III. Long Answer Type Questions

Question 1. Rekha Garments has received an order to export 2000 men's trousers to Swift Imports Ltd. located in Australia. Discuss the procedure that Rekha Garments would need to go through for executing the export order.
Answer: Rekha Garments will have to adopt the following procedures given below to execute the export order.

- As the exporter, it should first assess the credit worthiness of the importer. Swift Imports, through an enquiry. It should then ask for a letter of credit from the importer's bank, guaranteeing to honour a draft of a specified amount drawn on it by the exporter.
- Once Rekha Garments is assured that it will be paid for the goods, it will need to register itself and secure an Importer Exporter Code number in order to obtain an export license.
- After obtaining the license, it should acquire pre-shipment finance from a bank in order to purchase raw materials to undertake production and packaging.
- With the finance made available, Rekha Garments can procure the raw materials and other inputs required and start the production process.
- After the goods are produced, Rekha Garments must get them inspected before exporting them. For this inspection, it must contact the Export Inspection Agency (EIA) or another designated agency and obtain a certificate of inspection.
- The exporter then needs to secure excise clearance, for which it must submit an invoice to the regional excise commissioner. The excise commissioner then examines the invoice and, if satisfied, issues the excise clearance to the exporter.
- Once the excise clearance is received, Rekha Garments needs a certificate of origin, which specifies the country in which the goods are being produced. It allows the importer to claim tariff concessions and other exemptions, if any.
- The next step is for the exporter to submit an application to a shipping company for booking shipping space in a vessel. In the application, it must provide details such as the type of goods to be shipped and the port of destination. After the application is received, the shipping company will issue a shipping order to the captain of its ship to inform him or her that the specified goods will be received on board after the customs clearance.
- The goods are then properly packed and labelled with Ml the necessary information such as the importer's name, port of destination, and gross and net weight of the goods.
- Once the goods are ready for export, Rekha Garments must insure the goods against perils of the sea or any related damage.
- It must then secure customs clearance before loading the goods on the ship. For getting customs clearance, the exporter must submit the necessary documents to the customs appraiser at Customs House.
- After customs clearance, a mate's receipt will be issued by the captain or commanding officer of the ship to the exporter as

evidence that the cargo has been loaded on the ship.

- Later, a bill of lading will have to be obtained from the shipping company as a token of acceptance that the goods have been put on board in its vessel.
- After the goods are shipped, an invoice will have to be prepared by the exporter, which will include the quantity of goods sent and the amount to be paid by the importer.
- The exporter then needs to send a set of documents to the banker, which is to be handed over to the importer on acceptance of a bill of exchange. After receiving the bill of exchange, the importer, Swift Imports, will instruct its bank to transfer money to the exporter's bank account.
- Last, the exporter would be required to collect a bank certificate of payment, which will state 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.

Question 2. Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing.
Answer: In order to import textile machinery from Canada, the firm will have to take the following steps:

- The firm (the importer) should first make an enquiry about the price of the machinery, terms and conditions on which the selected Canadian exporter is willing to supply the goods and such related information. It should then send the trade enquiry to the exporter. On receipt of the trade enquiry, the exporter will prepare a quotation and send it to the importer.
- The importer must find out whether the goods to be imported are subject to import licensing. If needed, it must secure an import license.
- The firm must then convert domestic currency into foreign currency to make payment to the exporter. This is done by submitting an application to a bank in the prescribed form along with documents.
- Once the import license is obtained, the importer can place an order with the exporter specifying the price, quantity and quality of the goods required.
- The importer will be required to send a letter of credit to the Canadian exporter. This letter is obtained from the importer's bank and acts as a bank guarantee that a draft of a specified amount drawn on it by the exporter will be honoured.
- The next step is for the importer to arrange for finance in order to make payment to the exporter on the arrival of the goods. This is necessary to avoid penalties on account of any delay in payment.
- Once the goods are shipped, the exporter will send a shipment advice to the importer. This document is proof of dispatch of the goods and contains information about the bill of lading, name of the vessel with date, port of export, description of goods, etc.
- The importer must then prepare a bill of exchange that is to be handed over to the exporter's banker in exchange for the export documents. After this is done, the importer is required to instruct its bank to transfer money to the exporter's bank account.
- An import general manifest will be issued by the person in charge of the carrier (ship or airliner) in which the goods are being imported. This is done in order to inform the officer in charge at the dock or the airport about the arrival of the goods. This document contains information about the goods being imported, and it is on the basis of this document that unloading of the cargo will take place.

- Once the goods arrive at the port, the importer must get customs clearance, which in turn requires a delivery order, a port duty dues receipt and a bill of entry.

Question 3. Discuss the principal documents used in exporting.
Answer: The following documents are required for an export transaction:

- Export Invoice: It is a seller's bill which contains information about the quantity of goods, total value of goods, number and marks of packaging, name of the ship, etc.
- Packing List: It includes information related to the goods that are packed, such as the number of items packed in one package, details of goods contained in one package, etc.
- Certificate of Origin: Certificate of Origin specifies the country in which the goods being exported were produced. It allows the importer to claim tariff concessions and other exemptions.
- Certificate of Inspection: Certificate of Inspection is proof that the goods being exported are of good quality. The exporter contacts the Export Inspection Agency (EIA) or another designated agency and obtains the certificate of inspection after getting the goods inspected.
- Mate's Receipt: It is a receipt issued by the captain or commanding officer of a ship to an exporter as evidence that the exporter's cargo has been loaded on the ship. It contains information about the name of the vessel, berth, date of shipment, condition of the cargo when the goods were loaded, description of packages of the cargo, number of packages, marks on the packages, etc.
- Shipping Bill: It contains information regarding the specifications of the goods for export, such as the name of the vessel, port at which the goods are to be discharged, country of final destination and exporter's name and address. This document forms an essential part of an export transaction as it is on the basis of this document that customs grants clearance to the export.
- Bill of Lading: Bill of lading is an essential document required for an export transaction. It is issued by the shipping company concerned as a token of acceptance that the goods have been put on board in its vessel. A bill of lading is an undertaking signed by the shipping company to transfer the goods to the port of destination. Bills of Lading are freely transferable.
- Airway Bill: It is issued by an airline as a token of acceptance that the goods for export have been put on board its aircraft.
- Marine Insurance Policy: Marine Insurance Policy is an insurance contract under which the insurance company concerned, in return for a premium, agrees to pay an exporter a specified amount in case of loss of goods or damage caused during transport by sea.
- Cart Ticket: Also known as a cart chit or a gate pass is prepared by an exporter and includes information about the exporter's cargo.
- Letter of Credit: Letter of Credit is issued by the bank of an importer guaranteeing to honour a draft of a specified amount drawn on it by the exporter. A letter of credit enables the exporter to assess the creditworthiness of the importer and is the most appropriate and secure method of payment for settling international transactions.
- Bill of Exchange: Bill .of Exchange indicates the amount that an importer must pay to the bearer of the bill. On receiving a bill of exchange, the importer instructs its bank to transfer the amount to the exporter's bank account.
- Bank Certificate of Payment: Bank Certificate of Payment indicates that the necessary documents, along with the bill of

exchange, have been presented to the importer, and that payment from the importer has been received in accordance with the exchange control regulations.

Question 4. List and explain various incentives and schemes that the government has evolved for promoting the country's foreign trade.
Answer: The following are some of the schemes and incentives adopted by the government to promote exports:

- Duty Drawback Scheme: Under the duty drawback scheme, exporters are either exempted from payment of excise duties or are refunded a certain percentage of the excise duty paid earlier. In case where inputs are used for export production, the custom duties paid on import of raw material and machines are refunded.
- Export Manufacturing under the Bond Scheme: This bond scheme enables exporters to undertake production of goods meant for exports without paying excise or other duties. In order to avail themselves of this scheme, exporters must sign an undertaking that the goods produced are meant only for exports and not for domestic consumption.
- Exemptions from Payment of Sales Tax: The goods that are meant for imports are not subjected to sales tax. The income earned by exporters (only those who run 100 per cent export-oriented units or units in export processing zones and special economic zones) from the export of goods is exempted from payment of income tax.
- Advance License Scheme: Advance License Scheme allows exporters to use inputs (those that are domestically produced or imported) without the payment of any duties. In addition, the scheme exempts exporters from paying custom duties in cases where the imported inputs are used for manufacturing goods meant for exports.
- Export Promotion Capital Goods (EPCG) Scheme: The EPCG Scheme promotes the import of goods for the production of export goods. Under the scheme, exporters are allowed to import goods at concessional rates of custom duties. However, to avail themselves of this scheme, exporters must fulfill certain export obligations stated under the scheme.
- Scheme of Recognizing Export House, Trading House and Superstar Trading House: This scheme aims at facilitating well-established trading houses to market their products globally. Under the scheme, selected exporting firms are given the status of export house, trading house and star trading house by the government. This status is given on the basis of the past export performances of export firms.

Question 5. Identify various organizations that have been set up in the country by the government for promoting country's foreign trade.
Answer: In order to promote foreign trade, the Government has set up the following institutions:

- Indian Institute of Foreign Trade (IIFT): Established in 1963 under the Societies Registration Act, the IIFT is an autonomous body responsible for the management of the country's foreign trade. It is also a deemed university that provides training in international trade, conducts research in areas of international business and disseminates data related to international trade.
- Export Inspection Council (EIC): The EIC was established by the Government of India under Section 3 of the Export Quality Control and Inspection Act, 1963, with the objective of promoting exports through quality control and pre-shipment inspections. According to this act, all goods that are meant for exports (except some commodities) must pass through the

EIC for quality inspection.

- Indian Institute of Packaging (IIP): The IIP is a training and research institute established in 1966 by the joint efforts of the Ministry of Commerce of the Government of India, Indian Packaging Industry and Allied Industries. The institute caters to the packaging needs of domestic manufacturers and exporters.
- Indian Trade Promotion Organisation (ITPO): The ITPO was formed on January 1, 1992, under the Companies Act, 1956. Its main objective is to maintain close interactions among traders, industry and the government. In order to fulfill this objective, the ITPO organizes trade fairs and exhibitions within and outside the country, thereby helping export firms to interact with international trade bodies.
- Department of Commerce: The Department of Commerce is the apex body in the Ministry of Commerce of the Government of India and is responsible for formulating policies related to foreign trade as well as evolving import and export policies for the country. It is responsible for all matters related to the country's external trade.
- Export Promotion Councils (EPCs): Registered under the Companies Act or the Societies Registration Act, EPCs are non-profit organizations that are responsible for promoting the exports of particular products. However, the product promoted by a particular EPC must fall under its jurisdiction.

Question 6. What is World Bank? Discuss its various objectives and role of its affiliated agencies.
Answer: The World Bank is an International Financial Institution that was established in 1944 at the Bretton Woods Conference.
The following are some of the main objectives behind the setting up of the World Bank:

1. To facilitate the task of reconstruction of the war-affected European countries.
2. To focus on the development of underdeveloped nations of the world.
3. To encourage investments in infrastructure development, agriculture, health and industry;
4. To eradicate poverty, increase the income of the poor and provide technological support.

The following are some of the affiliates of the World Bank:

1. MIGA: MIGA, or the Multinational Investment Guarantee Agency, was established in April 1988 with the objective of encouraging foreign direct investments in the less developed nations of the world. It also aims at insuring investors against political and non-commercial risks and providing advisory services.
2. IFC: The IFC, or the International Finance Corporation, was formed in 1956 as a separate legal entity to provide finance to the private sector in developing nations. Although the IFC is an affiliate of the World Bank, it has its own funding, besides functions that are managed independently.
3. IDA: The IDA, or the International Development Association, was established in 1960 with the affiliation to the World Bank. The basic objective of the association is to provide loans and grants on a soft-loan basis to the less developed member countries—it aims at providing loans at concessional rates to the member countries
whose per capita income is very low. It is because of this objective that the IDA is also known as the World Bank's soft-loan window.

Question 7. What is IMF? Discuss its .various objectives and

functions.
Answer: The IMF, or the International Monetary Fund, came into existence in 1945 with the objective of establishing a healthy and orderly monetary system. It aimed at facilitating a system of international payments and taking care of the adjustments in exchange rates among national currencies. It is one of the three international institutions—the other two being the World Bank and the International Trade Organization—that were created for facilitating and monitoring the economic development of the world.
Objectives of the IMF

1. To aid the balanced growth of international trade and market, thereby promoting the growth of employment and income;
2. To promote international monetary cooperation among the member countries;
3. To facilitate the orderly exchange of goods between the member countries;
4. To facilitate international payments with respect to the exchange transactions between the member countries.

Functions of the IMF

1. Providing short-term credit to member countries;
2. Maintaining stability in the exchange rate of the member countries;
3. Fixing and altering the value of a country's currency whenever required, to facilitate the adjustment of exchange rate of member countries;
4. Collecting the currencies of member countries so as to allow them to borrow the currency of other nations;
5. Lending foreign currency to member nations and facilitating international payments with respect to the exchange transactions between member countries.

Question 8. Write a detailed note on features, structure, objectives and functioning of WTO.
Answer: Features of the WTO (World Trade Organisation):

1. It governs trade in goods, services and intellectual property rights among the member countries.
2. It is a body created by an international treaty with the approval of the governments and legislatures of the member states.
3. The decisions of the WTO are made by the governments of the member nations on the basis of consensus.

Structure of the WTO
On January 1, 1995, the General Agreement on Tariffs and Trade (GATT) was transformed into the WTO to facilitate international trade among the member countries. The WTO was made much more powerful than GATT, by removing tariff and non-tariff barriers between the member nations. It is a permanent body created by an international treaty and represents the implementation of the original proposal of the ITO.
Objectives of the WTO

1. Reducing tariff and other non-trade barriers imposed by different nations;
2. Ensuring sustainable development by optimally using the world resources;
3. Developing a more integrated, feasible and stable trading system.

Functions of the WTO

1. Providing an environment to the member countries such that they can put forward their grievances before the WTO without

any hesitation;

2. Resolving trade disputes among member nations;
3. Eliminating discriminations in trade relations by laying down a commonly accepted code of conduct;
4. Creating better understanding between member countries by consulting with the IMF, the World Bank and other affiliates.

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