IV. Higher Order Thinking Skills (HOTS)

Question 1. Up-to-date Garments has ordered for export of ready made garments. What steps must be followed by the company to receive the import order?
Answer: Following steps should be taken by Up-to-date Garments for export of readymade garments:
Step 1 Obtaining Import License and Quota: In all countries there are many government regulations to be followed. Sanction of government is necessary. Importer has to apply to the Controller of Imports for getting necessary permission.
Importer has to attach the following documents to his application form:

- Receipt which shows that Import License fee has been paid.
- Certificate from a Chartered Accountant showing the total value of goods to be imported.
- Verification Certificate for Income Tax.
- An Import License may be general or specific. A general license allows imports from any country. But specific license allows imports from specific country only.
- The importer also has to obtain import quota certificate from the concerned authority. It mentions the maximum quantity of goods which can be imported.

Step 2 Obtaining Foreign Exchange: Before placing any order, the importer must apply to the Exchange Control Department (ECD) of RBI (India's Central Bank) for the release of requisite foreign exchange. The importer should forward the application through his bank. The ECD verifies the application of the importer, and if found valid, sanctions the foreign exchange for the particular transaction.
Step 3 Placing an Order: The importer may either place the order directly or through the indent house (Agent). In case of canalized items, he obtains the imports through the canalizing agency. (Canalisation means channelization of goods through a government agency like MMTC). The importer cannot directly import such canalized items. They have to place an order with the canalizing agency who shall import and supply the same.
Step 4 Dispatching Letter of Credit: After getting the confirmation from the supplier regarding the supply of goods, the importer requests his bank to issue a Letter of Credit in favour of supplier. It can be defined as "an undertaking by importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank".
Step 5 Appointing Clearing and Forwarding Agents: The importer makes arrangement to appoint clearing and forwarding agents to clear the goods from the customs. Since clearing of goods is a specialized job, it is better to appoint C and F agents.
Step 6 Receipt of Shipment Device: The importer receives the shipment advice from the exporter. The shipment advice states the date on which the goods are loaded on the ship. The shipment advice helps the importer to make arrangement for clearance of goods.
Step 7 Receipts of Documents: The importer's bank receives the documents from the exporter's bank. The documents include Bill of Exchange, a copy of Bill of Lading, Certificate of Origin, Commercial

Invoice, Consular Invoice, Packing List, and other relevant documents. The importer makes payment to the bank (if not paid earlier) and collects the documents.
Step 8 Bill of Entry: This is a document required in case of import of goods. It is like shipping bill in case of exports. Bill of Entry is the document testifying the fact that goods of the stated value and description in specified quantity are entering into the country from abroad. The customs office supplies this form which is prepared in triplicate. Three different colours are used to prepare Bill of Entry. One copy is retained by Custom Department, other is retained by Port Trust and the third is kept by the Importer.
Step 9 Delivery Order: The clearing agents obtain the delivery order from the office of the shipping company. The shipping company gives the delivery order only after payment of freight, if any.
Step 10 Clearing of Goods: The clearing agent pays the necessary dock or port trust dues and obtains the Port Trust Receipt in two copies.
He then approaches the Customs House and presents one copy of Port Trust Receipt, and two copies of Bill of Entry to the customs authorities. The Customs Officer endorses the Bill of Entry Forms and one copy of Bill of Entry is handed back to the importer. The importer then pays the customs duty and clears the goods. In case, the customs duty is not paid, then the goods are stored in the bonded warehouses. As and when the duty is paid, the goods are cleared from the docks.
Step 11 Payment to Clearing and Forwarding Agent: The importer then makes the necessary payment to the clearing agent for his various expenses and fees.
Step 12 Payment to Exporter: The importer has to make payment to exporter. Usually, the exporter draws a bill of exchange. The importer has to accept the bill and make payment.
Step 13 Follow up: The importer then informs the exporter about the receipt of goods. If there are any discrepancies or damages to the goods, he should inform the exporter.

Question 2. The process involved in securing payment for exports is very complicated. Do you agree? Explain your answer.
Answer: Yes, I agree. The process is very complicated and it can be explained by looking at the steps involved in securing payment for exports. Following steps are involved in securing payments for exports:

1. Once the goods for export are shipped, the importer is informed about the shipment by the exporter. However, to claim the title of the goods, the importer is required to submit various documents, such as a copy of the Invoice, Bill of Lading, Packaging List, Insurance Policy, Certificate of Origin and Letter of Credit.
2. These documents are sent by the exporter and provided by the exporter's bank only when the Bill of Exchange has been signed and accepted by the importer.
3. The Bill of Exchange states the amount that the importer must pay to the bearer of the bill.
   Once the bill is received and accepted, the importer's bank is instructed by the importer to transfer money to the exporter's bank account.
4. In case the exporter wants immediate payment from his or her bank even if the payment has not been released by the importer, then he or she can secure payment by signing a letter of indemnity. This letter acts as an undertaking that the exporter will indemnify the bank, along with the accrued interest, in case of non-payment by the importer.
5. Last, when the exporter receives the payment from the bank, he or she obtains a Bank Certificate of Payment. This

certificate states that the necessary documents along with the Bill of Exchange have been presented to the importer for payment and that the payment has been received in accordance with the Exchange Control Regulations.

V. Value Based Questions

Question 1. Do you think it is the right policy to promote exports at the cost of unfulfilled domestic demand? Justify your answer.
Answer: No, I do not think it is the right policy to promote exports at the cost of unfulfilled domestic demand. But a country has no choice when its imports bills are too heavy and the goods which are being imported have no domestic substitute like petroleum products in case of India. Government can take following steps in this regard:

1. We need to concentrate on making Indian industries more competitive in international market so that export demand for Indian goods increases especially for those which are in surplus in India.
2. We need to provide Indian goods in domestic market at such competitive prices so that people are naturally not attracted towards foreign goods because gone are the days when we could stop foreign countries from entering the market through taxes and quota. Now we can stop them only through tough competition.

Question 2. Do you think such a lengthy import and export is a hurdle in foreign trade? Explain.
Answer: Yes, a lengthy import and export procedure is certainly a hurdle in foreign trade. There are many paper formalities related to shipment, payment, delivery and insurance etc. which are legally compulsory and some are practically unavoidable. It demotivates a business man to engage in import and export trade.
No doubt, fast modes of communication and transportation have reduced the hurdles but it is much more difficult than domestic trade still. Therefore, simplifying procedures can really promote international trade leaps and bounds.

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