.

CIF Contract

Cost, Insurance and Freight means that the seller has the same obligations as under C and F but with the addition that he has to procure marine insurance against the buyer's risk of loss or damage to the goods during carriage. The seller contracts for insurance and pays the insurance premium. However, the seller is required to obtain insurance on minimum coverage only. The CIF term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport.

The Seller's Obligations

(a) To provide goods and the commercial invoice, or its equivalent electronic message, in conformity with the contract of sale.

(b) To obtain any export license or other official authorisation and carry out all the customs formalities necessary for the exportation of the goods.

(c) To arrange for the carriage of the goods to the named port of destination by the usual route in a seagoing vessel and to pay its costs and freights.

(d) To obtain cargo insurance as agreed in the contract and to provide the buyer with the insurance policy or other evidence of insurance cover.

(e) To deliver the goods on board the vessel at the port of shipment on the date, or within the period stipulated.

(f) To give the buyer sufficient notice that the goods have been delivered on boards the vessel.

(g) To pay the costs of checking quality, measuring, weighing, counting, packing and marking of the goods.

The Buyer's Obligations

(a) To pay the price as provided in the contract of sale.

(b) To obtain import license or other official authorisation and carry out all customs formalities for the importation of the goods.

(c) To take the delivery of the goods when the goods have been delivered in accordance with the terms of the contract.

(d) To pay all costs relating to the goods from the time they have been delivered in accordance with the terms of the contract.

(e) To pay, unless otherwise agreed, the costs of pre-shipment inspection except when mandated by the authorities of the country of exportation.

3.3.3 Legal Aspects of Export Agency Agreement

Meaning of Export Agency Agreement

In the modern competitive world, every product requires extensive sales efforts for the promotion of the product in the market. Since, it is a very costly affair for an exporter to maintain sales force abroad as well as it is difficult for him to keep track of latest trends in overseas market, it is advisable to appoint an agent abroad who is well versed with the conditions prevailing in the overseas market. Sales agents are of two types:

(a) Commission agents;

(b) Distributors.

Difference between a Commission Agent and a Distributor

Commission Agent	**Distributor**
(a) A commission agent solicits orders and passes them on to the exporters.	(a) A distributor himself purchases good from the exporter and sells them on his account.
(b) A commission agent neither takes the title to the goods nor takes any other sort of credit risk	(b) A distributor purchases goods and therefore takes the title of goods and assumes full credit risk
(c) A commission agent gets an agreed rate of commission	(c) The distributor earns much higher profit than the agent.
(d) Normally, an agent does not provide any sales services.	(d) A distributor may or may not provide after sales services.

Elements of Export Agency Agreement

An export agency agreement is a legal document, which establishes a commercial relationship between the principal and the agent. It incorporates the conditions mutually agreed upon by the agent and the principal for the conduct of business. While concluding an agency agreement, the Indian firms should consider the following points:

(a) **Parties to the Contract:** The identity of the parties must be made explicit; especially whether the agency is assignable or not, should be made clear.

(b) **Contracted Territory:** The territory for which the sole agency is being granted should be explicitly mentioned. This would help in preventing inter-territorial disputes between agents in different areas.

(c) **Contractual Products:** The agreement should explicitly indicate the products for which the agency is being concluded. Otherwise, it is implied that the agreement is for the entire product range, both present and future.

(d) **Customers:** An agent is expected to contact all potential customers. However, if the principal wants to reserve the right of contacting specific groups of buyers, then the same should be clearly mentioned in the contract.

(e) **Acceptance or Rejection of Orders:** The principal may reserve the right to accept or reject orders secured by the agent by mentioning the fact in the agreement. This is must when the transaction involves credit terms and the principal is not sure of the creditworthiness of the buyer.

(f) **Settlement of Disputes:** Generally, no dispute can arise if the agency agreement is clearly drafted. Still, it is advisable to agree upon the mechanism for settling disputes while entering into the agency agreement. Arbitration is the best method of settling international disputes.

(g) **Renewal and Termination:** The agency agreement should also provide for the renewal or termination procedure. If the agent is sound, obviously no principal will think of terminating the agreement. The problem of termination arises only when the agent is not effective.

Remittance of Commission to Overseas Agents

Rules for Remittance of Commission to the Overseas Agents:-

(a) It is obligatory for Indian exporters to declare the commission to be payable to the overseas agents, distributors and sales representatives to the Customs on the relative GR/SDF/PP/SOFTEX form.

(b) Reserve Bank has delegated powers to authorised dealers for the remittance of commission to the overseas agents. However, remittance of commission in advance, i.e. before shipments of goods, is not permitted.

(c) No remittance of commission is allowed in respect of exports financed under credits extended by the Government of India to any foreign government.

(d) The exporters are allowed to pay commission either from their Current or Cash Credit account or from EEFC account maintained by them with the authorised dealers.

Rate of Commission

Under Foreign Exchange Management Act (FEMA), effective from June 2000, there is no longer any ceiling as a percentage of FOB value of exports for payment of commission. The erstwhile ceiling of 12.5% of FOB value of exports has been abolished.

Methods of Payment of Commission to the Overseas Agents

(a) **EEFC Account:** The exporters are permitted to utilise their Exchange Earners Foreign Currency (EEFC) Account for remittance of commission to the overseas agent.

(b) **Non-EEFC Cases:** Where the exporter does not wish to utilise his EEFC Account, the authorised dealers remit the commission in the usual manner.

Procedure for Payment of Commission to the Overseas Agents:-

(a) **Remittance by Bank:** There is no restriction on payment of commission to overseas agents and the payment procedure for remittance is also quite simple. Reserve Bank has delegated powers to authorised dealers for the remittance of commission to the overseas agents.

(b) **Letter to Bank:** The exporter is required to make an application (in duplicate) on his letterhead to the bank, which is authorised dealer in foreign exchange, inter alia, giving the following particulars:

- IEC number allotted by the Regional Licensing Authority.
- Customs or Shipping bill no.
- Details of commodity exported.
- Full name and address of the agent or distributor.
- Total value of export invoice.

The applicants for remittance of commission must clearly indicate whether the commission is payable on FOB, C&F or CIF value of the export.

(c) **Documentary Enclosures:** The application submitted to the bank should be accompanied by the following documents:

- Invoice (attested copy).
- Documentary evidence in support of the amount to be remitted

(d) **Payment of Commission:** If the application is found in order, the bank remits the commission. In cases where exporters desire to deduct commission directly from the bill proceeds, the bank may convey instructions to this effect to its foreign correspondent while forwarding the documents.

(e) **Deduction from Invoice Value:** In the cases where, exporters desire to deduct commission directly from the bill proceeds, the bank accepts invoices showing deduction on account of commission. However, such bank should be authorised to remit commission under the delegated powers.

3.3.4 Legal Aspects of Product

A) Branding

'A brand is a name, term, symbol or design, or a combination of them, which is intended to identify the goods or services of the seller or group of sellers and to differentiate them from those of competitors.' –

American Marketing Association

Brand Piracy

Brand piracy refers to counterfeiting of popular brand names in the international market. Brand piracy takes place in case of outstanding brands where people are brand loyal. It is common in case of consumer goods and consumer durables.

Reason for the Growth of Brand Piracy

(a) The laws in some countries where counterfeiting of brand names is done are not strict.

(b) Popular brands of MNCs from developed countries command goodwill in the market and generally people tend to become brand loyal. Counterfeiters capitalise on such loyalty by pirating the brand name in one or the other way.

(c) Technological know-how required to produce a counterfeited product is easily available.

Forms of Brand Piracy

(a) **Imitation:** Imitation means copying a popular brand.

(b) **Faking:** Faking mean copying a popular brand with minor unnoticeable differences.

(c) **Pre-emption:** In countries where law permits wholesale registration of brand names, a counterfeiter may register a large number of well-known brands in his name and then sell such brand names to those interested in counterfeiting.

Consequences of Brand Piracy

MNCs are the worst sufferers of brand piracy. But it also affects others, such as consumers, government, etc.

(a) Causes unfair competition for MNCs.

(b) Loss of market share and profit.

(c) Loss of consumer faith and consumers.

(d) Poor quality.

(e) Loss of revenue for the government.

Remedies against Brand Piracy

(a) The best remedy is to get the brand name registered with appropriate authority.

(b) To initiate legal action against counterfeiters.

(c) To create awareness among consumers about the counterfeited brands.

(d) To introduce some special mark or other distinctive feature such as packing, protective seal, etc.

(e) To withdraw the brand from the market.

World Trade Organisation (WTO) is making some efforts to prevent international brand piracy.

Product Liability

Product liability can be defined as the responsibility borne by the manufacturers, distributors and retailers for any consequent injuries or damages from products they make or sell.

Recognised Bases of Product Liability:-

(a) Any negligence on the part of the manufacturer while manufacturing the product or negligence on the part of seller while selling the product which may cause consumers to suffer injuries or damage. Therefore, the manufacturer must exercise reasonable care in designing and manufacturing the product.

(b) The US Supreme Court established the Principal of Strict Liability in 1953 which states that the aggrieved party need not prove negligence on the part of the manufacturer but hold him strictly liable for any injury resulting from a defective product, irrespective of whether he was negligent or not.

(c) Under some contracts of sale, there are express warranties as well as implied warranties of merchantability. Such warranties must be taken into consideration while designing, manufacturing and selling a product.

Legal action may be taken against any or every party involved in the manufacture and distribution of the products, which prove to be injurious to the welfare of consumers.

The exporter must, therefore, study the relevant laws and regulations of the country and make sure that his products comply with such laws or carry out necessary modifications in his products to meet the requirements of the law. Losses arising out of product liability can also be insured by taking appropriate product liability insurance policy.

Promotion

Marketing Communication, or promotion, plays a very important role in marketing, both domestic and international. Even if a product is very good, it may not achieve success unless the promotion is appropriate and adequate.

Promotion mix consists of different techniques of communication such as advertising, sales promotion, public relations, personal selling, publicity, packaging and trade fairs and exhibitions. These factors must be blended together in order to accomplish the firm's promotion objectives. The nature of the export marketing communication mix is determined by the marketing environment and the company's objectives and resources.

Various Elements of Promotion Mix

(a) **Advertising:** It is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. The different advertising media are newspapers, magazines, radio, television, and so on. However, their relative effectiveness varies from country to country and so do their availability and efficiency. Advertising plays an important role in informing, persuading, and educating the present and potential customers.

(b) **Sales Promotion:** Sales promotion is defined as short-term incentives offered to encourage purchase or sale of a product or service. Sales promotion activities include trade fairs and exhibitions, samples, gifts, contests, games, lotteries, discounts, etc. Regulations regarding sales promotion differ in different countries. Sales promotion efforts of a firm must be supported or complemented by the other elements in the promotion mix.

(c) **Public Relations:** Modern business houses are becoming more of consumer oriented. They believe in maintaining good and cordial relations with their consumers, creditors, dealers as well as intermediaries. Through public relations, the firm intends to create a positive impression on the government agencies, employees, shareholders, consumerists, environmentalists, suppliers, and others, which may include present and potential customers.

(d) **Personal Selling:** Personal selling is defined as oral presentation in a conversation with one or more prospective consumers for the purpose of effecting sales. Personal selling may be preferable when the product is technical in nature, is of high unit value and the number of customers is limited. Effective communication and skillful salesmanship is needed to convince and induce the target customers to buy the company's products.

(e) Publicity: Publicity is unpaid form of advertising whereby a news item is carried in the mass media about a firm and its products, policies, personnel or actions.

(f) Packaging: Attractive and durable packing provides protection to the product and helps in marketing too silently. An attractively designed packaging can attract the attention of the prospects and can induce them to act upon their buying decisions. While designing the packages, factors such as the size and shape of the packages, their colours, language used, international packing standards, etc., must be taken into consideration.

(g) Trade Fairs and Exhibitions: Trade fairs and exhibitions play a leading role in publicising the products of the exporters. Trade fairs and exhibitions, by bringing potential buyers and suppliers in contact with each other and imparting information about the relevant developments around the world, play an important role in international marketing. In India, Indian Trade Promotion Organisation (ITPO) looks after trade fairs and exhibitions of Indian products.

(h) New Information Technologies: There have been dramatic changes in the information technology over the last few years. New information technology modes include electronic mail, corporate and public databases, application systems, fax, video and computer conferencing, which are widely used in the field of international marketing. These modes are considered to be some of the driving forces of internationalisation.

Some Guidelines Governing International Promotion Mix

If exporter's earning for each of the previous two years is less than Rs.10 Lacs, s/he is supposed to take prior permission from the Reserve Bank of India for international promotion. If s/he makes the payment for the promotion from his or her Exchange Earners Foreign Currency (EEFC) Account, permission is not required.

3.2.5 Legal Aspects of Credit Contract (Letter of Credit)

Meaning of Letter of Credit

When importer's bank issues a letter in favour of an exporter giving power to draw bills up to a particular amount according to the contractual terms with the importer, it is known as 'letter of credit'. This letter covers the shipment of goods and assures the exporter of the payment against the delivery of goods.

The operations of Letters of Credit have been regulated and are governed by the articles of 'Uniform Customs and Practice for Documentary Credits' of International Chamber of Commerce adopted by more than 165 countries which were latest revised in 1993 for implementation w.e.f. 1st January 1994.

Doctrine of Strict Compliance

Under this doctrine, the bank has the right to reject any document, which is not in strict conformity with what is asked for in the letter of credit. There is no question of minor or major discrepancy in documents. Any discrepancy makes the documents liable for non-acceptance.

Parties to Letter of Credit

The following parties are involved in the operation of a letter of credit:

(a) **Applicant or Opener:** The applicant or opener is the buyer or importer of goods who opens a letter of credit through a bank for the exporter.

(b) **Beneficiary:** Beneficiary refers to the exporter who gets the letter of credit.

(c) **Issuing Bank:** Issuing bank refers to the bank through which letter of credit is opened.

(d) **Advising Bank:** Advising bank is the branch of issuing bank that issues the letter of credit. This branch is supposed to carry out further process after getting the letter of credit.

(e) **Confirming Bank:** Confirming bank refers to the bank which is located at the exporter's country; this bank promises to pay the exporter on the request of issuing bank.

(f) **Negotiating Bank:** Negotiating bank is the exporter's bank which negotiates the documents given by the exporter.

Procedure for Opening Letter of Credit

The following is the procedure for opening a letter of credit:

(a) **Importer's Request:** The request made by the importer to his bank to open a letter of credit for the exporter. The importer can pay the amount of credit to the bank or credit an equal amount to the bank.

(b) **Issue of Letter of Credit:** The issuing bank sends the letter of credit to its branch located at exporter's country.

(c) **Receipt of Letter of Credit:** The exporter receives the letter of credit from the advising bank. Further, s/he checks the letter of credit for discrepancies and report to the advising bank if any discrepancy is found.

(d) **Shipment of Goods:** Further, the exporter carries out shipping and customs formalities and collects the required documents from the concerned authorities.

(e) **Negotiation of Documents:** The documents are submitted to the negotiating bank by the exporter who receives the money in return after scruitinisation of documents by the bank.

(f) **Re-imbursement of Payment:** The negotiating bank receives the money from the issuing bank.

(g) **Documents to Importer:** Finally, the negotiating bank forwards the documents to the issuing bank that forwards the documents to the importer and the money is debited from the importer's account.

Types of Letter of Credit

The following are the types of letter of credit:

(a) **Revocable and Irrevocable Letter of Credit:** The letter of credit which can be revoked are known as revocable letter of credit. The issuing bank can withdraw, cancel or modify these documents. Generally, such letter of credit is not favoured by exporters. Irrevocable letter of credit is opposite to it. The issuing bank cannot revoke it.

(b) **With Recourse or Without Recourse Letter of Credit:** In the case of letter of credit 'with recourse', the exporter is liable to the negotiating bank if the issuing bank or the importer doesn't make payment whereas in the case of letter of credit 'without recourse' the negotiating bank has to deal with issuing bank or confirming bank if the letter of credit is dishonoured.

(c) Confirmed and Unconfirmed Letter of Credit: When the letter of credit is confirmed, the exporter has an additional guarantee from the local bank in addition to the issuing bank. Unconfirmed letter of credit doesn't have additional guarantee.

(d) Transferable and Non-transferable Letter of Credit: When the letter of credit is transferable, it can be transferred fully or partially to one or more exporters; the issuing bank has to be informed of such transfer. As the name suggests, a non-transferable letter of credit cannot be transferred. Generally, all letters of credit are non-transferable.

(e) Fixed and Revolving Letter of Credit: A fixed letter of credit carries a fixed amount and fixed time period. The exporter can draw bills of specific amount within predetermined time period. The letter of credit expires at the end of time period or after the use of fixed amount. A revolving letter of credit doesn't expire. It gets renewed automatically for the same amount and period.

(f) Clean and Restricted Letter of Credit: Clean letter of credit doesn't carry any condition related to negotiation of documents whereas restricted letter of credit carries conditions for negotiation.

(g) Red Clause and Green Clause Letter of Credit: A Red clause letter of credit authorizes exporter to take pre-shipment finance from the bank. The issuing bank guarantees such finances. A letter of credit also permits pre-shipment finances as well as provides storage facility at the port of shipment.

(h) Back-to-Back Letter of Credit: Back-to-back letter of credit is generally opened for the local suppliers for the supply raw materials to start export production or for the supply of goods on credit for export. It works like a pre-shipment finance for the exporter.

(i) Documentary Letter of Credit: Documentary letter of credit is the one which ensures release of payment on the receipt of full set of documents as mentioned below namely bill of lading, shipping bill, commercial invoice, packing list, certificate of origin, certificate of pre-shipment quality inspection, marine insurance policy, bill of exchange and gsp/cwp certificate.

Advantages of Letter of Credit

Advantages of Letter of Credit to Exporters

(a) **Prevents Blockage of Finance:** Exporters can discount letter of credit and take the money immediately. It helps to avoid blockage of fund.

(b) **Prevents Bad Debts:** Since the payment is guaranteed by the issuing bank, there is no risk of bad debt. If there is confirmed letter of credit, the exporter gets double guarantee.

(c) **Fulfillment of Import Regulations:** Letter of credit is issued when the importer import regulations and exchange control regulations applicable in his or her country which helps to avoid unnecessary delays caused sometimes due these reasons.

(d) **Importer's Obligation:** Due to letter of credit, importer cannot deny to accept goods and make payment which happens sometimes. S/he has to accept goods and pay to the exporter once s/he gets the negotiated documents.

(e) **Helps to Procure Pre-shipment Finance:** Due to letter of credit, exporter is able to procure finance from banks if the letter of credit allows.

In India an exporter can obtain pre-shipment finance from commercial banks on the strength of a letter of credit issued by the importer's bank in his favour.

Advantages of Letter of Credit to Importer

(a) **Better Terms of Trade:** Since letter of credit assures the payment, importer can negotiate terms of trade with a foreign supplier from the position of strength which is otherwise impossible.

(b) **Guaranteed Shipment:** Once the letter of credit is issued, shipment cannot be delayed which assures timely delivery of goods.

(c) **Delivery in Time:** A letter of credit is realized only after submission of documents by the exporter to the importer which ensures timely delivery of goods to the importer.

(d) **Overdraft Facility:** The importer can also get the letter of credit issued using overdraft facility if he has which results in getting goods without making actual payment.

(e) **No Advance Payment:** The importer doesn't have to pay in advance, once letter of credit is issued by the bank.

3.2.6 Legal Aspects of International Trade Disputes

Litigation

Disputes are settled in two ways – litigation and arbitration. As you know that litigation is expensive, takes a lot of time and final decision rests with the court. Therefore, it is not found suitable for trade disputes.

Basic Limitations of Litigation

(a) **Lengthy and Time Consuming:** Court cases take a lot of time and cover a number of formalities; the more time, the more the cost of fighting case.

(b) **Requires Concrete Evidences:** Court needs concrete evidence which becomes difficult to provide as global trade covers different countries' laws and regulations including international trade regulatory bodies. Judges and lawyers don't have good knowledge of international trade.

(c) **Inconvenience to the Parties:** Since the litigation process is lengthy and time consuming, it cause tension and affect mental peace. The parties may not find the date, time and place of hearings convenient.

(d) **Adverse Public Image:** The court proceedings are open to the public and judgements of higher courts are also published. This may cause litigants to expose their internal and private affairs and trade secrets and the reputation of the organisation may be affected adversely.

(e) **Bitterness and Disruption of Trade Relationship:** Acrimony and bitterness usually accompany litigation and irrespective of which party wins, many times it results into a breach or disruption of the long standing trade relationships between the parties.

(f) **Different Laws and Procedures:** International trade transactions involve parties from different foreign countries whose laws and procedures are not same. International trade laws and procedures are rather complicated.

Arbitration

Due to above limitations arbitration is preferred to litigation as a method of dispute settlement at the international level. Arbitration has certain advantages above litigation.

Basic Advantages of Arbitration

(a) **Quickness:** The process of arbitration is simple and quick. The Arbitration Act states that the award has to be made within four months from the date of entering on the reference. Mostly, it is done between four to twelve months.

(b) **Inexpensiveness:** Arbitration fee is 2 % of claim value; in institutional cases, it is even less. Other expenses are also moderate. The cost and expenses in litigation is greatly higher.

(c) **Promotes Goodwill:** Arbitration is done in cordial and friendly environment. Hence, it promotes goodwill. The arbitrator is chosen by the parties themselves.

(d) **Sound and Cogent Decision:** Since the arbitrator is chosen depending upon the knowledge and experience in the line of trade to which the disputes has arisen, the decision is sound and convincing.

(e) **Privacy:** Arbitration proceedings are conducted in private with both the parties. They are not done in public in court cases. Thus, everything remains private including trade secrets which are a big concern of the parties.

Enforcement of International Arbitration:

In the case international arbitration, one of the parties is from other country or the subject of the issue is international in nature. In such cases, arbitration proceedings depend on the terms of export contract. Therefore, parties are advised to keep clear such terms in the contract.

Arbitration can be conducted in any of the parties' country. The motive behind the move is that decision should be accepted voluntarily and the award should be honoured.

Sometimes, if the award goes against one of the parties, the party doesn't comply with the award or delays it inordinately. In such cases, legal route is taken for the enforcement of the award. When such arbitration award is given in one country but has to be enforced in another, the legal route becomes difficult because of disparity and complexity in laws and procedures of different countries.

Releasing these difficulties, several multilateral international conventions have been organised for attaining uniformity and certainty in the enforcement of arbitral awards in different countries. These conventions include:

(a) Geneva Protocol on Arbitration Clauses, 1923.

(b) Geneva Convention of the Execution of Foreign Arbitral Awards, 1927.

(c) New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards, 1958, and

(d) European Convention on International Commercial Arbitration, 1961.

Besides, these Conventions, arbitral awards are also enforceable under bilateral treaties between different countries.

Arbitral awards can also be enforced under bilateral treaties.

Law of Enforcement of Foreign Awards in India

Since India is one of the signatories of the1927 Geneva and 1958 New York Conventions, it has enacted the Arbitration (Protocol and Convention) Act, 1937 and the Foreign Awards (Recognition and Enforcement) Act, 1961 to comply with the provisions of these conferences.

Before 1996, provisions of arbitration were limited to only three enactments, namely:

(a) The Arbitration Act, 1940.

(b) The Arbitration (Protocol and Convention) Act, 1937, and

(c) The Foreign Awards (Recognition and Enforcement) Act, 1961.

Enforcement of Indian Awards in Foreign Countries

Similarly, awards made in India are also enforceable in foreign countries, which are parties to any of the international conventions relating to the enforcement of foreign awards. However, enforcement of arbitral awards in countries, which do not adhere to either the 1937 or the 1961 Convention or other similar international regulations, is somewhat difficult.

Procedure for Arbitration

(a) Inclusion of Future Dispute Clause: The parties of export contract can add 'Future Dispute Clause' in the export agreement which will enforce the settlement of all future disputes, if any, through arbitration. If there is no such clause in the export agreement, the parties can later, by written agreement, submit a controversy to one or more arbitrators for arbitration. This document is known as 'Submission Agreement'.

(b) Initiation of Arbitration: To initiate arbitration, the desiring party should apply on the prescribed application form to the Secretary along with registration fees and the following details:

- The names and addresses of the disputing parties
- Full details of the case
- Original (or duly certified copies) of relevant documents

(c) Fees and Expenses: The following fees and expenses are required for the arbitration.

- Registration fee
- Administrative fee
- Arbitrator's fee

(d) Constitution of Bench: After receiving application, the Secretary constitutes a Bench according to the Council's rules for the adjudication of the disputes. One or three arbitrators are appointed from the Panel of Arbitrators. The Secretary selects qualified and experienced arbitrators from the trade and legal profession. Foreign nationals are also considered to avoid partiality.

(e) Deciding the Venue: The venue is decided by the Bench considering the terms of export contract.

(f) Declaration of Awards: When the award is declared, the Secretary notify the parties in writing the amount of fees and the charges payable for the arbitration and the award declared. If the fee is already paid, a true copy of the award is sent to the parties by registered post.

If a party decides to go to court, s/he pays the fee to the ICA along with the court fees.

(g) Enforcement of Awards: The Voluntary acceptance of the dispute settlement is the spirit behind the concept of arbitration. But, sometimes the settlement is not to the satisfaction of one of the parties and the party denies complying with it or delays the compliance. In such cases, many countries have provided legal provisions for the enforcement of the award.

Check your progress 2

1. Export contract is a mandatory document for exporters in India?
   a. True
   b. False
2. What do you understand by a constructed contract?
   a. A written agreement between importer and exporter
   b. All the relevant documents proving that the order was placed for the export of goods
   c. A written agreement between an exporter and the Government for getting export license
   d. An agreement for excess supply of goods on lower price
3. Which of the following is correct under FOB contract?
   a. The exporter undertakes to pay all expenditure till the loading of goods
   b. The importer undertakes to pay all expenditure at the time of unloading of goods
   c. The exporter undertakes to pay all expenditures of loading and unloading of goods
   d. The importer undertakes to pay all expenditures of loading and unloading of goods

3.4 Let Us Sum Up

In this unit, we have learnt various rules and regulations of international trade. What laws are applicable to India's export business? What are international commercial practices? An exporter has to deal with the legal system of different countries.

An international marketer has to deal with a number of legal issues related with corporate export marketing plan like export contract, relationship between exporters, agent or distributors and others.

Legal issues may arise related to product too pertaining to branding, product liability and product promotion.

When importer's bank issues a letter in favour of an exporter giving power to draw bills up to a particular amount according to the contractual terms with the importer, it is known as 'Letter of Credit'. This letter covers the shipment of goods and assures the exporter of the payment against the delivery of goods.

International Trade Disputes are solved by two ways litigation or arbitration. Litigation is found unsuitable for solving international trade disputes as it is time-consuming, requires good amount of money and final decision remain unknown till the last point. Moreover, parties may not agree with the last decision. Arbitration is done specialists of the concerned business and legal system of the country. Proceedings take place in full knowledge of the parties. Hence, parties accept the decision in most of the cases.

3.5 Answers for Check Your Progress

Check your progress 1

Answers: (1-d), (2-c)

Check your progress 2

Answers: (1-b), (2-b), (3-a)

3.6 Glossary

1. **Branding -** A brand is a name, term, symbol or design, or a mixture of them, which is designed to identify the goods or service.
2. **Export contract -** A written contract between importer and exporter for the supply of commodities
3. **FOB -** It is the most frequently used price quotation in the international market.
4. **CIF Contract -** It says that the seller has the same obligations as under C&F but with the addition that he has to procure marine insurance against the buyer's risk of loss or damage to the goods during carriage.

5. **Export agency agreement -** It is a legal document, which establishes a commercial relationship between the principal and the agent.
6. **FICCI -** Federation of Indian Chambers of Commerce and Industries
7. **CBs -** Commodity Boards
8. **EPCs -** Export Promotion Councils
9. **EEFC Account -** It is used by the exporter for the remittance of commission to the overseas agent. It stands for Exchange Earners Foreign Currency Account.
10. **C&F or CIF -** Cost, Insurance and Freight.

3.7 Assignment

Discuss the latest amendments in ECGC policy.

3.8 Activities

Visit an exporter and discuss with him how does he manages his logistics.

3.9 Case Study

Scenario: The University is developing a space science instrument, known as the Far-ultraviolet Imaging Spectrograph (FIMS) that will trace the balance and flow of energy through plasma, with support from NASA and the Republic of Korea. In cooperation with the Korea Astronomy Observatory, supported by the Korea Ministry of Science, the university will fabricate two FIMS instruments, one engineering model and one flight model, for export to the Republic of Korea, where the FIMS will be integrated into a Korean satellite.

The Korean satellite will then be launched into earth's orbit on a launch vehicle from Russia. The University will produce the opto-mechanical and detector accessories, import the electronic accessories fabricated in Korea, and complete the fabrication of the FIMS. Two different FIMS instruments will be fabricated and exported to Korea: a non-functional, laboratory-use FIMS for development and testing (the "Qualification Model") that is not space qualified, and a space-qualified FIMS (the "Flight Model") that will be used for science research on an orbital satellite.

The design of the FIMS will be openly shared, including posting of schematic drawings, blue-prints, and other fabrication methods on an open website contributed to by members of the University and Korean teams; the results of the research into the spectroscopy of plasma evolution from astrophysical radiation will also be shared openly and published. The contracts from the

Government of Korea and NASA for support of the project simply states that the university will comply with all export regulations.

Analysis and Comment: This award contains no terms or conditions which restrict the disclosure or dissemination of the research results, and no restricted information will be received from the sponsor or others for use on this project.

Even though the answer to our basic Questions 1 and 2 is “No,” it is still necessary to question whether the research project falls under one of the export-controlled technologies because in this instance there will be shipment of a “thing” outside the United States. Because the project entails fabrication of an instrument that will fly in space, ITAR, Category XV Spacecraft Systems and Associated Equipment covers export of the fabricated instrument.

There is no contractual duty to provide a defense service (training of personnel) to the Korean colleagues. The Korean colleagues are contributing technology to the project in the form of the electronics assembly for the FIMS instruments. Both parties are contributing expertise to the objective of fabricating a scientific instrument.

Even though the project qualifies as fundamental research, and the technical information about the design of the FIMS instruments will be publicly available, and the scientific results will be published and shared openly, the university will need to apply for a number of licenses from the Department of State. A license for the temporary import of the electronic assembly from Korea will be necessary, using the Department of State Form DSP-61, Application/License for Temporary Import of Unclassified Defense Articles. It is a temporary import because the electronic assembly will be integrated into the FIMS and then exported back to Korea. Further, licenses for export of both the Qualification/test version and the Flight Model of the FIMS must be secured, using theDSP-5, Application/License for Permanent Export of Unclassified Defense Articles and Related Unclassified Technical Data. In this case, one DSP-5 was submitted, covering both the test version and the final, flight-ready FIMS. Because the technical information about the FIMS is publicly available on the project website, no technical data about the

FIMS is being exported, so the DSP-5 license application covered merely the shipment of the hardware.

The university submitted both the DSP-61 (temporary import) and the DSP-5 (covering the permanent export of the test version and the final flight instrument) as attachments to a cover letter in mid-April. The DSP-61 was three pages long (the completed form with a two-page description) and was approved by mid-May. The DSP-5 was five pages long (the completed form and a four-page description, including a drawing) and was approved by mid-June.

Some conclusions to be drawn are: the process can be relatively straightforward; one need not hire outside legal counsel to prepare an export license application; a simple description of the item to be exported is sufficient in cases where the project is truly fundamental research; listing a contact person who knows the science aspect of the project (such as the NASA Project Officer) helps get the application processed and approved in a timely manner. It is important to note that the university received approval for the temporary import and permanent exports, even though the application made no mention of NASA support for the project (at the time of the initial applications, it was not known that NASA would eventually decide to fund the project). While the name of a knowledgeable NASA official was listed in the license in Block 6 (Name of U.S. government personnel familiar with the commodity), it seems that such exports are approved even without official government funding of the project.

It should also be noted that at the time of submission and approval of the export licenses, it was not known where the Korean satellite containing the FIMS would be launched. Subsequently, Korea decided to use the launch services of the Russian Plesetsk Space Launch Complex. This meant that the FIMS, approved for export to South Korea, would be shipped by South Korea to Russia for launch. Even though Russia would not be considered an “end user,” the fact was that the FIMS, as part of the satellite, would be on Russian soil for a brief period of time. Rather than securing another export license, or a modification to the already approved license, the university simply sent a letter to the Department of State, seeking permission to transport the FIMS instrument, contained within the South Korean satellite, from South Korea to Russia for the sole purpose of being launched into space. The letter was submitted at the end of March, and approval from the Department of State was received in mid-August.

3.10 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.
4. International Marketing by Rakesh Mohan Joshi.
5. International Marketing by Michael Czinkota and Illka A Ronkainen.
6. International Marketing by R Srinivasan.
7. International Logistics by Pierre David.
8. International Management by John B Cullen.
9. A Strategic prespectiveby K Praveen Parboteeah.

Block Summary

In this block, we have learnt the basics of international marketing covering national economic self-reliance, poor export growth in India, and the need for globalization of Indian economy.

We have further understood what is meant by international marketing environment – the internal and external factors affecting international business is known as marketing environment.

We have recognized the role of WTO and UNCTAD in the promotion of international business. Trade barriers are created by the Governments only to promote domestic industry. Trade barriers refer to the control on the movement of goods by way of taxes, duties and regulations. Trade blocs are the association of countries created to protect their businesses. Trade blocs have one set of rule for members and another for non-members.

We have learnt the various laws, rules and regulations governing the international trade. Finally, we learnt that international trade disputes are solved by two ways litigation and arbitration where arbitration is preferred over litigation.

Block Assignment

Short Answer Questions

1. Discuss the concept of Swadeshi?
2. Which kind of company is called an MNC?
3. What is the role of WTO?
4. What is the role of UNCTAD?
5. What do you understand by trading barriers?
6. What do you understand by trading bloc?
7. What do you understand by a line of credit?

Long Answer Questions

1. List out the areas where India has achieved self-reliance.
2. Discuss the need of globalization of Indian economy.
3. List out the differences between domestic marketing and international marketing.
4. List out the differences between Advalorem Duty and Specific Duty.
5. Explain the legal aspect of export contract.
6. Explain the legal aspect of International Trade Disputes.

Enrolment No.

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

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INTERNATIONAL MARKETING

PGDM-204

BLOCK 2:

GLOBAL ENVIRONMENT FOR EXPORTS

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INTERNATIONAL MARKETING

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

INTERNATIONAL MARKETING

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INTERNATIONAL MARKETING

BLOCK 2: GLOBAL ENVIRONMENT FOR EXPORTS

BLOCK 2: GLOBAL ENVIRONMENT FOR EXPORTS

Block Introduction

International marketing refers to the marketing of product to people or companies outside the domestic market. Since today, business is done on global basis; you need to learn about it. It will help you to know how to sell your products globally and grow your business.

In this block, you will encounter the environment prevailing in international trade. You will learn what you are supposed to do to develop a global level product, what kinds of environment prevail in international trade and what the procedure to export the product is.

You will get opportunities at the regular intervals to check your understanding. You will also encounter a few case studies and assignments which will help you enhance your understanding of the topic and retain the newly acquired knowledge.

Unit 1 introduces you to the basics of international marketing mix; how you need to research and segment in international market, how to develop product and fix pricing appropriately, how to promote the product in the targeted market and how to develop international distribution system.

Unit 2 introduces you to the economic, political, legal, demographic and cultural, and natural environment prevailing in international trade.

Unit 3 introduces you to the export procedure. You will learn how you can maintain the quality of your product; what you need to do before exporting your products; what are marine insurance and who are clearing and forwarding agent.

Block Objective

After learning this block, you will be able to understand:

- The concept of international marketing mix.
- About international business environment.
- The basics of export procedure.
- Definition fundamental elements of export procedure.

Block Structure

UNIT 1: INTERNATIONAL MARKETING MIX

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- The elements of international marketing mix.
- The international research and segmentation.
- The development of global product and pricing.
- The ways for international promotion and advertising.
- The international distribution system.

1.1 Introduction

This unit will basically teach what you are supposed to do at the first place when you think of selling your product in the international market. There is a step by step process which allows you to introduce your product in the global market successfully. This is known as international marketing mix. You will learn the four steps of international marketing mix. You will get knowledge checks after every topic to check your understanding. The unit will further offer you assignments, activities and case studies to help you apply newly acquired knowledge and increase hold on the subject.

1.2 International Marketing Mix

1.2.1 Introduction

Many of you must have understood by now what is marketing. To understand what international marketing is, let's discuss marketing again. It will help us clearly understand international marketing and international marketing mix.

With a layman's understanding, you can say that you will be able to sell more of a product if you meet the needs and requirements of your customer. Hence, you can say that marketing is managing the process responsible for identifying, anticipating, and satisfying customers' needs and requirements profitability.

Thus, you can say that marketing involves:

- Focusing on needs and requirements of customers
- Identifying best methods for satisfying those needs and requirements
- Adjusting the company towards the process of providing those satisfaction
- Meeting the company's objectives

You can also say that company can achieve competitive edge in the market by managing these process ways well. Further, to maintain the competitive advantage, it needs to manipulate controllable functions of marketing within the largely uncontrollable functions which cover social, legal, political, economic and technological.

These factors are same for domestic marketing as well as for international marketing. That means that company doesn't need to make any fundamental change in its marketing operation when it moves from domestic marketing to international marketing.

However, there are two key differences between domestic marketing and international marketing.

1. There are different levels at which you can approach the international market.
2. Uncontrollable functions covering social, legal, political, economic and technological are more complex and multi-dimensional in international marketing due to the multiplicity of international market.

Thus, you can conclude that managers managing international marketing operation need to acquire new skills and abilities which have to be in addition to the tools and techniques they have been using in domestic marketing.

You can define international marketing mix in similar manner as you do for domestic marketing mix. Marketing mix refers to the best possible combination of 4Ps of marketing to maximize the effectiveness of marketing efforts. You know the 4Ps of marketing are product, price, promotion and place or distribution.

Marketing Mix 4 P's			
Product	Price	Place	Promotion
Variety Quality Design Features Brand name Packaging Services	List price Discounts Allowances Payment period Credit terms	Channels Coverage Locations Inventory Transportation Logistics Assortments	Advertising Personal selling Sales promotion Public relations Direct marketing

Fig 1.1 Marketing Mix

1.2.2 Understanding Marketing Mix

A fantastic way to understand the 4Ps is to ask a number of questions to define each element of marketing mix namely product, price, place and promotion. You can ask the following questions.

Product/Service

To define your product or service, you should ask:

- What does the customer want from the product or service you want to sell in the market?
- What features does the product or service have to satisfy those needs?
- Are some features missing?
- Are some useless features there?
- How and where customers are supposed to use it?
- What is the appearance of the product? Will it provide good customer experience?
- What should be the ideal name, size, color, packaging etc?
- How it should be branded?
- How it should be differentiated from the competitors?
- What would be the landing cost?

Price

To define price of your product, you should ask:

- What is the value of product to the customer?
- What is the prevailing price of that product or service in that area?
- Are the customers sensitive about the price? Is a little lower price can get you an edge in the market? Or, a little higher price can get your more profit?
- What discount should be offered to trade customer?
- How competitive is your price in that area?

Place

To define placement of your product in the market, you should ask:

- Where do the customers look for this kind of product or service in the market?
- What kind of place is this – store/online store/boutique/supermarket or what?
- What kind of distribution channel is required?
- Is a sales force is required? Or, should it be introduced in a trade fair? Or, should it be introduced by sending mass email or brochures to targeted customers?
- What the competitors are doing? How can you differentiate from them or learn from them?

Promotion

To define promotion of your product, you should ask:

- How can you promote the product or service in the targeted market?
- How can you send the message to the targeted customer?
- What kind of advertising or public relation is required?
- What is the best time to launch the product or service supposing this is seasonal product or any environmental issue is there?
- How the competitors are promoting the product? How does it affect your choice of promotion strategy?

Finally, you must note that all the 4Ps need to be considered in relation to each other.

1.2.3 Using 4Ps of Marketing Mix

You can use 4Ps of marketing mix to make marketing strategy for a new or existing product or service. Just follow the given steps.

1. Identify the product or service to be analyzed.
2. Define the 4Ps by answering the questions as listed above.
3. Try asking 'why' and 'what if 'questions too to challenge your offer like why a particular feature is required or what if you drop the price by 2%.

Finally, your answers should be based on the facts and figures, and assumptions. If required, you can use a marketing research agency services.

After defining 4Ps, you should test from the perspective of customer by asking following questions.

- Does it meet customer needs? It will help you know that you are offering right product in the market.
- Will they find it where they look for such products? It will help you know that you are placing it at the right location.
- Will they find the price favorable? It will help you know that you have decided the right price in the current market situation.
- Will the marketing communication reach the targeted customer? It will help you know that your promotional strategy is appropriate considering the marketing situation.

Keep asking these questions and make changes if required to optimize your marketing mix. Review your marketing mix regularly and make changes if required to remain competitive in the market.

Check your progress 1

1. Marketing mix is same for domestic marketing and international marketing?
   a. True
   b. False
2. Once 4Ps is defined and marketing mix is decided, you should not make changes in the marketing plan?
   a. True
   b. False

1.3 International Research and Segmentation

To make the most of your marketing strategy, you need to also segment your market along with defining the marketing mix.

What is market segmentation?

Market segmentation is the dividing broader targeted market into subsets of consumers, business or countries that are perceived to have common interest, needs and priorities and then designing appropriate implementation strategy to target them.

After segmenting the market, you need to decide which segment to target and how to position your product in the minds of your customers.

1.3.1 Segmentation

There are various ways to segment the market. Some most common forms of market segmentation are given below.

- **Demographic segmentation:** You can segment the market based on demographic variables like age, gender, occupation and educational level. It helps you decide you should position the product in the mind of the targeted customers. You know that benefits of the product are perceived differently depending upon the customers' age, gender, occupation and educational level.
- **Psychographic segmentation:** You can also segment the market based upon psychographic variables like lifestyle, social class, personality, opinion and attitude. You can approach this segment according to what appeals to them.
- **Behavioral segmentation:** Market can also be segmented on the basis of customers' behaviors like online shoppers, shop visit shoppers, brand sensitive shoppers and prior shoppers.
- **Geographic segmentation:** You can separate the market based upon its geography like country, state, region, city, urban, rural etc. Accordingly, you can make the implementation plan to implement the marketing strategy.

1.3.2 Targeting

After segmenting the market on the basis of group or class, you have to target your segment. You cannot sell your product to all types of customers in a standard way because different kinds of people find different kinds of things appealing to them. No standard strategy can be suitable to all types of customers.

Some common strategy to select your target market is given below.

- **Undifferentiated targeting:** This approach considers the market as one group only. This approach is suitable for the product or business that faces almost nil competition in the market.
- **Concentrated targeting:** This approach target on a particular market and design the marketing strategy accordingly. This approach is highly useful to small businesses competing with large companies. Concentration on a small segment helps them understand the needs and wants of customers in a better way which guides them to position their product appropriately.
- **Multi-segment targeting:** This approach is useful when you want to target two or more segments simultaneously. This approach produces many benefits, but it needs greater involvement of management along with greater inputs of resources. This approach is costly and it can be used by large companies only.

Before selecting a targeting strategy, you should consider the cost to be incurred on the strategy.

1.3.3 Positioning

After segmenting the market and selecting a particular segment, you need to position your product in the minds of your customers. This is about building a brand. It can also include informing the customer that they will have a particular experience if they use your product or service.

Effective positioning requires very good understanding of competing products and the benefits the target customers are looking for. You will also need to identify a few differential advantages which you can offer along with required advantages. You should define your business in the eyes of your customers with respect to the competitors.

Check your progress 2

1. If you segment the market on basis of lifestyle of customers, what kind of segmentation?
   a. Behavioral segmentation
   b. Psychological segmentation
   c. Geographic segmentation
   d. Demographic segmentation
2. What do you understand by positioning of product?
   a. Creating the value of product
   b. Creating brand of the product
   c. Understanding needs and wants of customer
   d. Deciding the location of product to be launched

1.4 Developing Global Products and Pricing

1.4.1 Products

Product is the first element of marketing mix. Product could be tangible (physical) or intangible. Tangible products are those that you can see or touch like book, soap, washing machine and others. Intangible products those that you cannot see or touch but you can experience or use like printing, courier, photocopy, accounting services, matrimonial services and others.

Since countries are different in terms of language, laws, culture, technology, values and others. Product may need to be adapted to local needs or may not. Companies are required to do PEST analysis and decide accordingly. It will help them decide which elements of marketing mix can be standardized and which elements will need to be customized.

PEST Analysis - PEST stands for political, social, economic and technological factors. PEST analysis is a measurement tool which is used to access the market. It describes the macro-environmental factors.

You can do the basis PEST analysis by the following way.

- **Political**: You need to consider political factors like tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability mainly.

Additionally, you can also health, education and infrastructure of the nation because the government has great influence on them. To be more comprehensive, you can also include goods and services that the government wants to provide or want to be provided or vice versa.

- **Economic**: You need to consider economic factors like factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impact on how companies operate and take decisions.
- **Social**: These factors include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. You have to also consider the trend in social factors like aging population, growing illiteracy, growing poverty and others. These trends affect the demand of a product or service.
- **Technology**: These factors include R&D activity, automation, technology incentives and the rate of technological change. These factors determine ease of doing business in the country and minimum efficiency of production and influence on outsourcing. Any change in technological factors can affect the cost, quality and prospect of innovation.

Benefits of PEST Analysis - PEST analysis is useful for four reasons.

- First, it helps us to identify opportunities and significant impending threats.
- Second, it shows the direction of change within your business and helps you adjust your management and operation so that you can move with change, not against it.
- Third, it helps you avoid starting business that is likely to fail due to reasons beyond your control.
- Fourth, it helps you develop an objective view of the new market. You know what to do, how to tread the new path.

1.4.2 Pricing

Price is the amount that you have to pay for the product or service. Pricing can take different forms like it can be by items like cans, bottles etc., or it can be by volume like petrol, milk etc., or it can be by subscription like magazines, or it can be by usage like phone, or it can be by performance like express delivery in courier.

Pricing is the most important element of marketing mix because it generates revenue. The other three Ps are variable cost for the company. The company incur cost to design and produce a product; distribute the product and promote the product. Price of a produce must support these three elements of marketing mix. Moreover, pricing have to consider supply and demand relationship also. If price of a product is too high or too low, it will result in loss of sales to the company.

We know that we can sell more of a product if we meet the needs and wants of customers. From the marketing point of view, the price of a product must strike a balance between:

- Gaining acceptance with the target customers and
- Making profit for the company

Pricing for international product is complex because you have to consider a number of factors to fix the price. Selling in emerging market is difficult because emerging markets have less-developed financial system and limited credit facility available to end users and businesses. The biggest problem in selling in emerging market is making the product affordable.

Pricing should take into account following factors.

- Fixed and variable costs
- Competition
- Company objectives
- Proposed positioning strategies
- Target group and willingness to pay

Pricing Strategy	**Definition**	**Example**
Penetration Pricing	The company fixes a low price to increase sales. Once the target is achieved, the company may increase the price.	Cable television sets low subscription charges to get more and more customers. Once it gets considerable membership, it increases the membership fees.

Skimming Pricing	The company fixes higher price initially and then slowly reduces the price to sell to more and more customers. Thus, it skims more profit layer by layer.	A mobile manufacture reduces the price of a mobile over a year as it prepares to launch a new version. Thus it charges a premium at the launch and lowest price at the end of the mobile's lifecycle.
Competition Pricing	The company sets price to match the competitor's price. Company always has three options for pricing; keep price lower, keep price same or keep price higher.	You can visit the website of policy bazaar. It helps you compare the insurance plans.
Product Line Pricing	The company fixes the price of different products within the same product category at different price points.	A mobile manufacturer offers mobiles within a product line with different features at different prices. More features bring higher price. It helps the company maximize turnover and profit.
Bundle Pricing	The company bundles a group of products at a reduced price like buy and get one free.	You can find this strategy in supermarkets.
Psychological Pricing	The company considers the psychology of price and the positioning of price in the marketplace.	Bata India ends the price of its product at 00.99 paisa. Buyers feel that they paid less than the real price.
Premium Pricing	The company fixes high price according to the brand value of the company.	You pay more for NIKE shoes than locally manufactured shoes.

Optional Pricing	The company sells optional extra along with the product to maximize its turnover.	The strategy is mostly used car manufacturer for selling accessories.
Cost Based Pricing	The company considers cost of production and distribution and then decides on a mark-up for a profit and come to final price.	You see the oil industry. Petrol, diesel price changes every now and then. Companies use this strategy only.
Cost Plus Pricing	The company adds a percentage to costs as a profit margin to calculate the final price.	A NGO constructs shelter for poor financed by corporate. It incurs Rs.1 lac only to construct one shelter and adds 20% to make up its administrative cost. Thus, it charges Rs.120000 from the corporate.

"Price" Versus "Cost"

Price refers to the amount that you pay for a product or service whereas cost refers to the amount that a company spends to design and produce a product, distribute the product and promote the product.

Pricing Strategy

Pricing strategy is the planning that determines the best pricing decision. You can say that a pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others.

While setting up pricing, you have to consider the following factors.

- Whether to discount or not
- Competitor's price
- Cost of product
- Company's market position
- Type and nature of demand; if increase or decrease in price will affect sales

- Prospective market segment

You know that company's ultimate objective is profit. Hence you can say that:

Profit = Total Revenue - Total Cost

OR

Profit = Prices x Quantities Sold - Total Cost

Check your progress 3

1. What does 'E' refer to in PEST analysis?
   a. Earning factor
   b. Economic factor
   c. Establishment factor
   d. Environmental factor
2. What are the benefits of PEST analysis?
   a. It shows the direction of change.
   b. It helps to identify opportunities and threats.
   c. It helps to develop objective view of a new market.
   d. All of the above

1.5 International Promotion and Advertising

You have designed and developed a product and calculated its price on which you can offer it to the international customer on a profit. Now, the step comes in how to communicate your offer to the targeted customer. This is international promotion and advertising; another important element of international marketing mix.

1.5.1 International Promotion

Like international product decisions, companies can also either make standard promotional strategy or customize it to suit local needs. How you choose to promote your product will have direct and considerable impact on the sales.

That's why; you need to spend considerable time and energy to decide how to spend money on advertising and promotion so that it translates into revenue.

Before you create your promotional marketing strategy, you need to consider various things. Like product decisions, it's up to the company to decide whether promotional activities should be standardized or customized as per the local market needs and conditions.

Considering the international business environment helps to take such decisions. International business environment covers economic environment, political and legal environment, demographic and cultural environment and natural environment. Following are the factors that you need to consider.

Economic environment covers:

- Level of economic development
- Economic infrastructure
- Living standards
- Per capita income
- Wealth distribution
- Currency stability

Demographic environment covers:

- Population
- Number of household
- Occupation distribution
- Age distribution
- Education level
- Employment rate
- Income level

Cultural environment covers:

- Language
- Lifestyle
- Values
- Norms and customs

- Ethics and moral standards
- Taboos

Political and legal environment covers:

- Government policies
- Laws and regulation
- Political stability
- Nationalism
- Attitude towards Multinational Corporations

Features of international promotion

Advertising and culture: Advertising is a cultural phenomenon. You need to understand the country's culture very well to create effective advertising. You need to know what is allowed and disallowed in the particular culture. If you fail to do so, you will not only have ineffective advertising but can even break the law and invite penalty like, Indians are religiously sensitive; you cannot mock religion here and want your advertisement to be effective if the ad has religious reference

Setting a budget: Budget is the biggest challenge advertising faces. This is even bigger challenge in international market because companies operate in different countries under different market conditions.

1. How much to spend on ad campaign?
2. How to allocate resources across different markets?

To answer the first questions, you can use budgetary method such as:

- Percentage of sales method
- Comparative parity method
- Objective and task method
- Market Share method
- Unit Sales method
- All Available Funds method
- Affordable method

Percentage of sales method

This is the most common method used by small companies. This is simple method. The company can take percentage of either past or anticipated sales for a specific period and allocate it for advertising. Considering past sales is good for small companies; bit companies can take into account anticipated sales. This method is effective when sales are compared with that of competitor's.

Comparative parity method

This method refers to focus on the advertising budget of the competitor and make the same layout for advertising to remain competitive in the market. This method is mostly used my large companies. However, this method doesn't always prove effective as much depend upon how the money was spent.

Objective and Task Method

This method entails upon the marketing objectives and makes budgetary allocation accordingly. When the objective has been decided the advertiser decides how much money will be required to meet the objective. Some objective could be "increasing market share by 10% or raising the brand value or changing the company image from traditional company to modern company." The method makes most sense as business is run for objective and it pushes the company in that direction.

Market Share method

This method considers market share to calculate its advertising expenditure. If the market share is 40% it spends 40% of revenue on advertising. Critics say that it is arbitrary method and should be avoided.

All Available Funds Method

This is an aggressive method. It used all fund available for advertising. Critics say that this method is risky because it doesn't leave any money to grow the business. However, this is a good method for startups that want create awareness of its product or services.

Affordable Method

This method asks to allocate whatever is available for advertising. However, it is a difficult task for advertiser. Companies should actually consider overall objectives and goals, competition, sales trends, market presence, unit sales, operating expenditure, and other factors.

Creative Strategy

For international advertising, you need to decide whether you want to create standard advertising campaign throughout countries or customized campaign as per the local needs.

Advantages of a standardized campaign

- Economies of scale to reduced cost
- Consistent brand image

Barriers in implementing a standardized ad campaign

- Cultural differences
- Laws and regulations
- Difference in market development
- Not invented here syndrome

Assessing global media decisions

You just cannot use one media around the globe. You have to see what media channels are available in the local market and what you can use as per your strategy. In some countries, choosing between print or TV is more important than being creative in advertising.

You need to consider the following to take appropriate decision.

- Availability
- Cost
- Usage
- Quality
- Restrictions

Ad Regulations

You need to consider the laws related to advertising in that country before creating an ad campaign. Many countries have various kinds of restrictions. This will help you avoid legal troubles and save your time and money.

Choosing an agency

You can choose an ad agency depending upon your own capability and confidence in the market and market coverage. Now many multi-national ad agencies are there to serve you across the globe.

You can use the following criteria to select an ad agency.

- Ability of agency to cover relevant market
- Quality of work
- Market research, PR and other services offered
- Roles of company advertising department and agency
- Level of communication and control desired
- Ability of agency to coordinate internationally
- Size of agency's international business
- Company's desire for local vs. international image
- Company's management structure; centralized or decentralized
- Company level of international exposure

Other communication options

Apart from ad campaign, you can also use other channels to promote your product like:

- Sales promotions
- Direct marketing
- Global sponsorships and events
- Mobile marketing
- Product placement
- Viral marketing
- Global public relations and publicity

1.5.2 International Advertising Advantages

International advertising had the following advantages.

- Economy of scale in production and distribution
- Lower cost with less planning and control
- Lower advertising and production cost
- Ability to exploit good ideas worldwide

- Ability to introduce product quickly worldwide
- Consistent international brand and company identity
- Simplification of coordination and control

Check your progress 4

1. Advertising is a __________ phenomenon.

   a. Social c. Cultural

   b. Political d. Environmental

2. Which ad campaign is considered better?

   a. Standard c. Both

   b. Customized d. Up to the company to decide

3. Which of the budgetary allocation method for international ad campaign is considered most sensible?

   a. Percentage of sales method c. Market Share method

   b. Objective and task method d. All Available Funds method

1.6 International Distribution Systems

After working on all three Ps i.e. product, price and promotion, you come to the final P, i.e. place. You need to place your product where customers look for it like supermarket, departmental store, e-store, e-mall etc. If you cannot place your product at the right time and location, you won't be able to sell as much as you would have been. It will seriously affect your sales.

Place refers to the distribution channel. Therefore, understanding the challenges faced by international logistics and choosing a reliable channel is the key to success in international marketing.

1.6.1 Distribution Processes and Structures

Distribution process refers to handling and distribution of goods from producer to end-user. Distribution structure refers to the arrangement through which goods pass from producer to end-user. Distribution process and structure is more developed in developed country than a developing country.

Traditionally, distribution channel has been import-oriented where importers controlled the supply. Goods were sold at high price to small number of customers. It was sellers' market; mass distribution and market penetration were not necessary because demand exceeded supply. Today, we live in buyers' market where supply exceeds the demand. Now, distribution channel survive on alliances and collaboration. International marketer, now, focus on new ways to profit from the market segment.

Channels and intermediaries

Distribution takes place through channels which are independent organizations known as intermediaries. Merchants who buy and resell products are intermediaries.

Types of intermediaries

Following are the intermediaries.

- Export merchants
- Export/Trading house
- Trading companies
- Export drop shipper
- Agents/Brokers

Types of foreign intermediaries

Following are the foreign intermediaries.

- Importers
- Distributors
- Wholesalers
- Retailers
- Multiple channels
- Government departments
- State buying organizations
- Joint venture
- Licenses/Franchisees

1.6.2 Channel Design

Channels are categorized by the number of intermediaries it has. Company can design any type of channel it wants depending upon its needs. A direct marketing company keep level 0 channel; it has no intermediary. A level one channel has one intermediary. The channel flows from producer to retailer to end-user.

Types of channel

You will find following types of channel in practice in international market.

- **Intensive distribution:** The producer's product is stored at the majority of outlets. You see this kind of distribution beverages, snacks etc.
- **Selective distribution:** The producer depends upon a few intermediaries to carry his product. You see this kind of channel in specialized items like machineries, branded goods etc. specialized goods are carried by specialized intermediaries.
- **Exclusive distribution:** The producer selects only a few intermediaries for exclusive distribution characterized by exclusive dealing like NIKE shoes, Mercedes Benz etc. The distributor doesn't deal with others.

Factors influencing Channel selection

A company can choose a mix of channel if it needs. Following factors need to be considered for selecting channel.

- Product characteristics
- Market and customer characteristics
- Middlemen characteristics
- Company characteristics and objectives
- Competitor's characteristics
- Environment characteristics

Managing channels

The company marketing department needs to design most suitable channel and select appropriate intermediaries and motivate them to sell the product. The company needs to keep constant watch on the channel's performance and modify whenever required to enhance performance.

Locating, selecting and motivating channel members

Developing appropriate channel is not easy. Many times companies fail in penetrating market due to their inability in developing distribution channel. Before trying to find out middlemen, companies should study the market and determine evaluation criteria for selection that can help you serve the market.

Once you screen the middlemen, involve your legal department to make a comprehensive agreement or contract which can protect your company and product. Finally, keep on motivating your middlemen to achieve higher sales. You can motivate with financial rewards, psychological rewards, effective communication, company support or corporate relationship.

1.6.3 Types of exporting

You will find two types of exporting in international trade.

- **Indirect exporting:** This method is more favoured with the companies just beginning to export or who have marginal export business. Companies have two channels for exporting
    - International marketing middlemen
    - Cooperative organizations
- **Direct exporting:** This method is used by the companies having considerable export business. The manufacturer sells directly in the foreign market.

1.6.4 Components of Logistics Management

Following are the components of logistics.

- Fixed facilities location
- Transportation
- Inventory management
- Order processing
- Material handling and warehousing

Check your progress 5

1. Traditionally, distribution channel has been ________oriented.

 a. Export c. middlemen

 b. Import d. Commission

2. Today, we live in _________ market where supply exceeds the demand.

 a. Buyers c. Global

 b. Sellers d. Strong

3. Which of the following could be a foreign intermediary?

 a. Export merchants c. Trading companies

 b. Trading house d. Government departments

1.7 Let Us Sum Up

In this unit, we have learnt that international marketing is greatly different from domestic marketing. International marketing can be approached at different levels and the uncontrollable factors like social, legal, political, economic and technological present in marketing are multi-dimensional. We have identified the elements of international marketing mix are similar to domestic marketing mix viz. product, price, place and promotion.

The lesson has also taught us that market segmentation is done on the basis of demography, psychology, behavior and geography. PEST Analysis helps us design the product according to market demand. PEST refers to political, economic, social and technological factors prevalent in the market.

Pricing is the most important element in the marketing mix because it is the source of revenue for the company. It needs to create a balance between acceptance by the customer and profit for the company.

For effective advertising, you have to consider economic, political, social and technological environment of the market you are trying to operate in. Distribution is critical element in marketing. If you do everything right, but product doesn't reach at the right place at right time; you will fail in marketing.

You have to design your distribution channel intelligently. There are three types of channels in the international market intensive, selective and exclusive. Finally, we have learnt that there are two types of exporting in international trade, direct and indirect.

1.8 Answers for Check Your Progress

Check your progress 1

Answer: (1-a), (2-b)

Check your progress 2

Answer: (1-b), (2-b)

Check your progress 3

Answer: (1-b), (2-d)

Check your progress 4

Answer: (1-c), (2-d), (3-b)

Check your progress 5

Answer: (1-b), (2-a), (3-d)

1.9 Glossary

1 **International marketing mix -** It refers to the four factors that you need to consider to sell your product globally.

2 **Market segmentation -** It refers to the dividing of broader targeted market into subsets of consumers, business or countries.

3 **Demographic -** It refers to the age, gender, occupational and educational level of people of a particular area.

4 **Psychographic -** It refers to the lifestyle, social class, personality, opinion and attitude of people.

5 **Geographic -** It refers to the physical location of an area like country, state, region, urban, rural etc.

6 **Targeting -** In marketing, it refers to the selection of group of customers to which the company wants to sell its products.

7 **Positioning -** It refers to creating a lasting impression on the minds of your targeted customer of the benefits of your product or services.

8 **PEST -** It stands for political, social, economic and technological factors.

9 **Price -** It is the amount that you pay for a product or service.

10 **Cost -** It is the amount that a company incurs to develop and distribute a product or service.

11 **Direct exporting -** It refers to manufacturer selling in a foreign market directly.

12 **Indirect exporting -** It refers to manufacturer selling in a foreign market through middlemen or corporative organizations.

1.10 Assignment

Write a detail report on PEST Analysis and its benefits.

1.11 Activities

Visit a company having business with China, collect information about China's culture and the risk and reward it encounters in China.

1.12 Case Study

Contamination Allegations and Water Usage in Pepsi and Coke

An environmental organization claimed that soft drinks produced in India by Coca-Cola and Pepsi contained significant levels of pesticide residue. Coke and Pepsi denied the charges and argued that extensive use of pesticides in agriculture had resulted in a minute degree of pesticide in sugar used in their drinks. The result of tests conducted by the Ministry of Health and Family Welfare showed that soft drinks produced by the two companies were safe to drink under local health standards.

Protesters in India reacted to reports that Coca-Cola and Pepsi contained pesticide residues. Some states announced partial bans on Coke and Pepsi products. When those reports appeared on the front pages of newspapers in India, Coke and Pepsi executives were confident that they could handle the situation. But they stumbled.

They underestimated how quickly events would spiral into a nationwide scandal, misjudged the speed with which local politicians would seize on an Indian environmental group's report to attack their global brands, and did not respond swiftly to quell the anxieties of their customers.

The companies formed committees in India and the United States, working in tandem on legal and public relations issues. They worked around the clock fashioning rebuttals. They commissioned their own laboratories to conduct tests and waited until the results came through before commenting in detail. Their approaches backfired. Their reluctance to give details fanned consumer suspicion. They became bogged down in the technicalities of the charges instead of focusing on winning back the support of their customers.

At the start, both companies were unprepared when one state after another announced partial bans on Coke and Pepsi products; the drinks were prevented from being sold in government offices, hospitals, and schools. Politicians exploited the populist potential.

In hindsight, the Coke communications director said she could see how the environmental group had picked Coca-Cola as a way of attracting attention to the broader problem of pesticide contamination in Indian food products. "Fringe politicians will continue to be publicly hostile to big Western companies, regardless of how eager they are for their investment," she said.

Failing to anticipate the political potency of the incident, Coke and Pepsi initially hoped that the crisis would blow over and they adopted a policy of silence. "Here people interpret silence as guilt," said an Indian public relations expert. "You have to roll up your sleeves and get into a street fight. Coke and Pepsi didn't understand that."

Coca-Cola eventually decided to go on the attack, though indirectly, giving detailed briefings by executives, who questioned the scientific credentials of their products' accusers. They directed reporters to Internet blogs full of entries that were uniformly pro-Coke, and they handed out the cell phone number for the director of an organization called the Center for Sanity and Balance in Public Life. Emphasizing that he was not being paid by the industry, Kishore Asthana, from that center, said, "One can drink a can of Coke every day for two years before taking in as much pesticide as you get from two cups of tea."

The situation continued to spin out of control. Newspapers printed images of cans of the drinks with headlines like "toxic cocktail." News channels broadcast images of protesters pouring Coke down the throats of donkeys. A vice president for Coca-Cola India said his "heart sank" when he first heard the accusations because he knew that consumers would be easily confused.

"But even terminology like P.P.B.—parts per billion—is difficult to comprehend," he said. "This makes our job very challenging."

PepsiCo began a public relations offensive, placing large advertisements in daily newspapers saying, "Pepsi is one of the safest beverages you can drink today."

The company acknowledged that pesticides were present in the groundwater in India and found their way into food products in general. But, it said, "Compared with the permitted levels in tea and other food products, pesticide levels in soft drinks are negligible."

After all the bad press Coke got in India over the pesticide content in its soft drinks, an activist group in California launched a campaign directed at U.S. college campuses, accusing Coca-Cola of India of using precious groundwater, lacing its drinks with pesticides, and supplying farmers with toxic waste used for fertilizing their crops. According to one report, a plant that produces 300,000 liters of soda drink a day uses 1.5 million liters of water, enough to meet the requirements of 20,000 people.

The issue revolved around a bottling plant in Plachimada, India. Although the state government granted Coke permission to build its plant in 1998, the company was obliged to get the locally elected village council's go-ahead to exploit groundwater and other resources. The village council did not renew permission in 2002, claiming the bottling operation had depleted the farmers' drinking water and irrigation supplies. Coke's plant was closed until the corporation won a court ruling allowing them to reopen. The reopening of the plant in 2006 led students of a major Midwestern university to call for a ban on the sale of all Coca-Cola products on campus. According to one source, more than 20 campuses banned Coca-Cola products, and hundreds of people in the United States called on Coca-Cola to close its bottling plants because the plants drain water from communities throughout India.

They contended that such irresponsible practices rob the poor of their fundamental right to drinking water, are a source of toxic waste, cause serious harm to the environment, and threaten people's health.

In an attempt to stem the controversy, Coca-Cola entered talks with the Midwestern University and agreed to cooperate with an independent research assessment of its work in India; the university selected the institute to conduct the research, and Coke financed the study. As a result of the proposed research program, the university agreed to continue to allow Coke products to be sold on campus.

In 2008 the study reported that none of the pesticides were found to be present in processed water used for beverage production and that the plants met governmental regulatory standards.

However, the report voiced concerns about the company's use of sparse water supplies. Coca-Cola was asked by the Delhi-based environmental research group to consider shutting down one of its bottling plants in India. Coke's response was that "the easiest thing would be to shut down, but the solution is not to run away. If we shut down, the area is still going to have a water problem. We want to work with farming communities and industries to reduce the amount of water used."

The controversies highlight the challenges that multinational companies can face in their overseas operations. Despite the huge popularity of the drinks, the two companies are often held up as symbols of Western cultural imperialism.

Questions

1. What would have been the best way to address the water issue in your opinion? How can they prevent such boycotts or demonstrations in future? Suggest strategy to them.
2. Which of activist groups is more powerful, the Indian group or the group that launched campaign in California?
3. Who – Pepsi or Coke – has better chances of success in India?

1.13 Further Readings

1. Introducing Marketing by John Burnett - The Global Text Project , 2011
2. Challenges and Opportunities in International Business: This book is licensed under a Creative Commons by- nc - sa 3.0 license.

UNIT 2: INTERNATIONAL BUSINESS ENVIRONMENT

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- International business environment.
- The economic environment.
- The political and legal environment.
- The demographic and cultural environment.
- About natural environment.

2.1 Introduction

This unit introduces you to international business environment which refers to the factors and conditions prevailing across the globe that affect the running of business. You will learn various factors from economic to social to political to legal to demographic to cultural to natural. All these factors have great impact on business. Learning them will help you making policies and strategies for doing business in the international market.

You will come across knowledge checks, assignment, activities and case studies to reinforce your learning and retention.

2.2 Economic Environment

International business is mainly affected by the economic policies adopted by the governments of various countries. The global economic environment has become favourable due to the establishment of the WTO and emergence of the global market. The changes in the international economic environment have been revolutionary after 1990.

The following factors determine international economic environment:

- The economic system of the country.
- Uninterrupted increase in the quality and quantity of industrial output.
- Liberal and growth-oriented government policies.
- Increasing income and employment.
- Proper and equal distribution of wealth.
- Control over monopolies.

Check your progress 1

1. International business is mainly affected by the __________ policies.

   a. Economic c. Social

   b. Political d. Legal

2. Largely, international business environment is_________.

   a. Risky c. Upredictable

   b. Favourable d. Unfavourable

2.3 Political and Legal Environment

Knowing the political and legal environment is crucial for global businesses. In the past ten years, political condition around the world has changed drastically. New markets have emerged, many old ones have closed down. You have to study politics and laws of the targeted market before entering.

2.3.1 Political Environment

Political ideologies and political changes also have effect on the international business. Sometimes when the government changes or its policy changes; it produces considerable impact on the international business.

Constituents of political environment

Political environment consists of following factors:

- Political system like socialist or capitalist
- Political system like dual party government or multi-party government
- Governing party policies and ideologies
- Legislative system
- Judiciary system
- Foreign policies
- Relation with other countries

Causes of political instability

Following factors can cause political instability in the international market.

- Some forms of government seem to be innately unstable
- Changes in ruling political parties
- Extreme nationalism among the citizens
- Animosity toward specific countries
- Trade disputes in recent past

Political Risks

Company may face following risk while doing business globally.

- Confiscation, expropriation and domestication

- Economic risks related to the political environment (exchange controls, local-content laws, import restrictions, tax controls, price controls, labor problems)
- Political Sanctions (boycotting trade altogether or on specific products by one country to another)
- Political and social activist and non-governmental organizations
- Violence, terrorism and war
- Cyber-terrorism and Cybercrime

In order to understand the implications of political instability, you should analyse how vulnerable your company is politically. There is no set rule for such analysis. You have to rely on your insight and analysis.

To mitigate the risk, you can go for joint-ventures or expand your investment base or license your products/services, or bargain with political leaders through lobbying.

2.3.3 Legal Environment

Around the world, private is controlled by the government through policies and legislation.

Constituents of legal environment

Following factors make up the regulatory environment of the nation.

- Planning and policies for the industry
- Country's taxation system and subsidies
- Control over imports, tariffs and duties
- Prevalent licensing system
- Government's policy for foreign direct investment
- Government's policy for joint ventures and collaborations

Jurisdiction in international legal disputes

You will face three different types of international legal disputes. They are:

- Between governments
- Between company and government

- Between two companies

What are the ways to handle conflicts?

Whose laws govern?

- Once you come to know whose law governs. You can find out the jurisdiction of the case.
- On the basis of jurisdictional clauses in contracts
- On the basis of where a contract was entered into
- On the basis of where the provisions of the contract were performed

Relevant laws

- Intellectual property rights laws
- Commercial laws within countries (such as marketing laws)
- Environmental laws
- Foreign countries' antitrust laws
- Cyber laws

Check your progress 2

1. In every economy, private sector is subject to __________control.

   a. Government c. Private

   b. Economic d. Social

2.4 Demographic and Cultural Environment

Social environment is considered the biggest factor in marketing because business is after all carried out by people only. Following factors make up the social environment of the market.

- Standard of living
- Consumers and management's attitude
- Population pattern in the country
- Religious views and tradition of the place

- Educational level along its quality
- Social and cultural influence

Check your progress 3

1. In business, the biggest environment is the __________.

   a. Legal environment c. Political environment

   b. Social environment d. Economic environment

2.5 Natural Environment

The natural environment refers to ecological, geographical and topographical factors like natural resources, weather, location etc. These factors are relevant to businesses also. As we know that industries were set up in those areas where natural resources were in abundance so that landing cost can be reduced.

This has created industrial congestion and pollution at the same time. Environment is a major issue around the world. Many countries have enacted many laws and regulation to protect their environment. These laws and regulations impact international marketing.

In many countries, customers are demanding to be sensitive to environment.

Pollution level is major concern. It also causes damage to ozone layer, extinction of species and resources. In such circumstances, before entering the market, you should consider:

- Shortages of raw materials.
- Increased cost of energy.
- Increased pollution.
- Government intervention in natural resource management.
- Water scarcity is a problem in several countries.
- Shortage of renewable resources.
- Shrinking agricultural land and increasing urban area.
- Non-renewable resources like oil, coal cause problem.

- The price of renewable resources getting higher day by day.
- Search for other source of energy is priority.
- Contamination of water.
- Recycling is not responsibility but opportunity.

Check your progress 4

1. The natural environment refers to ______ and ________factors.
   a. Ecological, geographical c. Social, national
   b. Environmental, social d. Political, Social
2. In international trade, _______ is a major concern.
   a. Pollution c. Corruption
   b. Geography d. Law and order
3. Natural resources are under ________ control.
   a. Social c. Company
   b. Private d. Government

2.6 Let Us Sum Up

In this unit, we have learnt international business environment covers social, political, economic and legal factors. The environment has turned favourable after the establishment of WTO and rise of global market. However, the market environment of different countries is greatly influenced by the economic policy of the country.

The political system of the country, number of political parties – dual party system or multi-party system – political ideologies and policies of party in power, legislative system and external affairs and relation with other countries make up the political environment.

Political instability is caused by unstable government, change in ruling political party, extreme nationalism in citizens, animosity towards specific country and trade disputes in recent past. Political risk refers to confiscation, expropriation, domestication, economic risk, sanctions, violence, terrorism, war, cybercrime, cyber-terrorism and NGO intervention.

We have also learnt that private sector is under government control everywhere. Government makes Acts, rules and guidelines under which private sector have to perform. Industrial planning, policies, taxation and subsidies, import control, tariff and duties make up legal environment of the country. Sometimes, legal disputes occur between government, companies or the government and a company.

Social is said to be biggest environment of all in international business because everything is done people only. Consumers' attitude, pattern of population, religious and traditional views and practices, living standard, literacy rate, social and cultural institutions make up the social environment of a country.

The natural environment refers to ecological, geographical and topographical factors like natural resources, weather, location etc. Industries have been set up in the areas where natural resources have been in abundance which has created industrial congestion and pollution at the same time. Pollution level is a major concern in most of the country.

Before entering a new market, you should consider availability of raw materials, cost of energy, pollution, government intervention, water scarcity, and land availability etc.

2.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-b)

Check your progress 2

Answers: (1-a)

Check your progress 3

Answers: (1-b)

Check your progress 4

Answers: (1-a), (2-a), (3-d)

2.8 Glossary

1. **Environments -** It refers to factors that affect business.
2. **Ideologies -** It refers to political system like capitalism or socialism.
3. **Legislative system -** It refers to law-making body like in India we have parliament with multiparty.
4. **Judiciary system -** It refers to legal set up.
5. **External affairs -** Country's relationship with other countries.
6. **Political Sanctions -** It refers to boycotting trade altogether or on specific products by one country to another.
7. **Joint-ventures -** A joint venture is a business enterprise undertaken by two or more persons or organizations to share the expense and (hopefully) profit of a particular business project.

2.9 Assignment

Find out India is rich in which natural resources.

2.10 Activities

Visit a company having operation in India and China and discuss with what difference s/he finds in business environment of both the countries. Make a report.

2.11 Case Study

Opening Indian Market

In 1991, India experienced an economic crisis of exceptional severity, triggered by the rise in imported oil prices following the first Gulf War (after Iraq's invasion of Kuwait). Foreign exchange reserves fell as nonresident Indians (NRIs) cut back on repatriation of their savings, imports were tightly controlled across all sectors, and industrial production fell while inflation was rising.

A new government took office in June 1991 and introduced measures to stabilize the economy in the short term, then launched a fundamental restructuring program to ensure medium-term growth.

Results were dramatic. By 1994, inflation was halved, exchange reserves were greatly increased, exports were growing, and foreign investors were looking at India, a leading Big Emerging Market, with new eyes.

Following liberalization of the Indian economy and the dismantling of complicated trade rules and regulations, Pepsico and Coca-cola enter the Indian market.

A New Product Category

Although carbonated drinks are the mainstay of both Coke's and Pepsi's product line, the Indian market for carbonated drinks is now not growing. It grew at a compounded annual growth rate of only 1 percent between 1999 and 2006, from $1.31 billion to $1.32 billion. However, the overall market for beverages, which includes soft drinks, juices, and other drinks, grew 6 percent from $3.15 billion to $3.34 billion.

To encourage growth in demand for bottled beverages in the Indian market, several producers, including Coke and Pepsi, have launched their own brands in a new category, bottled water. This market was valued at 1,000 Crores.

Pepsi and Coke are responding to the declining popularity of soft drinks or carbonated drinks and the increased focus on all beverages that are non-carbonated. The ultimate goal is leadership in the packaged water market, which is growing more rapidly than any other category of bottled beverages. Pepsi is a significant player in the packaged water market with its Aquafina brand, which has a significant share of the bottled water market and is among the top three retail water brands in the country.

PepsiCo consistently has been working toward reducing its dependence on Pepsi Cola by bolstering its non-cola portfolio and other categories. This effort is aimed at making the company more broad-based in category growth so that no single product or category becomes the key determinant of the company's market growth.

The non-cola segment is said to have grown to contribute one-fourth of PepsiCo's overall business in India during the past three to four years. Previously, the multinational derived a major chunk of its growth from Pepsi-Cola.

Among other categories on which the company is focusing are fruit juices, juice-based drinks, and water. The estimated fruit juice market in India is approximately 350 Crores and growing month to month. One of the key factors that have triggered this trend is the emergence of the mass luxury segment and increasing consumer consciousness about health and wellness. "Our hugely successful international brand Gatorade has gained momentum in the country with consumers embracing a lifestyle that includes sports and exercise. The emergence of high-quality gymnasiums, fitness and aerobic centers mirror the fitness trend," said a spokesperson.

Coca-Cola introduced its Kinley brand of bottled water and in two years achieved a 28 percent market share. It initially produced bottled water in 15 plants and later expanded to another 15 plants.

The Kinley brand of bottled water sells in various pack sizes: 500 ml, 1 liter, 1.5 liter, 2 liter, 5 liter, 20 liter, and 25 liter. The smallest packwas priced at Rs 6 for 500 ml, while the 2-liter bottle was Rs 17.

The current market leader, with 40 percent market share, is the Bisleri brand by Parle. Other competing brands in this segment include Bailley by Parle, Hello by Hello Mineral Waters Pvt. Ltd., Pure Life by Nestlé, and a new brand launched by Indian Railways, called Rail Neer.

Questions

1. Timing of entry into the Indian market brought different results for PepsiCo and Coca-Cola India. What benefits or disadvantages accrued as a result of earlier or later market entry?
2. The Indian market is enormous in terms of population and geography. How have the two companies responded to the sheer scale of operations in India in terms of product policies, promotional activities, pricing policies, and distribution arrangements?

2.12 Further Readings

1. Fundamentals of Business Environment by Prof. M.B Shukla.
2. Fundamentals, Environment and Procedures by B. S. Bodla.

UNIT 3: EXPORT PROCEDURES

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The export procedures.
- The quality control and pre-shipment inspection.
- The condition and procedures of central excise clearance.
- The shipping and custom facilities and duty refunds.
- Marine insurance.
- The clearing and forwarding agents.
- The ISO-9000 and ISO-14000 certificates.

3.1 Introduction

The unit will teach you all about export procedures. You will learn how to ship your goods; what custom formalities are; what the formalities of excise duty are; how to go for marine insurance; who are the clearing and forwarding agents and what are ISO certificates.

You will come across knowledge checks at regular intervals. At the end of lesson, there will be assignment, activities and case studies to reinforce your learning.

3.2 Export Procedure

3.2.1 Introduction

Export procedure is complex and time-consuming. It covers many commercial and regulatory formalities. The exporter needs to have sufficient knowledge of these formalities. Since goods go from one country to another, the exporter needs to comply with the rules and regulations of both the countries. Finally, the exporter needs to ensure all the commercial and regulatory documents are duly prepared and submitted to appropriate authorities.

Export procedure consists of following stages.

1. Registration
2. Pre-shipment
3. Shipment
4. Post-shipment

3.2.2 Export Procedure

Registration Stage

At first, the exporter has to register his organisation with many institutions and authorities. This stage covers for following registrations.

(a) **Registration of the Organisation:** The form of organization should be registered under the appropriate Act as mentioned below.

- A joint stock company should be registered under the Companies Act, 1956.
- A partnership firm should be registered under the Indian Partnership Act, 1932.
- A sole trader should be registered with appropriate local authorities.

(b) **Opening Bank Account:** The exporter needs to open a bank account for the organization with commercial bank authorized by the Reserve Bank of India; the bank must be authorized for foreign exchange dealing. The bank also finances the exporter for pre-shipment and post-shipment if required.

(c) **Obtaining Importer-Exporter Code Number (IEC No.):** The exporter needs to obtain IEC No. from the Director General of Foreign Trade (DGFT) by paying Rs. 1000/- only.

(d) **Obtaining Permanent Account Number (PAN):** The exporter needs to get a Permanent Account Number (PAN) from Income Tax Department. It is mandatory for many purposes. It helps to get many exemptions and deductions applicable to various export income.

(e) **Obtaining Sales Tax Number:** The exporter needs to apply to Sales Tax Department to get a sales tax number. Sales Tax Department has various offices in different areas. The application should be made in the area where the exporter's office is situated.

(f) **Registration with Export Promotion Council (EPC):** The exporter can only get the benefits offered under EXIM Policy by being a member of Export Promotion Council. He or she needs to apply to appropriate Export Promotion Council and get a Registration-cum-Membership Certificate (RCMC).

(g) **Registration with ECGC:** Registration with Export Credit and Guarantee Corporation of India helps exporter secure overseas payment political and commercial risks along with making him or her eligible finances from commercial banks and financial institutions.

(h) **Registration with other Authorities:** The exporter also needs to register with other authorities as listed below.

- Federation of Indian Export Organisation (FIEO)
- Indian Trade Promotion Organisation (ITPO)
- Chambers of Commerce (COC)
- Productivity Councils

Pre-Shipment Stage

Pre-shipment stage covers following stages.

(a) **Approaching Foreign Buyers:** To get an export order, the exporter needs to use some techniques like advertising in international media, doing some personal selling, using personal contacts or public relation, carry out some publicity campaign or participate in trade fairs and exhibitions.

(b) **Inquiry and Offer:** Another way to get an export order is to send an enquiry request to an importer about the descriptions of goods, standard, size, weight, quantity, and payment terms etc. After getting the enquiry, the exporter should reply immediately with proforma invoice.

(c) **Confirmation of Order:** After the confirmation of order, the exporter needs to send three copies of proforma invoice to the importer who, in return, signs the copies, and sends back two copies of the proforma invoice to the exporter.

(d) **Opening Letter of Credit:** Letter of credit is the most prevalent payment method in export business because it assures both importer and exporter. As soon as the order is finalized, the importer opens a letter of credit in favour of exporter if it is agreed upon in export contract.

(e) **Arrangement of Pre-shipment Finance:** After receiving the letter of credit from the importer, the exporter can approach the bank for finance to supply the goods to the importer.

(f) **Production or Procurement of Goods:** Further, the exporter starts the manufacturing the product, if he is a manufacturer, or procures it from the domestic market according to agreed specifications.

(g) **Packing and Marking:** After procuring goods, it is properly packed and marked with all the details required proper shipment. The exporter can take help from the Indian Institute of Packing if he doesn't have complete knowledge of packing and marking.

(h) **Pre-shipment Inspection:** Further, the exporter needs to contact the Export Inspection Agency (EIA) for taking inspection certificate if the goods is subject to quality checking under export norms.

(i) **Central Excise Clearance:** The exporter doesn't need to pay central excise duty. He can claim the exemption by one of the following ways.

- Export under Rebate
- Export under Bond

(j) **Obtaining Insurance Cover:** The exporter is required to take insurance cover as per norms and export contract as listed below.

- ECGE policy in order to cover credit risks
- Marine policy, if the price quotation agreed upon is CIF

(k) **Appointment of CandF Agent:** As we have learnt earlier that export procedure is a complex and time-consuming process, the exporter needs to hire a clearing and forwarding agent to complete required formalities smoothly so that proper delivery of goods on time can be ensured.

Shipment Stage

Export is done through the Sea, Air or Land. However, most of the goods are shipped through the Sea because it is comparatively cheaper and can carry large quantity. Expensive items like gold, diamond etc. are exported by Air. Shipment stage covers the following stages.

(a) **Reservation of Shipping Space:** After getting export contract, the exporter, first, reserves the shipping space in a vessel for the shipment of goods. The Shipping Company issues an order on getting request from the exporter. The original copy is sent to the exporter and duplicate to the commanding officer to the ship who takes the goods on board.

(b) Arrangement of Internal Transportation up to the Port of Shipment: At the next step, the exporter makes necessary arrangement to the port by road or railways. If it is sent by railways, the authorities issue a Railway Receipt, which is either freight paid or freight to pay, for the title of goods. The exporter is supposed to endorse the receipt in favour of the agent to authorize to take the delivery of goods for the shipment.

(c) Preparation and Processing of Shipping Documents: When the goods reach the port, the exporter should give detail instructions to the clearing and forwarding agent along with the relevant documents to allow the shipment. Relevant documents are listed below.

- ARE-I Form
- Certificate of Origin
- Packing List or Note
- Two copies of GR Form
- Marine Insurance Policy
- Certificate of Inspection, if any
- Two copies of commercial Invoice
- Letter of Credit attached with the export contract

(d) Customs Clearance: The cargo before being loaded on the ship must be cleared from the custom. The CandF agent has to submit all the documents along five copies of shipping bill to the custom appraiser at the custom house. The custom appraiser checks if the formalities related to exchange control, quality control, pre-shipment inspection, and licensing have been done, and clears the goods for loading. After verification, the custom appraiser returns original copy of shipping bill, a copy of commercial invoice except the original GR form to the CandF agent.

(e) Obtaining 'Carting Order' from the Port Trust Authorities: After obtaining Carting Order from the Superintendent of the Port Trust, the goods is moved into the port area and stored at the allocated shed.

(f) Customs Examination and Issue of 'Let Export Order': The custom examiner issues Let Export Order after physically examining the seals and packaging of the goods. The exporter can also make an application to the

Assistant Collector of Customs to conduct this inspection at his factory or the warehouse.

(g) Obtaining 'Let Ship Order' from the Customs Preventive Officer: The CandF agent has to also procure 'Let Ship Order' from the Customs Preventive Officer by submitting duplicate copy of shipping bill duly endorsed by Custom examiner. 'Let Export Order' as well as 'Let Ship Order's is required for loading the goods.

(h) Obtaining Mate's Receipt and Bill of Lading: After completing all these formalities, goods is loaded on board the ship and the Mate or the Captain of the ship issues Mate's Receipt to the CandF to the Port Superintendent. Further, the Port Superintendent, then, gives this Mate's Receipt to the CandF agent after receiving the port dues from the exporter. The CandF agent, further, gives the Mate's Receipt to the exporter and takes the Bill of Lading from him.

Post-Shipment Stage

The post-shipment stage covers following stages.

(a) Submission of Documents by the CandF Agent to the Exporter: The CandF agent submits the following documents to the exporter after the competition of shipping procedure.

- Duly attested copy of the invoice
- Duplicate copy of the ARE-I form
- Drawback copy of the shipping bill
- The original Letter of Credit, export order or contract
- Export promotion copy of the shipping bill
- A full set of negotiable and non-negotiable copies of bill of lading

(b) Shipment Advice to Importer: Further, the exporter sends a shipment advice covering date of shipment, name of the vessel, the destination etc. to the importer. He can also send a copy of non-negotiable bill of lading to the importer.

(c) Presentation of Documents to Bank for Negotiation: The exporter submits all the relevant documents to the bank to initiate the process of getting the payment. These documents are called 'Negotiable Set of

Documents' and the process is known as 'Negotiation of Documents'. The set of documents covers the following documents.

1. Bill of Exchange, Usance Draft or Sight Draft
2. All set of Bill of Lading or Airway Bill
3. Original L/C
4. Customs Invoice
5. Custom certified Commercial Invoice
6. Packing List
7. Foreign exchange declaration forms, Original and Duplicate GR/SOFTEX/PP forms
8. Exchange control copy of the Shipping Bill
9. Certificate of Origin, GSP or APR Certificate
10. Original and duplicate Marine Insurance Policy

(d) **Dispatch of Documents:** The bank scrutinizes the received documents from the exporter and if the documents are complete and all the formalities are done as per the procedure, sends these documents to the importer's bank as specified in the letter of credit. The bank sends attested copies of the commercial invoice and the bank certificate to the exporter.

(e) **Acceptance of the bill of exchange:** The set of bill of exchange and other documents as mentioned above are called Documentary Bill of Exchange. There are two types of bill of exchange.

- **Documents against Payment (Sight Drafts):** When the drawer specifies that the documents should be given to the importer only against the payment, it is known as Sight Drafts.
- **Documents against Acceptance (Usance Draft):** When the drawer specifies that the documents should be given to the importer only against 'acceptance' of the bill of exchange, it is known as Usance Drafts.

(f) **Letter of Indemnity:** If the exporter signs the letter of indemnity to the bank, he gets the payment immediately. Signing the letter of indemnity means that exporter assures the bank that he will repay the entire amount along with interest if the bank doesn't get money from the importer.

(g) **Realisation of Export Proceeds:** When the bill of exchange reaches the importer, he pays to his bank if it is accompanied with Sight Draft. if it is accompanied with Usance Draft, he makes the payment on maturity of bill of exchange. After receiving the money, importer's bank transfer the money to the exporter's bank which is credited to the exporter's account.

(h) **Processing of GR Form:** Further, the export proceeds is documented on the duplicate of GR and sent to the RBI which verifies it with the original GR and if everything is found correct, the export transaction is considered as complete. On receiving the export proceeds, the exporter's bank intimates the same to the.

(i) **Realisation of Export Incentives:** The exporter can submit a claim with appropriate authority along with bank certificate if he is eligible for export incentives.

Check your progress 1

1. Which of the following number is mandatory for an exporter?
   a. CNX number
   b. IEC number
   c. Excise duty number
   d. Permanent account number
2. To be an exporter, the exporter must register with the Export Credit and Guarantee Corporation of India (ECGC).
   a. True
   b. False

3.3 Quality Control and Pre-shipment Inspection

As per the Export (Quality Control and Pre-shipment Inspection) Act, 1963, the Government of India has mandated compulsory quality control and Pre-shipment inspection of 90% of export items to promote the quality of goods according to international standard. Some of such items are listed below.

- Textiles

- Engineering goods
- Chemicals and allied products
- Food and agricultural products
- Coir, jute and leather products such as footwear etc.

The inspection responsibility is assigned to Export Inspection Council (EIC) by the government of India. The EIC has established five agencies namely Export Inspection Agencies at Delhi, Mumbai, Kolkata and Chennai to carry out the inspection of goods to be exported. The EIAs have their own jurisdiction.

3.3.1 Methods of Quality Control and Pre-shipment Inspection

Export Inspection Council (EIC) has recognised three systems of pre-shipment inspection, namely:

(a) **Self-Certification:** Under this system, a manufacturing unit certifies its own products and issues certificate for export. This facility is extended to the exporters:

1. Having good reputation and goodwill in the market;
2. Fulfilling stringent norms prescribed for product quality, design and development, raw materials and bought out components;
3. Having quality control laboratory, process control and independent quality audit facility.

The manufacturing units, which have been recognised under this system, have to pay a fee at the rate of 0.1% of FOB value (the minimum amount is Rs. 2,500/- and maximum is, Rs.1 lakh) in a year to the concerned EIA. Such units are recognised for a period of one year, which may be extended, provided the manufacturing unit continues to fulfil the recognised norms.

(b) **In-Process Quality Control (IPQC):** Under this system, stage by stage inspection of products like chemicals and engineering goods is done during the process of production. The inspection includes:

1. Raw materials and bought out components control,
2. Process control,
3. Product control,

4. Packing and packaging control.

Over 800 units all over India are operating under this system.

Certain units under IPQC System have been given option to issue Certificate of Inspection themselves provided they get registered themselves as 'Export Worthy Units' with the concerned EIA.

(c) Consignment-wise Inspection: Under this system, each individual consignment is subject to compulsory inspection by the EIA. The following is the procedure for the same:

1. The exporter has to apply in the prescribed form to EIA at least 7 days before the expected date of shipment.
2. After getting the 'Intimation for Inspection', the EIA deputes an inspector to conduct the pre-shipment inspection at the exporter's factory or warehouse.
3. The inspector surrenders the report to the Deputy Director of EIA after checking the goods and packing it with EAI seal.
4. If the Deputy Director is satisfied with the report, he issues inspection certificate in triplicate. Unsatisfactory report results in rejection.

Units Exempted from the Inspection

Following units are exempted from inspection.

(a) Trading Houses, Export Houses, Star Trading Houses and Super Star Trading Houses.

(b) Approved 100% Export Oriented Units and Export Processing Zones

(c) Registered Exporters with the Textile Committee

(d) Goods marked with ISI, AGMARK, BIS-14000, ISO-9000.

3.3.2 Procedure for Pre-shipment Inspection

Those exporters, who are approved under Self-Certification and IPQC, have to submit their applications in a prescribed 'Intimation for Inspection' form to the Export Inspection Agency. The Export Inspection Agency issues the Inspection Certificate on the basis of their performance reports as submitted by the EIA's officials during the checks at all levels of production carried out by them. Spot checks may also be carried out whenever required.

However, the units not approved under Self-certification or IPQC systems are required to undergo the following procedure:

(a) **Application to EIA:** The exporter has to apply in the prescribed 'Intimation for Inspection' form (in duplicate) to EIA at least 7 days before the expected date of shipment along with the following documents:

- Copy of export contract
- Copy of letter of credit
- Details of packing specifications
- Commercial invoice giving evidence of FOB value of export consignment
- Crossed cheques/D.D. in favour of EIA towards inspection fees
- Declaration regarding importer's technical specifications

(b) **Deputation of Inspector:** After getting the 'Intimation for Inspection', the EIA deputes an inspector to conduct the pre-shipment inspection at the exporter's factory or warehouse. The exporter should keep goods ready for inspection on the day and time allotted for inspection.

(c) **Inspection and Testing:** The inspector conducts inspection randomly and prepares the report to be submitted to EIA. The exporter is required to arrange for facilities required for the inspection. Where such facilities are not available, inspection may be carried out at private independent laboratories.

(d) **Packing and Sealing of Goods:** If the inspector is satisfied with the quality of goods, he issues order for packing of goods in his presence. After packing, the consignment is marked and sealed with the official seal of the Export Inspection Agency (EIA).

(e) **Submission of the Report to EIA and Issue of Inspection Certificate:** The report prepared by the inspector is submitted to the Deputy Director of EIA. If the report is favourable, the Deputy Director of EIA issues an inspection certificate in triplicate.

1. The original copy is required to be submitted to the Customs.
2. The duplicate copy is despatched to the importer.
3. The triplicate copy to be retained by the exporter for his record.

(f) **Issue of Rejection Note:** If the report submitted by the inspector is not favourable, the Deputy Director of EIA issues a rejection note.

(g) **Appeal against Rejection Note:** The exporter can file an appeal against the rejection note within 10 days from the date of the receipt of such note. On receiving the appeal, the EIA convenes a meeting of the Appellate Panel. The panel reviews the inspection report and if necessary examines the consignment again. The decision of the Appellate Panel is final and is binding on the parties, the exporter and the Export Inspection Agency.

Check your progress 2

1. The exporter has to apply in the prescribed form to EIA at least ____ before the expected date of shipment, under consignment-wise inspection.

   a. 7 days

   b. 15 days

   c. 20 days

   d. 25 days

2. Which of the following units exempted from inspection?

   a. EOU

   b. EPZ

   c. Exporters registered with textile committee

   d. All of the above

3.4 Excise Duty Refund

Excise duty is collected on manufactured goods before being dispatched from the factory. The government of India has exempted exporters from paying central excise duty. The exporter needs to apply for clearance by one of the listed below methods.

(a) **Export under Rebate:** Under this system, an exporter is required to pay excise initially and can claim it from the Central Excise department after the shipment of goods. However, this leads to blockage of finance.

(b) **Export under Bond:** Under this system, an exporter is required to execute a bond, in favour of excise authorities, for a sum equivalent to the amount of excise chargeable on such goods. Such bond should be supported by an appropriate bank guarantee to safeguard excise department's financial interest against non-sanctioning of excise refund.

3.4.1 Conditions for Central Excise Clearance

As a part of further simplifications and rationalisation of excise rules announced by the Finance Minister, a new set of Central Excise Rules, 2001 has come into effect from 1st March 2002. The procedure for export of excisable goods (Except to Nepal and Bhutan) is subject to certain conditions and limitations:

Conditions and Limitations: (Under Payment of Excise Duty)

(a) The excisable goods can be exported directly from a factory or warehouse after the payment of excise duty.

(b) The excisable goods must be exported within 6 months from the date on which they were cleared for export from the factory of manufacturer or his warehouse.

(c) The market price of the excisable goods at the time of exportation is not less than the amount of rebate of duty claimed.

(d) The amount of rebate of duty admissible is not less than Rs. 500.

Conditions and Limitations: (Without Payment of Excise Duty)

(a) The exporter is required to furnish a General Bond (Surety or Security) to the Assistant Commissioner of Central Excise or the Maritime Commissioner for a sum equivalent to the duty chargeable on the goods.

(b) The excisable goods must be exported within 6 months from the date on which they were cleared for export from the factory of manufacturer or his warehouse.

3.4.2 Procedure for Central Excise Clearance

Exporters can obtain exemption from central excise clearance by the following ways.

(a) Application to the Assistant Collector of Central Excise (ACCE): The exporter needs to fill in ARE-I form and submit to Central Excise office of his area to get the clearance for central excise. The ARE-I form comes in four copies of different colours for easy verification and processing. Note the different colours and their indication.

- Original - White
- Duplicate - Buff
- Triplicate - Pink
- Quadruplicate - Green
- Extra Copy - Blue

(b) **Information to the Range Superintendent:** The ACCE informs the range superintendent, in whose area the exporter's factory or warehouse is located. On receiving instructions from the ACCE the range superintendent deputes an inspector for clearance of goods for exports.

(c) **Sealing of Goods:** The inspector verifies the goods mentioned in the application and the particulars of duty paid or payable. If satisfied, he seals each package or the container in the manner as may be specified by the Commissioner of Central Excise and endorses each copy of the application.

(d) **Processing of ARE-I Forms:** ARE-I as endorsed by the inspector are processed as under:

Processing of ARE-I Forms

ARE-I (Original) & ARE-I (Duplicate)	The Superintendent or Inspector of Central Excise returns the original and duplicate copy of ARE-I to the exporter.
ARE-I (Triplicate)	The triplicate copy of ARE-I is sent to the Maritime Commissioner at the port of shipment or to the Excise Rebate Audit Section in case rebate is to be claimed by electronic declaration on Electronic Data-Inter-change (EDI) System of Customs.
ARE-I (Quadruplicate)	The quadruplicate copy of ARE-I is retained by the Superintendent or Inspector of Central Excise.
ARE-I (Quintuplicate)	The quintuplicate copy of ARE-I is returned to the exporter for claiming any other incentive.

(e) Examination of Goods at the Place of Export: At the port of shipment, the exporter presents goods together with original, duplicate and quintuplicate copy of the ARE-I to the Commissioner of Customs. The Commissioner of Customs examines the consignments. If satisfied, he certifies the goods for export by an endorsement on all the copies of ARE-I. The original and quintuplicate copies are returned to the exporter while the duplicate copy is sent to the Maritime Commissioner.

(f) Submission of the Claim: For claiming rebate, the exporter is required to submit the following documents along with the prescribed application in form 'C' (in triplicate) to the Assistant or Deputy Commissioner of Central Excise or Maritime Commissioner of Central Excise:

1. Original copy of ARE-I duly endorsed by the Customs officer;
2. Duplicate copy of ARE-I received from the Customs officer in a sealed cover;
3. Duly attested copy of Shipping bill;
4. Duly attested copy of Bill of Lading or Airway bill;
5. Duplicate copy of Central Excise Invoice under which Central Excise was paid on goods cleared for exports.

(g) Verification of the Application: Assistant or Deputy Commissioner of Central Excise compares details listed in the different copies of ARE-I:

1. The original copy received from the exporter;
2. The duplicate copy received from the Customs officer;
3. The triplicate copy received from the Central Excise officer.

If he is satisfied that the exports are not under claim for duty drawback, he sanctions the rebate.

(h) Refund of Duty: If any refundable amount is not paid to the applicant within three months from the date of filing the claim, interest at a rate of 20% p.a. is paid for the period between the expiry of three months and date of refund.

1. Under rebate on excise duty, the Chief Excise Accounts Officer issues cheques.
2. When export is under bond, the Chief Excise Accounts Officer issues a letter confirming credit given in the exporter's bond account.

The rebate claim can also be claimed by electronic declaration on Electronic Data Inter-change (EDI) System.

(i) **Cancellation of Documents:** If the excisable goods are not exported, the Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise cancels the export documents on request of the exporter.

Check your progress 3

1. Excise duty is collected at______?

   a. Source c. Before shipment

   b. Unloading d. Bank before due date

2. The excisable goods can exported within _____ from the date of clearance receipt?

   a. 1 month c. 3 months

   b. 2 months d. 6 months

3.5 Shipping and Customs Formalities

According the Section 40 of the Customs Act, the person in-charge of the conveyance vessel, vehicle, aircraft, etc., cannot permit loading of export cargo at the Customs Station unless and until a formal permission to the export given by the authorised Customs Officer is presented.

Before granting the permission, the Customs Officer ensures that the goods being exported are in accordance with different regulations, particularly in terms of the following:

(a) Type, sort and value of goods of the goods are same as mentioned by the exporter.

(b) The applicable duty/cess appropriately calculated and paid to the concerned authority.

(c) Provisions of Foreign Exchange (Regulation) Act, Export (Control) Order and Export (Quality Control and Inspection) Act and are met.

The procedure for shipping and customs clearance is as under:

(a) Preparation and Submission of Export Documents: For the clearance of cargo from customs, the exporter or his agent is required to submit five copies of shipping bill to the Customs Appraiser along with the following set of documents.

- ARE-I Form
- Certificate of Origin
- Marine Insurance Policy
- Packing List / Packing Note
- GR Form along with duplicate
- Commercial Invoice along with duplicate
- L/C along with export contract / export order
- Certificate of Inspection in original, if required

(b) Verification of Documents: The customs appraiser verifies if the formalities concerning exchange control, quality control, licensing, pre-shipment inspection etc. have been carried out satisfactorily by the exporter. He issues a Shipping Bill Number if he finds everything is done satisfactorily. The Shipping Bill Number is a very important document for exporters.

(c) Valuation of the Goods: The Customs Appraiser assesses the shipping bill and values the goods. The value of goods as determined by the Customs Appraiser is considered for all future transactions, especially for the claim of incentives. The custom appraiser returns all the documents to the CandF agent, but keeps the following documents as listed below.

- Original of GR to be sent to the RBI
- Original of Shipping Bill
- Copy of Commercial Invoice

Shipping bill is valid for one month only. If the goods are not delivered within a month, the exporter has to go for the valuation of goods again.

(d) Obtaining 'Carting Order' from the Port Trust Authorities: The C and F have to get 'Carting Order' from the Superintendent of the port trust to take the goods inside the dock. After getting the carting order, goods are moved inside the dock and stored at allocated shed.

(e) Customs Examination and Issue of 'Let Export Order': The custom examiner issues Let Export Order after physically examining the seals and packaging of the goods. The exporter can also make an application to the Assistant Collector of Customs to conduct this inspection at his factory or the warehouse.

(f) Obtaining 'Let Ship Order' from the Customs Preventive Officer: The C and F agent has to also procure 'Let Ship Order' from the Customs Preventive Officer by submitting duplicate copy of shipping bill duly endorsed by Custom examiner. 'Let Export Order' as well as 'Let Ship Order's is required for loading the goods.

(i) Obtaining Mate's Receipt and Bill of Lading: After completing all these formalities, goods is loaded on board the ship and the Mate or the Captain of the ship issues Mate's Receipt to the C and F to the Port Superintendent. Further, the Port Superintendent, then, gives this Mate's Receipt to the C and F agent after receiving the port dues from the exporter. The C and F agent, further, gives the Mate's Receipt to the exporter and takes the Bill of Lading from him.

3.5.1 Procedure for Realisation of Export Proceeds

The following is the procedure for the realisation of export proceeds:

(a) Presentation of Documents to the Bank for Negotiation: The exporter submits all the relevant documents to the bank to initiate the process of getting the payment. These documents are called 'Negotiable Set of Documents' and the process is known as 'Negotiation of Documents'. The set of documents covers the following documents.

1. Bill of Exchange, Usance Draft or Sight Draft
2. All set of Bill of Lading or Airway Bill
3. Original L/C
4. Customs Invoice
5. Custom certified Commercial Invoice

6. Packing List
7. Foreign exchange declaration forms, Original and Duplicate GR/SOFTEX/PP forms
8. Exchange control copy of the Shipping Bill
9. Certificate of Origin, GSP or APR Certificate
10. Original and duplicate Marine Insurance Policy

(b) Dispatch of Documents: The bank scrutinizes the received documents from the exporter and, if the documents are complete and all the formalities are done as per the procedure, sends these documents to the importer's bank as specified in the letter of credit. The bank sends attested copies of the commercial invoice and the bank certificate to the exporter.

(c) Acceptance of the bill of exchange: The set of bill of exchange and other documents as mentioned above are called Documentary Bill of Exchange. There are two types of bill of exchange.

- **Documents against Payment (Sight Drafts):** When the drawer specifies that the documents should be given to the importer only against the payment, it is known as Sight Drafts.
- **Documents against Acceptance (Usance Draft):** When the drawer specifies that the documents should be given to the importer only against 'acceptance' of the bill of exchange, it is known as Usance Drafts.

(d) Letter of Indemnity: If the exporter signs the letter of indemnity to the bank, he gets the payment immediately. Signing the letter of indemnity means that exporter assures the bank that he will repay the entire amount along with interest if the bank doesn't get money from the importer.

(e) Realisation of Export Proceeds: When the bill of exchange reaches the importer, he pays to his bank if it is accompanied with Sight Draft. if it is accompanied with Usance Draft, he makes the payment on maturity of bill of exchange. After receiving the money, importer's bank transfer the money to the exporter's bank which is credited to the exporter's account**.**

(f) Processing of GR Form: Further, the export proceeds is documented on the duplicate of GR and sent to the RBI which verifies it with the original GR and if everything is found correct, the export transaction is considered as complete. On receiving the export proceeds, the exporter's bank intimates the same to the.

3.5.2 Realisation of Export Incentives

Realisation of Export Incentives

The exporter can submit a claim with appropriate authority along with bank certificate if he is eligible for export incentives. Exporters enjoy the following incentives.

(a) Duty Drawback (DBK)

(b) Exemption from Excise Duty

(c) Exemption from Sales Tax

(d) Exemption from Octroi Duty

(e) Rebate in Rail Freight

The exporter can claim these incentives by the following ways.

Claim of Duty Drawback

The exporter can claim excise duty paid on raw materials, components and consumables bought for manufacturing goods to be exported. Generally, these rates are expressed as a percentage of FOB value of the goods exported.

Who to Apply - The Customs house in whose jurisdiction the exporter's warehouse or factory is situated.

When to Apply - Within 60 days after the Customs Officer issues 'Let Export Order'.

Documents to be Submitted - For claiming the duty drawback, there is no separate form. Triplicate copy of the Shipping Bill becomes an application for the claim of DBK. Such claim should be accompanied by:

1. Copy of export contract or letter of credit, as the case may be
2. Copy of packing list;
3. Copy of ARE-I form, wherever applicable;
4. Insurance Certificate, wherever necessary, and
5. Copy of communication regarding rate of drawback where the exporter is granted a "Special Brand Rate".

Payment of Drawback

The payment of drawback is made by the Customs House or Central Excise Collectorate having jurisdiction over the port or airport or land customs station through which exports are effected. The payment of drawback is made by cheques or by credit in the exporter's account maintained with the Customs House.

Claim of Central Excise Duty

The exporter can claim clearance from paying central excise duty as per government regulation.

- **Export under Rebate -** Under this system an exporter is required to pay excise initially and can claim it from the Central Excise department after the shipment of goods.

- **Export under Bond -** Under this system an exporter is required to execute a bond, in favour of excise authorities, for a sum equivalent to the amount of excise chargeable on such goods.

Whom to Apply - The Assistant or Deputy Commissioner of Central Excise or Maritime Commissioner of Central Excise.

When to Apply - Rebate on goods exported can be claimed within six months from the date of exports.

Documents to be Submitted - For claiming rebate, the exporter is required to submit the following documents along with the prescribed application in form 'C' (in triplicate):

1. Original copy of ARE-I duly endorsed by the Customs officer;
2. Duplicate copy of ARE-I received from Customs officer in a sealed cover;
3. Duly attested copy of Shipping Bill;
4. Duly attested copy of Bill of Lading or Airway Bill;
5. Duplicate copy of Central Excise Invoice under which Central Excise was paid on goods cleared for exports.

Refund of Duty: Under rebate on excise duty, the Chief Excise Accounts Officer issues a cheques and where export is under bond, the Chief Excise Accounts Officer issues a letter confirming credit given in the exporter's bond account.

The rebate claim can also be claimed by electronic declaration on Electronic Data Inter-change (EDI) System.

Claim of Octroi Refund

The exporter can claim refund of octroi duty paid on the manufactured goods as some states take this duty on goods entering the city limit.

Whom to Apply - The application for the claim of octroi refund should be submitted to the Octroi Office inside the docks as well with the Port Shed In charge.

When to Apply - Application for the refund of octroi duty should be submitted within 45 days of the date of loading.

Documents to be Submitted - For claiming exemption from octroi, the exporter is required to file 'Form N' along with a copy of shipping bill.

Where octroi has already been paid, the exporter can file claim for refund by submitting the following documents along with the prescribed application in form 'C' (octroi purpose) duly endorsed by the octroi post inside the docks:

1. Octroi Challan (Cash Memo) for having paid the duty.
2. Form B(in duplicate),whose content must tally with that of the Form c

Refund of Duty - If all documents are in order, the exporter is issued a cheque for refund of octroi.

Claim of Rail Freight Rebate

Transportation of certain commodities for export by rail to the port of shipment is eligible for freight rebate of 50%.

Claim of Air Freight Assistance

Air freight assistance is extended to certain notified horticulture and floriculture products.

Check your progress 4

1. According the Section 40 of the Customs Act, who grants permission of loading export cargo?
   a. The commissioner of customs
   b. The authorised customs officer
   c. The person in-charge of the conveyance vessel
   d. The person in-charge of loading-unloading at the port
2. 'Let ship order' should accompanied by 'Let export order'?
   a. True
   b. False

3.6 Marine Insurance – Meaning

Marine insurance indemnifies the insured goods from the losses occurred due to perils of the Sea as mentioned below.

- Sinking of ship
- Damage to the cargo caused by the dashing of the waves
- Damage to the cargo caused by the rocks
- Damage to the cargo caused by fire or explosion on the ship
- Damage to the cargo caused by sea water
- Destruction of the ship and cargo by the crew or captain of the ship
- Piracy and such other risks

As per the Section 3 of the Marine Insurance Act, 1963, marine insurance covers the loss to goods transported by any or all of the following modes.

(a) Sea, air or land

(b) Inland water ways

(c) Rail or road

(d) Air

(e) Post

The cover also extends to the storage of goods incidental to transportation.

3.6.1 Types of Marine Insurance Policies

The following are the different type of marine insurance policies:

(a) **Time Policy:** This policy is given for a specific period of time. Example: insurance of ship

(b) **Voyage Policy:** This is given for certain voyage from one destination to another.

(c) **Mixed Policy:** This is mix of time policy and voyage policy. It is taken for specific period for a certain voyage.

(d) **Valued Policy:** In this policy the value of goods is decided by the insurance company and the exporter by negotiation at the time taking the policy. It helps in settling the claim smoothly if it arises.

(e) **Unvalued Policy:** In this case, the value of subject matter is not agreed upon at the time of taking out the policy. It is determined only in the event of loss. It is also called as 'Open Policy'.

(f) **Fleet Policy:** This policy is meant for shipping companies having a fleet of ships. A number of ships or vessels can be insured under one policy.

(g) **Floating Policy:** This policy insures all shipments for a specific period. The value of goods remains fixed under this policy. As soon as the value of goods exceeds, policy needs to be renewed.

(h) **Specific Cover Policy:** This policy covers several risks in a single shipment. This not meant for regular exporters.

(i) **Open Cover Policy:** This policy is taken to insure all shipments to one or many destinations during a twelve month period. The maximum value of goods is fixed under this policy. As soon as the value exceeds, the exporter has to inform the insurer.

3.6.2 Procedure for Obtaining Marine Insurance Policy

To get the Marine Insurance policy, the exporter needs to undergo following procedure.

(a) Selecting the Insurance Company: The exporter needs to select one of the four subsidiaries of General Insurance Company of India (GIC), the only company of India providing general insurance. If the exporter selects a foreign company, he will be required to take prior permission from the RBI.

(b) Deciding Appropriate Type of Policy: The exporter needs to choose appropriate policy as per his requirements.

(c) Application to the Insurance Company: The exporter should for the insurance in the prescribed form (Declaration Form) to the insurance company when the goods are ready for dispatch.

- Description of goods
- Value of packages
- Risk to be covered for insurance
- Address of the exporter and importer
- Marks, numbers and kind of packages
- Transportation from the warehouse to its final destination

(d) Payment of Premium: The exporter should satisfy himself by knowing amount of premium well in advance. Different companies charge different premium amounts. Many foreign companies are also operating in India. Premium can be paid in rupees provided shipment charges are to be borne by the exporter only.

(e) Issue of the Insurance Policy: The exporter has to produce the Bill of Lading and the shipping company name to the insurance company. On receipt of the documents, the insurance company issues the insurance certificate in triplicate to the exporter as per the declaration made by the exporter.

The insurance policy covers the following details generally.

1. Exporter's Name and address
2. Type of policy and details of the risks covered
3. Description of the goods to be shipped

4. Sum assured amount and the premium paid
5. Issue date and the period of policy
6. Special conditions and warranties, if any
7. Special instructions for the procedure to be followed in the case of loss

(e) Processing of the Policy: Insurance policy comes in triplicate. Original copy goes to the bank along with other documents, second copy goes to the importer and the last copy is retained by the exporter himself.

3.6.3 Procedure for Filing Marine Insurance Claim

In case of loss, the exporter needs to follow the following procedure for claim settlement.

(a) Intimation of Loss: In case of loss, the exporter has to inform the nearest office of insurance company or its overseas agent (given in the policy document) of the accident without delay. As per rule, claim on custom, carrier and the bailees have to be filed within the given time limit. It has to be sent under registered post along with acknowledgement due.

(b) Appointment of the Surveyor: After receiving the claim papers, the insurance company appoints a marine surveyor to determine the cause of accident and the extent of loss. The surveyor further submits a survey report to the insurance company mentioning the following details.

- Was the packing sufficient or not.
- What kind of improvement should have been done?
- How claim could have been reduced?
- Is the fault lies with the exporter?

(c) Landing Remarks: The exporter has to get landing remarks for the port authorities.

(d) Submission of Claim: The exporter has to submit the following documents for claim settlement.

- Original policy
- Original invoice
- Packing list

Other documents required by the insurance company are the following.

- Original Invoice
- Ship Survey Report
- Insurance Survey Report
- Claim bill in duplicate
- Port Trust Landing Remark Certificate
- Original Insurance Policy duly discharged
- Copy of Bill of Lading
- Copy of packing list showing weight specification
- Copy of claim lodged with carriers, customs and bailees.

If any other document is demanded by the insurance company, the exporter has to submit.

(e) **Finalisation of the Claim:** If the insurance company is satisfied with the documents, it settles the claim and pays to the exporter. The insurance claim can be settled in rupees or foreign currency depending upon the country of the insured.

Check your progress 5

1. Under Section 3 of the Marine Insurance Act, 1963, which kind of following cargo is insured?

   a. Air cargo
   c. Excisable goods
   b. Post parcels
   d. A,B,C

3.7 Clearing and Forwarding Agents

The export procedure is complex and time-consuming. The exporter needs to avail services of a Clearing and Forwarding (C and F) Agent who knows the export procedure very well. He ensures that the goods reach the importer on time in good condition. The C and F agent provides the following services to the exporter including other services.

1. **Essential Services**

- Transportation of goods to docks and storing at the warehouse
- Arranging warehousing facility in advance
- Booking space in the ship or plane as the case may be and advising the exporter on the cost involved
- Arranging loading of goods
- Providing information to the exporter about the shipping lines, cost involved and destinations
- Taking marine insurance policies
- Preparation and processing all the relevant documents
- Sending banking collection papers

2. **Desirable Services**

- Storage facilities abroad, at least in major international markets, to warehouse the goods in case importer refuses to take delivery on any account.
- Can trace the goods, if shipment goes astray, through his international connections.
- Arrangement for assessing the damage to shipment enroute.

Check your progress 6

1. A clearing and forwarding agent can provide storage facility abroad?

 a. True

 b. False

3.8 ISO 9000

In 1947, a non-governmental organization by the name of the International standards Organisation (ISO) was established:

(a) To promote standardization in the export procedure

(b) To build up co-operation in the areas of intellectual, technological, scientific and economic activities

The ISO-9000 series of standards by the organization were accepted worldwide. They become norm of assuring high quality of goods. Suppliers and manufacturers around the world accept it as a hallmark even today.

These standards describe how the company has established and maintain an effective quality control system. When the checking for ISO-9000, takes place, the inspector physically checks the complete system. The ISO-9000 seal assures the customers of high quality.

3. Objectives of ISO-9000

- Assures of the high quality and builds brand value of the company
- Change in operation system from the formality of inspection to quality management.
- Avoiding multiple assessments of suppliers
- Acquiring commitment of the management
- Connecting quality to cost-effectiveness
- Giving customers desired product

4. Methods of Implementing of ISO-9000

- Educating management
- Writing a quality policy
- Writing a quality manual
- Nominating a quality representative
- Identifying responsibilities
- Identifying business procedures
- Making list of procedures
- Writing work instructions

The ISO-9000 Series of Standards make up the concept of Total Quality Management (TQM).

The ISO-9000 Series is a set of five individual, but related, international standards on quality management and quality assurance as listed below.

ISO-9000	The standards contain basic definitions, concepts and guidelines for the series.
ISO-9001	The standards cover design, development, production, installation and servicing systems.
ISO-9002	The standards cover the system of production and installation.
ISO-9003	The standards cover only final product inspection and test.
ISO-9004	The standards offer the guidelines for internal use by a producer while developing own quality system to meet business needs and exploit opportunities.

Check your progress 7

1. The ISO-9000 Series of Standards make up the concept of ____________________.

   a. Quality guarantee

   b. Certified export company

   c. Total quality management

   d. International standard management

3.9 ISO 14000

ISO-14000 is a series of standards on environmental management tools and systems. It deals with a company's system for managing its day-to-day operations as they have an impact on the environment.

Components of ISO-14000

(a) Environmental Management System.

(b) Conducting audits of the environmental management system.

(c) Top management's commitment to continuous improvement, compliance and pollution prevention.

(d) Creating and implementing environmental policies.

(e) Integrating environmental considerations in operating procedures.

(f) Training employees in regard to their environmental obligations.

Check your progress 8

1. ISO-14000 refers to____________ .

   a. Replacement adjustment

   b. Quality management system

   c. Environment management system

   d. Specialization in exporting a particular item

3.10 Let Us Sum Up

In this unit, you have learnt all steps and formalities of export procedure. You have identified the documents required for exporting goods. Documents are required to be submitted to different authorities at different stages of export procedure; you have identified which document is required when.

The lesson has also detailed the formalities related to custom duties. You have learnt that exporters are exempted from paying central custom duty. There are various other exemptions also, the lesson has described in detail.

Now, you know that no goods are exported without a marine insurance against the perils of the Sea. It helps the exporter avoid loss in case accident. The whole process of claim settlement is explained in the unit.

Finally, the unit has detailed ISO-9000 and ISO-14000 standards. You know, now, that ISO-9000 helps to maintain Total Quality Management and ISO-14000 helps to maintain environment.

3.11 Answers for Check Your Progress

Check your progress 1

Answers: (1-b), (2-a)

Check your progress 2

Answers: (1-a), (2-d)

Check your progress 3

Answers: (1-a), (2-d)

Check your progress 4

Answers: (1-b), (2-a)

Check your progress 5

Answers: (1-d)

Check your progress 6

Answers: (1-a)

Check your progress 7

Answers: (1-c)

Check your progress 8

Answers: (1-c)

3.12 Glossary

1. **IEC No -** Importer-Exporter Code Number
2. **DGFT -** Director General for Foreign Trade
3. **PAN -** Permanent Account Number
4. **STO -** Sales Tax Office
5. **EPC -** Export Promotion Council
6. **RCMC -** Registration-cum-Membership Certificate
7. **ECGC -** Export Credit and Guarantee Corporation of India
8. **FIEO -** Federation of Indian Export Organisation
9. **ITPO -** Indian Trade Promotion Organisation

10. **COC -** Chambers of Commerce
11. **Proforma invoice -** An offer detailing the goods to be exported on request of an prospective importer
12. **IIP -** Indian Institute of Packing
13. **EIA -** Export Inspection Agency
14. **CIF -** Cost, Insurance and Freight - A trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.
15. **C and F -** Clearing and Forwarding
16. **L/C -** Letter of credit
17. **EIC -** Export Inspection Council
18. **IPQC -** In-Process Quality Control
19. **ACCE -** Assistant Collector of Central Excise
20. **EDI -** Electronic Data Inter-change
21. **DBK -** Duty Drawback
22. **ISO -** International Standards Organisation
23. **TQM -** Total Quality Management

3.13 Assignment

A person wants to start an export business. Make a list of activities s/he will be required to do to start the business.

3.14 Activities

Visit a CFA and understand the exact procedure for an export product and write the procedure in flow chart.

3.15 Case Study

Case study about export business

More than measuring up to Indian standards - Shaw Moisture Meters

Shaw Moisture Meters has a long and illustrious history of exporting to India where its ultra-precision instruments have long been prized for their quality. It began exporting to India 30 years ago and the country remains one of its top six worldwide markets.

The firm, whose dew point meters measure in parts per billion, was originally set up to test the moisture content of wool in the Yorkshire textile industry in the immediate post-war years. Since then, Shaw Moisture Meters has specialised in measuring trace moisture in gases and compressed air and its products have found applications in numerous industries. In India the firm sells to many industrial companies including compressed air, electronics manufacture and power generation applications.

The company operates in India using a long-standing representative, although managing director Tim Peters has regular contact with both the representative and end customers to maintain all-important relationships. He stresses the importance of keeping those on the ground up to date with as much information and support as possible to retain close ties with customers.

"It's a growth market and we are seeing increasing levels of business," he says. "We have a strong presence there and it's improving. We have a massive plus in India because of our pedigree.

"Our history of being an established British manufacturing company stands us in good stead. Our reputation for a quality product and excellent levels of service is complemented by being in business for 60 years."

As many other exporters have discovered, having close ties with those whom you deal with is all-important in India – and very different from doing business in European countries.

Mr Peters cautions that one of the downsides of doing business in India is the amount of bureaucracy which is often involved.

"Many organisations seem to have taken British bureaucracy and tripled it," he adds. "We do more Letters of Credit for India than anywhere else and it is the preferred option for most of the nationalised industries. The extra paperwork creates a lot of additional work with the order processing and payments procedures.

"In India, more than any other country in the world, paperwork is done in triplicate and there are a lot of stages in the purchasing process. But if you get it right, Indian companies are happy to deal with you again."

Questions

1. What is the most favourable point for doing business with Indians?

2. What is the most unfavourable point for doing business with Indians?

3.16 Further Readings

1. International Marketing Analysis and Strategy Onkvisit and Shaw

2. International Marketing Cherunilam

3. International Marketing Management Jain

4. International Marketing Rakesh Mohan Joshi

5. International Marketing Michael CzinkotaIllka A Ronkainen

6. International Marketing R Srinivasan

7. International Logistics Pierre David

8. International Management John B Cullen

9. A Strategic prespective and K Praveen Parboteeah

Block Summary

In this block, you have learnt international marketing mix covering market segmentation, developing global product and pricing, international promotion and international distribution system. This is the basics of international marketing.

International business is affected by various factors related to economy of the countries, politics, demography and natural surroundings; these factors are collectively known as international business environment. Since international business deals with many countries, understanding these factors is difficult, but you need to understand these factors in order to succeed in the market.

Finally, the block has described whole procedure of export.The requirement of different documents at different stage; the need of C and F agent for smooth procedure; the need of insurance and the way of settlement; and ISO-9000 and ISO-14000 standards.

Block Assignment

Short Answer Questions

1. List out the role of C and F agent.
2. Write a brief on “Let export order”.
3. List out the documents required for preparation and processing of shipping.
4. Write Short notes on:
   a. ISO 9000 and ISO 14000
   b. Quality control and pre shipment inspection
   c. Realisation of Export incentives
   d. Procedure for central Excise Clearance
   e. Methods of Quality Control and pre-shipment inspection

Long Answer Questions

1. Write the types of Marine Insurance in Detail.
2. What are the shipment and customs formalities in India?
3. What are the conditions for Clearance of Central Excise Duty?

Enrolment No.

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

INTERNATIONAL MARKETING

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BLOCK 3:

BASIC PRINCIPLES OF INTERNATIONAL MARKETING

Dr. Babasaheb Ambedkar Open University
Ahmedabad

INTERNATIONAL MARKETING

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

INTERNATIONAL MARKETING

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Products and Pricing, International Promotion and Advertising, International Distribution Systems

UNIT 2 **INTERNATIONAL BUSINESS ENVIRONMENT**

Economic Environment, political and legal Environment, demographic and Cultural environment, natural Environment

UNIT 3 **EXPORT PROCEDURE**

Export Procedure, Quality Control and Pre-shipment Inspection – Meaning, Excise Duty Refund, Shipping and Customs Formalities, Marine Insurance – Meaning, Clearing and Forwarding Agents, ISO 9000, ISO-14000

BLOCK 3: **BASIC PRINCIPLES OF INTERNATIONAL MARKETING**

UNIT 1 **INTERNATIONAL PRICING**

Pricing Objectives, Factors influences the Pricing, Pricing Approaches, Pricing Strategies, Pricing Tools

UNIT 2 **INTERNATIONAL MARKET RESEARCH**

Variables in International Marketing Research, Types of Research, The international marketing research process, Other International Marketing Research Issues

UNIT 3 **DISTRIBUTION IN INTERNATIONAL MARKET**

Deciding factors for International Distribution, Categories of Distribution, Role of Clearing and Forwarding Agents in Distribution, Transportation in Distribution, Transport Cost Characteristics

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BLOCK 4: EXPORT ORGANIZATION

UNIT 1 EXPORT PROMOTION MEASURES IN INDIA

Introduction, Duty Drawback (DBK), Export Promotion Capital Goods (EPCG) Scheme, Assistance to States for Infrastructure Development of Exports (ASIDE), Deemed Exports, Market Development Assistance (MDA), Market Access Initiative (MAI), Income Tax Exemptions and Deductions, Town of Export Excellence, Vishesh Krishi Upaj Yojana, Industrial Raw Materials Assistance Centers

UNIT 2 EXPORT PROMOTION ORGANIZATIONS

Ministry of Commerce, Board of Trade, Export Promotion Councils (EPCs), Services Export Promotion Council, Common Facility Centre, Commodity Boards (CBs), Export Inspection Council (EIC), Indian Trade Promotion Organisation (ITPO), Indian Institute of Foreign Trade (IIFT), Indian Institute Packaging (IIP), Indian Council of Arbitration (ICA), Federation of Indian Export Organisation (FIEO), Marine Products Exports Development Authority (MPEDA), Export Processing Zones (EPZs), 100% Export Oriented Units (100% EOUs), Facilities for Units in EOUs, EPZs, EHTPs and STPs, M. Visvesvaraya Industrial Research and Development Centre (MVIRDC), Chamber of Commerce (COC), Inter-State Trade Council

UNIT 3 EXPORT CREDIT AND GUARANTEE CORPORATION OF INDIA

Export Credit and Guarantee Corporation of India (ECGC), Construction Works Policy, and Insurance Cover for Buyer’s Credit and Line of Credit, Shipment Policy, Small Exporter’s Policy, Specific Policy for Supply Contracts, Special Schemes of ECGC, State Trading Corporation

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INTERNATIONAL MARKETING

BLOCK 3: BASIC PRINCIPLES OF INTERNATIONAL MARKETING

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Block Introduction

You have learnt a bit of international marketing now. You can understand that marketing is analysing, planning, implementing and controlling of programs designed to sell your product in the global market. It depends heavily on designing your company product offer in terms of target market's needs and desires and on using effective pricing, communication and distribution to inform and motivate the prospective customers and serve them.

You know that international marketing is complex. There are many people who are expert in selling US and European market, but face challenges in selling in China or say, Japan, or Korea. Every market has different characteristics. Before entering into a market, you need to learn the market and design your product offering accordingly to be successful.

This block will teach you a bit of insight into marketing management; how you should design your product offer for international market; what factors you need to consider before entering a market etc. The block will cover how to do international pricing, how to carry out international market research and how to distribute your product in the international market. After going through this block, you will find yourself confident enough to make marketing plan for international market.

Unit 1 will introduce you to international pricing, factors influencing pricing, the approaches to international pricing, what are pricing strategies used currently and what are pricing tools.

Unit 2 will teach you all about international marketing research – what are variables in market research, what types of researches are there, what the process of research is, and what are the issues faced in market research.

Unit 3 covers distribution system in international market – what factors you need to consider, what the categories of distribution are, what are the role of clearing and forwarding agent in distribution, what is the transportation in distribution and the cost associated with it.

Block Objective

After learning this block, you will be able to understand:

- About international pricing
- About international market research
- The distribution in international market

Block Structure

Unit 1: International Pricing

Unit 2: International Market Research

Unit 3: Distribution in International Market

UNIT 1: INTERNATIONAL PRICING

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- The pricing objectives of the exporter.
- The Factors which influences the pricing in international market.
- The pricing approaches which will decide the price.

- The various pricing strategies.
- The Pricing tools used by exporters.

1.1 Introduction

This unit is about international pricing. You know that international business is complex. Calculating correct price for the target market is critical for the exporter. You will learn which factors influence pricing, what are the approaches and strategies used in calculating the pricing and what kind of tools used in pricing.

After each topic, you encounter check your knowledge which will help you to check your understanding of the topic. After finishing all the topics, you will get assignment; activities and case study which will help you reinforce your learning.

1.2 Introduction to Pricing

Pricing is very crucial and important aspect in International Marketing.

Pricing is a value determination process for the product or service that will be offered for sale. Making pricing decisions in international markets is ridden with difficulties as it involves multiple currencies, trade barriers, additional cost considerations, and longer distribution channels. Before setting the prices, the marketer must know his target market well. When he is clear about the market he is serving, he can determine the price appropriately. The pricing policy must be consistent with the company's overall objectives.

Fig 1.1 Marketing Mix

The traditional components of determining proper pricing are costs, market demand, and competition. Each of these must be compared with the firm's objective in entering the foreign market. An analysis of each component from an export perspective may result in export prices that are different from domestic prices.

Check your progress 1

1. The traditional components of determining proper pricing are ___________, __________ and _______________.

   a. Product, place and promotion.

   b. Cost, market demand and profit.

   c. Costs, market demand, and competition.

   d. Cost, currency value and market demand.

1.3 Pricing Objectives

There are different objectives of the firm for international marketing. Some firms want to export their products in other countries in long term. Some firms want to set up manufacturing unit and sell the product in the same and other countries. As per these objectives Pricing objectives are dependent. Generally the pricing objectives are:

Survival - An exporter faces competition from exporters of the same as well as other countries exporters. In such competitive market, pricing strategy is the marketing tool to survive in the market. This is a short term objective as every exporter aims at the profit as long term objective.

Profit to Maximize Sales Growth - When as exporter achieves the survival stage, his objective shifts to Maximum sales growth. If the competition and price of the product is sensitive final price can be decided on either of the options given below.

(1) Setting lower prices- This will lead to higher sales thereby more profits.

(2) Setting higher prices- This will indicate superior quality than the competitors. This will lead to rate the product at the higher degree than the competitors. Hence consumers will opt for the product and sales will grow.

To Maximize Current Profits - This is a very short term objective for pricing and may prove dangerous in long run. For this, thorough knowledge of demand and supply is necessary.

Return on investment - The required rate of return on the investment is the deciding factor for price in the international market. If the returns are required at the faster rate price may be on the lower side which will lead to more sale in shorter period.

Market share - To achieve targeted market share of the export product, exporter may keep prices at the lower side and later on after achieving the target he may shift to increase the prices.

Status quo/Leadership - Another objective behind the pricing is emphasizing on leadership in the market as well as superior quality of the product. To achieve this target exporter charges higher price.

Product quality - Pricing is the best way to reflect the quality of the product. If the price is higher, consumer is assured of the quality. Simple reason behind this is to keep the quality, every raw material is standardized. So the cost is higher and hence the price.

The price considerations listed below will help an exporter determine the best price for the product overseas.

To determine the best price for the product abroad, the following points should be considered.

- What should be the price of product in the foreign market?
- What kind of market positioning does the company want?
- Is the export price calculated according to product quality?
- Is the price competitive according to similar product?
- Which of the pricing objective the company is following abroad – market penetration or market skimming?
- Which kind of discount i.e. trade, cash, quantity and allowance i.e. advertising, trade off plans to offer to overseas customer?
- Should the price be offered according to market segment?
- What does the company plan to do for product line pricing?

- What pricing option the company should choose if the cost of the product increases or decreases? What kind of demand exists in the foreign market – elastic or inelastic?
- Will the price appear reasonable or exploitative to foreign government?
- Is the antidumping law of the country a threat?

Price is the main source of revenue for the company. It is critical for the market research department of the company takes into account all the variables to determine the best price for the product overseas. If the price is too high, the product sale will be severely affected. If the price is too low, the produce sale may cause a net loss or may not be sufficiently profitable.

The company should also calculate the additional costs like tariffs, custom fees, currency fluctuations, and value added tax which affects the final price.

Check your progress 2

1. Which of the following is the best way to show the quality of product?

a. Market share c. Pricing

b. Advertising d. Branding

1.4 Factors Influences the Pricing

International pricing strategies can be classified into three forms: market skimming, market penetration, and market holding. Pricing decisions are influenced by different factors such as inflation, nature of product or industry and competitive behavior, devaluation and revaluation, market demand, and transfer pricing.

Pricing in the international market is affected by the following factors.

- The cost incurred on manufacturing, distributing and marketing of the product.
- The distance of factory from the market.
- The effect of fluctuation in foreign currency.
- The acceptable price of the product in the foreign market.

- The business objective of the company. For example, company looking for local presence or profitability.
- The price of similar products in the foreign market.
- The existing business environment factors like government policy and taxation related to the product.

1.4.1 Additional Factors

In addition to this there are some more factors which affects

- Inflation
- Nature of Product or Industry and Competitive Behavior
- Market Demand
- Transfer Pricing
- Competition
- Currency fluctuations
- Price Escalation

Inflation

Inflation rate in that particular country will affect the price of the product to be export. If the rate of the inflation is higher, cost for the distribution and other service charges will be high.

Nature of Product or Industry and Competitive Behavior

Nature of Product or the industry in that particular country is also important factor for the pricing. If the product has local competitors or any other competitors are present their pricing strategy will also affect the pricing of the product.

Market Demand

Elastic or Inelastic demand of the product will also affect the price in international market.

If the demand for the product is inelastic the price will not change with a great difference than the origin country of the exporter.

For most consumer goods, per capita income is a good gauge of a market's ability to pay. Some products may create such a strong demand such as popular goods like Levis, that even low per capita income will not affect their selling price. Simplifying the product to reduce its selling price may be an answer for the exporter to most lower per capita income markets. The firm must also keep in mind that currency fluctuations may alter the affordability of its goods. Thus, pricing should try to accommodate wild changes in the U.S. and/or foreign currency. The firm should anticipate the type of potential customers. If the firm's primary customers in a developing country are expatriates or belong to the upper class, a higher price might be feasible even if the average per capita income is low.

Transfer Pricing

Transfer pricing is the setting of prices to be charged by one unit (such as a foreign subsidiary) of a multi-unit corporation to another unit (such as the parent corporation) for goods or services sold between such related units. Transfer pricing is an important issue for a company operating internationally. It is done in three ways: market based pricing, transfer at cost, and cost-plus pricing.

Competition

Competition in domestic market is simple as there are fewer players in the market. It is easier for a company to evaluate competitors' offering and set its own pricing strategy. However, the situation changes in international market. There are a number of players from different countries. Evaluating each competitor's offering becomes tougher.

In this case, the exporter is forced to match the market price. The prevailing condition demands, he may be forced to underprice the product in order to acquire market share. If the product is new to the market, it may be priced higher depending upon the quality and demand.

Foreign Currency fluctuations

This affects in deciding the price in the international market.

Currency values change constantly, and the relative purchasing power of any country's currency will likewise vary over time. This is expected and even planned for by multinational corporations (MNCs) as part of the risk of doing business. Small swings in the value of a currency do not pose a problem, but large and/or sudden swings can cause problems for a nation's macroeconomic health, and also cause great damage to a MNC's ability to both remain profitable and invest further in overseas operations. For example, since the creation of the euro in 1999, there has been a wide variance in its purchasing power relative to the U.S. dollar. At its inception, 1 euro bought $1.19 US. Three years later, the currency had devalued to $0.89 US, representing a 25% drop in value. By February 2004, it had climbed back to almost $1.30 US, a 46% gain (Papatheodorou, 2004). These currency swings have affected the ability of Europeans to buy American products (and vice versa), including commercial organizations.

When Domestic Currency is weak	When Domestic Currency is Strong
▪ Stress price benefits.	▪ Engage in non-price competition by improving quality, delivery and after-sale service.
▪ Expand product line and add more costly features.	▪ Improve productivity and engage in cost reduction.
▪ Shift sourcing to domestic market.	▪ Shift sourcing outside home country.
▪ Exploit market opportunities in all markets.	▪ Give priority to exports to countries with stronger currencies.
▪ Use full-costing approach, but employ marginal-cost pricing to penetrate new or competitive markets	▪ Trim profit margins and use marginal cost pricing.
▪ Speed repatriation of foreign-earned income and collections.	▪ Keep the foreign-earned income in host country; show down collections.
▪ Minimize expenditures in local or host-country currency.	▪ Maximize expenditures in local or host-country currency.
▪ Buy advertising, insurance, transportation, and other services in domestic market.	▪ Buy needed services abroad and pay for them in local currencies.
▪ Bill foreign customers in their own currency.	▪ Bill foreign customers in the domestic currency.

Price Escalation

Escalation is the provision in a cost estimate for increases in the cost of equipment, material, labor, etc., due to continuing price changes over time. Escalation is used to estimate the future cost of a project or to bring historical costs to the present. Most cost estimating is done in "current" dollars and then escalated to the time when the project will be accomplished.

- Price escalation is when there is a disproportionate difference in prices between the exporting and importing country.
- Sources of price escalation:
- Taxes, Tariffs, and Administrative Costs
- Inflation
- Exchange Rate Fluctuation
- Varying Currency Values
- Middlemen and Transportation Costs

1.4.2 Other Deciding Factors of Export Pricing

- Export packaging
- Currency fluctuations
- Cargo and insurance payment
- Foreign transport
- Freight forwarders fees
- Currency exchange margins
- Repacking charges
- Misc. bank charges
- Advertising and promotion cost
- Product modification
- CFAs fees
- Documentation costs

Check your progress 3

1. Identify the pricing strategies prevalent in international market?

   a. Market holding
   b. Market skimming
   c. Market expanding
   d. Market penetration
   e. A,B,D

2. ____________________ is the best measure to determine the acceptable market price.

   a. Per capita income
   b. Product category
   c. Market demand
   d. Lifestyle

1.5 Pricing Approaches

There are various approaches for pricing the products.

- Ethnocentric Approach
- Polycentric Approach
- Geocentric Approach

Ethnocentric Approach

Firms operating in international markets follow ethnocentric, polycentric, and geocentric approaches in pricing. In the ethnocentric approach, a firm follows the same price throughout the world.

Polycentric Approach

A firm following a polycentric approach allows its regional managers to fix the product prices based on the circumstances in which they operate.

Geocentric Approach

A firm adopting a geocentric approach takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries.

Check your progress 4

1. Which of the following approaches says to follow same price worldwide?

   a. Ethnocentric Approach c. Geocentric Approach

   b. Polycentric Approach

2. Which of the following approaches allow regional managers to fix prices?

   a. Ethnocentric Approach c. Geocentric Approach

   b. Polycentric Approach

1.6 Pricing Strategies

Various Strategies of International Pricing

- Premium Pricing
- Penetration Pricing
- Economy Pricing
- Price Skimming
- Psychological Pricing
- Product Line Pricing
- Optional Product Pricing
- Captive Product Pricing
- Product Bundle Pricing
- Promotional Pricing
- Geographical Pricing
- Value Pricing

Premium Pricing

Premium pricing strategy is used when the product has considerable competitive advantages; a unique product like luxury products.

Penetration Pricing

When a product is introduced in a market where many similar products are already being sold, the product may be priced low to attract more and more customers, like new mobile companies are currently doing.

Economy Pricing

This pricing strategy is used when marketing and manufacturing cost is low. You will find many low priced items in supermarkets.

Price Skimming

This pricing strategy is used when you have significant advantages in the market and you know that this advantage is not going to last for long. Therefore, you fix a higher price in the market which attracts more companies in the market. As a result, price falls, but you are able to squeeze more profit from the market. Mobile companies are currently using this strategy currently with the introduction of new features in their products.

Psychological Pricing

Manufacturer use this pricing strategy when they think that they can attract customers on emotional basis like price charged one rupee less in many cases. For example; Rs.499/- instead of Rs.500/-.

Product Line Pricing

Where there are many products in the same category, the company can charge almost similar price a little less or more like you find in the case of washing powder.

Optional Product Pricing

This pricing strategy is used when the product becomes favourite and the company acquires considerable market. The company provides a little 'Extra' and charges more. You will find many products in the market which comes along with some free offer.

Captive Product Pricing

When a product has such a value which can be sold to other manufacturers without harming the original manufacturer; the company can use this pricing strategy. Suppose, a telephone manufacturer wants to sell its design also in the market, it can charge lesser price in the market and recover its loss by selling its design to other manufacturers.

Product Bundle Pricing

Sometimes, manufacturer use this strategy to clear old stocks. They make bundle of three or four units and sell a little less price. You will find many kinds of soaps sold this way.

Promotional Pricing

Sometimes, manufacturers keep price less than other competitors to promote the product; mostly when the product is introduced in the market or the sale has dropped due to competition. You will find many products with the offer buy one get one free (BOGOF) basis.

Geographical Pricing

Sometimes, a product is sold on different prices in different markets around the globe. It happens due to cost incurred in distribution or for other reasons.

Value Pricing

This happens when the company has the market share and the product is considered high quality product, and the local market conditions have changed either due recession or increased competition. The company is forced to charge more to provide same value and retain the market share.

There are two more strategies for Pricing

Full Cost Pricing

Every product bares a part of the total cost. In other words, foreign sales, production cost, marketing expenses etc. are included in the final price.

- A marketer sells the product for the total cost of the product.
- This pricing method is used when variable costs own a relatively large share of the total costs.

Variable Cost Pricing

In this strategy, cost will very as per market. Here production cost is underestimated and is variable. So in this case foreign sales are bonus.

- Variable cost marketing is when the marketer sets price at the incremental cost of bringing the product to market and does not incorporate fixed costs as part of the price.
- Usually this pricing method is used when a company has large fixed costs or views it sales overseas as net profit producing.

- A marketer must be cautious when using this strategy because some countries may view it as dumping.

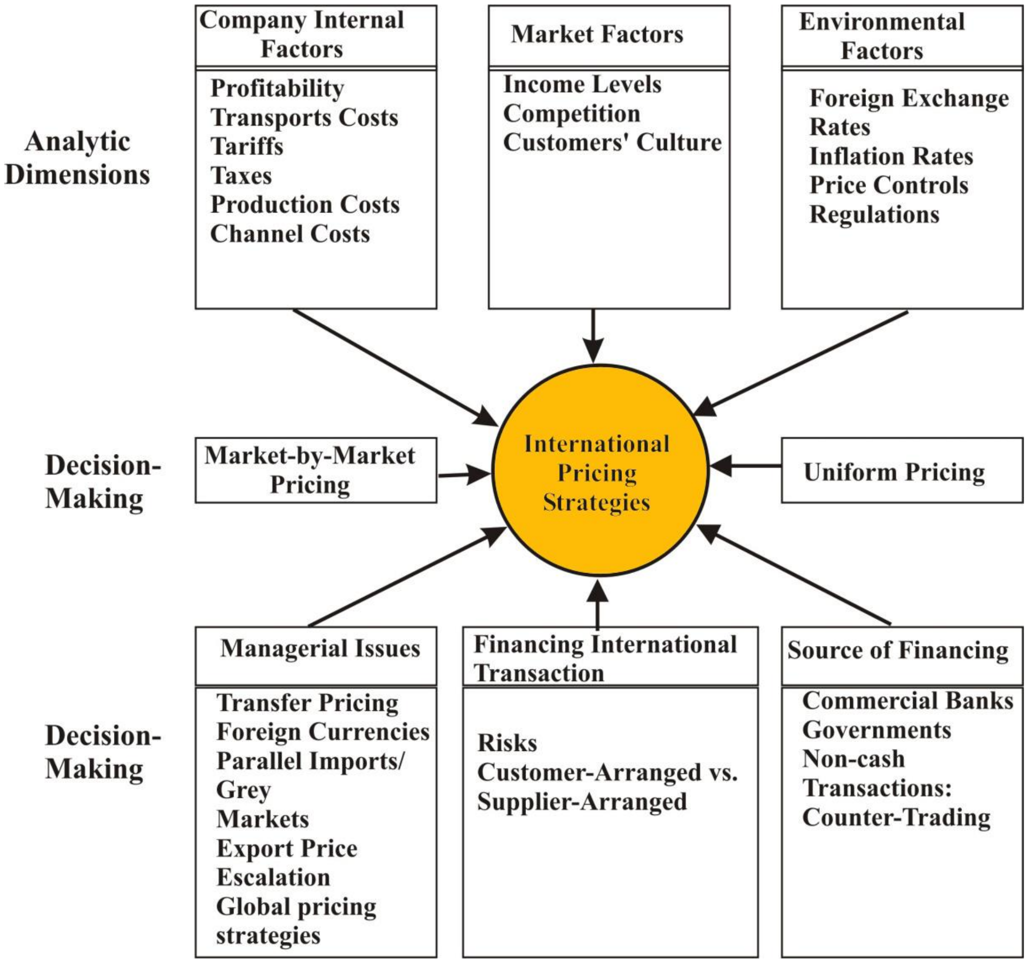

Fig 1.2 Variable Cost Pricing

Check your progress 5

1. Which kind of pricing strategy is this when you charge a high price because substantial competitive advantage?

   a. Price skimming c. Penetration pricing

   b. Premium pricing d. Psychological pricing

2. Which kind of pricing strategy is this when you are forced to move old stock?

   a. Premium pricing c. Psychological pricing

   b. Penetration pricing d. Product Bundle Pricing

3. Which kind of pricing strategy is this when your products have complements?

   a. Promotional pricing c. optional product pricing

   b. Psychological pricing d. Captive Product Pricing

1.7 Pricing Tools

There are different tools used by exporter for wider reach of the market. These tools are not very appreciated in the market but in initial stages some exporter uses these tools.

1.7.1 Gray Market Prices

This is another Pricing strategy used for the short term product.

Parallel imports/Gray Markets develop when importers buy products from distributors in one country and sell them in another to distributors who are not part of the manufacturer’s regular distribution system.

- Gray marketing is the distribution of trademarked products in a country by unauthorized persons.
- Parallel importation: the activity of gray marketers parallels authorized distributors.
- Gray markets develop when there are substantial differences in the prevailing prices of the same product between two national markets.

- Gray marketers appeal to their customers with lower prices.
- Although gray market goods look similar to their domestic counterparts, they may not be identical and may not carry full warranties.

Factors Facilitating Gray Markets

- Substantial price differences between national markets
- The opportunities to offset supply shortages in the importing country at below-market prices
- Competitive pricing strategies
- Substantial fluctuation in exchange rates
- Inability to synchronize demand and supply in various national markets
- Unavailability in a market of foreign-made products with desired exclusives
- Relative ease with which products can be moved across countries and adapted for local use

Managerial Perspective of Gray Market

- Erosion of Trademark Image
- Strained Manufacturer-Dealer-Customer Relations
- Legal Liabilities
- Disruption of Marketing Strategy and Profits

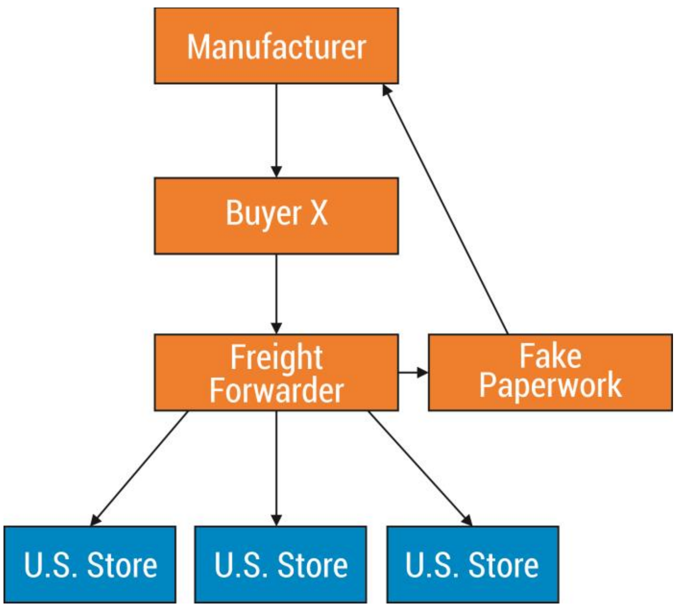

Fig 1.3 Managerial Perspective of Gray Market

The chart above shows how Gray market works in USA. Here authorized dealer or distributors or custodian is absent. Both, Exporter and the buyer have to bare the risks at their respective ends.

1.7.2 Dumping

When the product is sold in other countries on lesser price that is charged in domestic market, it is called dumping the product. Currently, Chinese companies use this strategy to sell many products in India.

Dumping is not good for the market where the product is being sold cheaply. It can result in lesser profit for the domestic competitors; create job losses, and many companies may be forced to shut shop.

Dumping is sometimes confused with low or cheap price products, but that is misunderstanding.

Anti-Dumping

Anti-dumping is a counter measure to dumping. According to WTO, governments of different countries facing such problem are allowed to take to correct the situation and wipe out its distortive effect. Each government has right to establish fair-trade practices. It provides succour to domestic industry.

Anti-dumping measures do not provide protection per se to the domestic industry. It only serves the purpose of providing remedy to the domestic industry against the injury caused by the unfair trade practice of dumping.

Government takes measures against Dumping. Some times in some countries, Govt. had already put Anti-dumping duties for certain products. If the exporter wants to sell the same product he has to add the duty charges to his cost.

1.7.3 Counter Trade

Counter trade is a creative marketing tool. In today's quality environment, counter trade is a quality activity.

It makes the most sense to view counter trade from the marketing perspective. Think for a second; the root word of "marketing" is "market." Before money was in use or in cultures where money did not exist, exchanges took place at markets. When the noun "market" is changed into the verb "marketing," other things become involved. Even now, marketing is used to encourage exchange.

When markets first evolved, there was no currency to ease the buying and selling process; it was a cashless era. Think about counter trade. Countertrade is a modern variance of bartering, but it is more complicated. If barter is a form of exchange, and exchange is the basis of all marketing, then counter trade is the essence of marketing. Countertrade facilitates the exchange of products. It offers an alternate source for structuring an international sale when conventional means of payment are difficult, costly or non-existent. Countertrade can be successful in the domestic market as well as the international market.

Why purchasers impose counter trade:

- To preserve hard currency
- To improve balance of trade
- To gain access to new markets
- To upgrade manufacturing capabilities
- To maintain prices of export goods
- To force reinvestment of proceeds from weapons deals

A) Types of counter trade

Barter system- In this system there is exchange of the products and no monetary deal is involved. Barter is the oldest form of reciprocal trade. It is a cashless transaction that involves only one contract. Barter removes the need for hard currency generation. It is still used in some instances, but is the least common and most difficult form of transaction. The difficulty arises when all the needs of the merchants have to be met in one contract. They have to "want in the same dollar dominated amount" or barter will not work.

Compensation deals- A Buyback or Compensation Agreement is an arrangement whereby the exporter accepts products derived from the original exported product as payment.

Counter purchase or offset trade- Counter purchase is the most common form of countertrade hard currency generation. Counter purchase is an agreement where "you buy from me, and I buy from you." There are three main contracts in a counter purchase agreement: the sales contract, the purchase contract and the protocol contract. The protocol contract serves as a protection contract. It is the key intervening contract that separates the other two contracts. The protocol contract explains what each party will do and what each party should expect.

Product buyback agreement- Buyback involves two contracts: the sales contract and the purchase contract. A buyback arrangement can achieve in a short time something which otherwise would take a decade or more to accomplish--the establishment of an effective relationship based on trust. The building of this relationship takes a commitment of time and energy from both parties. "Exporter A" has demonstrated they are committed to the long term relationship by supplying "Buyer B" with the most efficient fertilizer manufacturing plant within their capability. If they did not, "Exporter A" would be stuck with low quality fertilizer it has to buy back. This arrangement is one of the best ways to establish a company's presence in developing countries. It demonstrates to those countries that a company is willing to invest tremendous amounts of time, energy and money and that it is committed to their cause. It is very effective in Asian countries where relationships are most important.

B) Problems of counter trading

- Determining the value of and potential demand for the goods offered
- Barter houses
- The Internet and countertrading
- Electronic trade dollars
- Universal Currency/IRTA
- Proactive countertrade strategy
- Included as part of an overall market strategy
- Effective for exchange-poor countries

Check your progress 6

1. What do you understand by Barter system?
   a. This is a type of sales contract.
   b. In this system there is exchange of the products and no monetary deal is involved.
   c. This is an arrangement whereby the exporter accepts products derived from the original exported product as payment.
   d. This is an agreement where this is agreed that "you buy from me, and I buy from you."

2. What do you understand by Compensation deals?
    a. This is a type of sales contract.
    b. In this system there is exchange of the products and no monetary deal is involved.
    c. This is an arrangement whereby the exporter accepts products derived from the original exported product as payment.
    d. This is an agreement where this is agreed that "you buy from me, and I buy from you."
3. What do you understand by Dumping?
    a. This is a Pricing strategy used for the short term product.
    b. It refers to exporting a product at a price lower than the price charged in its domestic market.
    c. It refers to exporting a product at a fixed price as agreed.
    d. It refers to charging a price on the basis of quantity supplied.

1.8 Let Us Sum Up

In this unit, we have learnt International pricing strategies can be classified into three forms: market skimming, market penetration, and market holding. Pricing is influenced by several factors in the international market like cost of manufacturing, distribution and marketing, location of the market from the factory, fluctuation in foreign exchange, current price of the similar product in the market, company's business objectives, competitors' price and the local government policy and tax structure.

Pricing is one of the most complicated decisions areas encountered by international marketers. International marketers must take many factors into account, not only for each country, but often for each market within a country.

Market prices at the consumer level are much more difficult to control in international than in domestic marketing. Controlling costs that lead to price escalation when exporting products from one country to another is one of the most challenging pricing tasks facing the exporters; counter trading is an important tool to include in pricing policy.

Pricing in the international marketplace requires a combination of intimate knowledge of market costs and regulations, an awareness of possible countertrade deals, infinite patience for detail, and a shrewd sense of market strategy. There are 3 tools used by marketers for maximum reach of the products. They are Gray market, Dumping and Countertrade. There 4 types of countertrade. Barter system, compensation deals; counter purchase/offset trade and buyback agreement.

1.9 Answers for Check Your Progress

Check your progress 1

Answers: (1-c)

Check your progress 2

Answers: (1-c)

Check your progress 3

Answers: (1-e), (2-a)

Check your progress 4

Answers: (1-a), (2-b)

Check your progress 5

Answers: (1-a), (2-d), (3-d)

Check your progress 6

Answers: (1-b), (2-c), (3-b)

1.10 Glossary

1. **Pricing -** It is a value determination process for the product or service.
2. **VATs -** value-added taxes.

1.11 Assignment

Take any FMCG product from Indian Market which is to be launched in Japan. Decide which pricing strategy would be effective and what would be the final price for the consumer.

1.12 Activities

Visit an exporter and discuss with him how s/he calculates prices of the product to be exported. Make a brief report.

1.13 Case Study

Pricing Strategy and Ethics: Wet 'n Wild

The right pricing strategy

Wet 'n Wild is a chain of waterparks that are operated across Australia, the United States, and now China. The first waterpark in the chain was opened on the Gold Coast in Australia in 1984. Since that time they have expanded to eight locations, including Hawaii and Las Vegas.

In 2013, they opened a new water park in Sydney, Australia. Despite Sydney being a major international city with a population of over 5 million, it does not have a major theme or amusement park. Therefore, the new Wet 'n Wild facility was able to obtain a virtual monopoly in the Sydney area.

Obviously, Sydney is relatively well known for its famous beaches, including Bondi Beach. To counteract this indirect competitor, Wet 'n Wild located their new waterpark around one hour inland, away from the beaches. This location was still within large residential areas and easily accessible by road.

Because Sydney was lacking a major theme park, Wet 'n Wild was able to attract significant publicity and media attention prior to opening, particularly as the park was promoted as "the largest waterpark in the world". This was supported by significant advertising expenditure, which was primarily focused on selling season pass tickets.

The pricing structure for the new Wet 'n Wild waterpark was designed to sell season passes, rather than individual visits. For example, a season pass cost

$120 as compared to a one-day visit pass of $70. This meant that there was a significant incentive to buy the season pass.

As a result, these season passes were enormously popular. The Christmas period in Australia is in the middle of summer, so these season passes became popular Christmas gifts as well.

As you can imagine, as consumers have paid for multiple visits – many of them want to get great "value for money"– which means as many visits as possible. As a consequence, the park become very crowded at times. On several occasions, in the middle of summer, the waterpark was at full capacity. That means that season pass holders, who had paid for their tickets, were unable to enter the park because it was full.

The other contributing factor to this overcrowding situation was that Wet 'n Wild was not open every day. Although their season ran from September to April (the warmer months in Australia), they were not open seven days a week – sometimes only being open on weekends.

With a waterpark operating at full capacity on a hot day, you can imagine that the queues were quite long and uncomfortable. It was not uncommon to wait 1 ½ to 2 hours for a waterslide. This resulted in significant customer dissatisfaction that was expressed through social media, including Wet n' Wild's own Facebook site.

Discussion Questions

1. As a new facility, Wet 'n Wild was keen to recoup their infrastructure investment as quickly as possible. Therefore, do you agree with their pricing strategy or would there be a more appropriate approach to pricing?
2. As the number of season passes sold was significant, do you think that is ethical of the company to keep promoting these passes or do you think that they have a responsibility to their shareholders to maximize profitability?
3. Given that season pass holders paid for a service that was not always available (that is, the park was full), do you think that they should be entitled to some form of refund or compensation? If so, how could this be implemented given thousands of people could have been affected.
4. As there were reasonable numbers of dissatisfied season pass holders, what do you think would be the long-term implications of Wet n' Wild's objective to sell as many season passes as possible?

1.14 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.
4. International Marketing by Rakesh Mohan Joshi.
5. International Marketing by Michael Czinkota and Illka A Ronkainen.
6. International Marketing by R Srinivasan.
7. International Logistics by Pierre David.
8. International Management by John B Cullen.
9. A Strategic perspective by K Praveen Parboteeah.

UNIT 2: INTERNATIONAL MARKET RESEARCH

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- Necessity of marketing research in international market.
- How to plan an international marketing research.
- Process of international marketing research.
- Methods of international marketing research.
- Country study in marketing research.

2.1 Introduction

The unit covers international marketing research. You will learn what the variables in market research are; what types of research are there; how the research are done and what kind of challenges you face in conduction research. You will learn all that in details and take questions to check your understanding of each topic.

The lesson will also give you some assignments, activities, and case studies to reinforce your learning.

Market information is a key element in the company's international success and therefore marketing research is crucial if the firm wants to reduce the risks of undertaking business in international markets. Marketing research is an important tool for reducing the risks in the decision making.

The objective of International Marketing research is to know the potentials of the market in every aspect. Hence, this research should include environment aspects, political aspects, particular market location aspects and the product related and distribution related aspects.

Right marketing research leads to successful launching the product. It also gives proper information for analysis. If any change in the product is lunched or if pricing strategy is to be defined marketing research is needed.

Marketing research has been defined as "a set of techniques and principles for systematically collecting, recording, analyzing and interpreting data that can help decision makers who are involved with marketing goods, services or ideas" or as "the systematic collection, objective search for, and analysis and interpretation of information relevant to the identification and solution of any of the firm's marketing problems".

International marketing research has the same purpose as the domestic marketing research: to provide information to the decision - makers in order to take a more documented decision. Even though the purpose is similar, the scope of international marketing research is broader than the one of the domestic marketing research, for the following reasons:

2.2 Variables in International Marketing Research

1. The research takes place in a larger number of countries and each country is unique in its own way,
2. In international market research there are a higher number of variables needed to be collected:
   - There are variables that are relevant to each country, aspects that in the domestic marketing research are constant and usually known (laws, the political systems, the channels of distribution, culture) but which become unknown variables that need to be researched in other foreign country
   - There are international variables that derive from the international activity such as exchange rates, international policies, duties, international documentation, port facilities etc.
3. The nature of decisions differ in the international marketing and therefore specific knowledge and information are required in order to make decisions when penetrating a new market, choosing what country to enter, deciding how to reach the target-markets in foreign countries,
4. The costs of doing research internationally is higher than in the domestic market,
5. International marketing research encounters besides the usual difficulties (that are encountered in the domestic research), specific difficulties at international level: the co-ordination of the research in more countries, the availability and accuracy of secondary data, setting the comparability of data obtained from different countries.

The international marketing research is much more complex than the domestic marketing research and at the same time is more necessary for the company. In international marketing intuition or decision taken when little information is available is not enough to enable the success of the company. In 1970's P and G launched the diapers Pampers in Japan. Initially, sales were growing fast, but Pampers proved to be too bulky for Japanese mothers, who change diapers twice as frequently as Americans. Given the scarcity of space, Japanese mothers desired thinner diapers. A Japanese competitor was able to see this and designed thinner diapers, grabbing market share from PandG. PandG in Japan would have been able to meet the market's requirement if adequate marketing research would have been undertaken. This example shows that here are firms that engage in international marketing that do not benefit of complete, detailed information about countries. Some of these firms do not appreciate information (through company culture) and some others do not have the resources (financial, human and of time) to undertake international research, and this is usually the case of small companies.

As a firm becomes more committed to international marketing, the cost of failure increases and therefore more emphasis is placed on research, as marketing research provides the necessary information to avoid costly mistakes of poor strategies or the cost of lost opportunities. By doing research the Pepsi Cola Company found out that the Canadian market was ready for a new cola that did not contain sugar, but it also found out that the youth market, especially males was adverse to the diet soda. Consequently, Pepsi Cola Company launched the drink Pepsi Max as a trendy, cool, with no sugar cola. The TV advertising campaign showed Pepsi drinkers who were "Living Life to the Max", by performing death-defying actions.

Check your progress 1

1. Why marketing research is important?
   a. It reduces business risk.
   b. It makes product visible in the market before launch.
   c. It makes the launch of product seamless in the market.
   d. It makes the business person know all about the market before starting.
   e. a,c,d

2.3 Types of Research

There are different types of researches that would gather different type of information:

1. General research in international markets that gathers general information about the country/market, information about technologies and about the competitive environment. This information is used to make decisions at corporate level,

2. Industry research that gathers information about specific markets such as market potential, market share, supply and demand trends, as well as a detailed competitors' research (industry structure, actions of competitors etc.),

3. Marketing research that gathers information relevant to the main marketing activities. There are more types of marketing research:

   - Consumer behaviour studies (consumers preferences and attitudes, segmentation),
   - Product studies (testing new products, measuring the consumers' loyalty towards products, how the packaging is appreciated, brands' studies),
   - Price studies (the analysis of knowing the price, the consumers sensitivity to price according to the demand elasticity to price),
   - Distribution studies (identify distribution channels, measuring distribution channels length and efficacy),
   - Promotion studies (searching the promotional media, measuring the ads efficacy).

Some companies treat the three types of research distinctly, while others would consider them as one comprehensive research activity.

Check your progress 2

1. Which of the following researches is carried out for specific market?

   a. General research

   b. Market research

   c. Industry research

   d. Product studies

2.4 The International Marketing Research Process

The international research process consists of a number of subsequent activities, as also shown in figure:

1. Problem and research objectives definition.
2. Planning the research process.
3. Collecting the data.
4. Analysing and interpreting the data.
5. Communicating the results.

The steps of the research process at international level are similar to those of the research process at national level, but at each stage there are specific issues that appear at international level. The different stages will be discussed briefly, mainly through the perspective of their peculiarities at international level.

2.4.1 Problem and Research Objectives Definition

The research problem definition or formulation is one of the most important steps of the research process to be understood. When a problem or an issue appears in the company (such as the decrease of sales), management has to make decisions and sometimes they need more information to make these decisions, information that can be obtained through marketing research. In order to be solved this managerial problem or issue has to be translated into a research problem. The questions that arise are: What we are going to study? What is that we want to find out? In the example given above the problem of decreasing sales can be transformed in the research problem: Why the sales have decreased? Further the research objectives would be to identify the causes of sales decrease.

The cliché of a well-defined problem being a half solved problem definitively applies at international level, too. A very well designed research is not going to compensate a wrongly defined problem.

Fig 2.1 The steps of the marketing research process

- Problem
- Sources of data
- Editing
- Written
- Secondary report
- Objectives- primary
- Codifying
- Oral
- Presentation
- Information
- Research methods
- Data analysis
- Observation
- Interview
- Survey
- Experiment
- Instruments
- Questionnaires
- Mechanical instruments
- Sampling
- Contact methods
- Mail
- Phone
- Personal

Analyzing and interpreting the data communicating the results

Therefore, maximum attention has to be paid at the problem definition stage. At international level, problems may not be the same in different countries and cultures for the same product. There are some aspects that should be taken into consideration when considering doing research internationally:

1) The structure of the market: the size of the market, the phase from product life cycle in which the product is in every country, the number of competitors. All these aspects might generate different company problems and therefore different research needs resulting in non-comparable data for multi country research.

2) The functional equivalence. Even if we are talking about the same product its functionality may differ from one country to another and this should be acknowledged when defining the research problem. For instance:

   a. The bicycle is used as a leisure product in USA, while in China and in Holland is used as transportation means. Consequently, in USA the bicycle will compete with other recreational goods (such as skis, exercise equipment); while in China it will compete with small cars, scooters, motorcycles.

   b. Hot milk base chocolate drinks are consumed differently from one country to another. While in USA and in UK it is consumed in the evening, before going to sleep, being seen as relaxes, in Latin America it is consumed in the morning, being seen as a waking up, energizer. Functional equivalence is reached neither in the time period nor in the purpose of use.

   The function served by a particular good has to be considered in the country context and has to be defined in each country, and according to it to search the market and decide on marketing strategies.

3) The conceptual equivalence deals with the extent to which concepts have the same significance in different cultures.

   a. The concept of women rights in a Muslim country is non-existent.

   b. The concept of product quality is likely to differ for the Western European consumer from the one of an Eastern European consumer. This becomes obvious if we look at the quality of services in Romania as compared to other Western European countries.

   c. The use of the word "family" has different meanings in different countries according to the social organisation: in Romania, as in USA and other countries the concept of family includes the parents and the children. In Mexico and other Latin American countries, the concept of family refers to the extended family formed of parents, children, uncles, cousins and other relatives.

The issue of equivalences appears very frequently when researching internationally, at every stage in the research process. Some of them will be further discussed under the other steps of the research process. Box no. 8.1 presents the main types of equivalences that have to be ensured when researching internationally.

A major difficulty in formulating research problems at international level is the unfamiliarity with the foreign environment. The lack of familiarity with the local environment may lead to false assumptions and wrongly defined research problems and further on, to false conclusions about the foreign market. Many companies conduct exploratory research at early stages of the research process in order to get more familiar with the foreign environment and understand better consumers' actions.

Also, in multi-country research studies, the self-reference criterion (SRC) may hinder the problem definition, therefore a tight collaboration between headquarters and local subsidiaries should take place at all stages of research including problem definition.

Box No. 1: Cross-culture equivalences in international marketing research

A. Construct equivalence relates to the question of whether the researcher is studying the same phenomenon in different countries.

   a. Functional equivalence: Is the function of the product the same in different countries?

   b. Conceptual equivalence: Are the concepts used to identify activities in the different markets similar?

   c. Definition equivalence: Are categories used by the researcher in different markets equivalent from the conceptual point of view?

   d. Temporal equivalence: Is the product researched at the same stage of the life cycle in different countries?

B. Translation equivalence relates to the question of whether the researcher is asking the same questions in different markets as a result of translations of original research questions.

   a. Lexical equivalence: is the one provided by dictionaries

   b. Idiomatic equivalence: consists in ensuring the same meaning of idioms in different languages

c. Grammatical-syntactical equivalence: refers to the order in which words are used in different languages

d. Experiential equivalence: refers to ensuring the same meaning of words and sentences in the daily life of consumers

C. Sample equivalence relates to whether the sample used in different countries is equivalent and representative.

a. Sampling unit equivalence: Did we include in the sample unit of each country the persons who really influence the aspect we are researching?

b. Frame equivalence: Does the listing frame used ensure equivalence of samples in different countries?

c. Sample selection techniques: Do the selection technique used ensure comparability of samples in different countries?

D. Measurement equivalence relates to the question whether the phenomenon is measured in the same way in different countries.

a. Gradation equivalence: Are the measurement units for weight, volume equivalent in different countries?

b. Scalar equivalence: Are the scales used in different countries equivalent?

E. Data collection equivalence relates to the similarity of the data collection

a. Respondents cooperation equivalence: Do respondents cooperate to a similar extent in different countries?

b. Context equivalence of data collection: What are the elements of context that can influence responses in different countries?

c. Response style equivalence: Is there any pattern in the response style of respondents from different countries that make results not equivalent?

Sources: Usunier J.C., 1996, Marketing across cultures, Prentice Hall, p. 143-159; Chee H. and Harris R., Global Marketing Strategy, 1998, Financial Times Pitman Publishing,

2.4.2 Planning the Research

As it is shown in figure, at the research planning stage, the researcher has to make decision over how the study is going to be conducted. In order to design the plan of the research, he will decide over a number of few important aspects:

- Sources of data,
- Research methods,
- Research instruments,
- Sampling,
- Contact methods.

We are going to see at the level of each of the aspects what should the researcher do at international level.

1) Sources of data in international research

At international level as at national level, there are two types of data that can be collected: the secondary data and the primary data. The *secondary data* are those that already exist, that have been collected with a different purpose, but can also be used in the present research study. The *primary data* are the data that are collected especially for reaching the objectives of the present study. Any research should start with the collection of secondary data, as these already exist and are cheaper. They are not always relevant to the problem to be solved and do not always offer all the information needed for a more documented decision. The information still needed, will be gathered based on primary data, for which a primary data collection plan will be designed.

At international level there are numerous sources of secondary data that can be used, such as government publications, trade journals, banks, advertising agencies, international organizations, including information from internet sources. Table presents some of the main secondary data sources that can be used at international level with their web pages addresses.

When collecting secondary data at international level, there are a number of difficulties that can appear:

1. **Availability of data** - In developed countries sources of secondary data are usually rich (USA is seen as the best equipped country with international market data gathered by both governmental agencies and private

companies). This is not the case in less developed countries were secondary data is scarce (an exception is India). Where data is missing, the researcher needs to infer data by using proxy variables values from either previous periods or from complementary or similar products, if available.

Secondary sources of data at international level

Organization	**Type of information**	**Web site address**
European Union server for all institutions	European Union	www.europa.eu.int
CORDIS	Information on EU research programs	www.cordis.lu
European Parliament	European Parliament's activities	www.europarl.eu.int
Euro	The single currency	www.euro.eu.int
United Nations	General UN	www.un.org
United Nations	International Trade Centre UNCTAD/WTO	www.intracen.org
United Nations	UN publications	www.un.org/pubs/
Association of South East Asian Nations (ASEAN)	General ASEAN	www.asean.or.id
World Bank (WB)	General WB	www.worldbank.org
International Monetary Fund (IMF)	General IMF	www.imf.org
Organization for Economic Cooperation and Development (OECD)	General OECD	www.oecd.org

Transparency International	Corruption	www.transparency.de
New York Times	New York Times Index	www.nytimes.com
Wall Street Journal	Wall Street Journal Index	www.wsj.com
Advertising Age	General	www.adage.com
Business Week	General	www.businessweek.com
The Economist	General	www.economist.com
The Economist	EIU World Outlook forecasts of trend for 160 countries	www.eiu.com
USA Government	Statistics	www.stat-usa.gov
Political Risk Group	Political Risk Yearbook	www.prsgroup.com
Euromonitor	European marketing data and statistics	www.euromonitor.com
Country data	www.country.data.com	
Esomar	Statistics	www.esomar.nl

2. **Reliability of data** - Even where data exist it may not be accurate and reliable. Some official statistics may be too optimistic for reasons of national pride or to fulfil conditions for obtaining international funding (IMF, WB) and this is usually the case of less developed countries. Providing inaccurate data may occur in the case of developed countries for reasons such as the tax structures: the fear of tax collection may determine adjusted data on production statistics, in EU countries foreign trade statistics may be blown up as there are subsidies offered for exports.

In order to try to increase the reliability of data the researcher may:

Triangulate the data - to obtain the same information from at least three different sources and speculate on possible reasons behind the differences. Such reasons can be the calculation of some indicators based on value not on volume, or due to the fact that definition of category is not the same.

Validate data - checking the consistency of one set of secondary data with other data known as valid. In this way a correlation of variables takes place. For instance, we can check the sales of baby product with the number of women of childbearing age or with the birth rates.

Sometimes the accuracy of data suffers because of the black or grey market economy. In the GDP calculations this is not included and in some countries it can be as high as 40% - 60% of the economy. Similarly when we talk about trade statistics, the smuggling activities are not included in the official statistics, but it can influence the availability of a certain product on a market, when they are high.

3. **Comparability** - Cross-country research requires comparison of indicators across countries. Sometimes data coming from one country may not be comparable with data coming from other countries and cross-country comparisons are difficult to make when: and there are no universally accepted systems for reporting indicators and sometimes data needed is aggregated into different indicators, that have different definition from country to country when data is calculated with different base years and result in not comparable data.

In order to ensure comparability data has to be tested by trying to answer to the following questions:

- Who collected the data?
- How was collected?
- For what purpose? (if it is any reason to make the data unreliable).

4. **Timeliness** (up-to-date) refers to the age of data. Data may be out of date or infrequently collected and in this case is irrelevant to the current situation. There are differences in the frequency the data is collected in different countries. For instance, in USA a population census takes place every 10 years, while in Bolivia every 25 years. There are data more perishable in time (political opinions, inflation, productions) and data variables that change rather slowly (population density, income distribution). Industrial production statistics can be one or two years old, while statistics related to

population can be two to five years old, as data is not so perishable. In countries where inflation is high (of three or four digits) data such as income and production or GDP should be very recent, of months or even days old. In countries where inflation is stable (of low number of one digit) data can be one year or more old.

2) Research methods

The main research methods that can be used and the international marketer has to choose from or combine are the observation, the in-depth interviewing, the focus groups, surveys and the experiments. Box no.2 represents short of each of them.

There are research methods that are more suitable in some countries than others, in the sense that they are preferred or more culturally acceptable traditional and give better results: and in USA both quantitative data and qualitative data is collected through surveys and focus groups, and when using focus groups a high cultural sensitivity is required. In Asian cultures, strangers from outside the group are excluded.

As a result, getting the right group dynamics necessary to get the information is hard to obtain. Japanese do not trust and are sceptical about quantitative methods; they think that personal interviews can offer better information than data collected by mail or telephone surveys. They also prefer observation. Nissan Company has sent a researcher to spend time in an American family (by renting a room in their house for six weeks) only to observe how Americans use their cars. Toyota Company sends a researcher team in California to observe how women are using cars. They noticed that women with long nails had difficulties in opening doors and using certain knobs on the board. Consequently, Toyota altered the interior and exterior design of the cars designated to the American market. What is interesting is that the Japanese research teams include besides the marketing people the product engineers, so they would see the reaction of customers' and make the required changes to the product.

The use of one research method or another in different markets depends also on the: and availability of qualified personnel. For the focus groups well trained moderators are needed and this is dependent on educational services available in the market and for interviews trained operators are necessary. and services available in the market. In order to conduct large scale surveys, specialized companies are needed.

Box No. 2. Research methods

Observation is a reviewing of relevant persons (consumers) and environments. There are more types of observation:

- The open observation when the subjects do know that they are researched,
- The hidden observation when the subjects do not know that they are observed,
- The direct observation when the consumer behaviour or the phenomena of interest is directly searched,
- The indirect observation when the results and the consequences of the costumer behaviour are searched,
- The structured observation when the data to be collected is preset on categories of information,
- The unstructured observation when the data to be collected is not set from the beginning.

In-depth interviewing is a detailed personal discussion between a researcher and one consumer.

Focus groups are discussions organized between a mediator and a group of 6-10 persons on a given topic in order to produce a detailed insight.

Surveys are interviews (personal, mail, telephone, internet) with a large number of people in order to find out their preferences, knowledge, satisfaction related to different products, for which statistical generalization can be done. Surveys can be also:

- Structured, when they use a list of pre-established questions,
- Unstructured, when the interviewer leads the discussion with each respondent according to his answers.

Experiments are research processes through which a cause (Ex: moving the position of the product on the shelf) – effect (Ex: evolution of sales) relationship is tested. Through the method one or more causal variables are changed systematically, being collected the effect variables, while other factors that can influence the effect variables are kept under control.

3) Research instruments

The most frequently used research instrument (especially in surveys) is the questionnaire. The questionnaire is a list of questions presented to respondents to which they have to respond.

In multi-country research, the research instrument (the questionnaire) has to be translated from one language to another. The master questionnaire (the questionnaire conceived in the language of origin) has to be translated adequately into other languages. When translating from one language to another lexical equivalence, idiomatic equivalence, grammatical-syntactical equivalence and experiential equivalence have to be insured. This means that the translation should be grammatically correct and not only the translation of words should be done, but also the translation of concepts. Cultural nuances should be incorporated so that the appropriate message to be conveyed. Careless translations of questionnaires can lead to embarrassing mistakes and good translations are hard to accomplish. Mistakes have been made by companies, organizations and individuals throughout time due to translation difficulties. In 1994 at the United National World Conference on Population Development, held in Cairo, the concept of "reproductive health" was translated in numerous ways (that would not reflect the real meaning), due to the inexistence of the expression in many languages. In German the translation had the meaning "health of propagation", in Arabic the formula "spouses takes a break from each other after childbirth", in Russian the expression became "the whole family goes on holiday", Chinese translated it as "a holiday at the farm", showing practically that the expression was not translatable.

In order to minimize translation errors, there are a number of recognized methods that can be used.

1. Back translation is a two phase's process:
    - In phase one the master questionnaire is translated from the home language into the foreign language by a bilingual who is a native speaking of the foreign language,
    - In phase two the translated version is translated back into the home language by a bilingual who is a native speaker of the home language.
2. Parallel translation involves more than two translators translating the questionnaire independently and simultaneously. Then, results are compared and differences discussed and the most appropriate translation chosen.

3. Committee translation takes place when a group of translators are translating and discussing the questionnaire together.

4. De-centering takes place when successive translations and back translations are done, each time a different version by a different translator. The process is repeated until the original version, is translated, in a foreign language and then translated back in the same language in the same words.

When building the questionnaire measurement equivalence has also to be ensured and aspects such as scalar equivalence and gradation equivalence have to be considered.

Scalar equivalence refers to the fact that scores from subjects from different countries should have the same meaning and interpretation. But the standard format of scales used in survey research differs across countries:

- In USA, 1 to 5 or 1 to 7 point scales are most common, while in France a 10-20 point scale is common, when measuring attitudes preferences for instance.
- In some countries 1 is seen as the best regardless of how the scale is designed and in other countries 1 is seen as the worst, whatever.

The use of an uncommon scale can result in misunderstanding and frustration when reading the questionnaire and unintentional response errors. Japanese for instance, had problems in understanding the agree/disagree scale, as the consensus is the rule there, not the disagreement.

Where levels of education are low, companies can use graphics and illustrations such as the funny face scale.

One solution is to design cultural accepted scales for each cultural context where the questionnaire will be distributed.

4) Sampling

The researcher has to obtain results that represent the true market situation and he can do this by reaching representative members of the population that is searched. Very rarely the entire population is examined and usually a sample is selected. In order to select a sample:

- A sampling unit has to be defined
- A sample size
- A sampling procedure has to be chosen

The sampling unit refers to the definition of the population that is going to be researched. In cross-country researches comparable populations have to be identified. The population to be researched can be defined either externally (imposed criteria such as location, age, income, education based on statistical data) or internally (by internal variables such as psychological and personality characteristics that can be obtained from syndicated researches or company's databases).

There are two problems that may appear related to the sampling unit, the population to be researched:

1. Lack of secondary data. In many countries there is a lack of detailed socio-economic information. There are no breakdowns on age or on type of retailers or other detailed information that can help to build a representative sample. For instance, if we do not have the breakdown on types of retailers we cannot build a representative sample. We do not know if from 100 retailers 20% or more are boutiques, or 10% or more are supermarkets.

2. The absence of a sampling frame, a listing of the target population to be researched. This means a telephone directory for population or a database for businesses. In developed countries such listings are very detailed, while in less developed countries, such listings may not exist simply or may be incomplete or out of date.

The sample size refers to the number of subjects from the total targeted population to be researched (for instance, a 3 % sample of the total population). When the size of the total population is not known due to the scarcity of economic/social data, the desired sample size becomes more a guesswork.

Sample sizes may vary across cultures. Heterogeneous countries (such as India where there are spoken 14 official languages) demand bigger sample sizes than homogeneous cultures (such as Thailand).

In the sampling procedure, researchers prefer probabilistic sampling procedures, when each subject has an equal chance to be selected in the sample, as this enables them to make statistical generalisations. If due to the lack of secondary data and a sampling framework, there is no possible to build a probabilistic sample, a convenience sample will be used. Convenience samples will be used when data is missing as a non-probabilistic method that does not allow statistical inferences, but allows to interview those who are the most easily and convenient to reach. A convenience sample should be six times larger than a probabilistic sample in order to get results with the same reliability.

The lack of detailed data does not prevent sampling; it only makes it more difficult and less reliable. The construction of the sample will depend heavily on experience and judgement.

Detailed data and sampling frames are available in developed countries and less available in less developed countries. There are also exceptions, as China has a very good and detailed evidence of households from cities.

5) Contact methods

The contact method should be taken into consideration when the sampling takes place. The main contact methods that can be used are: personal, by telephone, by mail and via internet (in some countries).

The choice of the contact method to be used in a country is influenced by cultural norms and infrastructure.

- Cultural norms often rule out certain data collection methods. Here we have some examples:
- In some Muslim countries (Saudi Arabia) telephone interviewing during daytime is not accepted as housewives do not respond to calls from strangers. They are also not allowed to remain alone with a stranger (the personal interview is also excluded).
- Germans tend to show greater resistance to telephone interviewing than other Europeans.
- Infrastructure can also influence the data collection method that can be used. The use of mail services requires both literacy and reliable postal service. Some countries have inadequate infrastructure and this makes some contact methods to be unattractive:
- In Brazil and Nicaragua and some other Latin American countries a large proportion of the mail faces huge delays or never gets delivered,
- In Jordan and also in some Asian countries houses are not numbered and streets are not identified, so it is difficult to mail to them,
- In some Latin American countries the letter is paid at destination, so it is difficult to send them something that they possibly do not want and ask them to pay for it,
- The coverage with telephone in households varies widely between countries from the upper end: USA 93%, Sweden 90%, 80% in UK to the lower end

7% in China, 1% in the rural India. Other countries are situated in-between: 10% in Sri Lanka, 33% in Portugal10,

- The state of roads and the state of regular public transportation in some countries of Africa is so poor that personal contact with certain subjects may be difficult.

The market researchers must often improvise and choose the second best alternative as a research method in order to accommodate both cultural and infrastructure local conditions.

2.4.3 Collecting the Data

It is important to check the quality of data collection process in order to ensure data quality. Also in multi-country research the data collection equivalence has to be ensured. There are a number of biases that can be encountered at the data collection stage:

- The non-response bias is the most severe problem that may be encountered and is due to reluctance to talk to strangers and fears about confidentiality:
- In Eastern Europe it was noticed a high level of reluctance to answer to interviews.
- In China, surveys that were sanctioned by local authorities obtained higher response rates.
- USA respondents were more inclined to answer personal questions than the UK respondents.
- The courtesy bias refers to the respondents in some cultures who give researchers answers they feel are desired by the interviewers, they try to be polite to the researcher they try to give answers they think will please the interviewer, they do not tell what they really think. And this does not help the research. This is most commonly met in Asia and Middle East. In the Japanese culture every person has the obligation to ensure that the other person is not offended and this might induce the courtesy bias.
- The social desirability bias refers to the situation in which respondents attempt to give answers that they believe reflect a particular social status or educational level. This type of bias was noticed among well-educated respondents or upper level social classes, across countries. For instance, for questions such as what types of newspapers and magazines do you read?

How often do you go to opera? They would answer what they think a person in their position will do, not what they really do.

- The topic bias refers to the social sensitivity of particular topics in different countries:
- In India the discussion about sex tends to be taboo and in Thailand signs of affections between people of the opposite sex are not allowed in public. In Asian countries respondents are more reluctant to discuss topics related to sex.
- Women's role in society in Middle East countries is a sensitive topic.
- Discussions about taxes in European Union represent again a sensitive topic.
- The researcher bias relates mainly to the self-reference criterion when the researcher is involved in interviewing. It is recommended that a local agency to be hired to collect the data.

2.4.4 Analyzing and Interpreting Data

The researcher must have a high degree of cultural understanding of the market where the research is conducted. In order to be able to analyse and interpret the data, he should know:

- The social customs,
- The semantics,
- The current people's attitudes,
- The business customs.

Therefore, it is absolutely necessary for the researcher to have a feeling of the target country either by conducting the research or at least being involved in the research process in the respective country.

2.4.5 Communicating the Results

The research report is the culmination of the research process and the focus of the presentation is communication. The report has to be complete in the sense that it contains all the information required as formulated in the research objective and it also must be concise. When reporting back to headquarters, cross-cultural communication takes place and the results of the research have to be translated in a language that is comprehendible for managers at headquarters. Specific to international research reports is to identify data sources (to ensure the accuracy and reliability of information) and to identify interviewed officials (banks, governments), but not the consumers, with names and positions.

The managerial team will be the one that will use the results of the research and will make the decision based on the analysis presented.

Check your progress 3

1. Which of the following steps needs maximum attention during the market research process?

   a. Problem and research objective definition

   b. Planning research process

   c. Collecting the data

   d. Analyzing and interpreting the data

   e. Communicating the results

2. ________________ relates to the question of whether the researcher is studying the same phenomenon in different countries.

   a. Construct equivalence

   b. Translationequivalence

   c. Sampleequivalence

   d. Measurementequivalence

3. __________________relates to the question whether the phenomenon is measured in the same way in different countries.

   a. Sampleequivalence

   b. Translationequivalence

   c. Measurement equivalence

   d. Data collection equivalence

4. __________ is a reviewing of relevant persons (consumers) and environments.
   a. Observation
   b. Experiments
   c. Focus groups
   d. In-depth interviewing
5. The __________refers to the definition of the population that is going to be researched.
   a. Group
   b. Class
   c. Target group
   d. Sampling unit

2.5 Other International Marketing Research Issues

There are different approaches for the international marketing research such as research should country specific or not and whether it should be qualitative or quantitative.

2.5.1 Qualitative and Quantitative Research

Usually Western companies' studies include both qualitative and quantitative research when more detailed information is needed the study starts through collecting qualitative information (detailed information about one's thoughts and feelings of consumers for instance) through focus groups (most commonly) or observation. Than the information obtained through qualitative research is validated through a quantitative survey, whose results are generalized.

Starting with qualitative research is even more necessary in an international context as we already discussed the number of unknown variables (such as habits, behaviour, attitudes influenced by culture) is much higher than in the domestic environment.

Procter and Gamble was selling the Ariel detergent to the 5% of the Egyptian market that had automatic washing machines. The company wanted to extend in the market and therefore organized a "Habits and Practices" study through home visits and discussion groups (qualitative research) through which they wanted to find out the likes, dislikes and habits of Egyptians house-wives. Among 95% of homes that washed in a non-automatic washing machine or by hand the washing process consisted of soaking, boiling, bleaching and washing each load several times. Several products were used in the process. This process showed that there is potential in the market for a high performing detergent that would accomplish everything. After the basic product concept was conceived (one product instead of several to do the laundry) the company organized again a focus group to assess reaction for different brand names and later on for refining advertising and promotion wording. The results of the qualitative research were validated through a survey (quantitative research).

2.5.2 Multi-Country Studies

When conducting multicultural research, the comparability and equivalence of results must be ensured. Even through different research methods have different reliabilities sometimes in order to ensure comparability of results, different research methods have to be applied in different countries.

For example, a study conducted in USA and Japan, was done by means of mail survey in USA and by means of personal contact through contact people already known by the managers (in Japan business people do not usually answer to mailed questionnaires).

2.5.3 Marketing Information Systems (MIS)

Many companies need information and data that goes beyond specific international marketing research projects. Most of the time, daily decisions are made and there is no time or money for special research. An information system already in place is needed to provide managers and other decision makers with the basic information for most of the ongoing decisions.

For the global company the design of a MIS at international level is a necessity in order to be able to make comparisons between countries and in order to understand customers from different cultures and cultivate a relationship with these customers that will constitute a competitive advantage in the future.

The function of the MIS is to systematically provide information resources to the company to evaluate the markets it wishes to enter. As the basis for competitive advantage shifted from having a good product to cultivating good relationships with customers, markets and suppliers, the existence of market intelligence has a key role in these relationships and represent an asset for the company.

To be useful such a MIS needs to have a number of attributes:

- To be relevant, so that the data gathered to have a meaning for the decision maker,
- To be timely, so that the necessary information to be available when needed, not later,
- To be flexible, so that to be in the form needed by the management,
- To be accurate, especially information coming from the international environment, as very quickly this can becomes outdated due to major changes,
- To be exhaustive and to be based on a broad variety of factors, as there are numerous interrelationships between variables,
- To be convenient to be used and to be accessed.

The use of internet in research is a new opportunity not only for offering secondary data through data bases but by offering the possibility to conduct primary data collection through:

- On-line surveys
- On-line focus groups
- E-mail marketing list

Check your progress 4

1. Why Marketing Information System is required?
   a. To make project specific decision
   b. To make daily decisions
   c. To launch a new product
   d. To see the result of product over a period of time

2.6 Let Us Sum Up

In this unit, we have learnt the objective of International Marketing research is to know the potentials of the market in every aspect. The research should include environment aspects, political aspects, particular market location aspects and the product related and distribution related aspects.

International marketing research has the same purpose as the domestic marketing research: to provide information to the decision - makers in order to take a more documented decision. The research takes place in a larger number of countries and each country is unique in its own way. In international market research there are a higher number of variables needed to be collected.

The nature of decisions differ in the international marketing and therefore specific knowledge and information are required in order to make decisions when penetrating a new market, choosing what country to enter, deciding how to reach the target-markets in foreign countries.

The cost of doing research internationally is higher than in the domestic market. International marketing research encounters many other difficulties besides the usual difficulties (that are encountered in the domestic research), specific difficulties at international level; the co-ordination of the research in more countries, the availability and accuracy of secondary data, setting the comparability of the data obtained from different countries.

The research problem definition or formulation is one of the most important steps of the research process to be understood. The important aspects in marketing research are Sources of data, Research methods, Research instruments, Sampling, and Contact methods.

There are 2 types of international marketing research. They are qualitative and quantitative.

2.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-e)

Check your progress 2

Answers: (1-c)

Check your progress 3

Answers: (1-a), (2-a), (3-c), (4-a), (5-d)

Check your progress 4

Answers: (1-b)

2.8 Glossary

1. **Codifying -** Arrange the findings in a systematic manner.
2. **Research methods -** The ways to get information.
3. **Data analysis -** It refers to the process of inspecting, cleaning, transforming, and modelling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making.
4. **Sampling -** It refers to the size of population covered for the collection of data for market research.
5. **Analyzing and interpreting data -** Drawing out the meaning of data with respect to the objective of market research.

2.9 Assignment

Do a country study for exporting industrial pumps among the choices given:

- Malaysia
- Brazil
- South Africa
- New Zealand

2.10 Activities

Carry out research on the same category of product to find out why different product has different market share. You can do the research online with a sample size of 100 persons.

2.11 Case Study

Category: Utilities

Methods: Advanced Analytics, Predictive Modeling

Summary

A major utility company wished to understand the relationship between consumption of their product and their clients' household income in order to address pricing issues raised by the regulatory authority. Specifically, the hypothesis was promulgated that lower-income households used more of the client's product. A formal test of this hypothesis was needed.

Strategic Issues

The utility company hypothesized that lower-income households would consume more product than higher-income households due to the energy inefficiency of the older structures in which most of these lower-income

customers lived. In addition, lower-income households were also less likely to have invested in energy-efficiency measures.

The utility company needed to determine the usage of their product among lower-income consumers in order to address pricing issues raised by the regulatory authority. In particular, scientific evidence that lower-income

households consume more product would provide a rationale for desired rice changes. Evidence for the lack of a relationship between income and product consumption would be useful to understanding what price changes might be tenable to the regulatory body.

Research Objectives

The primary objective of the project was to produce a valid mathematical model that would explain the relationship between income and product consumption. The model development would enable an empirical hypothesis test based on accurate application of statistical procedures.

Research Design and Methods

The client provided approximately 1.5 million records to Decision Analyst, reporting product usage by the entire customer base over a 4-year time period. Demographic data, including income, was appended to the transactional data using standard geo-coding and matching procedures. The compiled data was examined for outliers and prepared for statistical modeling and hypothesis testing.

Results

The client's hypothesis about the relationship between product consumption and household income was not supported. However, deep-dive exploratory analysis of the data, which included variables in addition to income, uncovered useful relationships between the additional variables and product consumption.

2.12 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.
4. International Marketing by Rakesh Mohan Joshi.
5. International Marketing by Michael CzinkotaIllka A Ronkainen.
6. International Marketing by R Srinivasan.
7. International Logistics by Pierre David.
8. International Management by John B Cullen.
9. A Strategic perspective and by K Praveen Parboteeah.

UNIT 3: DISTRIBUTION IN INTERNATIONAL MARKET

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The distribution system in international market
- The transportation involved in distribution system
- The types of export distribution
- The role of clearing and forwarding agent
- The mode of transport
- The cost characteristics in transportation

3.1 Introduction

The unit discusses the distribution system in international market. You will learn all about international distribution covering transportation and intermediaries.

The unit as usual will also present you regular knowledge checks, assignment, activities and case studies to reinforce your learning.

The International Physical Distribution Environment

International distribution channel is impacted by two kinds of factors; controllable and uncontrollable. The uncontrollable factors are:

- Social
- Legal
- Political
- Economic
- Market structure
- Level of distribution technology available

All these factors influence company's distribution planning and strategy in order to minimize cost and provide an effective customer service.

As an international marketer, you should know that there are many differences domestic and foreign activities; even in foreign markets, level of customer service, inventory, transportation and the cost that covers these factors differ from country to country. The international marketing manager mainly has to handle packaging, and warehousing depending distribution system required for the product.

Despite so many challenges, there are several benefits for entering into international market involving:

- An advanced domestic product life cycle
- Excess capacity
- Less internal overseas competition
- Geographical diversification

There are four main strategies for entering into international market such as:

- Exporting
- Licensing
- Joint ventures
- Ownership

3.2 Deciding Factors for International Distribution

International distribution system is decided in consultation with all the intermediaries who are involved in the channel considering the following factors.

- Product type
- Target market sector
- Market quota
- Other service providers like warehousing, after sales service, customer service etc.

The first it has to be decided by the company whether the company wants to distribute the product itself or not. If they wants to market the product by themselves then it extensive logistical capacity, like warehousing, order processing, customer service, control system etc. Mostly, companies use intermediaries for international market. Two main intermediaries are wholesaler and retailer.

3.2.1 Functions and Structure of International Distribution Channels

International distribution channel's function is to introduce the product to the end customer in the destination country. Depending upon the number of intermediaries involved in the channel, there are two kinds of distribution channel namely:

- **Long distribution chain**: This kind of distribution channel has many intermediaries. The company has very little knowledge about the destination market and the company position in the market is not very consolidated. Companies introducing the product in the market prefer this method in the beginning.
- **Short distribution chain**: When one of the intermediaries in the chain is eliminated and you get closer to the end client you have a short distribution chain. The advantages gained are a reduction in intermediary commercial margins. That is, you distribute directly to wholesalers or purchasing centers. However, be aware that this requires the capacity to get to all of them, the role played by the retailer.
- **Direct distribution**: If you get to know your market sufficiently well you can adopt direct distribution methods. Exporters dealing directly with the end client give them absolute control over marketing. However, be aware that this also implies a great deal more work. You need to be capable, with your own means, to supply the market.

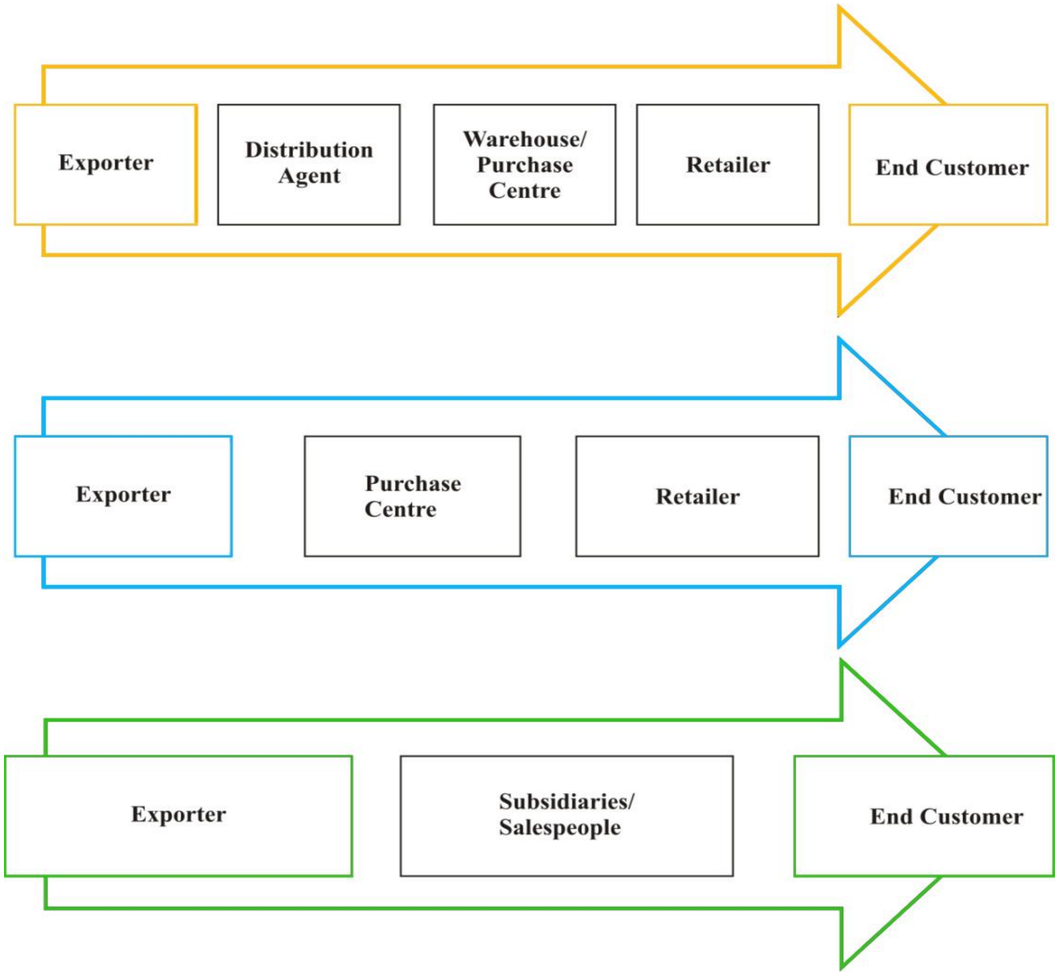

Fig 3.1 Structure of International Distribution Channels

3.2.2 What Exporter Should Remember?

The selection of the most appropriate distribution chain depends on the characteristics of the market, the product, and the relationships with intermediaries and your capacity of being able to supply the product to the end client.

The distribution channel you choose must be as short as possible, avoiding unnecessary intermediaries making the product more expensive. You need to know the structure of the distribution channel of each market, as they can be different.

To get to understand it, reverse the direction of the distribution, that is, place yourself in the position of end consumer, think of the sales points where you can buy the product, then locate the retailer and then the importer.

Check your progress 1

1. Who are the two main figures in the distribution chain?

   a. Retailer
   b. Wholesaler
   c. Customer
   d. Manufacturer
   e. both a and b

2. Which kind of distribution chain you should adopt when you know the market sufficiently?

   a. Long distribution channel
   b. Short distribution channel
   c. Indirect distribution
   d. Direct distribution

3. The distribution channel you choose must be as _______ as possible, avoiding unnecessary intermediaries making the product more expensive.

   a. Short
   b. Long
   c. Direct
   d. Indirect

3.3 Categories of Distribution

There are two categories of International distribution:

- Direct Export Distribution
- Indirect Export Distribution

3.3.1 Direct Export Distribution

Direct exports as the name implies, involve direct marketing and selling to the client. In a reasonably accessible market such as the United States, direct exporting of products or services may be a viable option. But in less familiar markets, with different legal and regulatory environments, business practices, customs and preferences, direct exporting may not be an option. A local partner, for example, may be better able to manage these complexities and serve your potential clients better.

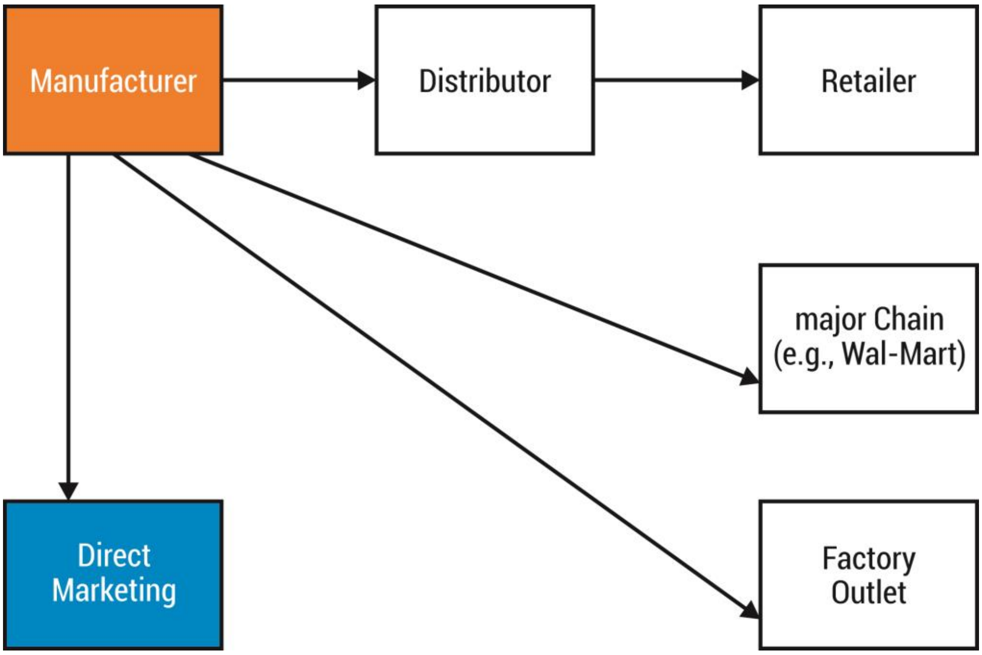

Fig 3.2 Direct Export Distribution

When the manufacturer wants to export his goods himself, there are various ways and procedure for direct export. Basically, there are three channels for direct exporting:

1. Its own Company employees traveling or stationed abroad.
2. A foreign import agent
3. A foreign distributor

3.3.2 Indirect Export Distribution

Indirect exporting is frequently used to enter new markets. Businesses selling products enter into an agreement with an agent, distributor or a trading house for the purpose of selling (or marketing and selling) the products in the target market. Due diligence is critical when selecting an agent or distributor for indirect exporting.

The reasons behind indirect exports are as follows:

1. By selling to an export merchant, the manufacturer can receive payment for its goods much sooner.
2. The manufacturer does not need to set up its own export department hire an export manager, or support its own commissioned sales agent abroad.

3. The manufacturer can benefit from the export know-how and personal contacts with the export merchant or agent.
4. The export merchant or agent, handling several different products or product lines, can achieve various scales of economies - for example, in the use of sales representatives, paperwork, shipment and communications.
5. The manufacturer can find out whether its products will sell abroad without having to take great effort, risk, or financial investment.
6. The manufacturer does not have to worry about all the problems involved in exporting Hazard of Export Packing and Shipping.

Check your progress 2

1. Which of the following works on commission basis?

a. Import agent	c. Foreign distributor
b. Import merchant	d. Export merchant

3.4 Role of Clearing and Forwarding Agents in Distribution

The basic function of C and F agents is to provide various services to an exporter to ensure smooth and timely shipment of the goods. The services provided by the C and F agents can be classified into essential and optional services. These services are as follows:

3.4.1 Essential Services

The following are some of the services provided by all kinds of C and F agent.

- Providing warehousing facility to the exporters for warehousing the good before their transportation to the docks/port.
- Transportation of goods to the docks and arrangements of warehousing the port.
- Arrangement of containers required for shipment of the goods.
- Booking of shipping space or air freighting.

- Advising the exporter as regards the relative cost of sending the goods by different airlines/shipping lines as well as selection of the route of the flight/ sea route.
- Making arrangements for shipment of goods to be on board the ship/plane.
- Arranging for marine/cargo insurance of the shipment.
- Preparation and processing of shipping documents required for custom clearance.
- Arranging for various endorsements/issue of certificates from various agencies.
- Providing assistance in the packing of the shipment.
- Making arrangements for local transportation of goods to the port/docks.
- Forwarding the documents to the exporter for their negotiation with the bank.

Optional Services

- The leading C and F agents at the specific request of the exporter provide the following services:
- Providing warehousing facilities abroad at least in some of the major international markets.
- Providing assistance to bring the goods back to India if the situation so demands.
- Providing assistance to locate the goods in case the shipment is misplaced or the cargo is stranded at some port.
- Making arrangements for assessment of damage to the goods to file claim with the insurance company.

Check your progress 3

1. The basic function of ____________ is to provide various services to an exporter to ensure smooth and timely shipment of the goods.

    a. Import merchant   b. Export merchant

    b. Foreign distributor   d. Clearing and forwarding agent

3.5 Transportation in Distribution

After completing the packing of goods and pre-shipment inspection, the exporter should chalk out a detailed distribution plan for timely delivery. Transportation is the key factor responsible for timely delivery. The exporter needs to plan astutely for transportation which mainly covers modes of transportation. This is the essence of distribution.

The distribution plan should decide the alternative modes of transportation considering the cost of transportation and the company's affordability to sell the product on competitive price.

As shipping is the cheapest mode of transport, companies always prefer. Companies may forgo the market, even sounding attractive, due to unavailability of transportation link.

3.5.1 Modes of Transport

The exporter can send the shipment of goods using anyone of the following modes of transport as specified in the export contract.

The exporter can send the shipment of goods using anyone of the following modes of transport as specified in the export contract.

- Air transport.
- Rail Transport
- Pipeline transport
- Road /Truck Transport
- Sea transport
- Multimodal transport

A) Air Transport

The least utilized and most costly (about 50 cents per ton-mile) freight mode is air shipment. The first large all-cargo air carrier was Flying Tiger. Other large airlines earn most of their revenue from passenger service. Airfreight is confined to high-value items, emergency shipments, and perishable products (such as cut flowers). One advantage of air shipment is that pilots tend to land gently. This is a beneficial transportation to those business marketers who ship computers, electronic equipment, and other sensitive devices that might be damaged by truck or rail shipment.

Choices and issues for Air Transport

- Rapidly growing segment of transportation industry.
- Lightweight, small items (Products: Perishable and time sensitive goods: Flowers products, Electronics, mail, emergency shipments, documents, etc.)
- Quick, reliable, expensive
- Often combine with trucking operation.

Advantages of Air Transport

The transportation of goods by air offers many advantages to the exporter.

Some of them are as follows:

1. The movement of the goods is very fast.
2. The warehousing costs are reduced to the minimum.
3. It is suitable for the transportation of the perishable goods.
4. The risks associated with deterioration and obsolescence of the goods is reduced.
5. The insurance premium in the case of air transport is lower as compared to the sea transport in view of the reduced level of risks.

The losses due to rough handling, breakage and pilferage are also reduced to the minimum.

B) Rail Transport

Rail carry the greatest amount of freight (see Exhibit), typically because of the volumes of forest products, grain, chemicals, metals, and bulk materials that are handled over great distances.

Rail shipments can accommodate a wide range of types and sizes of goods--dry, liquid, frozen, controlled atmosphere, and awkwardly shaped-in carload (CL) shipments of up to 30,000 pounds or in less than carload quantities (LCL). At an average rate of just a few cents per ton-mile, rail is an inexpensive transport mode. However, rail shipments have limited accessibility. Goods must be moved to and from railroad terminus points, unless shippers or receivers have spur lines into their plants or warehouses. Railroads primarily are used to transport low-value, high-density, large-volume shipments over long distances.

Choices and Issues for rail transport

- Low cost, high volume (Products: Heavy industry, minerals, chemicals, Agriculture pro ducts Autos, etc.)
- Improving flexibility
- International service.

C) Pipe Line Transport

Pipelines are limited to transporting gases, liquids, and slurries (suspensions of solid particles in a liquid), operate at a low speed (about 10 miles per hour), and have limited accessibility. Their third rank in ton-miles carried is mainly due to the huge volume of liquid petroleum products they carry.

Issues and Choices for Pipeline transport

- Primarily for oil and refined oil products.
- Slurry line carry coal or Kaolin
- High Capital investment
- Low operating cost
- Can cross difficult Terrain
- Highly reliable; Low Products losses

Characteristics of Pipe Line Transport

- Not suitable for general commodity transportation, restricted for movement of liquid petroleum products
- Limited accessibility
- In addition require another accessible mode of transport
- Speed is quite low
- Longer transit time
- High Fixed cost (i.e. investment in line , terminals and pumping stations) low Variable cost.

D) Road/Truck Transport

The exporters from India can send their export shipments by road to Bangladesh, Nepal, Pakistan and Myanmar. Shipment to Bangladesh is sent by road to Benapole (border) where the customs formalities are completed and cargo is handed over to Bangladesh Customs. Similar land customs stations have been set up for export of goods to Nepal, Pakistan and Myanmar.

Issues and choices for Road/Truck transport

- Most used Mode of Transport
- Flexible, small load (Products: Medium and light manufacturing, Food, Clothing, All retail goods)
- Trucks can go door-2 door as opposed to any other modes of transport

Characteristics of Road/Truck Transport

- Unit of loading as well as transport is a vehicle, which is self, propelled.
- Automobile moves on metallic roads, construction of which is cheap, easy, and quick.
- Automobile are user friendly in design and can be made to order
- Automobile mainly depend primarily on oil for its fuel and earth has limited storage of same
- Automobile is considered as main source of environmental pollution.
- Provides Door-2-Door service

E) Sea Transport

The prime advantage of water transport is its capability to move very large shipments. Water offers lowest-cost transport, but at a slow speed and restricted access. Deep-water shipments are primarily intercontinental, whereas domestic shipments move along the coasts and through the Great Lakes, canals, and navigable rivers such as the Mississippi, Ohio, and Missouri rivers and the St. Lawrence Seaway. Water carriers primarily move low-value, high-density cargoes such as cement, chemicals, grain, mined items, and basic bulk commodities.

Issues and Choices for Sea transport

- One of the oldest means of Transport

- Low- Cost, High Volume, Slow mode Of Transport.
- Bulky, heavy and /or large items (Products: Nonperishable bulk cargo- Liquids, Minerals, Grains, Petroleum, Lumber, etc.)
- Standardized shipping containers have improved the service
- Combined with trucking/Road Transport and Rail transport for complete system.
- International trade.

Characteristics of Sea Transport

- Comparatively slow, depends on Tide
- Inflexible
- Reduces Door-2-Door capability
- Highly fuel-efficient system-Consumption of HSD is only 5.6 liters for 1000 Kms.
- Depends on availability of infrastructure, in case of Canals

3.5.2 Forms of Shipping

The forms of shipping represent the organization of shipping services. There are three basic forms of shipping as explained below:

1. Liner Shipping
2. Tramp shipping
3. Conference Shipping

1. **Liner Shipping**

In case of Liner Shipping, regular shipping lines carry the merchandise. These shipping lines provide the shipping service by calling regularly at specified ports irrespective of quantity of cargo available. Such ships usually carry general cargo i.e. an accumulation of small loads belonging to many shippers. Each shipper pays the freight in accordance with the tariff based on volume, weight or the value of the cargo. The Liner Shipping companies provide commitment of regular service on specified sea routes at specified freight rates. Thus, such liner services are very useful for small exporters.

2. **Tramp Shipping**

Tramps are those ships, which are usually used for transportation of homogenous cargo, which is moved in bulk quantities. The examples of such cargoes are grain, coal, are, phosphates, timber, sugar, wheat etc. Such ships operate on single (specific voyage) or consecutive voyages (i.e. one voyage after another is taken up to transport the cargo). Such ships work on inducement~ basis and ply indiscriminately between the ports of the world depending upon the laws of demand and supply in the market.

3. **Conference Shipping**

A conference is an association of two or more liner shipping companies operating in a well-defined trade, plying on a fixed route or routes within certain geographical limits. The groups of liners in the conference operate based on common freight rates and tariffs as well as conditions of carriage. The shipping services provided by a conference are known as Conference Shipping. This form of shipping is for a particular trade only and represents specialization of the shipping companies to handle a particular type of cargo.

Types of Ships

There are primarily four types of ships as explained below:

1. Single deck vessels
2. The twin deck vessels
3. Shelter deck vessels
4. Miscellaneous category ships

3.5.3 Multi Modal Transport

When shipments are transferred among more than one mode, it may be possible to capitalize on the advantages of each mode. The most common intermodal shipment is placing a truck trailer on a railway flat car for a long haul, and then hauling the trailer by truck from the train terminal for local delivery. Thus, door-2-door service is provided at a lower cost than by highway traffic alone. This is called trai1er-on-flatcar (TOFC), or "piggyback." Other intermodal coordinated shipments are named "fishyback," for trailers loaded on ships or barges, "trainship," and "airtruck." Most intermodal shipments are carried in containers.

Containers are 8' x 8' x 20' or 8' x 8' x 40' standardized boxes into which palletized loads may be stacked, smaller items contained in corrugated boxes may be packed, and products that are awkward to handle may be blocked (braced by nailing blocks to the' container floor). The standard sizes and fittings of containers make these, unitized loads easier and cheaper to handle and move. Containers also protect contents from in-transit and handling damage, pilferage (they can be locked), and the elements, and can thus reduce the amount of protective packaging for the items being shipped. Some containers are insulated; they may be fitted with refrigeration units or heating units. They can easily be carried on appropriately adapted truck trailers, train flatcars, and ships. Loading and unloading the various modes are accomplished with appropriately fitted cranes and lift trucks. Containers are ideal for intermodal shipment but are more popular in international freight than domestic shipments.

Multi modal transport comprises of carriage of goods by more than one mode of transport namely, by sea and rail or by sea and road. The multi modal transport (MMT) is the same as combined transport. The multi modal or the combined transport is used in relation to shipment by sea. The need for combined transport or the multi modal transport had arisen due to the introduction of containers for transportation of goods in international trading. The International Chamber of Commerce (ICC) had published the uniform rules for combined transport document. Even the uniform custom and practices for documentary credits published by the ICC have stipulated that the banks will not reject a transport document if it:

1. Bears a title such as "Combined transport bill of lading." "Combined transport document "Combined transport bill of lading or port-to-port bill of lading." Or a title or a combination of titles of similar intent and effect and / or
2. Indicates some or all the conditions of carriage by reference to a source or documents other than the transport document itself and/ or
3. Indicates a place of taking in charge different from the port of loading and/ or a place of final destination different from the port of discharge and / or
4. Related to cargoes such as those in containers or on pallets and the like, and / or
5. Contains the indication "intended" or similar qualification in relation to the vessel or other means of transport, and / or the port of loading and /or the port of discharge.

In India, the Multi Modal Transportation of Goods Act, 1993 defines Multi Modal transportation to mean carriage of goods by two or more modes of transport i.e. road, rail, inland waterways or sea from the place of acceptance of goods in India to a place 6f delivery of goods outside India. The Act also provides for the establishment of container freight stations and inland container de:' pots at the points of origin and destination. Under this system, the consignor entrusts the goods to the carrier or the body who undertakes to organize multi modal transport and also make the intermediate arrangements necessary for the through movement of goods and their delivery to the consignee. The person or the party, which performs this function, is known as multi modal transport operator (MTO). The multi modal transport is arranged based on a single contract with the MTO and as such, there is no need for a separate contract with different agencies involved in transportation.

Advantages of Multi Modal Transport

The main advantages of multi modal transport as against the traditional segmented transports are the following:

- Loss of time and risk of loss, pilferage and damage to cargo incidental to the conventional segmented transport are eliminated.
- The movement of the cargo is faster.
- The burden of documentation and other formalities connected with segmented transport is reduced.
- The resultant cost savings tend to reduce the through freight rates and the cost of cargo insurance.
- The consignor has to deal with only one agency - the multi-modal transport operator (MTO) - in all matters relating to the movement of his goods including settlement of claims.
- The through rates offered by MTO make it easier for the exporter to negotiate sales contracts with foreign buyers on the basis of delivered prices.

Characteristics of Road Transport

- Unit of loading as well as transport is a vehicle which is self-propelled
- Automobiles move on metallic road, construction of which is cheap, easy and quick.
- Automobiles are very user-friendly in design and can be made to order.

- An automobile depends primarily on oil for its fuel and earth has limited storage of oil.
- Automobiles are considered as main source of environmental pollution.
- Provides Door-2-Door transport.

3.5.4 Selection of the Mode of Transport

The choice as regards the mode of transport is confined to whether the goods should be sent by air or sea. The exporter should make this selection on the basis of the following factors:

1. Cost of distribution
2. Nature of the product
3. Delivery time
4. Value and volume of the cargo
5. Speed, frequency, reliability, safety and appropriateness of the mode of transport
6. Cost of Distribution.

Check your progress 4

1. Goods are transported as per ___________________ .
   a. Government rules
   b. Export contract
   c. Importer choice
   d. Exporter ability to bear transportation cost
2. Bulky, heavy and large items are transported through _______.
   a. Air
   b. Sea
   c. Road
   d. Rail

3. Identify the slow mode, low cost and high volume mode of transport.
   a. Air transport
   b. Sea transport
   c. Road transport
   d. Rail transport
4. Identify the factors responsible for considering mode for transportation.
   a. Cost of production
   b. Nature of product
   c. Delivery time
   d. Value and volume of cargo
   e. All of the above

3.6 Transport Cost Characteristics

3.6.1 Fixed cost

- Terminal Facilities
- Transport equipments
- Carrier Administration
- Roadway acquisition and maintenance

3.6.2 Variable Costs

- Fuel
- Labor
- Equipment
- Maintenance
- Handling, pickup and delivery, taxes

Transport Cost Characteristics for Each Mode

Rail

- High Fixed cost, Low variable cost
- High Volume result in lower per unit (variable)cost

Road/Truck

- Lower fixed cost (don't need to maintain roads)
- High unit cost than rail due to lower capacity per truck
- Terminal expenses and line haul expenses

Sea Transport

- High terminal (port) costs and high equipment costs (both fixed)
- Very low unit costs

Air Transport

- Substantial fixed cost
- Variable cost depend highly on distance traveled

Pipeline transport

- Highest proportion of fixed cost of any mode due to pipeline ownership and maintenance and extremely low variable cost.

Check your progress 5

1. Which of the following are variables cost?
   a. Fuel
   b. Labour
   c. Terminal facilities
   d. Handling, pickup, delivery and taxes
   e. A, B,C

3.7 Let Us Sum Up

In this unit, we have learnt all about transportation system. If the company does everything to sell its product in the international market and the product doesn't reach the destination market on right time, the company won't be able to earn as much profit as much it could have.

We have learnt all modes of transportation and the factors influencing the transportation selection. The lesson has also detailed complete procedure of transportation along with formalities and documentation involved in it.

We know, now, that there two kinds of distribution, direct and indirect. The Clearing and Forwarding Agent plays crucial role in distribution. We have learnt about modes of transport, forms of shipping, and multi-modal transport. The lesson has also detailed the factors influencing the cost of transport.

3.8 Answers for Check Your Progress

Check your progress 1

Answers: (1-e), (2-d), (3-a)

Check your progress 2

Answers: (1-a)

Check your progress 3

Answers: (1-d)

Check your progress 4

Answers: (1-b), (2-b), (3-b), (4-e)

Check your progress 4

Answers: (1-e)

3.9 Glossary

1. **CandF -** Clearing and Forwarding
2. **MMT -** Multi modal transport
3. **ICC -** International Chamber of Commerce
4. **MTO -** Multi modal transport operator

3.10 Assignment

Draw Flowchart for indirect export distribution on similar line of Direct export marketing and explain the chart.

3.11 Activities

Visit an exporter and discuss about the ideal mode of transportation for a large amount of snacks and biscuits to be exported to a European country.

3.12 Case Study

Distribution Strategy

Client Success Story

Savings opportunities in excess of 30% of total logistics costs were identified for the international manufacturer.

The Challenge

1. An international manufacturer of aerospace, automation, power and transportation products sought recommendations regarding a pan-European network for after-market product distribution.
2. The company's logistics network for after-market goods was developed by acquisition and actions that were fundamental to the business. The change to the strategic business unit (SBU) approach meant that the benefits of leveraging volume through a logistics network should not be lost in the process.

Tompkins' Role

1. Visited more than 20 locations to better understand each facility's individual requirements and ensure that the needs of each SBU would be supported by the recommended network solution.
2. Performed a network analysis using CAPS modeling software to determine the optimal locations for each facility. Consideration was also given to utilizing a third-party logistics provider.
3. Provided three options for possible locations and recommended the company seek a third-party provider.

The Results

1. With implementation, fulfilment rates will increase, while inventory levels will be minimized through reduced safety stock.
2. Savings opportunities in excess of 30 percent of total logistics costs were identified, and manufacturing efficiencies were projected to improve by balancing the demand on each plant.

3.13 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw.
2. International Marketing by Cherunilam.
3. International Marketing Management by Jain.
4. International Marketing by Rakesh Mohan Joshi.
5. International Marketing by Michael Czinkota and Illka A Ronkainen.

Block Summary

In this block, we have learnt the basic principles of international marketing. The lesson has also explained all about international pricing: what are the factors involved; what the approaches for international pricing are; what are the strategies and what are the tools used to calculate the price.

We have learnt about the international market research; what are the variables; what are the types; what is the process and what are the issues in carrying out the research.

The third unit has explained in detail what distribution in international marketing is; what are the deciding factors in international distribution; how many categories of distribution are there; what kind of role of a Clearing and Forwarding Agent plays in export; and which factors the cost of transportation.

Block Assignment

Short Answer Questions

Write notes on the following:

1. Liner Shipping
2. Tramp Shipping
3. Conference Shipping
4. Air Transport
5. Essential Services provided by a CFA

Long Answer Questions

1. What is Multi Modal Transportation of goods? What are the advantages of multi modal transportation as compared to segmented modes of transportation?
2. Discuss the factors that you would consider in the selection of modes of transport.
3. Discuss the cost characteristics for each mode used in transport, and give your view to select a mode of transport for company engaged in FMCG products
4. Why an exporter appoint import agent.
5. Draw Flowchart for direct export distribution and explain the chart.

Enrolment No.

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

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'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
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INTERNATIONAL MARKETING

PGDM-204

BLOCK 4:

EXPORT ORGANIZATION

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Ahmedabad

INTERNATIONAL MARKETING

Knowledge Management and
Research Organization
Pune

Acknowledgment
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The content is developed by taking reference of online and print publications that are mentioned in Bibliography. The content developed represents the breadth of research excellence in this multidisciplinary academic field. Some of the information, illustrations and examples are taken "as is" and as available in the references mentioned in Bibliography for academic purpose and better understanding by learner.'

ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

INTERNATIONAL MARKETING

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Products and Pricing, International Promotion and Advertising, International Distribution Systems

UNIT 2 **INTERNATIONAL BUSINESS ENVIRONMENT**

Economic Environment, political and legal Environment, demographic and Cultural environment, natural Environment

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BLOCK 3: **BASIC PRINCIPLES OF INTERNATIONAL MARKETING**

UNIT 1 **INTERNATIONAL PRICING**

Pricing Objectives, Factors influences the Pricing, Pricing Approaches, Pricing Strategies, Pricing Tools

UNIT 2 **INTERNATIONAL MARKET RESEARCH**

Variables in International Marketing Research, Types of Research, The international marketing research process, Other International Marketing Research Issues

UNIT 3 **DISTRIBUTION IN INTERNATIONAL MARKET**

Deciding factors for International Distribution, Categories of Distribution, Role of Clearing and Forwarding Agents in Distribution, Transportation in Distribution, Transport Cost Characteristics

BLOCK 4: EXPORT ORGANIZATION

UNIT 1 EXPORT PROMOTION MEASURES IN INDIA

Introduction, Duty Drawback (DBK), Export Promotion Capital Goods (EPCG) Scheme, Assistance to States for Infrastructure Development of Exports (ASIDE), Deemed Exports, Market Development Assistance (MDA), Market Access Initiative (MAI), Income Tax Exemptions and Deductions, Town of Export Excellence, Vishesh Krishi Upaj Yojana, Industrial Raw Materials Assistance Centers

UNIT 2 EXPORT PROMOTION ORGANIZATIONS

Ministry of Commerce, Board of Trade, Export Promotion Councils (EPCs), Services Export Promotion Council, Common Facility Centre, Commodity Boards (CBs), Export Inspection Council (EIC), Indian Trade Promotion Organisation (ITPO), Indian Institute of Foreign Trade (IIFT), Indian Institute Packaging (IIP), Indian Council of Arbitration (ICA), Federation of Indian Export Organisation (FIEO), Marine Products Exports Development Authority (MPEDA), Export Processing Zones (EPZs), 100% Export Oriented Units (100% EOUs), Facilities for Units in EOUs, EPZs, EHTPs and STPs, M. Visvesvaraya Industrial Research and Development Centre (MVIRDC), Chamber of Commerce (COC), Inter-State Trade Council

UNIT 3 EXPORT CREDIT AND GUARANTEE CORPORATION OF INDIA

Export Credit and Guarantee Corporation of India (ECGC), Construction Works Policy, and Insurance Cover for Buyer’s Credit and Line of Credit, Shipment Policy, Small Exporter’s Policy, Specific Policy for Supply Contracts, Special Schemes of ECGC, State Trading Corporation

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INTERNATIONAL MARKETING

BLOCK 4: EXPORT ORGANIZATION

BLOCK 4: EXPORT ORGANIZATION

Block Introduction

This block deals with the functioning of export organisations; how export organisations function; what are the government's measures for export promotion and what kind of credit facilities are available.

Unit 1 deals with export promotion measures in India which tells you what the government has done to promote the export like creation regulatory bodies, infrastructure development and various schemes.

Unit 2 deals with various government organisations created to promote the export like export promotion council, Indian Institute of Foreign Trade, Inter-state trade council and others.

Unit 3 deals with Export Credit and Guarantee Corporation of India which makes policies and schemes for export promotion.

Block Objective

After learning this block, you will be able to understand:

- The export measures taken by the government to promote export.
- The government organizations created to promote the export.
- The role ofExport Credit and Guarantee Corporation of India.

Block Structure

Unit 1: Export Promotion Measures in India

Unit 2: Export Promotion Organizations

Unit 3: Export Credit and Guarantee Corporation of India

UNIT 1: Export Promotion Measures in India

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- The various export promotion measures taken in India
- The working of export organizations and the assistance provided by various organisations
- The import facilities given to exporters
- The EPCG scheme
- The duty draw back scheme
- About deemed exports
- Identify income tax exemptions and deductions given to exporters

1.1 Introduction

India's external trade took a major turn after the introduction of Export-Import Policy in 1992-97. Indian economy moved towards globalization from the point. Under the policy, the assistance and incentive extended to Indian exporter are the following.

Import Facilities for Exporters

(a) **Advance License:** Exporters were allowed to get advance license which helped to import items and consumables (fuel, oil, energy etc.) required for making a product for export without paying duty on them.

(b) **Duty Free Replenishment Certificate (DFRC):** Issue of DFRC allowed exporters import input items required for the manufacturing of goods without paying basic custom duty. However, exporters are required to pay additional custom duty at equalling excise duty.

(c) **Duty Entitlement Passbook Scheme (DEPB):** This scheme allows exporters avail credit as a specified percentage of FOB value of exports. The credit is available freely convertible currency. Terms and conditions for availing the credit is notified by the Director General of Foreign Trade from time to time.

(d) **Export Promotion Capital Goods Scheme (EPCG):** The scheme allows exporters to import machinery and capital goods for manufacturing items for export at concessional excise duty; in some cases, excise duty is completely forgiven.

Duty Exemption Schemes

(a) **Duty Drawback (DBK)**

Exporters can claim the following duties under DBK.

- **Customs duty:** If exporters import raw materials, components and consumables, he is required to pay custom duty on them. He can reclaim the duty paid.
- **Central excise duty:** Exporters are also entitled to reclaim the central excise duty in similar manner.

(b) **Excise Duty Refund:** Exporters are not required to pay excise duty on export items. To avail this facility, exporters need to get clearance through one of the following ways:

- Export under rebate
- Export under bond

Marketing Assistance

(a) **Market Development Assistance (MDA):** Exporters having turnover up to Rs. 5 Crore are eligible for financial assistance under MDA scheme. They can get financial help from banks to participate in trade fairs, seminars conducted for export promotion, buyer-seller meet and other similar events.

(b) **Market Access Initiative (MAI):** MAI scheme is designed to provide financial help for export promotion for short periods where the focus is on the country and product.

Supply of Raw Materials

(a) **Industrial Raw Material Assistance Centres (IRMAC) Scheme:** The scheme is launched by the government to help exporters get raw materials on time at reasonable prices. Under the scheme, the government imports raw materials in bulk and supply to registered exporters having valid import license.

(b) **Back-to-Back Inland Letter of Credit:** The scheme is launched to help exporters get raw materials on credit basis. Under the scheme, Back-to-back Letter of Credit is opened in favour of local suppliers of raw material to enable them to send raw materials to the exports without delay.

Institutional Measures

(a) **Institutional Measures:** The government has opened following organisations to boost export from India.

- Indian Institute of Foreign Trade (IIFT): The institution provides training facilities.
- Indian Institute of Packaging (IIP): The institution provides training in packaging which helps to upgrade packaging standards.
- Export Promotion Councils (EPCs): They are responsible for export promotion activities.
- Export Inspection Council (EIC): They are responsible for upgrading quality standards.
- Export Credit Guarantee Corporation (ECGC): They are responsible for protecting exporters against payment risks.
- Indian Council of Arbitration (ICA): The institution is set up to settle and solve disputes between importers and exporters.

There are many other organizations like Indian Export Organisation (FIEO), EXIM Bank etc.

1.2 Duty Drawback (DBK)

Under Duty Drawback scheme, exporters can claim custom duty and central excise duty which they have already paid on importing raw materials, components and consumables to be used for the manufacturing of export items. The scheme is managed by the Directorate of Drawback in the Ministry of Finance under the following Acts.

(a) The Customs Act, 1962;

(b) The Central Excise and Salt Act, 1944;

(c) Customs and Central Excise Duty Drawback Rules, 1995.

1.2.1 Classification of DBK

The rates of drawback are divided into three categories:

(a) **The All Industry Rates:** These rates are expressed as a percentage of FOB value of the goods exported and are applicable to all exporters in general. These rates are published normally once in a year, based upon the duties of Customs and Excise in the Finance Act.

(b) **Brand Rates:** Where the Central Government has not notified 'All Industry Rate' in respect of an export product, any manufacturer or exporter of such goods may apply to the Central Government for the determination of Brand rates.

(c) **Special Brand Rates:** These rates are meant for the specific manufacturers and are applicable only to the manufacturers for whom those rates are fixed.

1.2.2 Procedure for Claiming Duty Drawback

The procedure for claiming duty drawback is as under:

(a) **Claiming Advance DBK:** The amount of drawback is released after the execution of an export order. Thus, in order to avoid blockage of finance, the government on request allows a provisional rate of drawback, which is 75% of the amount claimed. The amount so paid is finally adjusted towards the drawback amount fixed by the directorate.

(b) **Execution of a Bond:** An exporter has to execute a bond in favour of the customs authorities for the amount fixed by the Directorate.

(c) **Submission of Green Shipping Bill:** An exporter should prepare and file Drawback Shipping Bill also known as Green Shipping Bill (triplicate copy) in order to claim drawback. Such claim should be accompanied by:

- Copy of export contract or letter of credit, as the case may be;
- Copy of packing list;
- Copy of ARE-I form, wherever applicable;
- Insurance Certificate, wherever necessary, and
- Copy of communication regarding rate of drawback where the exporter is granted a 'Special Brand Rate'.

(d) **Issue of Refund Cheque:** On receiving the triplicate copy of the shipping bill from the exporter together with the bill of lading, the Drawback department verifies the particulars and issues the cheque to the exporter's bank after adjusting the initial advance under intimation to the exporter.

1.2.3 Duty Drawback (DBK) - Criteria

Items Eligible for DBK

(a) Raw materials and other inputs used in the process of manufacturing goods for export purpose.

(b) Materials used in manufacturing of raw materials to be used in manufacturing goods for export purpose.

(c) Materials used for packing manufactured goods.

(d) Irrecoverable wastage in the production process.

(e) Manufactured goods ready for marketing abroad.

DBK is not applicable when

(a) Amount of drawback is less than Rs. 50.

(b) Amount of drawback is less than 1% of FOB value of goods exported.

(c) If the goods exported are damaged in transit.

(d) If the goods are manufactured and/or exported in discharge of export obligation under Advance Licence Scheme.

(e) Imported raw material inputs are not eligible for DBK

(f) Raw material or inputs used are not subject to excise.

(g) Goods exported to Burma, Nepal or Bhutan.

(h) Goods are manufactured in 100% Export Oriented Units or Free Trade Zones or Export Processing Zones.

Check your progress 1

1. What do you understand by Duty Drawback?
   a. It allows exporters to claim custom duty paid on the import of raw materials meant for export item production.
   b. It allows exporters to claim central excise duty paid on the import of raw materials meant for export item production.
   c. It allows exporters to claim compensation if imported raw materials is below standard.
   d. It allows exporters to claim income tax benefit if imported materials are used for the production of goods to be exported.
   e. Both a and b

1.3 Export Promotion Capital Goods (EPCG) Scheme

Under Export Promotion capital Goods Scheme (EPCG), exporters can import machinery and other capital goods to manufacture export goods at concessional or no custom duties at all.

1.3.1 Eligible Entities with Corresponding Export Obligations

The scheme covers manufacturer exporters with or without supporting manufacturer(s)/ vendor(s), merchant exporters tied to supporting manufacturer(s) and service providers.

(a) Export Promotion Capital Scheme (EPCG) allows import of capital goods for pre-production, production and post-production (including CKD/SKD thereof as well as computer software systems) at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years considered from the license issue date.

(b) In case of agriculture products, exporters can import capital goods on 5% custom duty, if they export items worth 6 times of the duty saved (on the capital goods imported under the Scheme) over a period of 12 years from the license issue date.

(c) In case of SSI units, exporters can import capital goods on 5% custom duty, if they export items worth 6 times of the duty saved (on the capital goods imported under the Scheme) over a period of 8 years from the license issue date provided the landed CIF value of such imported Capital Goods under the Scheme does not exceed Rs. 25 lakhs and the total investment in plant and machinery after such imports does not exceed the SSI limit.

(d) To create modern infrastructure in the retail sector, concessional duty benefits under EPCG scheme shall be extended for import of capital goods required by retailers having minimum area of 1000 sq meters. The retailer shall fulfill the export obligation i.e. 8 times the duty saved in 8 years.

(e) In respect of EPCG licenses with a duty saved of Rs.100 crore or more, the same export obligation, as the case may be shall be required to be fulfilled over a period of 12 years.

1.3.2 Indigenous Sourcing of Capital Goods and Benefits to Domestic Supplier

A person holding an EPCG license may source the capital goods from a domestic manufacturer instead of importing them. The domestic manufacturer supplying capital goods to EPCG license holders shall be eligible for deemed export benefit, viz.

(a) Advance license for intermediate supply/deemed export.

(b) Deemed exports drawback.

(c) Refund of terminal excise duty.

Check your progress 2

1. Export Promotion capital Goods Scheme (EPCG) allow companies to….

   a. Import machinery at concessional rate for export production.

   b. Import machinery at concessional rate for domestic production.

   c. Import raw materials for capital goods production.

   d. Avail finance for capital goods production for export.

2. A person holding an EPCG license cannot source the capital goods from a domestic manufacturer instead of importing them.

   a. True

   b. False

1.4 Assistance to States for Infrastructure Development of Exports (ASIDE)

Under the scheme, central government provides fund to the states on two criteria i.e. gross exports and the rate of growth of exports. States are supposed to spend the allocated money on export infrastructure development as detailed below.

(a) Creation of industrial parks/zones, including Special Economic Zones (SEZs), Agri-Business Zones and augmenting facilities in existing zones

(b) Setting up of electronic and other related infrastructure in export enclaves

(c) Equity participation in infrastructure projects, including setting up of SEZs

(d) Development of complementary infrastructure such as roads, connecting the production centers with ports, establishment of Inland Container Depots and Container Freight Stations

(e) Providing stable power by establishing additional transformers and islanding export production centers

(f) Development of small ports and jetties

(g) Establishment of common effluent treatment facilities

(h) Other facilities as may be notified by Department of Commerce

Check your progress 3

1. Identify the two criteria that central government considers to provide financial assistance to states under ASIDE scheme.

   a. Export infrastructure, credit assistance to exporter

   b. Gross exports, the rate of growth of exports

   c. Tax benefit, financial assistance.

   d. Raw material import, capital goods export.

1.5 Deemed Exports

Deemed exports are transactions in which goods supplied do not leave the country and the payment for such goods is made in India by the recipient of the goods in Indian rupees.

1.5.1 Categories of Supply

The following categories of supply of goods are considered 'Deemed Exports' provided the goods are manufactured in India.

- Supply of goods against Advance Licence and Duty Free Replenishment Certificate (DFRC) under the Duty Exemption Scheme.
- Supply of goods to Export Oriented Units (EOUs)/ Units located in Export Processing Zones (EPZs)/ Special Economic Zones (SEZs)/ Software Technology Parks (STPs)/ Electronic Hardware Technology Parks (EHTPs)
- Supply of capital goods to holders of licences under the EPCG scheme
- Supply of capital goods and spares to fertilize plants used for installation purpose
- Supply of goods to the units in power/ refineries approved by the Ministry of Finance
- Supply to projects funded by UN agencies

1.5.2 Benefits of Deemed Exporters

(a) Advance Licence for Intermediate Supply/Deemed Export.

(b) Deemed Export Drawback.

(c) Refund of terminal excise duty.

1.6 Market Development Assistance (MDA)

The Government of India had set up a separate fund under the head Marketing Development Fund (MDF) in 1963-64 for developing marketing abilities of Indian exporters. However, its nomenclature was changed to Marketing Development Assistance (MDA) in 1975.

Check your progress 4

1. What do you understand by Deemed Export?
   a. An agreement of export by taking money in advance
   b. Such exports where goods leave the country after getting payment in Indian rupees by the importer
   c. Repeat export order by the same importer for the supply of raw materials over a fixed period
   d. An export order where goods leave the country after getting payment in US dollars by the importer

It is granted by the Ministry of Commerce for export market development and research abroad. Generally it is allowed to delegations travelling abroad for market survey sponsored by the Export Promotion Councils (EPCs), Commodity Boards (CBs) and other organisations such as Federation of Indian Export Organisations (FIEO). The amount granted under MDA varies from 25% to 60% of the actual expenditure incurred. It is also allowed on export publicity, including exhibition and service contracts abroad.

1.6.1 Eligibility Criteria

The revised guidelines of MDA, assistance is given to those exporters who have annual turnover up to Rs. 5 Crore.

1.6.2 Purposes of the MDA

MDA assistance is given for the following purposes.

(a) Trade fairs and exhibitions participation

(b) Buyer-seller meets participation abroad and in India.

(c) Export promotion seminars participation

1.6.3 MDA Service Providers

The MDA grant is disbursed by two organisations:

(a) Federation of Indian Export Organisation (FIEO).

(b) Ministry of Commerce.

1.6.4 Conditions for Assistance

The assistance provided in this respect is subject to the condition that:

(a) Exporters can avail assistance along with travel grant for the participation in trade fairs only if they focus on one of the areas namely Africa, ASEAN countries, CIS region, Australia, New Zealand and Latin America.

(b) Exporters can get financial assistance without travel grant for participation in trade fairs in other areas.

(c) Exporters may get financial assistance for legal expenses for trade related matters on the recommendation of Export Promotion Council.

Check your progress 5

1. Identify the annual turnover limit of the exporters to be eligible for Market Development Assistance.

a. Rs.5 Crore	c. Rs.15 Crore
b. Rs.10 Crore	d. Rs.25 Crore

1.7 Market Access Initiative (MAI)

Market Access Initiative (MAI) scheme is intended to provide financial assistance for medium term export promotion efforts with a sharp focus on a country and product.

1.7.1 Eligibility for the Assistance

Following entities are eligible for assistance under Market Access Initiative scheme.

(a) Export Promotion Councils (EPCs)

(b) Industry and Trade associations

(c) Agencies of State Governments

(d) Indian Commercial Missions abroad

(e) Other eligible entities as may be notified from time to time

1.7.2 Purposes of the Assistance

Assistance under Market Access Initiative is given in the range of 25% to 100% of the total cost depending upon the activity and implementing agency for the following purposes.

(a) Marketing study to be done on country's product focus approach basis.

(b) Establishment of common showrooms under one roof and warehousing facility in the prescribed locations on the basis of marketing studies in important cities abroad.

(c) Participation in sales promotion campaigns through international departmental stores.

(d) Publicity campaigns for launching identified products in selected markets.

(e) Participation in trade fairs, seminars, buyers sellers meet conducted abroad.

(f) Promotion of chosen brands.

(g) Financial help for transport of selected agro products.

(h) Registration charges for registering product abroad in the pharmaceutical, bio-technology and agriculture sectors and testing charges for engineering products.

(i) Subsidies for inland freight for bringing goods from North-East, Sikkim and Jammu and Kashmir.

(j) Establishment of Business Centres in the Indian mission abroad for Indian exporters and businessmen.

Check your progress 6

1. Identify the period for which Market Access Initiative is applicable.

a. Short term c. Long term

b. Medium term d. Agriculture produce

1.8 Income Tax Exemptions and Deductions

The following exemptions and deductions at specified rates are available to the exporters and other foreign exchange earners under the Income Tax Act, 1961.

(a) Deductions in respect of profits and gains from projects outside India. (Sec.80HHB)

(b) Deduction in respect of export turnover. (Sec.80HHC)

(c) Deduction in respect of earnings in convertible foreign exchange (Sec.80HHD)

(d) Deduction for export or transfer of Film Software etc. (Sec.80.HHF)

(e) Ten Year Tax Holiday in respect of newly established industrial undertakings in Free Trade Zones (FTZs), Electronic Hardware Technology Parks (EHTPs) and Software Technology Parks (STPs) as well as Special Economic Zones (SEZs). (Sec.10A)

(f) Ten Year Tax Holiday in respect of newly established 100% Export Oriented Undertakings (Sec.10B)

Check your progress 7

1. Newly established 100% Export Oriented Undertakings get ______ tax holiday.

   a. 2 years c. 10 years

   b. 5 years d. 15 years

1.9 Town of Export Excellence

A number of towns in specific geographical locations have emerged as dynamic industrial clusters contributing handsomely to India's exports. Selected towns producing goods of Rs. 1000 crore or more will be notified as Towns of Exports Excellence on the basis of potential for growth in exports. However for the Towns of Export Excellence in the Handloom, Handicraft, Agriculture and Fisheries sector, the threshold limit would be Rs 250 crores.

1.9.1 Facilities Provided to Town of Excellence

(a) Common service providers in these areas shall be entitled for facility of EPCG scheme.

(b) The recognised associations of units will be able to access the funds under the Market Access Initiative scheme for creating focused technological services and marketing abroad.

(c) Further such areas will receive priority for assistance for rectifying identified critical infrastructure gaps from the ASIDE scheme.

(d) Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore for others.

(e) The units in these notified areas would be eligible for availing all the EXIM policy schemes as per their choice

Check your progress 8

1. Selected towns producing goods of ______ or more will be notified as Towns of Exports Excellence on the basis of potential for growth in exports.

   a. Rs. 500 crore
   c. Rs. 1500 crore
   b. Rs. 1000 crore
   d. Rs. 2000 crore

1.10 Vishesh Krishi Upaj Yojana

(Special Agriculture Produce Scheme)

Foreign Trade Policy 2004-09 has proposed a new scheme called Vishesh Krishi Upaj Yojana for promoting exports of agricultural products.

1.10.1 Objective of the Scheme

The objective of the scheme is to promote export of fruits, vegetables, flowers, minor forest produce, and their value added products, by incentivising exporters of such products.

1.10.2 Entitlements under the Scheme

Exporters of such products shall be entitled for duty credit scrip equivalent to 5% of the FOB value of exports for each licensing year commencing from 1st April, 2004. The scrip and the items imported against it would be freely transferable.

1.10.3 Permissible Imports

The Duty Credit may be used for import of inputs or goods including capital goods, as may be notified, provided the same is freely importable under ITC (HS).

Imports from a port other than the port of export shall be allowed under TRA facility as per the terms and conditions of the notification issued by Department of Revenue.

Check your progress 9

1. Under Vishesh Krishi Upaj Yojana, fruits, vegetables, flowers, minor forest produce exporters shall be entitled for duty credit scrip equivalent to___ of the FOB value of exports for each licensing year.

   a. 5% c. 15%

   b. 10% d. 20%

1.11 Industrial Raw Materials Assistance Centres (IRMAC)

Industrial Raw Materials Assistance Centre (IRMAC) was established by the Government of India as a subsidiary of STC. Such centres import raw materials in bulk and supply it to the registered exporters against valid import licence. This enables exporters to get timely supply of raw materials at reasonable prices. IRMAC has been further simplified by removing actual user clause.

1.11.1 Eligibility for the Assistance

IRMAC is available to the following categories of exporters:

(a) Minerals and Metals Trading Corporation of India (MMTC),

(b) Export houses,

(c) Trading house,

(d) Star trading houses, and

(e) Super star trading houses.

Check your progress 10

1. Industrial Raw Materials Assistance Centre (IRMAC) is responsible for __________.

   a. Importing raw materials in bulk and supply to registered exporters.

   b. Assisting exporters find quality raw materials on cheap price.

   c. Procuring raw materials for large manufacturers.

   d. Selling domestic raw materials to other countries.

1.12 Let Us Sum Up

In this unit, we have learnt that government has taken various kinds of measures like import facilities for exporters, duty exemption like duty drawback, marketing assistance, supply of raw materials, established of institutions to support exporters to boost export from India.

Duty Drawback is composed of the customs duty and central excise duty paid on raw materials, components and consumables utilized in the manufacture of goods meant for export.

To boost export, EPCG was introduced to enable manufacturer exporters to import machinery and other capital goods for export production at concessional or no customs duties at all. To make an all-out effort to boost export, the government introduced ASIDE scheme to encourage state governments to promote exports from their respective states.

Deemed exports are transactions in which goods supplied do not leave the country and the payment for such goods is made in India by the recipient of the goods in Indian rupees. The government provides several kinds of exemptions and deductions like Sec.80HHB, Sec. 80HHC, Sec.80HHD etc. to boost exports.

1.13 Answers for Check Your Progress

Check your progress 1

Answers: (1-e)

Check your progress 2

Answers: (1-a), (2-b)

Check your progress 3

Answers: (1-b)

Check your progress 4

Answers: (1-b)

Check your progress 5

Answers: (1-a)

Check your progress 6

Answers: (1-b)

Check your progress 7

Answers: (1-c)

Check your progress 8

Answers: (1-b)

Check your progress 9

Answers: (1-a)

Check your progress 10

Answers: (1-a)

1.14 Glossary

1. **GOI -** The Government of India
2. **IIFT -** Indian Institute of Foreign Trade
3. **IIP -** Indian Institute of Packaging
4. **EPCs -** Export Promotion Councils
5. **EIC -** Export Inspection Council
6. **ECGC -** Export Credit Guarantee Corporation
7. **ICA -** Indian Council of Arbitration
8. **FIEO -** Federation of Indian Export Organisation
9. **DFRC -** Duty Free Replenishment Certificate
10. **EOUs -** Export Oriented Units
11. **EPZs -** Units located in Export Processing Zones
12. **STPs -** Software Technology Parks

1.15 Assignment

The ASIDE scheme was launched on 13.3.2002 during the 10thFive Year Plan (2002-07). Write a report on what India has achieved so far under this scheme.

1.16 Activities

Visit an auto parts manufacturer who wants to export its products to neighbouring countries. List out the challenges he faces.

1.17 Case Study

Challenges and Opportunities

The future of the Indian farmer depends on the success of the food industry as India's prosperity is predominantly linked to the growth of incomes in the agrarian sector of the economy. Increasing liberalization of the economy has tried to lift the protection that the food and agriculture sector once enjoyed in the country. This has exposed the sector both to the opportunities and challenges of the global food economy.

The market forces are compelling the Indian agriculture producers to increase the quality of their farm produce while continuing to maintain their cost competitiveness in order to be able to compete effectively in the global food market. Even in the domestic market, rising per capita incomes and changing demographic profile of the population has ensured the growing demand for processed and convenience foods. Increasing consumer awareness about health and hygiene has shifted the focus of the market to "safe" foods. The Indian food-processing sector is undergoing a veritable revolution - all the way from the plate to the plough.

Indian food processing industry has seen significant growth and changes over the past few years, driven by changing trends in markets, consumer segments and regulations. These trends, such as changing demographics, growing population and rapid urbanization are expected to continue in the future and, therefore, will shape the demand for value added products and thus for food processing industry in India. The Government of India’s focus towards food processing industry as a priority sector is expected to ensure policies to support investment in this sector and attract more FDI. India, having access to vast pool of natural resources and growing technical knowledge base, has strong comparative advantages over other nations in this industry. The food processing sector in India is clearly an attractive sector for investment and offers significant growth potential to investors.

Challenges faced by the Indian industry

The most crucial challenge today that the Indian food processing industry is facing is the lack of suitable infrastructure in the shape of cold chain, packaging centres, value added centre, modernized abattoirs etc.

Improvement in general infrastructure is also a must requirement for the industry to progress. Some other important initiatives that are needed are:

1. Promotion of appropriate crossbreeds while conserving indigenous breeds of livestock
2. Establishment of livestock marketing system
3. Promotion of rural backyard poultry in a cooperative marketing setup
4. Development of cooperative dairy firms
5. Enhancing livestock extension services

6. Encouraging private veterinary clinic
7. Institutionalising a framework for utilising synergy between restoration and creation of water bodies for water harvesting and fishery
8. Provision of an insurance package to avoid distress

Strengths and opportunities that India enjoys

1. It is the seventh largest country, with extensive administrative structure and independent judiciary, a sound financial & infrastructural network and above all a stable and thriving democracy.
2. Due to its diverse agro-climatic conditions, it has a wide-ranging and large raw material base suitable for food processing industries. Presently a very small percentage of these are processed into value added products.
3. It is one of the biggest emerging markets, with over 1 billion population and a 250 million strong middle class.
4. Rapid urbanization, increased literacy and rising per capita income, have all caused rapid growth and changes in demand patterns, leading to tremendous new opportunities for exploiting the large latent market. An average Indian spends about 50 per cent of household expenditure on food items.
5. Demand for processed/convenience food is constantly on the rise.
6. India's comparatively cheaper workforce can be effectively utilized to setup large low cost production bases for domestic and export markets.
7. Liberalized overall policy regime, with specific incentives for high priority food processing sector, provides a very conducive environment for investments and exports in the sector.
8. Very good investment opportunities exist in many areas of food processing industries, the important ones being: fruit & vegetable processing, meat, fish & poultry processing, packaged, convenience food and drinks, milk products etc.

1.18 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw
2. International Marketing by Cherunilam
3. International Marketing Management by Jain
4. International Marketing by Rakesh Mohan Joshi
5. International Marketing by Michael CzinkotaIllka A Ronkainen
6. International Marketing by R Srinivasan
7. International Logistics by Pierre David
8. International Management by John B Cullen
9. A Strategic prespective by K Praveen Parboteeah

UNIT 2: EXPORT PROMOTION ORGANISATIONS

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The composition and functions of Ministry of Commerce.
- The role and functions of various export promotion bodies.
- The role of Export Inspection Council.
- The role of Indian council of arbitration.
- The facilities available at Export Processing Zones.
- The Chamber of Commerce.

2.1 Introduction

In this unit, you will learn the functioning of various organizations that the government has created to facilitate exports. You will identify their role and objectives and how they are helping India to be an exporting nation.

You will come across regular knowledge checks at the end of each topic. After finishing the unit, you will face assignment, activity and case study which will help you to increase your understanding the topics.

There are various organizations like Export Promotion Councils, Export Inspection Council, Commodity Boards, Export Credit and Guarantee Corporation of India and others to help Department of Commerce to facilitate export from India.

The Department of Commerce also supervises the policies of state trading. Other functions of the Department of Commerce includes investigating anti-dumping duties and countervailing duties violations, supervising crop production and distribution, protection and maintenance of enemy property and the administration of the Directorate General of Supplies and Disposals.

The Board of Trade is responsible of advising government of relevant issues related to foreign Trade Policy. As per the rule, both the bodies should interact continuously to produce effective export promotion.

Export Promotion Councils are supposed to promote India as a brand in the international market. They encourage and monitor exporters to maintain the international standards and specifications so that India can be seen as a reliable supplier of high quality goods and services.

India can export services as specified in 161 tradable services list under the General Agreement of Trade in Services (GATS). These services are traded in free foreign exchange under the provisions of the foreign trade Policy 2004-09.

Commodities Boards are established to promote traditional commodities which have potential for export.

2.2 Ministry of Commerce

2.2.1 Composition

The Department of Commerce is under the Ministry of Commerce. It is headed by an officer of the rank of secretary who has four additional secretaries, eight joint secretaries and many senior officers under him.

The Department of Commerce is, primarily, for creating appropriate institutional framework and policy environment for facilitation and growth of external trade. In order to achieve its objectives, the Department formulates foreign trade policy including policies for export promotion. It also looks into matters such as multilateral and bilateral commercial relations, state trading, export promotion measures, development and regulation of certain export oriented industries and commodities. The Department of Commerce is assisted by a number of organisations and institutions, viz., Commodity Boards, Export Inspection Council, Export Promotion Councils, Export Credit and Guarantee Corporation of India, Indian Trade Promotion Organisation, etc., which work as autonomous bodies or under the direct administrative control of the Department.

The Department also has the responsibility of development, operation and maintenance of Special Economic Zones (SEZs) including the fiscal regime, investment policy and regulatory framework of these Zones. The Directorate General of Foreign Trade (DGFT), an attached office of the Department, implements the Foreign Trade Policy.

2.2.2 Subjects under the Administrative Control of Department of Commerce

(a) International Trade:

- International Trade and Commercial Policy including tariff and non-tariff barriers
- International Agencies connected with Trade Policy (e.g. UNCTAD, ESCAP, ECA, ECLA, EEC, EFTA, GATT/WTO, ITC and CFC).
- International Commodity Agreements other than agreements relating to wheat, sugar, jute and cotton.
- International Customs Tariff Bureau including residuary work relating to Tariff Commission.

(b) Foreign Trade (Goods and Services):

- All matters relating to foreign trade
- Import and Export Trade Policy and Control excluding matters relating to:
- Import of features films;
- Export of Indian films- both feature length and shorts;
- Import and distribution of cine-film (unexposed) and other goods required by the film industry.

(c) State Trading:

Policies of State Trading and performance of organisations established for the purpose and including:

- The State Trading Corporation of India Ltd (STC) along with the subsidiaries. Handicrafts and Handlooms Export Corporation and Central Cottage Industries Corporation; the Tea Trading Corporation of India Limited and the Spices Trading Corporation of India Limited are excluded.
- Projects and Equipment Corporation of India Limited (PEC);
- India Trade Promotion Organisation and its subsidiaries;
- Minerals and Metals Trading Corporation and its subsidiaries.

- Production, distribution (for domestic consumption and exports) and development of plantation crops, tea, coffee, rubber, spices, tobacco and cashew.

- Processing and distribution for domestic consumption and exports of Instant Tea and Instant Coffee.

  - Tea Board
  - Coffee Board
  - Rubber Board
  - Cardamom Board
  - Tobacco Board

(d) Trading with the Enemy:

- Trading with the enemy; enemy firms and enemy property reparations (other than German industrial equipment); Controller of Enemy Trading; Controller of Enemy firms; Custodian of Enemy Property for India.

(e) Management of Indian Trade Services (ITS):

- Cadre Management of the Indian Trade Service and all matter pertaining to training, career planning and manpower planning for the service.

- Cadre Management of Indian Supply Service and all matter pertaining to training, career planning and manpower planning for the Service.

- Cadre Management of Indian Inspection Service and all matter pertaining to training, career planning and manpower planning for the Service.

(f) Special Economic Zones:

- All matters relating to development, operation and maintenance of special economic zones and units in special economic zones, including export and import policy, fiscal regime, investment policy, other economic policy and regulatory framework.

(g) Export Products and Industries and Trade Facilitation:

- Setting up of Export Processing Zones (EPZ)/Agricultural Export Zones (AEZ) and 100% Export Oriented Units (EOUs).

- Gems and Jewellery.
- Matters relating to Export Promotion Board, Board of Trade and International Trade Advisory Committee.
- Matters relating to concerned Export Promotion Councils/Export Promotion Organisations.
- Indian Institute of Foreign Trade and Indian Institute of Packaging
- Indian Diamond Institute and Footwear Design and Development Institute
- Coordination for export infrastructure
- Development and expansion of export production in relation to all commodities, products, manufacturers and semi-manufacturers including -
- Agricultural produce within the meaning of the Agricultural Produce (Grading and Marking) Act, 1937 (1 of 1937);
- Marine products;
- Industrial products (engineering goods, chemicals, plastics, leather products, etc.);
- Fuels, minerals and mineral products;
- Specific export oriented products (including plantation crops, etc. but excluding jute products and handicrafts which are directly under the charge of this Department).
- All organisations and institutions connected with the provisions of services relating to the export efforts including:
- Export Credit and Export Insurance including Export Credit and Guarantee Corporation Limited;
- Export Inspection Council; Standards including Quality Control;
- Directorate General of Commercial Intelligence and Statistics;
- Free Trade-Zones.
- Projects and programmes for stimulating and assisting the export efforts.

(h) Attached and Subordinate Offices:

- Directorate General of Foreign Trade
- Administration of Directorate General of Supplies and Disposals, New Delhi
- Directorate General of Anti-Dumping and Allied Duties and related matters
- Directorate General of Commercial Intelligence and Statistics

(i) Statutory Body:

- Marine Products Export Development Authority
- Agricultural and Processed Food Products Export Development Authority

(j) Miscellaneous:

- Purchase and inspection of stores for Central Government Ministries/Departments including their attached and subordinate offices and Union Territories, other than the items of purchase and inspection of stores which are delegated to other authorities by general or special order.

Check your progress 1

1. What is the role of Commodity Boards?
   a. Advising government of export promotion
   b. Researching potential commodity for exports
   c. Promoting traditional commodities for exports
   d. Attending seminars, trade fairs to promote Indian commodities
2. Which one of the following organization is responsible for facilitation and growth of external trade by creating appropriate institutional framework.
   a. Ministry of commerce
   b. Department of Commerce
   c. Export promotion council
   d. Indian trade promotion organisation

3. Identify the organization responsible for engaging in trade negotiations at agreements and multilateral, regional and bilateral levels.
   a. Ministry of commerce
   b. Department of Commerce
   c. Indian trade promotion organization
   d. The Directorate General of Foreign Trade
4. Which of the following controls state trading corporations?
   a. Ministry of commerce
   b. Department of Commerce
   c. Management of Indian Trade Services
   d. Indian trade promotion organisation

2.3 Board of Trade

The Board of Trade is responsible for advising the government on Foreign Trade Policy. As per the Foreign Trade Policy 2004-09, there should be continuous interaction between the Government and the Board of Trade in order to boost exports.

2.3.1 Composition

The Government appoints the following members to run the Board of Trade.

(a) A specialist of trade policy as a President

(b) 25 members out of which 10 must be specialists in trade policy

Additionally, chairmen of the Export Promotion Councils and the President/Secretary-General of National Chambers of Commerce are made ex-officio members.

2.3.2 Terms of Reference

The terms of reference of the Board of Trade are the following.

(a) Advise the Government on policy matters for making short-term and long-term plans considering the current national and international economic scenario

(b) Review of export procedure of many sectors; identification of constraints and suggestion specific measures to deal with them

(c) Inspection of current institutional framework of export and import and suggestion of practical measures to streamline the framework

(d) Review of policy instruments and procedures for export and import and suggestions for rationalization of such schemes

(e) Examination of issues related to export promotion and export competitiveness

(f) Commissioning of studies for the achievement of above-mentioned objectives.

Check your progress 2

1. What is the role of Board of trade?
   a. Promoting foreign trade
   b. Making foreign trade policies
   c. Dealing with most favoured trading nations
   d. Advising government on foreign trade policy

2.4 Export Promotion Councils (EPCs)

Export Promotion Councils are non-profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. They are supported by the financial assistance from the Central Government. It has been made clear by the new EXIM Policy that the support given to the EPCs by the Government, monetary or otherwise, would depend upon:

(a) Effective discharge of the functions assigned to them;

(b) Democratisation of the membership of the EPCs;

(c) Democratic elections of office bearers of the EPCs being held regularly; and

(d) Timely audit of the accounts of the EPCs.

2.4.1 Role of Export Promotion Councils

The EPCs are primarily responsible for projecting India as a reliable supplier of high quality products. To achieve this objective, EPCs encourage and monitor exporters for adherence of international standards and specifications.

2.4.2 Functions of Export Promotion Councils

(a) Registration of exporters and issue of Registration-cum-Membership Certificate (RCMC) under the EXIM Policy.

(b) Providing a forum and link between the government and their members for consideration and implementation of schemes for export production and marketing.

(c) Collection and dissemination of information primarily on export opportunities, through various media including newsletters, bulletins, letters, telex, fax, etc.

(d) Sponsoring and inviting business delegations, sales teams, and study teams for exploring markets for developing export.

(e) Arranging distribution or disbursement of raw materials (inputs), marketing assistance, like IPRS for engineering goods exports, or allocation of scarce items for export production.

(f) Fixation of floor price or minimum export price or recommendation thereof to the government.

(g) Arranging or participating in buyer seller meets, exports or trade fairs and exhibitions in India and abroad.

(h) Foreign publicity through schemes like Joint Foreign Publicity (JFP) in overseas market.

(i) Recommending the formulation and implementation of export assistance schemes like fixation of drawback rates.

(j) Any other issue covering production and marketing of products under their purview.

(k) Allocation of export quota or slips for items like textiles.

2.4.3 Issuing Authority for Registration-cum-Membership Certificate (RCMC)

Any exporter/importer may apply to become a member of an EPC and such application shall be considered and disposed of within one month thereof in accordance with the rules and regulations of the EPC. On being admitted to membership, the applicant is granted a RCMC.

An exporter desiring to obtain a Registration-cum-Membership Certificate (RCMC) shall declare his main line of business in the application, which shall be made to the concerned Export Promotion Council (EPC). However, a status holder has the option to obtain RCMC from Federation of Indian Exporters Organisation (FIEO). The service providers (except software service exporters) are required to obtain RCMC from FIEO.

Additionally, an exporter can get RCMC from FIEO or EPC. If the product comes under the control of the EPC, the exporter can take RCMC from that EPC. Otherwise, he can apply to FIEO.

2.4.4 Procedure for the Issue of Registration-cum-Membership Certificate (RCMC)

An application for registration may be made to the concerned registering authority in the form given in the prescribed Aayaat and Niryaat form along with a self-certified copy of the IEC number issued by the licensing authority concerned and Bank Certificate in support of the applicant's financial soundness.

If the application for registration is granted, the concerned registering authority issues the RCMC indicating the status of the applicant as Merchant Exporter or Manufacturer Exporter.

In case an exporter desires to get registration as a manufacturer exporter, he is required to furnish evidence to that effect.

2.4.5 Validity of RCMC

The RCMC is valid for 5 years commencing from 1st April of the year of license issue to 31st March of the 5th year of that period, unless otherwise mentioned.

2.4.6 RCMC is a must for EXIM Benefits

Any person, applying for the following is required to furnish Registration-cum-Membership Certificate (RCMC) issued by the competent authority:

(a) A license/certificate/permission to import/export, (except items listed as restricted items in ITC (HS))

(b) Any other benefit or concession under Foreign Trade Policy.

Check your progress 3

1. What is the role of Export promotion councils?
   a. Promoting respective industry for exports
   b. Solving the issues faced by the respective industry
   c. Advising government on export promotion
   d. Projecting India's brand image as a reliable supplier of high quality goods and services

2.5 Services Export Promotion Council

Services that are exported are 161 in number as per the General Agreement of Trade and Services (GATS). These services are traded in free foreign exchange. Exporters dealing in services have to register with the Federation of Indian Exporters Organisation (FIEO). If they deal in software services, they need to register with the Electronic and Software Export Promotion Council.

However, a new body by the name of Export Promotion Council for Services has been proposed to be established to give proper direction to service sector.

2.5.1 Functions of the Services Export Promotion Council

(a) Identify opportunities for particular service for particular market and make strategic plan to access the market

(b) Collaborate with sectorial players to carry out brand building and marketing exercises in target markets.

(c) Collaborate with recognized nodal bodies to address policies, procedures and other bilateral or multi-lateral issues

Check your progress 4

1. Which of the following body is entitled to register the service exporters?
    a. Department of commerce
    b. Ministry of commerce
    c. Export promotion council
    d. Federation of Indian Exporters Organisation

2.6 Common Facility Centers

Common Facility Centers have been proposed to set up as per the recommendations of the Foreign Trade Policy 2004-09. These Centers will be used by the home-based service providers especially in the areas of Engineering and Architectural design, Software development, multi-media operations and others.

Check your progress 5

1. Common Facility Centers are established for home-based service providers in the areas of ___________.
    a. Engineering and architectural design
    b. Multimedia operations
    c. Software developers
    d. All of the above

2.7 Commodity Boards (CBs)

Commodity Boards are the organizations established by the Government of India especially for the promotion of traditional commodities which have high potential for export. These Boards are subsidiary of Export Promotion Councils having similar functions.

2.7.1 Difference between EPCs and CBs

(a) Commodity Boards are responsible for the promotion of primary and traditional items like tea, coffee; rubber, tobacco etc. whereas Export Promotion Councils are responsible for the promotion of non-traditional items like computers, chemicals, engineering goods etc.

(b) Commodity Boards are statutory bodies whereas Export Promotion Councils are registered under Companies Act.

(c) Commodity Boards are responsible for export promotion of respective items along with the development and production of the commodity including domestic marketing whereas Export Promotion Councils are responsible for the export promotion of only the item they cover.

2.7.2 Functions of Commodity Boards

Commodity Boards function under the control of the Ministry of Commerce. Their major functions include:

(a) Address the issues related to production, development and export of the item they cover

(b) Introduction of new methods of cultivation or respective commodities.

(c) Advising the Government on export matters.

(d) Offer trade information, guidance and other services to members and assist them in export promotion

(e) Take part in international trade fairs and exhibitions

(f) Sponsor trade delegations and carry out market surveys

(g) Organize pre-shipment inspection

2.7.3 Operating Commodity Boards

Commodity Boards running in India are Coffee Board, Rubber Board, Tobacco Board, Spice Board, Central Silk Board, Tea Board and Coir Board.

Check your progress 6

1. Commodity Boards are responsible for the promotion of ______ whereas the Export Promotion Councils are responsible for the promotion of _______.
   a. Traditional items, non-traditional items
   b. Non-traditional items, traditional items
   c. Agriculture produce, traditional items
   d. Engineering items, traditional items
2. Which of the following is a statutory body?
   a. Commodity Board
   b. Ministry of Commerce
   c. Common Facility Center
   d. Export Promotion Council

2.8 Export Inspection Council (EIC)

Export Inspection Council of India was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963, to provide for the sound development of export trade through quality control and pre-shipment inspection. The Council is an apex body for controlling the activities of quality control and pre-shipment inspection of all the commodities meant for export.

2.8.1 Methods of Pre-shipment Inspection and Quality Control

For the purpose of pre-shipment inspection, Export Inspection Council has recognised three systems of inspection, namely:

(a) Consignment-wise Inspection: Under the Consignment wise Inspection (CWI), each export consignment is inspected and tested by the recognised inspection agencies. Samples drawn on the basis of statistical sampling plans are inspected and tested for verifying the conformity of products to the prescribed standards. Tests are carried out in the field and/or in the recognised inspection agencies or laboratories.

A certificate is issued for the consignment if it is found export-worthy after inspection. Depending on the nature of the consignment, the certificate of inspection have varying validity periods on the expiry of which the consignments are re-inspected for the purpose of revalidation of the certificate.

No consignment of any notified commodity can be exported unless it is accompanied by a certificate issued by a recognised inspection agency or it carries a recognised mark, as may be applicable to it.

(b) In-Process Quality Control: In-Process Quality Control (IPQC) system lays emphasis on the responsibility of manufacturer processors in ensuring consistency in quality during all stages of production by adopting quality control drills and exercising control on raw materials and bought-out components, manufacturing process, packing and final testing. Manufacturing and processing units, adjudged as having adequate levels of quality control in all these areas, are approved by EIAs based on the assessment of an Inter Departmental Panel. Units approved under this system are eligible to get certificate of export worthiness without further verification of the quality of the outgoing consignments by EIAs and random spot check of the consignments may be carried out from time to time.

Under the simplified inspection procedure, such units have been given the option either to issue certificate of inspection of export worthiness on their own or to obtain certificate of inspection from EIAs.

(c) Self-Certification: Under this system, in addition to IPQC norms, stringent requirements have been prescribed for four new elements namely design and development, quality audit, after sales and service, housekeeping and maintenance. Manufacturing and processing units qualifying under this system are notified by the Government as Agencies to issue certificates of export worthiness for their own export consignments.

This facility is offered initially for one year and their performance is subject to review. This facility is introduced in engineering scheme only to begin with and depending upon the efficiency of the scheme, it may be introduced for other schemes.

(d) Food Safety Management System Based Certification: International standards on Food Safety Management Systems like HACCP/GMP/GHP have been developed. Based on such standards, which are being prescribed by several of India's trading partners of European Union, EIC has introduced certification of product quality integrated with the systems approach. Currently, fish and fishery products, egg products and milk products are being certified under the above system.

2.8.2 Functions of Export Inspection Council

(a) **Advisory to the Government:** The EIC advises the Indian Government on matters relating to pre-shipment inspection and quality control measures for export items.

(b) **Export Inspection Agencies**: In addition to the main offices of EIAs at Bombay, Kolkata, Cochin, Delhi and Chennai, these agencies have a network of 62 sub-offices located at important manufacturing and processing centers, ports and export points. These agencies have well equipped laboratories at all important centers for inspection and testing of the products offered by exporters or manufacturers for inspection.

(c) **Pilot Test House:** A Pilot Test House has been set up in Mumbai with necessary infrastructural facilities of testing the products to meet the requirements of the international standards. The Test House has three major sectional laboratories namely; Chemical laboratory, Electric laboratory, Mechanical laboratory.

(d) **Training Facilities:** In order to achieve the overall objectives of the export development through quality control and inspection, the Export Inspection Council has set up a full-fledged training centre at Chennai where training is imparted to the inspecting officers. The inspecting officers are given training on the methodology and techniques of quality assurance including the latest techniques in standardisation, inspection and quality control prevalent in other countries.

(e) **Voluntary Inspection**: In addition to carrying out compulsory quality control and pre-shipment inspection of commodities notified by the government under the Export (Quality Control) Inspection Act, 1963, the EIC undertakes voluntary pre-shipment inspection at the specific requests received from foreign buyers or Indian exporters. Such inspection is carried out on the basis of the specifications mutually agreed to between the buyer and the seller.

(f) **GSP Certification**: An important function of the EIAs is to issue certificate of origin under the Generalised System of Preference (GSP) required for specified products exported to preference giving countries of Europe, America, Japan, etc.

Check your progress 7

1. Which of the following body is responsible for quality control in export?
   a. Common facility center
   b. Export promotion council
   c. Export inspection council
   d. Department of commerce

2.9 Indian Trade Promotion Organisation (ITPO)

Indian Trade Promotion Organisation is a Government body responsible for providing various kinds of services to trade and industry to accelerate bilateral trade growth especially India's export and technological upgradation including modernisation of different sectors.

2.9.1 Functions of Indian Trade Promotion Organisation

(a) Organises Trade Fairs and Exhibitions: It organises trade fairs and exhibitions in Pragati Maidan and other centers across the country. It also rents out Pragati Maidan to other national and international organisations for holding trade fairs and exhibitions.

(b) Involves the State Governments: It helps the state governments for export promotion. Further, it promotes the development export infrastructure in the state capitals and other locations as specified by the governments.

(c) Assists in Technological Upgradation and Product Development: It helps Indian companies in developing product as per the buyer's requirements. Additionally, it provides valuable help to domestic companies in finding suitable party for foreign collaboration, joint venture, marketing and investment.

(d) Helps in establishing Overseas Contacts: It coordinates between domestic suppliers and international buyers and establishes reliable contacts. It arranges buyer-seller meets and invite foreign buyers to meet the domestic suppliers.

Check your progress 8

1. Identify the body responsible for involving state governments for the export promotion.

   a. Commodity board

   b. Ministry of commerce

   c. Export promotion council

   d. Indian Trade Promotion Organisation

2.10 Indian Institute of Foreign Trade (IIFT)

Indian Institute of Foreign Trade was set-up in 1963 by the Government of India as an autonomous body registered under the Societies Registration Act. It was set up with the prime objective of professionalising the country's foreign trade management and increase exports by developing human resource, generating, analysing and disseminating data and conducting research.

2.10.1 Functions of Indian Institute of Foreign Trade

(a) Training: The IIFT has been recognised as a centre of excellence for imparting training and education in international business. Its specialisation in international business and a global outlook makes it unique among management schools in the country. It offers an inspiring learning environment, which transforms the bright young students into talented creative professionals.

(b) Collects and Supplies Information: IIFT conducts market studies and surveys in the overseas markets. It tries to find out demand for Indian products in overseas market. It supplies this information to the exporters.

The exporters can use such information while making their export marketing decisions.

(c) Organises Seminars and Workshops: IIFT organises seminars and workshops in a number of export marketing areas, such as export pricing, export promotion, etc. Exporters can take advantage of such workshops and seminars by taking active part them.

(d) Trade Delegations: IIFT sends delegates abroad to study overseas markets and also to interact with overseas importers. At the same time, it invites delegates from abroad, who can study Indian market conditions and can also interact with Indian exporters.

(e) Publications: A large part of the IIFT's research work is published in the form of study reports, monographs, status papers, etc. for wider dissemination among the business community, government departments and academic fields. The institute publishes:

- Foreign Trade Review (FTR), a quarterly journal
- Focus WTO, a bimonthly magazine
- Technology Exports, a quarterly newsletter

(f) Research and Consultancy: IIFT has so far brought out over 570 research studies and surveys. It also acts as a consulting house for solving the problems of the exporters and importers. It analyses the international business environment and develops appropriate corporate strategies for the overseas markets.

(g) Management Development Programmes: Combining a unique blend of research and consultancy, IIFT has been a pacesetter in addressing to the needs of business executives by continuously aligning the focus of its Management Development Programmes with the changing realities. As a result, its intensive short duration programmes have received the most enthusiastic response.

Check your progress 9

1. What is the role of Indian institute of foreign trade?
   a. Assist government in making policies for foreign trade
   b. Professionalise foreign trade
   c. Provide guidelines to export promotion councils
   d. Attend seminars and promote India's brand image

2.11 Indian Institute Packaging (IIP)

Indian Institute of Packaging was set up as a national institute jointly by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966, with its headquarters and principal laboratories at Mumbai and regional laboratories at Kolkata, Delhi and Chennai. It is a training-cum-research institute pertaining to packaging and testing. Over the years, it has built up a very strong and capable expertise in various fields of packaging sciences and technologies. It has excellent infrastructural facilities, which cater to the various needs of the package manufacturing and package user industries, both with regard to the domestic distribution and export market requirements.

2.11.1 Functions of Indian Institute of Packaging

(a) **Training Programmes:** It organises a number of training programmes pertaining to packaging and also provides suggestions in regard to packaging.

(b) **Testing Facilities:** It also undertakes testing of packaging materials and packages to ensure export quality.

(c) **UN Certification:** All dangerous goods packages need a UN certification mark before they can be despatched. IIP is the only authorised body in India to give this certification.

(d) **Environmental Cell:** The institute has an environment cell, which guides exporters as to what type of material can be used or incorporated in the packaging of their products so as to reduce environmental threats.

(e) **Research and Development:** It undertakes research and development programmes for creating and improving overall infrastructural facilities for achieving packaging improvement so as to prevent losses during transportation.

(f) Collection and Dissemination of Information: It collects information on various packing and packaging strategies and disseminates them to the exporter for their benefits.

(g) International Recognition: The institute is closely linked with international organisations. It is recognised by the United Nations Industrial Development Organisation (UNIDO) and International Trading Centre (ITC) for consultancy and training.

(h) International Membership: It is a member of the Asian Packaging Federation (APF); the Institute of Packaging Professionals (IOPPA), USA; the Institute of Packaging (IOP) UK; Technical Association for Pulp and Paper Industry (TAPPI) and the World Packaging Organisation (WPO).

(i) Other Functions:

- It also carries out graphic designing for international products.
- It advises the government of India for all export related packages.
- It is not binding or compulsory for an organisation or company to be a member of IIP.

However, on being a member one can avail the benefits of services provided by IIP, specially testing facilities for packages to ensure high quality.

Check your progress 10

1. All dangerous goods packages need a UN certification mark before they can be dispatched.

   a. True

   b. False

2.12 Indian Council of Arbitration (ICA)

Indian Council of Arbitration (ICA) is an autonomous non-profit organisation responsible for promoting commercial arbitration related to export-import. It is a member of esteemed Federation of International Commercial Arbitral Institution. Further, it has mutual cooperation agreement with various courts of arbitration of several countries.

2.12.1 Functions of Indian Council of Arbitration

(a) Provide arbitration service for all types of domestic and commercial disputes.

(b) Use its network across the world for settlement of trade disputes.

(c) Arrange arbitration conferences, meetings, training programmes.

(d) Publish books on commercial arbitration.

(e) Help draft trade contracts, arbitration laws and help dispute settlement in India and abroad.

(f) Maintain records of latest development related to commercial arbitration and collaborate with various international arbitration bodies.

Check your progress 11

1. Identify the role of Indian Council of Arbitration.
   a. Help government in commercial disputes
   b. Address the case related to commercial disputes
   c. Address the corruption cases in commercial activities
   d. Promote commercial arbitration particularly in India's export trade

2.13 Federation of Indian Export Organisation (FIEO)

Federation of Indian Export Organisations (FIEO) is the controlling body of various export promotion organisations. The organisation helps the Government to promote export from India.

2.13.1 Functions of Federation of Indian Export Organisation

(a) International Linkage:

- FIEO has strong links with its counterpart organisations in many other countries as well as many other international agencies acting for export-import. It helps Indian exporters to communicate directly with the businessmen around the world.
- FIEO is registered with UNCTAD as a non-governmental organisation which gives it access to data and information being held with the UN bodies like imf, ADB, ESCAP, FAO, UNIDO, World Bank and others.

(b) Dissemination of Information:

- FIEO has agreements with many chamber of commerce along with trade and industry associations of many other countries for sharing of information and data.

(c) Liaisoning with the Government:

- FIEO liaise with the state and central government on policy matters.
- It works as an intermediary between the government and commercial bodies at national as well as international level.

(d) Market Development Assistance (MDA): Under MDA, the government helps recognised exporters through FIEO pays back certain percentage of expenses incurred due to sales-cum-study tours, participation in trade fairs aboard and advertising in foreign media.

(e) Market Research and Development Department: The Department renders following services:

- Organise meetings with diplomats and foreign delegations
- Inviting foreign delegations

- Arrange trade fairs and exhibitions at national and international locations
- Start offices and warehouses at national and international locations
- Organise seminars for export-import promotion
- Open new FIEO offices overseas

(f) Publicity Department: Publicity Department's functions include:

- Publishing special issue of Indian and overseas dailies to promote selected finished product nationally and internationally
- Production and telecasting advertisements in NEPC channel to India's top brands internationally
- Publishing of the Directory of Foreign Buyers and Dictionary of Indian Exporters
- Publishing of FIEO News covering developments in international trade related to India.

Check your progress 12

1. The Federation of Indian Export Organisation is______________

   a. A partner of Export Promotion Council

   b. A subsidiary of the Department of Commerce

   c. A government organization for the promotion of exports

   d. An apex body of various export promotion organizations

2.14 Marine Products Exports Development Authority (MPEDA)

Marine Products Export Development Authority (MPEDA) was established under the Marine Products Export Development Authority Act passed in 1972. MPEDA is responsible for organising, coordinating, regulating and promote export of marine products. To achieve its objective, MPEDA pays special attention to quality, processing, packaging, warehousing, transportation, shipment and marketing of marine products. There are two overseas of MPEDA; one is at Tokyo, Japan and another at New York, USA.

2.14.1 Functions of Marine Products Exports Development Authority

(a) Promotion of seafood by coordinating with exporter and importers

(b) Removal of constraints in exports by coordinating with government agencies

(c) Carry out publicity campaign in international market to promote Indian seafood

(d) Publicise processing, packaging, quality control procedures of Indian companies

(e) Finding joint venture partners to exploit marine products and related activities

Check your progress 13

1. Identify the role of Marine Products Export Development Authority.
   a. Storing of marine products
   b. Exporting of marine products
   c. Processing of marine products
   d. Packaging of marine products
   e. A,C,D

2.15 Export Processing Zones (EPZs)

Export Processing Zones (EPZs) are set up near seaport or airport. They provide duty-free environment for manufacturing goods for export at low cost. Various kinds of concessions are given to manufacturers and exporters situated in Export Processing Zones. Moreover, low cost production helps exporters sell their products in the international market on competitive price. Currently, EPZs are located at Santacruz (Mumbain), Falta (West Bengal), Kandla (Gujrat), Cochin (Kerala), NOIDA (UP), Vishakhapatnam (Andhra Pradesh) and Chennai (Tamil Nadu).

2.15.1 Facilities Available to Units in EPZs

(a) EPZs provide basic infrastructure like developed land, standard design factory buildings, roads, power and water supply.

(b) Hassle-free custom clearance at no extra cost is provided.

(c) Provisions are made for facilities like banking, post office and clearing and forwarding agents within the zone.

Check your progress 14

1. Export Processing Zones are intended to provide an internationally competitive ______environment for export production at low cost.
   a. Secured
   b. Protected
   c. Duty free
   d. High infrastructure

2.16 100% Export Oriented Units (100% EOUs)

100% Export Oriented Units are set up to complement Export Processing Zones. When companies engaged in the manufacture of goods for export and need to increase production to meet the demand, they are offered wider option for location for the new factory to be set up considering source of raw materials, port, hinterland, availability of technological manpower etc.

Check your progress 15

1. What do you understand by Export processing zones?
   a. Areas identified as having export potential
   b. Areas identified for marine produce for export
   c. Areas identified for agriculture to produce grains for export
   d. Areas allocated to provide internationally duty free environment for export

2.17 Facilities for Units in EOUs, EPZs, EHTPs and STPs

Units undertaking to export their entire production of goods and services may be set up under:

(a) The Export Oriented Unit Scheme (EOUs)

(b) The Export Processing Zone Scheme (EPZs)

(c) The Electronic Hardware Technology Park Scheme (EHTPs)

(d) The Software Technology Park Scheme (STPs)

2.17.1 Activities Undertaken by Such Units

(a) Manufacturing, servicing, repairing, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof;

(b) Agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisiculture, viticulture, poultry, sericulture and granites;

(c) Export of all products except goods mentioned as restricted and prohibited items of exports in ITC (HS) Classification of Export and Import items.

(d) Software units may undertake export using data communication links or in the form of physical exports including export of professional services.

(e) Units for generation distribution of power can also be set up in EPZs.

(f) No trading unit is permitted.

2.17.2 Facilities for Units Located under EOU/EPZ/STP/EHTP Schemes

(a) **Importability or Procurement of Goods from Domestic Tariff Areas:**

- An EOU/EPZ/EHTP/STP unit can import or procure from the domestic sources, free of duty, all its requirements of capital goods, raw materials, consumables, spares, packaging material, office equipment, etc.
- No licences are required for such import or domestic procurement.

- Such units can utilise goods imported or domestically procured over a period of two years.

(b) **Exemption from Duties:** They are exempted from most of the duties and levies such as state levies including sales tax, anti-dumping duties, etc.

(c) **Income Tax Concession:** They are also entitled for concessions in respect of payment of income tax under various sections of the Income Tax Act, 1961.

(d) **Exemption from Industrial Licensing:** They are exempted from industrial licensing for manufacture of items reserved for Small Scale Industry sector.

(e) **Sub-contracting:** They can, with the permission of the Customs Authorities, sub-contract part of the production and production process in DTA.

(f) **Inter-Unit Transfer:** They can supply to other EOU/SEZ/EHTP/STP units without payment of duty and such supplies are counted towards fulfilment of export obligation.

(g) **Supplies from DTA:** Supplies from DTA to EOU/SEZ/EHTP/STP units are regarded as 'Deemed Exports' and the DTA supplier is eligible for the deemed export benefits.

(h) **DTA Sale:** Units, other than gems and jewellery units may sell goods and services upto 50% of FOB value of exports, subject to fulfilment of minimum NFEP on payment of applicable duties. No DTA sale is permitted in case of motor cars, alcoholic liquors, tea (except intent tea) and books.

(i) **Export Obligation:** They can achieve export performance and Net Foreign Exchange Earning as a Percentage of exports (NFEP) cumulatively over a period of 5 years. Virtually no penal action is taken for shortfalls during the first three years of operation.

(j) **100% Foreign Equity:** 100% Foreign Direct Investment (FDI) in the manufacturing sector is permissible to the EOU/SEZ/EHTP/STP units. For FDI in services and trading sector, the sectoral norms as notified by the Department of Industrial Policy and Promotion are applicable.

(k) **Other Entitlements:**

- Can procure duty-free inputs for supply of manufactured goods to advance licence holders
- Are exempted from State Trading regime except in limited cases

- Can club their exports with exports of their parent company for purposes of obtaining Trading or Export House status.
- Manufacturers/processors who have acquired quality status with specified certification from identified agencies are eligible for double weightage for recognition as status holder.
- Can repatriate their profits freely without any dividend-balancing requirement.

Check your progress 16

1. Units in EOUs, EPZs, EHTPs and STPs get various kinds of concessions in duties, levies and income tax.
   a. True
   b. False
2. No trading unit is permitted in EOUs, EPZs, EHTPs and STPs.
   a. True
   b. False

2.18 M. Visvesvaraya Industrial Research and Development Centre (MVIRDC)

World Trade Centre, Mumbai has been named as the M. Visvesvaraya Industrial Research and Development Centre after the name of Dr. M. Visvesvaraya, an engineer and a scientist. It was established in 1970 as a non-profit company licensed under Sec. 25 of the Companies Act. The Council of Management comprising of industrialists, representatives from Central and State governments and apex Trade Promotion Organisations, governs it.

MVIRDC became of a member of WTCA in 1971 after which it was known as WTC, Mumbai. It consists of three centrally air-conditioned buildings. The arcade comprises of various state Emporia, banks, offices, shops and showrooms. It also houses the prestigious Expo-Centre (exhibition hall). Centre-I comprises of areas leased to various organisations connected with world trade, business and industry such as EXIM bank, RBI, EPCs, etc. It also houses WTC offices as well as meeting rooms. Centre-II has been entirely leased out to the Industrial Development Bank of India.

2.18.1 Functions of World Trade Centre

(a) Trade Information Services: WTC offers the IMPEX Data Bank facility. It is India's first ever computerised database on imports and exports. It comprises of details on export and import transactions. It helps in identifying products in demand for export or import, locate markets, evaluate competitive prices, understand the market players, etc.

(b) WTCA Online: WTCA online is a unique internet based website, providing a one-stop source for global business information through strategic alliances with leading information and service providers. WTCA online offers quality products representing the best international trade information and services at discounted prices.

(c) Trade Education Services: World Trade Institution (WTI), the educational wing of WTC Mumbai, was set up in 1991. It was the pioneer in introducing a six months Post Graduate Diploma in Foreign Trade (PGDFT) and Post Graduate Diploma in Foreign Exchange and Risk Management (PGDFERM). It has been certified as 'Best Practise Institute' by WTCA, New York.

(d) Foreign Trade Facilitation Cell: A Foreign Trade Facilitation Cell has been set up in order to:

- Give advice on starting of import/export business and authorities to be approached for solving import/export problems
- Make recommendations to the government in regard to the EXIM Policy and procedure

(e) International Trade Library: It is an exclusive source of business information. Businessmen and students can easily access various sources of trade information through the large collection of trade directories, journals and related publications. Market reports on different products by ITC and CBI are the main strengths of this library.

(f) Business Services: Specific business meetings can be organised for the visiting overseas businessmen for their products of interest. A minimum two weeks advance notice is required. WTC also offers state of the art support facilities, video conferencing, temporary office space, meeting rooms, translation capabilities, etc.

(g) **Research and Development:** The Centre has conducted research work on diverse topics like Multimodal Transport, Agro-based Industries, European Union Market, etc. As a follow up to such studies the Centre has also brought out research publications. Current thrust of Centre's research activity is on the implications of the WTO agreements on India's foreign trade.

(h) **Other Services:** Apart from the above services, the WTC also provides exhibition facilities, facility of WTC clubs (lounge and dining services for members and guests) different publications such as Trade Promotion Bulletin (monthly), Current Research and Development Briefs (Monthly), WTC Intercom (Quarterly), etc.

Check your progress 17

1. World Trade Centre offers India's first ever computerised database on imports and exports.

   a. True

   b. False

2.19 Chamber of Commerce (COC)

Chambers of Commerce is an association formed by the manufacturers, industrialists and traders of various regions to look after the needs and requirements the specific market. Membership of the chamber of commerce is open to all. Chambers of commerce takes great efforts to promote exports. Periodic meetings are held:

(a) To exchange information and compilation of data to show the current state of particular export.

(b) To exchange views and suggestion to form effective solutions for the challenges faced which will be put to the government.

Check your progress 18

1. Chambers of Commerce and Industry are established by the state governments of different states.

   a. True

   b. False

2.20 Inter-State Trade Council

The Inter-State Trade Council advises the Government on measures for providing an international trade enabling environment in the States and to create a framework for making States partners in India's international trade and export effort to achieve the objective of boosting India's exports.

2.20.1 Composition of Inter-State Trade Council

(a) Chairman of the Council – Commerce and Industry Minister.

(b) Chief Ministers of the States or State Cabinet Ministers nominated by Chief Ministers

(c) Lt. Governors/ or Administrators of the Union Territories or their nominees.

(d) Secretaries to Government of India:

- Secretary, Department of Commerce
- Secretary, Department of Revenue
- Secretary, Ministry of External Affairs
- Secretary, Department of Industrial Policy and Promotion
- Secretary, Department of Agriculture and Cooperation
- Secretary, Department of Shipping
- Secretary, Department of Road Transport and Highways
- Secretary, Ministry of Power

(e) Chairman, Railway Board.

(f) Director General of Foreign Trade-Member Secretary

(g) Co-opted Members:

- Chairman and Managing Director, Export Credit Guarantee Corporation
- Managing Director, EXIM Bank
- Deputy Governor, Reserve Bank of India
- Chairman, Agricultural and Processed Food Products, Exports Development Authority (APEDA)
- Chairman, Marine Products Exports Development Authority (MPEDA)
- President, CII
- President, FICCI
- President, FIEO
- President, ASSOCHAM
- President of Export Promotion Council for EOUs/SEZs

2.20.2 Terms of Reference of the Inter-State Trade Council

(a) To identify impediments that affect exports adversely.

(b) To evolve uniform practices across different States in respect of trade facilitation.

(c) To identify issues relating to State Governments in regard to WTO capacity building, infrastructure development and creating an overall supportive Policy and fiscal environment for international trade.

(d) To create a framework for making States partners in India's export effort.

(e) To commission studies in furtherance of the above objectives.

(f) Any other related issue.

The Inter-State Trade Council will be a permanent Advisory Body, which will meet at least once every six months and make recommendations to Government on issues pertaining to its terms of reference.

The Council will have the power to set up sub-committees and to co-opt experts to these, to make recommendations on specific sectors and issues relating to international trade facilitation.

List of Export Promotion Councils

(a) Apparel Export Promotion Council (AEPC)

Website: http://www.aepc.com, **E-Mail:** hoadepd@vsnl.com

Areas of Interest: Readymade garments excluding woollen knitwear and of leather, silk, jute hemp.

(b) Basic Chemicals Pharmaceuticals and Cosmetics Export Promotion Council, (CHEMEXCIL)

Website: http://www.chemexcil.org, **E-Mail:** chem@giasbmo1.vsnl.net.in

Areas of Interest: Basic chemicals namely drugs and fine chemical dyes, intermediates, alcohol and coal tar chemicals, organic chemicals, agro-chemicals, glycerine, soaps, detergents, cosmetics and toiletries, processed talc, agarbatti, essential oils.

(c) Carpet Export Promotion Council

Website: http://www.indiacarpets.com, **E-Mail:** cepc@nda.vsnl.net.in

Areas of Interest: Handmade and woollen carpets, rugs, durries, druggets and name has including handmade silk carpets.

(d) Cashew Export Promotion Council of India

Website: http://www.cashewindia.org, **E-Mail:** cashew@vsnl.com

Areas of Interest: Cashew kernels, cashewnut, cashewnut shell liquid.

Check your progress 19

1. Who is the chairman of Inter-state trade council?
    a. Prime Minister of India
    b. Finance Minister of India
    c. Elected person by all the states
    d. Commerce and Industry Minister of India

2.21 Let Us Sum Up

In this unit, we have learnt that the Department of Commerce, in the Ministry of Commerce and Industry is headed by a Secretary. The primary function of the Department of Commerce is to create an appropriate institutional framework and policy environment for facilitation and growth of external trade. The Department of Commerce is assisted by a number of organisations and institutions.

The Board of Trade has been revamped and given a clear and dynamic role in advising government on relevant issues connected with Foreign Trade Policy. Export Promotion Councils (EPCs) encourage and monitor the observance of international standards and specifications by exporters.

Commodity Boards are the organisations, which have been specially established by the Government of India for the promotion of some of the traditional commodities of exports having high export potentials.

Indian Institute of Foreign Trade was set up with prime objective of professionalising the country's foreign trade management and increase exports by developing human resource, generating, analysing and disseminating data and conducting research.

Export Processing Zones (EPZs) are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA) and are usually situated near seaports or airports. 100% Export Oriented Units (100% EOUs) adopts the same production regime but offers a wider option in location with reference to factors like source of raw materials, port, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. Chambers of Commerce and Industry are established by manufacturers, industrialists and traders in different regions as per their needs and requirements.

2.22 Answers for Check Your Progress

Check your progress 1

Answers: (1-c), (2-b), (3-b), (4-b)

Check your progress 2

Answers: (1-d)

Check your progress 3

Answers: (1-d)

Check your progress 4

Answers: (1-d)

Check your progress 5

Answers: (1-d)

Check your progress 6

Answers: (1-a), (2-a)

Check your progress 7

Answers: (1-c)

Check your progress 8

Answers: (1-d)

Check your progress 9

Answers: (1-b)

Check your progress 10

Answers: (1-a)

Check your progress 11

Answers: (1-d)

Check your progress 12

Answers: (1-d)

Check your progress 13

Answers: (1-e)

Check your progress 14

Answers: (1-c)

Check your progress 15

Answers: (1-d)

Check your progress 16

Answers: (1-a), (2-a)

Check your progress 17

Answers: (1-a)

Check your progress 18

Answers: (1-b)

Check your progress 19

Answers: (1-d)

2.23 Glossary

1. **DGAD -** Directorate General of Anti-dumping and Allied Duties
2. **GATS -** General Agreement on Trade in Services
3. **DGFT -** Directorate General of Foreign Trade
4. **ESCAP -** Economic and Social Commission for Asia and Pacific
5. **RCMC -** Registration-cum-Membership Certificate
6. **FIEO -** Federation of Indian Exporters Organisation
7. **IPQC -** In-Process Quality Control
8. **ITPO -** Indian Trade Promotion Organisation

2.24 Assignment

Write the functions of any one of the following boards:

1. Tea Board
2. Coffee Board
3. Rubber Board

2.25 Activities

Visit the website of Mumbai's World Trade Centre and make a list of its functions.

2.26 Case Study

Industrial Relations and Globalization: Challenges for Employers and Their Organizations

To understand the range of industrial relations (IR) challenges that employers and their organizations are likely to face in Asia and the Pacific during the next decade, it is necessary to appreciate the current as well as historical factors which have shaped and are shaping such relations in the region.

During the 1990's, the new demands of international competition and dramatic advances in technology - the forces of globalization - have changed substantially the nature and operation of the "market place", and how production is organised, in many industries across the world. Individual enterprises are now being required to innovate to provide "the right product, at the right price and time".

These requirements are placing considerable demandson employers and their enterprises to develop and implement new strategies, structures and processes. There is an increasingly strategic role for industrial relations (IR) within the enterprise, as much of what has to be done involves significant changes to traditional practices in this and the related area of human resource management (HRM).

The result has been that the nature of IR is changing in many enterprises. A new approach is emerging, relying on a broader concept of employment relations. This new approach is based on a range of IR and HRM practices directed to improving the flexibility and skills of the workforce, within an environment which emphasises communication, cooperation and trust between managers, workers and their representatives. Adoption of this approach, however, has been neither universal nor uniform. It has been particularly pronounced in industrialised countries, and is increasing in industrialising countries. But both the forms it has taken and its spread, has varied considerably within industries and across regions in the same country, and among countries and regions having different industrial relations policy, legal and institutional frameworks and traditions.

Within this new economic and industrial environment, the situation in Asia and the Pacific presents a range of contrasts - from the generally strong but variable economic performance of the advanced countries in North, East and Southeast Asia and the Southwest Pacific, to the rapidly industrializing countries in Southeast Asia, the accelerating growth in South Asia, and the special situations of the countries in transition and the island states of the South Pacific.

Much more than any other previous influence, globalization is emphasising the importance of IR to industrialization and economic development in the region. It is creating new challenges for, as well as highlighting old tensions among, governments and the social partners. It has also brought with it a number of strategic opportunities, if the parties can take advantage of them, to improve the prospects of enterprises and workers and to position the region for a period of continuing strong economic growth and development into the twenty-first century.

Employers, as the force driving economic changes, and their organizations have to take the initiative to develop a reform agenda which can deliver these benefits. This will require a strategy directed to improving employment relations and which seeks changes in attitudes and behaviour in the workplace and addresses the key issues of skills development, compensation, work organization and flexibility, and cross-cultural management.

2.27 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw
2. International Marketing by Cherunilam
3. International Marketing Management by Jain
4. International Marketing by Rakesh Mohan Joshi
5. International Marketing by Michael CzinkotaIllka A Ronkainen

6. International Marketing by R Srinivasan

7. International Logistics by Pierre David

8. International Management: by John B Cullen

9. A Strategic perspective by John B CullenandK Praveen Parboteeah.

UNIT 3: EXPORT CREDIT AND GUARANTEE CORPORATION OF INDIA

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The role of Export Credit and Guarantee Corporation of India (ECGC)
- The construction Works Policy
- The insurance Cover for Buyer's Credit and Line of Credit
- The Shipment Policy
- The small Exporter's Policy
- The specific Policy for Supply Contracts
- The special Schemes of ECGC
- The role of state Trading Corporation

3.1 Introduction

The unit will explain the role and responsibilities of Export Credit and Guarantee Corporation of India and its activities which include various kinds of various kinds of policies and insurance cover for buyer's credit and line of credit. You will be also able to identify the role of state trading corporations and their activities.

You will come across regular knowledge checks as usual. At the end of unit, there will be assignment, activity and case study to add to your understanding of the topic.

3.2 Export Credit and Guarantee Corporation of India (ECGC)

3.2.1 Role

Export Credit Guarantee Corporation of India Ltd. (ECGC) was established in year 1957 by the Government of India to strengthen the export promotion drive by covering the risk on exporting credit. The goal of ECGC is to provide cost-effective insurance and trade related services to meet the needs and expectations of the Indian Export Market. It provides a range of credit risk insurance covers to exporters against loss in export of goods and services. ECGC also offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.

3.2.2 Services Provided by ECGC to Exporters

(a) To provide risk cover to the exporters against the risk associated in world market, viz., political risk and commercial risk.

(b) To provide exporters information regarding credit-worthiness of overseas buyers.

(c) Provides information on approximately 180 countries with its own credit ratings.

(d) To help exporters to obtain financial assistance from commercial banks and other financial institutions.

(e) To provide other essential services which are not provided by other Commercial Insurance Companies?

(f) To assists exporters in recovering bad debts.

(g) To help exporter to develop and diversify their exports.

(h) ECGC has also made a foray into information services by signing and alliance with M/s Dun and Bradstreet Corporation, the largest database company in the world, to provide information on domestic as well as foreign business companies, exporters, importers, banks and other institutions.

3.2.3 Financial Guarantees Issued by ECGC to Banks

In order to provide financial assistance to the exporters through commercial banks and other financial institutions, ECGC guarantees various loans provided by these financial intermediaries to the exporters. Due to the guarantees given by the ECGC, commercial banks can liberally lend money to the exporters. The nature of guarantees provided by the ECGC depends upon the purpose of finance. The main types of guarantees offered are:

(a) **Packing Credit Guarantee:** Any loan given by banks to an exporter at the pre-shipment stage against a confirmed export order or L/C qualifies for Packing Credit Guarantee. Pre-shipment advances extended for export of services or for construction works abroad are also eligible for cover under this guarantee. The bank will be entitled to claim 66 2/3 % of its loss from the corporation. The guarantee secures the loan given by the bank. If the exporter fails to meet commitment, ECGC would cover some of the loss made by the bank; the bank has to act a co-insurer to the extent of remaining loss. Following are the features of this guarantee.

- If an exporter has a confirmed order or letter of credit, he can get Packing Credit Guarantee for the manufacture, processing, purchasing or packing of export goods.
- If an exporter gets order for the export of services or for construction works abroad, he can get cover under the Guarantee to meet initial expenses.
- The Guarantee, issued for a period of 12 months based on a proposal from the bank, covers all the advances that may be made by the bank during the period to an individual exporter within an approved limit.
- Approval of ECGC has to be obtained if the period for repayment of any advance is to be extended beyond 360 days from the date of advance.
- Whole-turnover Packing Credit Guarantee (WTPCG) can be issued to banks which wish to obtain cover for packing credit advances granted to all its customers on all-India basis. Under this option, premiums are lower and higher percentage of cover is offered.

(b) Post shipment Export Credit Guarantee: Banks also offer Post-shipment Export Credit Guarantee by way of purchase, negotiation or discount of export bills/ advance against export bills. It protects the bank against non-realisation of export proceeds which force the exporter default on repayment of the loan taken. However, it is required that the exporter should have appropriate policy of ECGC. The bank can recover maximum 75% of the loss under this guarantee. Following are the features of the policy.

- If the exporter exports the goods against letter of credit, he can get individual Post-shipment Credit Guarantee for finance granted under letter of credit.
- Such guarantee is also given on the total turnover basis wherein the percentage of cover is 90% for the advances given to exporters having ECGC policy. If the exporter doesn't hold a ECGC policy, he can get advance up to 65%.

(c) Export Production Finance Guarantee: This guarantee enables banks to sanction advances at pre-shipment stage to the full extent of the domestic cost of production. Here again, the bank would be entitled to 66 2/3 % of its loss from the corporation.

(d) Export Finance Guarantee: This guarantee covers post-shipment advances granted by banks to exporters against export incentives receivable in the form of duty drawback. The percentage of loss covered under this guarantee is 75%.

(e) Export Performance Guarantee: This is akin to a counter-guarantee to protect a bank against losses that it may suffer on account of guarantees given by it on behalf of exporters. Exporters are often called upon to furnish a bank guarantee to the foreign parties to ensure adherence of terms and conditions or against advance payment or against retention money.

The Export Performance Guarantee protects the bank against 75% of the losses. In the case of bid bonds relating to exports on medium/long term credit, overseas projects and projects in India financed by international financial institutions as well as supplies to such projects, guarantee is granted on payment of 25% of the prescribed premium. The balance of 75% becomes payable by the bankers if the exporter succeeds in the bid and gets the contract.

(f) Export Finance (Overseas Lending) Guarantee: The guarantee protects the bank from the loss to the extent of 75% of the total amount, when it finances an overseas project in foreign currency.

Check your progress 1

1. Identify the role of Export Credit Guarantee Corporation of India Ltd (ECGC).

   a. To provide finance to the exporters

   b. To provide line of credit to importers

   c. To assure foreign suppliers of payment guarantee

   d. To protect the exporters from the consequences of the payment risk due to political and commercial reasons

2. What is the goal of ECGC?

   a. To provide cost-effective insurance and trade-related services to exporters

   b. To make policies for government of India for increase export

   c. To look for new market for exports

   d. To attract more and more people to join export business

3. The Export Performance Guarantee protects the bank against ___of the losses.

   a. 90%

   b. 75%

   c. 60%

   d. 50%

3.3 Construction Works Policy

Indian contractors who undertake civil contracts abroad can take Construction Works Policy to cover their credit risk. Construction contracts are different from other exports for the reasons being:

(a) The contractor regularly raises bill for the work completed throughout the contract period.

(b) Contractor's bills can only be processed if they are certified by the consultant or supervisor appointed by the employer for that purpose.

(c) Contractor's bills are subject to the terms and conditions of the contract between the contractor and the employer which may attract penalty or adjustments for some violations or not meeting specifications. Banks have no knowledge of such things.

3.3.1 Features of Construction Works Policy

(a) Construction Works Policy covers 85% of the loss in case something happens to the policy holder as per the terms of the policy.

(b) If the contractor is executing more than one contract for the same employer, then, the liability amount will be arrived by allocating. ECGC insurance doesn't matter in this case.

(c) In case of claim, the Corporation pays the amount directly to the contractor's bank account in India which has the right to receive payment under this contract.

(d) The liability is calculated in the value of Indian Rupee. If the contract is done in foreign currency, it will be converted into Indian rupees according to bank's buying rate of the currency and the liability will be calculated accordingly.

(e) If the currency in which the employer has to pay has been devalued before a claim is paid by ECGC, the amount claimed by the contractor in Indian Rupees shall be based on the devalued rate.

(f) In case of claim, the contractor is required to give an undertaking to the ECGC that he will make all efforts, including the methods suggested by the ECGC, to recover the dues from the employer and he will he will pay back to ECGC after recovering the amount. The contractor might be required to support his undertaking with a bank guarantee equal to the amount of claim.

(g) As per the terms of policy, the contractor might be required to return the amount of claim paid by the Corporation, if the contractor doesn't make any effort to recover the dues from the employer.

(h) When the amount is recovered from the employer, it will be converted into rupees by the bank and divided between the contractor and ECGC in the same ratio as mentioned in the policy.

3.3.2 Benefits of the Policy

The policy indemnifies the loss to the extent of 85% due to following risks.

(a) The employer goes bankrupt.

(b) The employer fails to pay the amount as per the terms of the contract or as per the arbitration award if such situation arises.

(c) When the employer has paid in local currency but the money cannot be transferred to the bank in India due to some restrictions.

(d) When the contractor cannot receive the money due to war, civil war or rebellion etc.

(e) When the contractor cannot get the money because of termination f contract or the payment becoming uncertain due to war, civil war or rebellion etc.

(f) When the contractor cannot get the payment because restriction is placed on the import of goods or authority to import such goods is cancelled or cancellation export license in India.

(g) When the contractor incurs loss because the voyage is interrupted or diverted outside India due to some reasons and he cannot claim this amount from the employer.

3.3.3 Premium on the Policy

(a) The premium rate for a Construction Works Policy is dependent on the classification of the employer's country and the payment terms. The premium is payable in advance.

(b) The rate will be applied on the estimated contract value to arrive at the amount of premium payable.

(c) The contractor is obliged to notify ECGC if the estimated contract value undergoes any change and the premium will be adjusted accordingly.

3.3.4 Requirements for the Policy

(a) The scope for disputes in the case of construction contracts is very large. The contract value only cannot be considered as the total amount to be paid for the work done; there may cost escalation, variation contracts or additional contract during the course of completion of work assigned. The contractor should get the contract drafted in a manner that it doesn't leave a chance for dispute. It is recommended to use standard conditions of contract (international) drafted by the Federation International Des Ingenieurs Conseils (FIDIC) jointly with the Federation International du Batiment et des Travaux Publics (FIBTP).

(b) The contractor is supposed to update ECGC on the status of work and payment received on a regular basis.

3.3.5 Exception to the Construction Works Policy

(a) If the contractor or the employer fails to get or issue or to deliver any authority which is necessary under Indian laws or in the country of the employer for the execution of the work and to make payment for the work.

(b) Such risks which commercial insurer can insure.

(c) If an agent/seller/ sub-contractor goes insolvent or defaults or neglects something to cause loss.

Check your progress 2

1. What do you understand by Construction works policy?
    a. Construction guidelines Indian builders
    b. Government's guidelines for construction works
    c. Construction guidelines for government civil construction works
    d. Policy covering credit risk faced by Indian contractors executing civil contracts abroad
2. What is the amount of loss indemnified to the contractor in case of loss on account of covered risk?
    a. 90%
    b. 85%
    c. 75%
    d. 60%

3.4 Insurance Cover for Buyer's Credit and Line of Credit

Buyer's Credit refers to the loan that an Indian bank gives to overseas buyer to help him to pay for the machinery and equipment that he may be importing from India for a particular project.

A Line of Credit refers to the loan that an Indian bank gives to an overseas bank/ institution/ government to help it to import a variety of listed goods from India into its own country.

Such credits are prescribed by the ECGC to the Indian bank.

3.4.1 Features of the Policy for Buyer's Credit and Line of Credit

(a) The policy helps the bank to lessen the risk in the loan granted.

(b) The policy is issued separately every time cover is required as many importers may be importing goods under one L/C..

(c) The policy covers political as well as commercial risk.

(d) The maximum coverage is 85% of the loss.

3.4.2 Benefits of the Policy

The policy bears the loss in case of following risks.

(a) Commercial Risk:

- Risk arising due to prolong default by the borrower to pay the amount according to loan agreement
- Risk arising due to borrower going insolvent

(b) Political Risks:

- Risk arising due to break out of war between the country of the party and India.
- Risk arising due to war, revolution, civil war, rebellion, insurrection or something like that in the country of the overseas party.

3.4.3 Premium on the Policy

(a) The rate of premium depends upon the resident country of the party and period covered.

(b) Minimum 20% of the premium has to be paid in advance; balance amount can be paid quarterly or in proportion to the amount disbursed.

3.4.4 Requirements for the Policy

(a) The insurance cover makes an agreement between ECGC and the bank.

(b) The terms and conditions of the credit and the period of credit should be determined according to the appropriateness of the items of export.

Check your progress 3

1. What is the minimum payment of premium to be made in advance in the Insurance Cover for Buyer's Credit and Line of Credit?

   a. 10% c. 20%

   b. 15% d. 25%

3.5 Shipment Policy

Shipment Policy is a comprehensive risk policy; commonly, it is known as Standard Policy. The Policy is ideal for short-term credit; not more than 180 days. The Policy provides protection against most of the risks faced by such exporters. That's why; it is a popular policy among them.

3.5.1 Salient Features of the Policy

(a) Both commercial as well as political risks are covered from the date of shipment.

(b) Exporters having turnover over Rs. 50 Lakh qualify for the policy. Exporters having turnover less than Rs. 50 Lakh get Small Exporter's Policy.

(c) Shipments Covered: The Policy covers all shipments of the exporter done credit terms during 24 months period. However, the exporter needs to get needs to get approval from the Policy prior to every shipment. The policy covers all the shipments of the 24 months period; it cannot be issued for selected shipment, selected importers or selected markets.

(d) Shipments against Letters of Credit: Payment against irrevocable L/C is vulnerable to political risk if the exports are not confirmed by an Indian bank. Exporters have an option to choose from political risks or comprehensive risks. In any case, Corporation can provide protection only when all the shipments are done against irrevocable L/C. Coverage is not given for selected transactions.

(e) Shipments to Associates: The Policy doesn't cover those shipments which are done to the buyers in which the exporter has the financial stake.

However, the exporter can opt for the coverage of political risk in the policy.

(f) Shipments on Consignment Basis: The Policy also doesn't cover the shipment to an overseas agent if the agent is supposed to sell the product and pay to the exporter. However, political risk can be covered under such a case.

(g) Shipments made by Air: The Standard Policy covers air shipment also if the exporter has valid credit limit under Documents against Acceptance (DA) and he has paid premium for the specified credit under DA.

(h) Additional Cover for Shipments to Government Buyers: The Policy covers the political risks of all the shipments made to government buyers. However, the Corporation has to take approval if the country is in the restricted country list. To cover commercial risks also, the exporter has to write to the Corporation.

(i) Contract Cover: The Standard Policy doesn't protect pre-shipment losses; it only protects post-shipment losses. However, if the products to be exported are made as per buyer's specifications, protection can be provided by way of endorsement to the Standard Policy.

(j) Shipments made on Credit Exceeding 180 Days: The policy covers a period of 180 days only. If in any case the period goes beyond 180 days on justifiable term, cover may be provided for extended period.

3.5.2 Benefits of the Policy

The policy covers following risks.

(a) Commercial Risks:

- Whey the buyer goes insolvent
- When the buyer defaults in payment, normally more than 4 months
- When the buyer fails to take delivery, subject to particular conditions

(b) Political Risks:

- When payment is blocked due to government's order of the buyer country or any action of the government.
- When payment is block due to war or rebellion or revolution in the buyer's country.

- When some restrictions are placed on the import license.
- When losses are incurred due to interruption of diversion of voyage outside for reasons beyond control and such losses cannot be recovered from the buyer.

3.5.3 Premium on the Policy

(a) The rate of premium depends upon the resident country of the party and period covered.

(b) Minimum 20% of the premium has to be paid in advance; balance amount can be paid quarterly or in proportion to the amount disbursed.

3.5.4 Requirements for the Policy

(a) Duly filled in proposal form along with Rs. 10000/- as minimum premium

(b) Acknowledgement of the exporter of premium rate

3.5.5 Exceptions to the Policy

Following risks are excluded from the policy.

(a) Commercial risk related to quality unless a decree is procured from a competent court.

(b) Commercial risks arising due to nature of goods.

(c) Commercial risks arising due to failure of buyer’s getting necessary import or exchange authorisation.

(d) Commercial risks due to insolvency or default of agent or bank in the buyer’s country.

(e) Commercial risks covered by general insurer

(f) Commercial risks due to failure or negligence of exporter as per the export contract.

Check your progress 4

1. Shipment policy covers short term credit risk of exporters not exceeding __________ days?

   a. 90 c. 180

   b. 120 d. 365

2. What is the minimum premium for Shipment policy?

   a. Rs.10,000 c. Rs.30,000

   b. Rs.20,000 d. Rs.50,000

3.6 Small Exporter's Policy

Small Exporter's Policy is designed for those exporters who have annual turnover of less than Rs. 50 Lakh. Most of the risks faced by such exporters are covered by this policy which helps them to aggressively expand their business.

3.6.1 Salient Features of the Policy

(a) Small Exporters Policy is a Standard Policy only; however, the coverage has been improved a little which helps the exporter to use the policy easily.

(b) The policy is designed for the exporters having turnover of less than Rs. 50 Lakh only.

(c) The policy is given for a period of 12 months only.

(d) **Minimum Premium:** Minimum premium payable for a Small Exporter's Policy is equal to Rs.2,000/- as against Rs.10,000/- for the Standard Policy. No claim bonus in the premium rate is granted every year at the rate of 5%, as against once in two years for Standard Policy at the rate of 10%.

(e) **Declaration of Shipments:** Shipments need to be declared quarterly instead of monthly as in the case of Standard Policy.

(f) **Declaration of Overdue Payments:** In case of Small Exporter's Policy, the exporter has to submit declaration of all overdue payment for more than 60 days from the due date, on a monthly basis. The period is 30 days in case of Standard Policy.

(g) Percentage of Cover: Under the Small Exporter's Policy, ECGC bears 95% of the loss if the loss is due to commercial risk; if the loss is due to political risk, the claim can go to 100% also. Under the Standard Policy, maximum coverage is 90% only.

(h) Waiting Period for Claims: The normal waiting period of 4 months under the Standard Policy has been halved in the case of claims arising under the Small Exporter's Policy.

(i) Change in Terms of Payment of Extension in Credit Period: In order to enable small exporters to deal with their buyers in a flexible manner, the following facilities are allowed:

- A small exporter may, without prior approval of ECGC convert a D/P bill into DA bill, provided that he has already obtained suitable credit limit on the buyer on D/A terms.
- Where the value of this bill is not more than Rs.3 lac, conversion of D/P bill into D/A bill is permitted even if credit limit on the buyer has been obtained on D/P terms only, but only one claim can be considered during the policy period on account of losses arising from such conversions.
- A small exporter may, without the prior approval of ECGC extend the due date of payment of a D/A bill provided that a credit limit on the buyer on D/A terms is in force at the time of such extension.

(j) Resale of Unaccepted Goods: If, upon non-acceptance of goods by a buyer, the exporter sells the goods to an alternate buyer without obtaining prior approval of ECGC even when the loss exceeds 25% of the gross invoice value, ECGC may consider payment of claims upto an amount considered reasonable, provided that ECGC is satisfied that the exporter did his best under the circumstances to minimize the loss.

3.6.2 Benefits of the Policy

This policy pays in the event of loss to the policyholder on account of:

(a) Commercial Risks:

- Whey the buyer goes insolvent
- When the buyer defaults in payment, normally more than 2 months from due date

- When the buyer fails to take delivery, subject to particular conditions

(b) Political Risks:

- When payment is blocked due to government's order of the buyer country or any action of the government.
- When payment is block due to war or rebellion or revolution in the buyer's country.
- When some restrictions are placed on the import license.
- When losses are incurred due to interruption of diversion of voyage outside for reasons beyond control and such losses cannot be recovered from the buyer.

3.6.3 Premium on the Policy

(a) The rate of premium depends upon the resident country of the party and period covered.

(b) Minimum 20% of the premium has to be paid in advance; balance amount can be paid quarterly or in proportion to the amount disbursed.

3.6.4 Requirements for the Policy

(a) Duly filled in proposal form along with Rs. 2000/- as minimum premium to be submitted to ECGC

(b) Acknowledgement of the exporter of premium rate

3.6.5 Exceptions to the Policy

Following risks are excluded from the policy.

(a) Commercial risk related to quality unless a decree is procured from a competent court.

(b) Commercial risks arising due to nature of goods.

(c) Commercial risks arising due to failure of buyer's getting necessary import or exchange authorisation.

(d) Commercial risks due to insolvency or default of agent or bank in the buyer's country.

(e) Fluctuation in exchange rate.

(f) Commercial risks due to failure or negligence of exporter as per the export contract.

Check your progress 5

1. Small Exporter's Policy is specifically designed keeping in view the requirements of small exporters whose annual turnover does not exceed _________.

   a. Rs. 25 lakhs c. Rs. 40 lakhs

   b. Rs. 30 lakhs d. Rs. 50 lakhs

2. Small Exporter's Policy is issued for a period of_______.

   a. 06 months c. 18 months

   b. 12 months d. 24 months

3. Minimum premium payable for a Small Exporter's Policy is _______.

   a. Rs.2,000/- c. Rs.10,000/-

   b. Rs.5,000/- d. Rs.20,000/-

3.7 Specific Policy for Supply Contracts

Specific policy for Supply Contracts is suitable for contracts for export of capital goods or turnkey projects or construction works or rendering services abroad which are not of a repetitive nature and which involve medium/long-term credits.

3.7.1 Salient Features of the Policy

The different specific policies on offer are:

(a) Specific Shipment (Comprehensive Risks) Policy: Specific Shipments (Comprehensive Risks) Policy provides cover against all the risks covered under the Standard Policy for shipments to be made under the contract in question. It is, therefore, the appropriate policy for an exporter to take if the payments are open to both commercial and political risks.

(b) Specific Shipments (Political Risks) Policy: Where the Commercial risks are absent, for example, where the payments are guaranteed by a bank or by the Government of the overseas country, the exporter may opt for the Specific Shipments (Political Risks) Policy for which the premium rate will be lower than that for the Comprehensive Risks Policy.

(c) Specific Contract (Comprehensive Risks) Policy: Specific Contract Policy (which also can be for comprehensive or political risks) differs from Shipments Policy in that the former provides the exporter not only with the post-shipment cover like the latter but also with some pre-shipment cover from the date of contract. In case shipments could not be made due to any of the risks covered or due to restriction on export of the goods from India, the loss in respect of unshipped goods will also be covered under Contract Policies. Premium rates for Contract Policies will be higher than that for Shipment Policies.

3.7.2 Benefits of the Policy

This policy pays in the event of loss to the policyholder on account of:

(a) Commercial Risks:

- Insolvency of the buyer
- Failure of the buyer to make the payment due within a specified period
- Buyer's failure to accept the goods, subject to certain conditions

(b) Political Risks:

- Imposition of restriction by the Government of the buyer's country or any Government action, which may block or delay the transfer of payment made by the buyer.
- War, Civil War, revolution or civil disturbances in the buyer's country
- New Import restrictions or cancellation of a valid import license
- Interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges, which cannot be recovered from the buyer

- Any other cause of loss occurring outside India, not normally insured by general insurers, and beyond the control of both the exporter and the buyer

3.7.3 Premium on the Policy

(a) The premium rates depend on the country to which exports are to be made and the repayment period.

(b) The entire premium is normally payable in advance. Instalment facility may be granted for payment of a part of the premium if the contract value is very large and if the shipments are spread over a relatively long period, but the entire premium will have to be paid by the time the last shipment is made. Interest will be charged for the instalment facility.

(c) In order to be sure about the availability of the cover, exporters are advised to get in-principle approval of ECGC and obtain the premium rates well before concluding contracts. If the terms and conditions of the contract undergo any change subsequently, ECGC should be informed of the same, so that changes, if any, in the applicable premium rates can be ascertained.

3.7.4 Requirements for the Policy

(a) Complete Proposal Form.

(b) To be eligible for cover under specific policies, the terms of payment for the export contracts should be in line with customary practices in the international markets.

(c) At least, 15% of the contract value should be payable before shipment including an advance payment of at least 5%. The balance amount should be repayable in equal semi-annual instalments commencing six months after the date of shipment.

(d) Where the contract provides for supply and erection of a complete plant, the first instalment may fall due after six months from the date of commissioning of the plant. The credit period should not normally exceed 5 years. Longer credit period may be approved only in the case of exceptionally large projects if the circumstances of the case justify it.

(e) Adequate security should be obtained in the form of government guarantee or bank guarantee.

(f) All contracts for export on deferred payment terms and contracts for turnkey projects and construction works abroad require prior clearance of Authorised Dealers, EXIM Bank or the Working Group in terms of powers delegated to them as per Exchange Control Regulations. Applications for the purpose are to be submitted to the Authorised Dealer (the financing bank), which will forward applications to the EXIM Bank. Proposals for Specific Policy are to be made to ECGC after the contract has been cleared by the Authorised Dealer, EXIM Bank or the Working Group, as the case may be.

Check your progress 6

1. How much premium is collected in advance in Specific policy for Supply Contracts?

   a. 50% c. 80%

   b. 75% d. 100%

3.8 Special Schemes of ECGC

Special schemes consist of bundle of covers addressing the needs of banks and investors in foreign venture. These schemes are targeted at specific audiences such as banks, investors in foreign countries and exporters taking up long term projects abroad, covering distinct risks faced by them.

3.8.1 Salient Features of the Scheme

ECGC offers three types of special schemes:

(a) **Transfer Guarantee:** When a bank in India adds its confirmation to a foreign Letter of Credit, it binds itself to honour the drafts drawn by the beneficiary of the Letter of Credit without any recourse to him provided such drafts are drawn strictly in accordance with the terms of the Letter of Credit. The confirming bank will suffer a loss if the foreign bank fails to reimburse it with the amount paid to the exporter. Transfer Guarantee seeks to safeguard banks in India against losses arising out of such risks. Transfer Guarantee is issued at the option of the bank to cover either political risks alone or both political and commercial risks. Loss due to political risks is covered upto 90% and loss due to commercial risks upto 75 %.

(b) Overseas Investment Insurance: This scheme provides protection for Indian Investments abroad. The features of this scheme are:

- Any investment made by way of equity capital or untied loan for the purpose of setting up or expansion of overseas projects will be eligible for cover under investment insurance.
- The investment may be either in cash or in the form of export of Indian capital goods and services.
- The cover would be available for the original investment together with annual dividends or interest receivable.
- As the investor would be having a hand in the management of the joint venture, no cover for commercial risks would be provided under the scheme.
- For investment in any country to qualify for investment insurance, there should preferably be a bilateral agreement protecting investment of one country in the other. ECGC may consider providing cover in the absence of any such agreement provided it is satisfied that the general laws of the country afford adequate protection to the Indian investments.
- The period of insurance cover will not normally exceed 15 years in case of projects involving long construction period. The cover can be extended for a period of 15 years from the date of completion of the project subject to a maximum of 20 years from the date of commencement of investment. Amount insured shall be reduced progressively in the last five years of the insurance period.

(c) Exchange Fluctuation Risk: It covers exchange fluctuation risk of exporters of capital goods, civil engineering contractors and consultants who may have to receive foreign currency payments over a period of years for their exports, construction works or services. The features of this cover are:

- Exchange Fluctuation Risk Cover is available for payments scheduled over a period of 12 months or more, upto a maximum of 15 years.
- Cover can be obtained from the date of bidding right up to the final instalment.

- At the stage of bidding, an exporter/contractor can obtain Exchange Fluctuation Risk (Bid) Cover. The basis for cover will be a reference rate agreed upon. The reference rate can be the rate prevailing on the date of bid or rate approximating it.
- The cover will be provided initially for a period of twelve months and can be extended if necessary.
- If the bid is successful, the exporter/contractor is required to obtain Exchange Fluctuation (Contract) cover for all payments due under the contract. The reference rate for the contract cover will be either the reference rate used for the Bid Cover or the rate prevailing on the date of contract, at the option of the exporter/contractor.
- If the bid is unsuccessful 75 percent of the premium paid by the exporter/contractor is refunded to him.
- Cover will be available for all amounts receivable under the contract, whether it is payment for goods or services or interest or any other payment. Contracts coming under Buyer's credit and Line of Credit are also eligible for cover under the schemes.
- Cover under the schemes is available for payments specified in US Dollar, Pound Sterling, Deustche Mark, Japanese Yen, French Franc, Swiss Franc, UAE Dirham and Australian Dollar. However, cover can be extended for payment specified in other convertible currencies at the discretion of ECGC.
- Exchange Fluctuation Risk Cover will normally be provided along with suitable credit insurance cover. However, cover can be granted independently also, in which case premium will be loaded by 20%.

3.8.2 Benefits of the Schemes

(a) **Transfer Guarantee:** It indemnifies the insured bank for any loss due to the insolvency or default of the foreign bank opening Letter of Credit or due to certain political risks such as war, transfer delays or moratorium, which may delay or prevent the transfer of funds to the bank in India.

(b) **Overseas Investment Insurance:** The risks of war, expropriation and restriction on remittances are covered under the scheme.

(c) Exchange Fluctuation Risk: The loss or gain within a range of 2% of the reference rate will go to the exporter's account. If the loss exceeds 2%, ECGC will make good the portion of loss in excess of 2% but not exceeding 35% of the reference rate.

3.8.3 Premium on the Schemes

(a) Transfer Guarantee: Premium rates depend on country of export and tenor of L/C.

(b) Exchange Fluctuation Risk: Ten percent of the total premium payable and premium for the first two years should be paid at the time of issue of the Policy. Thereafter, the annual premium will have to be paid in such a manner that premium for two years ahead is always kept paid to the Corporation.

Check your progress 7

1. Special schemes consist of bundle of covers addressing the needs of banks and investors in__________.

   a. Supply of capital goods
   c. Supply of services
   b. Supply of agriculture produce
   d. Foreign venture

3.9 State Trading Corporation

A large number of firms in India found it very difficult to compete in the world market. At the same time, the existing trade channels were unsuitable for promotion of exports and brining about diversification of trade with countries other than European countries. It was under these circumstances that the STC was set up in May 1956. The main objective of the STC is to stimulate trade, primarily export trade.

3.9.1 Functions of the State Trading Corporation

At the outset, the main function of STC was to deal with bilateral trading practices, especially in the socialist countries. But today it has become a premier trading house having branches in almost all the trading countries of the world. It deals in nearly 300 commodities spread over 84 countries of the world.

Trading activities of the STC

(a) Direct Trading: Direct trading includes those goods where STC has monopoly to deal with. Such goods are procured, packed and shipped by STC while import items are purchased from the foreign countries by STC offices located there.

(b) Indirect Trading: In the case of indirect trading, the contracts for the sale or the purchase of commodities are negotiated by STC while the actual fulfilment of the contracts is entrusted to the private businessmen enrolled by the STC.

(c) Canalised Trade: Canalised trade includes the import or export of certain items through the concerned agencies of STC. The canalised items of export include sugar, castor oil, molasses, groundnut extractions, etc. Canalised items of imports include edible oils, writing and printing paper, non-edible oils, etc.

(d) Export Promotion Measures:

- Provides financial and raw material assistance.
- Participates in trade fairs and exhibitions.
- Undertakes product research
- Undertakes market research

(e) Other Activities: STC also performs servicing functions, thereby bringing buyers and sellers together and assisting them in fulfilling contracts.

- It helps the government departments and industrial concerns in processing supplies of plant and machinery from abroad
- In some cases, it settles trade disputes between the Indian and foreign parties

The corporation is successful in introducing several new commodities for exports and in developing new markets for Indian goods. In recent years, the STC is also taking active interest in marketing research, advertising and sales promotion. However, it is a public sector organisation with usual difficulties and limitations of its own.

3.9.2 Services Rendered by the State Trading Corporation

(a) To the Indian Industry: STC helps thousands of Indian manufacturers to find markets abroad for their products. It assists them in making the best use of raw materials and production infrastructure, guides and helps them in their marketing efforts. Some of the services offered by STC to the Indian manufacturers include:

- Financial assistance to the Indian exporters on easy terms.
- Imports machinery and raw materials for export production.
- Assists in the areas of marketing, technical know-how, quality control, packaging, documentation, etc.
- Supply of imported goods in small quantities as per the requirements of buyers.
- Helps in exhibiting the products of small scale manufacturers in the international trade fairs and exhibitions.
- Market intervention on behalf of the Government.

(b) To the Overseas Buyers: STC acts as an expert guide for the overseas buyers interested in Indian goods. It helps them in finding the best Indian manufacturers, undertakes negotiations, fixes delivery schedules, overseas quality control, etc. and tries to provide a complete satisfaction to the overseas buyers.

(c) To the Indian Consumers: Indian consumers are also benefited from STC's expertise and infrastructure. STC imports essential commodities in order to cover shortfalls arising in the domestic market during the periods of scarcity. Generally, it imports the items of daily requirements such as sugar, wheat, pulses, etc., so as to stabilise their prices.

3.9.3 Performance of the State Trading Corporation

- **Exports from India**

STC exports a diverse range of items to a number of destinations throughout the world. Exports by STC vary from traditional agricultural commodities to sophisticated manufactured products. Besides, negotiating, contracting and shipping, STC seeks to introduce new products, explore new markets and undertake wide ranging ancillary functions such as product development, financing, quality control and import of machinery and raw materials for export production.

STC makes use of its world-wide connections, abundant experience, up-to-day information about the market trends and long term perspective on various commodities to ensure competitive prices, right quality and adherence to delivery schedules to the buyers abroad.

- **Imports into India**

STC imports a number of essential commodities to cover the domestic shortfalls and hold the price line. STC serves the national objective by arranging timely imports at most competitive prices. In the process, the Corporation makes best use of its strength in handling bulk imports, vast infrastructure and above all an experience of over four decades in fulfilling the needs of the industry.

3.9.4 Weaknesses of STC

Weaknesses of the STC

Some of the major weaknesses of the STC pointed out by a study conducted by the India Institute of Management, Ahmadabad, are:

(a) Though the objectives with which STC was established are known and clear, the STC management has rarely taken any major entrepreneurial decision on its own.

(b) There is no specific policy or guideline for selection of new products or markets.

(c) STC management has failed to develop expertise in locating and developing new sources of supply of exportable products.

(d) It has also failed to develop expertise in procuring imports from overseas sources.

(e) It is just acting as an agent and has acquired expertise in processing indents and tenders and in transportation and distribution and not in merchandising, procurements or marketing.

Check your progress 8

1. What is the primary objective of Stare trading corporations?
    a. To stimulate export trade
    b. To assist department of commerce
    c. To represent India in trade fairs
    d. To assist ministry of commerce in policy making

3.10 Let Us Sum Up

In this unit, we have learnt that Export Credit Insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

The main types of guarantees offered by ECGC are Packing Credit Guarantee, Post shipment Export Credit Guarantee, Export Production Finance Guarantee, Export Finance Guarantee, Export Performance Guarantee and Export Finance (Overseas Lending) Guarantee.

Construction Works Policy is the comprehensive policy covering credit risk faced by Indian contractors executing civil contracts abroad. The Policy indemnifies the contractors to the extent of 85% of loss suffered on account of risks covered under the policy.

Buyer's Credit and line of credit is a type of credit extended by a bank in India to an overseas buyer in order to enable him to pay for the machinery and equipments that he may be importing from India for a specific project; this policy pays in the event of loss to the bank on account of commercial Risk and political Risks

Shipments Policy is ideally suited to cover risks in respect of goods exported on short-term credit. This policy covers both commercial and political risks from the date of shipment.

Small Exporter's Policy is specifically designed keeping in view the requirements of small exporters whose annual turnover does not exceed Rs. 50 lakhs. Small Exporter's Policy is basically the Standard Policy, incorporating certain improvements in terms of cover, in order to encourage small exporters to obtain and operate the policy.

The main objective of the State Trading Corporation (STC) is to stimulate trade, primarily export trade. The main function of STC was to deal with bilateral trading practices, especially in the socialist countries. The trading activities of the STC are direct trading, indirect trading, canalised trade, export promotion measures and other activities.

The State Trading Corporation renders services to Indian Industry, overseas Buyers and Indian Consumers. Major State Trading Organisation in India are Handicraft and Handloom Exports Corporation of India Ltd. (HHEC), Project and Equipment Corporation of India Ltd. (PEC) Minerals and Metals Trading Corporation of India Ltd. (MMTC) and Cashew Corporation of India Ltd.

3.11 Answers for Check Your Progress

Check your progress 1

Answers: (1-d), (2-a), (3-b)

Check your progress 2

Answers: (1-d), (2-b)

Check your progress 3

Answers: (1-c)

Check your progress 4

Answers: (1-c), (2-a)

Check your progress 5

Answers: (1-d), (2-b), (3-a)

Check your progress 6

Answers: (1-d)

Check your progress 7

Answers: (1-d)

Check your progress 8

Answers: (1-a)

3.12 Glossary

1. **ITPO -** Indian Trade Promotion Organisation
2. **IIFT -** Indian Institute of Foreign Trade
3. **MPEDA -** Marine Products Exports Development Authority
4. **COC -** Chamber of Commerce
5. **DGAD -** Directorate General of Anti-dumping and Allied Duties
6. **GATS -** General Agreement on Trade in Services
7. **DGFT** - Directorate General of Foreign Trade
8. **ESCAP -** Economic and Social Commission for Asia and Pacific
9. **ITS -** Indian Trade Services
10. **RCMC -** Registration-cum-Membership Certificate
11. **GSP -** Generalised System of Preference
12. **UNIDO -** United Nations Industrial Development Organisation
13. **ICA -** Indian Council of Arbitration
14. **FIEO -** Federation of Indian Export Organisations
15. **ECGC -** Export Credit and Guarantee Corporation Limited
16. **STC -** State Trading Corporation
17. **TRIFED -** Tribal Cooperative Marketing Federation of India
18. **NAFED -** National Agricultural Cooperative Marketing Federation of India
19. **MMTC -** Minerals and Metals Trading Corporation of India
20. **HHEC -** Handicraft and Handloom Exports Corporation of India Ltd.
21. **PEC -** Projects and Equipment Corporation of India Ltd.

3.13 Assignment

Discuss the latest amendments in ECGC policy.

3.14 Activities

Carry out a study of management structure of Export Credit And Guarantee Corporation Of India.

3.15 Case Study

Export Credit Guarantee Corporation of India faces zooms

Sunk loans to Zoom Developers, a Mumbai-based engineering and construction company that bagged several overseas projects, could boil over into an extraordinary court battle between state-run institutions. Even as banks try to salvage close to Rs. 2,600 crore, lead lender Punjab National Bank has obtained the consent of other banks in the consortium to move a winding up petition against Export Credit Guarantee Corporation of India (ECGC) — the 55-year-old financial institution that has insured a substantial part of bank, exposure to Zoom.

The banking consortium may simultaneously file a performance obligation suit against ECGC, which has insured close to Rs. 1,900 crore of banks' credit. Till now, ECGC has refused to pay the bank's claim on the ground that there have been irregularities and allegations of fraud that the Central Bureau of Investigation is examining.

'The banks will first send a legal notice. If no positive response is received, they will approach the court". The ban., it is understood, had discussed the subject with the mini, of finance, which in turn had taken it up with the ministry of commerce and industry. State-Run Cos Rarely Go to Court Against Each Other.

The ministry of commerce, which has administrative control over ECGC, recently referred the matter to the institution. 'We have no comments to offer on what you have stated. ECGC will initiate appropriate action as and when any situation arises," said ECGC Chairman N Shankar. In an earlier communication, the institution had spelt out to PNB the reasons why the claim could not be met. B. banks — as many as 26 of them in the consortium — think they have enough ground to move court. The lenders are also upset that ECGC is reluctant to refund the premium paid to the institution for covering the exposure. If indeed ECGC has to pay the amount, the outgo would almost wipe out its net worth of around Rs 2,300 crore and force the government to infuse capital to keep it afloat.

Differences between state owned entities rarely reach courts of law. But, such a possibility cannot be ruled out in a market where all institutions are under pressure to protect their books. All the more because the earlier mechanism of a high-powered committee of senior bureaucrats sorting out a dispute between two public sector organisations no longer exists. Ban., which had sensed sometime in early 2009 that they could take a hit, have separately filed cases in the debt recovery tribunal to recover their money. The tribunal hearing is expected to begin in month or two. Created By Team Pgc 1,20g C C), Vvww.Proglobalcorp.Com Proglobal Corp.Wordpress.Com Progobalorpr Innovate To Integrate

3.16 Further Readings

1. International Marketing Analysis and Strategy by Onkvisit and Shaw
2. International Marketing by Cherunilam
3. International Marketing Management by Jain
4. International Marketing by Rakesh Mohan Joshi
5. International Marketing by Michael Czinkota Illka A Ronkainen
6. International Marketing by R Srinivasan
7. International Logistics by Pierre David
8. International Management by John B Cullen
9. A Strategic prespective by K Praveen Parboteeah

Block Summary

In this block, you have learnt the measures that the government has taken for export promotion like duty drawback, export promotion capital goods, assistance to states for infrastructure development of exports and others.

The lesson has detailed about the various exports promotion organizations available in India and the kind of support, assistance and guidance they provide to exporters to export aggressively.

The kind of insurance the government provides to protect exporters and promote export aggressively. We have also learnt how to handle export related responsibilities in an export organisation effectively.

Block Assignment

Short Answer Questions

1. Write short notes on
   a. Industrial Raw Materials Assistance Centres (IRMAC)
   b. Duty Draw back
   c. VisheshKrishiUpajYojana
   d. Deemed Export
   e. Market Development Assistance
2. Write short notes on
   a. Activities Undertaken by 100%Export oriented Units
   b. Functions of Export Promotion Councils
   c. Interstate Trade council
   d. Export Processing Zones
   e. Indian Trade Promotion council
3. Write a note on the following:
   a. Town of Export Excellence
   b. Market Access Initiatives
   c. Deemed Exports
   d. Vishesh Krishi Upaj Yojana
   e. ASIDE
   f. EPCG

Long Answer Questions

(1) What are deemed exports and write the benefits for deemed export.

(2) Write the EPCG scheme in detail.

(3) What is the difference between Export Preocessing Zone and 100%Export Oriented Unit

(4) What is the main objectives and fuctions of IIFT

(5) What is Export Promotion Council and write the fuctions of Export Promotion council

(6) What are the various types of assistance provided to an Indian exporter?

(7) Explain the procedure for claiming Duty Drawback.

(8) Write a note on Deemed Exports.

(9) What facilities are offered by the Indian Government for developing marketing abilities of Indian exporters? Explain them.

(10) Explain the provisions of Income Tax Act under which exporters are exempted from income tax.

Enrolment No. ____________

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	**Excellent**	**Very Good**	**Good**	**Poor**	**Give specific example if any**
Presentation Quality	☐	☐	☐	☐	____________
Language and Style	☐	☐	☐	☐	____________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	____________
Conceptual Clarity	☐	☐	☐	☐	____________
Check your progress Quest	☐	☐	☐	☐	____________
Feed back to CYP Question	☐	☐	☐	☐	____________

3. Any Other Comments

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"Education is something which ought to be brought within the reach of every one."

- Dr. B. R. Ambedkar

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