International Business
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Lecture – 39
Trade Promotion, Foreign Trade Regulations in India, Exporting, Stages, Difficulties

Hi everyone. So, welcome to the class of International Business. Today, we will be talking about a very important aspect of international business; the foreign trade promotion measures right. So, as we all know how important trade promotion is when it comes to international business right, we all understand the importance of it. So, today we will try to understand more about trade promotion and what features or aspects are a part of it, which are very important. So, we will cover those.

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So, let us start with the definition of trade promotion. So, as we can understand it says the trade promotion is an umbrella term for economic policies, development interventions and private initiatives aimed at improving the trade performance of a country right. So, as you have we have discussed so many times now that trade, in international business, when we talk about international business we generally talk about the trade between nations right.

So, how does the trade happen and how to improve the trade performance? So, this is what we are going to discuss. So, the trade performance of the country or region so, it could be within a region also or among a group of countries involved in an economic trade area. So, any when we are thinking of improving the trade performance within a country or among countries or in an economic trade area that is what is trade promotion all about.

So, some of the economic trade areas for example, as you have as you know NAFTA right, North-American Free Trade Association SAFTA, ASEAN, then European Union, etcetera right. So, although these things we will cover in the regional economic integration, so later on. So, trade promotion is also known as export promotion sometimes right, because export constitutes a very large part of the trade promotion. So, the export promotion is basically promoting, supporting, and assisting firms in entering international markets and achieving optimum opportunities from their business activities and thereby encouraging exports for example, in the case of India.

So, what we are trying to say here is that in, during export promotion or trade promotion for that right the government and the companies they try to enter into new markets and expand their business right. Some major Indian export companies are; for example, Reliance which is into oil and gas, then Tata Motors for example, cars, trucks BHEL, Bharath Heavy Electrical Equipments Limited, which is into electrical equipment's, then JSW steel right so, which is into iron and steel, etcetera. Recently, if you have followed the newspaper, there was a India Kenya Joint Trade Committee, the 9th session was held in New Delhi in order to promote India Africa trade and economic, relationship right.

So, now we understand that trade promotion is basically an attempt to improve the economic policy and you know which is aimed at improving the trade performance within a country or among countries right. And how important trade promotion is basically? That you can understand that export trade promotion impacts almost 50 percent of the country's GDP right.

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So, you can understand from that how important it is this subject is, what is foreign trade regulations. The trade policies are formulated and announced by the commerce ministry. So, who announces the policies? The commerce ministry in India, right. So, we are largely we are focusing on the Indian aspect right and it is governed by the foreign trade development and regulation act 1992.

So, it is announced by the commerce, all the policies announced by the commerce ministry in India and it is governed by the foreign trade development regulation act of 1992. So, the main government departments which deal with a foreign trade in India are; the ministry of commerce and industry, office of directorate general of foreign trade, ministry of finance, drawback directorate, export inspection council, etcetera ok.

The export import policy; which when you talk about trade we generally say there is an export and import. So, the export import policy are also known as the EXIM policy which is more discussed as the foreign trade policy right, instead of the EXIM policy is managed and implemented by a specific government body known as the DGFT Directorate General Of Foreign Trade ok.

The Indian policy on foreign trade whether they pertain to imports or exports in and from India; that means, has a very specific objective. So, what is the objective? First is to regulate the foreign trade, second to promote and augment; that means, improve the exports volume and manage the imports into the nation right, third to create a favorable impact on the state of the balance of payment.

So, any country generally we would like to be in a surplus rather in a deficit; that means, we would like our exports to be more than the imports right; that means, we are producing more adding more value and selling it to the other markets. So, in that case we will have a surplus. So, countries would like to have a favorable balance of payment. Now, how do you how does one start the import export business? what are the conditions?

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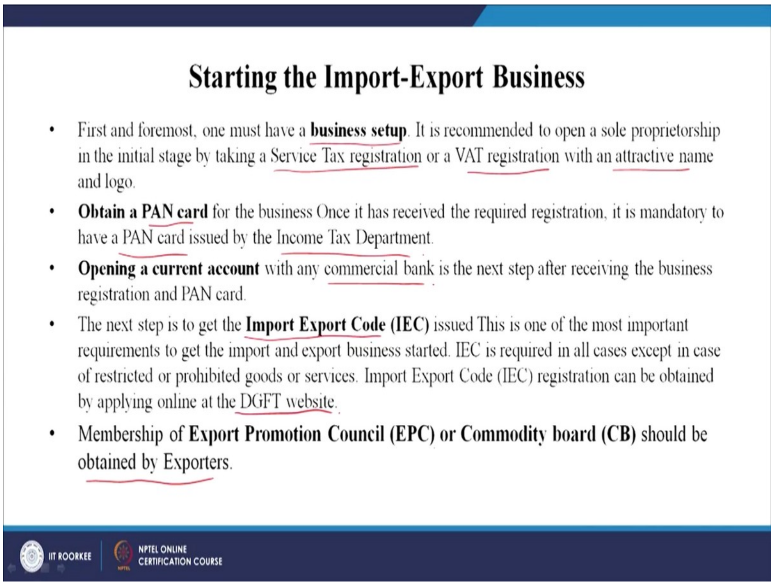

For example in India suppose, tomorrow you are interested to start a business in this sector. So, for that there are few steps which I will be explaining first and foremost one must have a business you must have some business right. So, it is recommended to open a sole proprietorship in the initial stage by taking a service tax registration or a VAT registration with an attractive name and logo.

So; that means, you are a company which has a name good name and a logo and you are registered right. You have to have a PAN card right and then you have to have the registration. So, the PAN card is which is issued by the income tax department right. So, what it says? Obtain a PAN card for the business, not your own PAN card; it is for the business. Once, it has received they required registration, it is mandatory to have a PAN card issued by the income tax department.

Opening a current account, the next step is to have a current account with any commercial bank right, after you received the business registration and the PAN card. Next step is to get the Import Export Code or IEC issued right. What is this? It is one of the most important requirements to get the import export business started. IEC is required in all cases except, in case of restricted or prohibited goods or services. In case of prohibited goods or services this is not enough so, but in all other cases the IEC is required, a permission is required.

The import export code registration can be obtained from the DGFT website you can apply online also or anybody for that can apply online. Next is the membership of the Export Promotion Council, EPC or commodity board should be obtained by the exporter. Suppose, somebody is thinking of exporting, he need to be a member of the EPC right or the commodity board.

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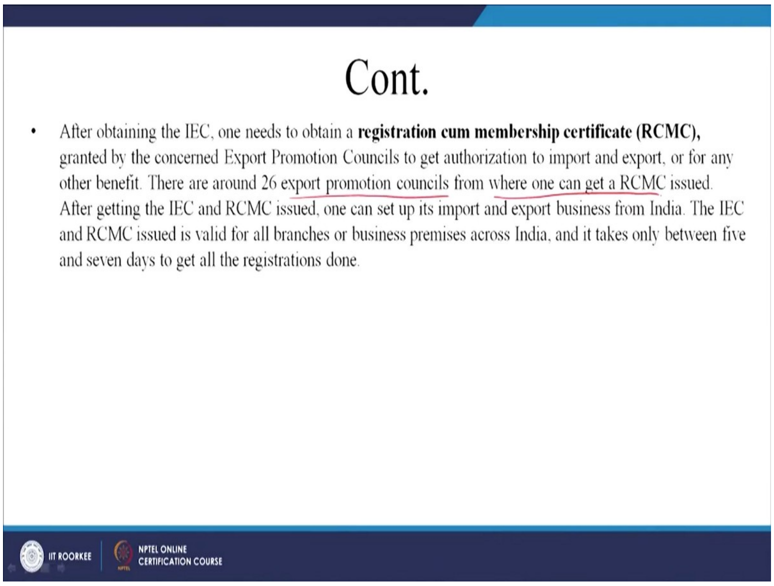

Finally, after doing all these right one needs to obtain a Registration cum Membership Certificate, RCMC granted by the concerned export promotion council to get authorization to import and export right or for any other benefits so; that means, there are five basically steps.

So, what it says? There are 26 around export promotion councils from where one can get a RCMC right and once this is all done one can set up its import and export business from India so you are free to do a business concerning export and import right. So, these are some other steps for anybody who is interested tomorrow to start up any business in this sector.

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Now, when we are talking about export and import, we will talk about the major destinations where India exports right. So, India's top six export destinations as per the recent data, it is a very recent data. So, you can see. So, there are the top six export destinations from India are first is USA, second is UAE, third is China, fourth is Hong Kong, fifth is Singapore, and sixth is the United Kingdom.

Now, interestingly if you see, the entire trade with US is 51.6 US you know billion US dollars which is almost 16 percent of the India's total export right. Total in fact trade in fact, right that India does both export and import and with UAE it is 29 billion which is almost 9 percent of the total trade, with China it is 16.4 billion which is 5.1 percent, Hong Kong 13.2 billion which is 4.1 percent. Singapore it is 10.4 billion again which is 3.2 percent, and lastly United Kingdom which is 9.8 billion, which is 3 percent. So, if you count by the just percentage 16 9 25 5 30 34 37 40, almost 40 percent of the business is being done with these six countries right.

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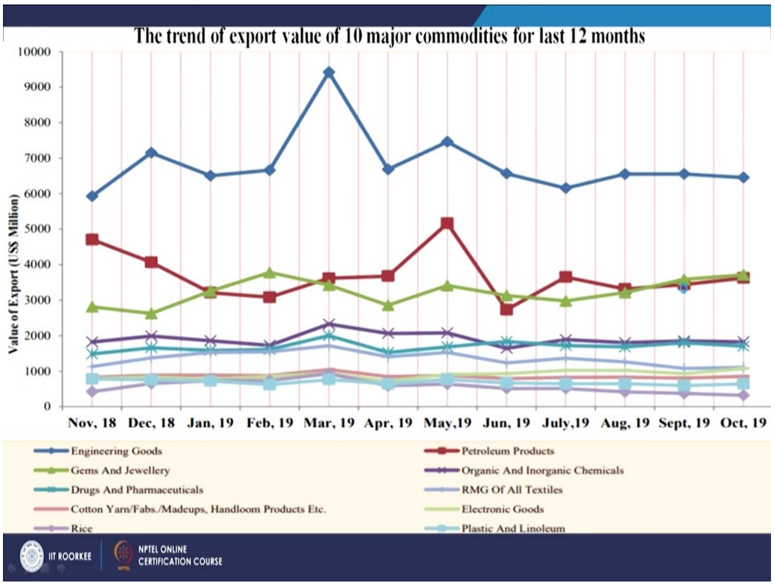

Now, let us look at some of the export you know major commodities being exported from India in the last twelve months. So, it starts with November 18 and ends up here at October 19. So, the value of the exports is in US million. So, 0 1000 up to 10000 and these are the different you know products. For example, this blue line indicates right, the engineering goods right. This green line for example, indicates gems and jewellery.

So, it gives you an idea it gives us all an idea this red is petroleum products some of them are super impose they are not very clear, but still you can see them right. So, it gives an idea that the major, ten major commodities for the last twelve months in India have been in the field of engineering goods, gems and jewellery, drugs and pharmaceuticals, cotton, yarn, handloom products, rice, petroleum products, organic and inorganic chemicals right, textiles, electronic goods, plastic goods right. So, these are major you know commodities in which India has been trading right with the other countries.

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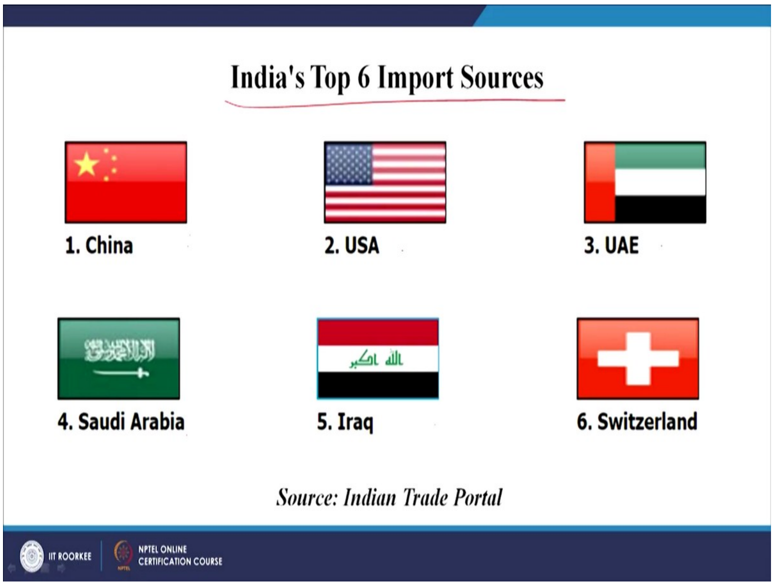

Now, in terms of import if you, because total trade is export plus import right, we cannot ignore the import side. So, India's top six import destinations or sources have been first is China, now second is USA, third is UAE, fourth is Saudi Arab, fifth is Iraq and sixth is Switzerland and now if you remember if you can see these first three were also there in the export destination also right, UAE, USA and China right. So, all the three, but only the position has changed. China was third in terms of export, but in terms of importing China is at the number one right. We are importing the maximum number of items or products from valued items from China right. So, this gives you an idea right.

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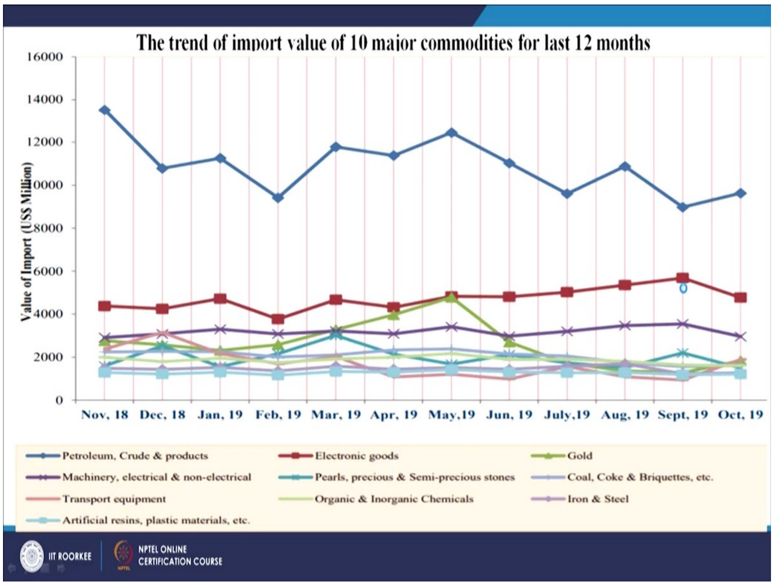

Now, let us look at the import value of ten major commodities. Now, what are the major commodities which we are being importing from the other countries right. Again this is a twelve months data. So, if you look at here there are some changes. So, for example, the products are like petroleum, crude and products. So, this is one thing which India imports a lot and the value you can see is very-very high.

So, it is significantly high. So, that is that is has a lot of impact on our you know are on our GDP, then machinery, electrical, non electrical, transport equipment, artificial resins, plastics, electronic goods, pearls, chemicals again some form of chemicals which maybe we are we needed in India we do not do it so, we are importing from outside gold, coal, coke and briquettes, iron and steel.

So, if you look at the value, the significant, most significant has been the that the petrochemical right petroleum crude and the products and then maybe the red one is electronic goods which we are importing in India. If you would to look at again look at the you know export, in terms of export, the highest value that gives us is the engineering goods.

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Now, this is a table which I have prepared. So, that it gives you a good idea. So, what it says? Total business that India does with other countries and the particular countries percentage of the total Indian exports. For example, India does about 51.6 billion which is 16 percent of the total of India's exports right, with UAE with second is UAE in rank which is 29 billion which I was just showing in the first slide right.

So, these are there I had shown you about 6 countries, the first six up to United Kingdom, but here there are up to 10 the top 10 countries with which India exports does exporting right. Now, if you can look at, it this gives a better idea. Now, country specific trade deficit in 2018 what does trade when does trade deficit happen? Trade deficit happens when our imports or we pay more than what we get that means our exports are less than our imports.

So, imports are dominating the exports. So, countries with which we have a larger trade deficit is China for example, with which we have a 57.3 billion trade deficit. Saudi Arabia 22.9 billion, Iraq 21.2, Switzerland 16.8, Iran and largely if you see some of these items mostly are into the petrochemical sector right.

So, these are some of the countries with which we are doing business and we have a trade deficit. So, are there some countries with which we are doing trade and we have a trade surplus? Yes, there are; for example, our relationship with the United States is one in which we have a trade surplus a case of trade surplus; that means, we are exporting more and earning more through that and there is no deficit right.

There is the imports are less and exports are more; Bangladesh 7.9 billion right, Nepal 6.9, Netherlands 5 billion. So, this list again goes as a trade surplus, but if we count if we count in terms of the surplus and the deficit from a face value we have a very high deficit with for example, China right which we can see and; obviously, that is because I think one significant reason being the cost of the products that we get, because Chinese market the products are very cheaper in comparison to the other markets.

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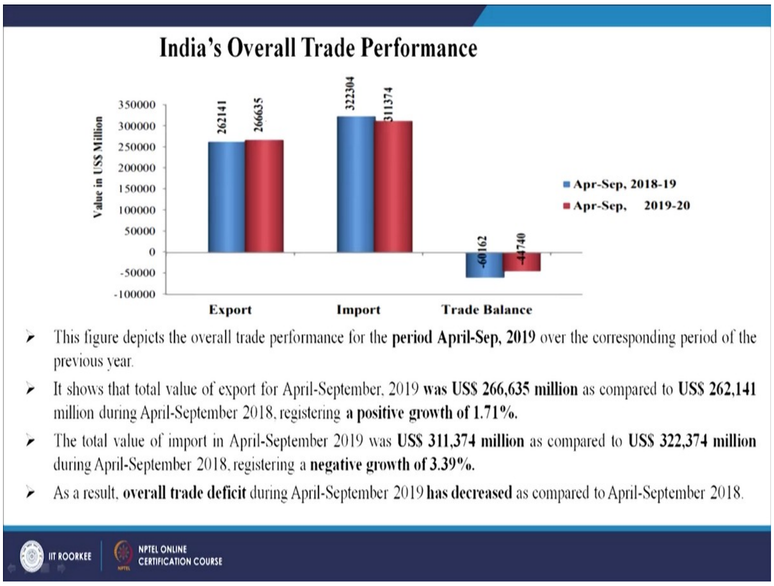

So, that becomes one significant reason right. India's overall trade performance, from this figure if you see what it says that after the period April to September 2019 right, it shows the total value of exports for April to September 2019 was US 266,635 million right dollars as compared to 262,141 billion dollars right.

So, you can see this right 266,635 a 266,635 and this is 262,141 so our exports right and in terms of imports it is this right. So, there is a negative growth of 3.39 percent in terms of imports and a positive growth of 1.71 percent in terms of exports right. As a result the overall trade deficit has decreased in 2018. So, that is a very-very marginal very not a very substantial, but still it is a positive sign.

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Now, how does the export develop right the next part; so, firms tend to move through three phases of export development right. So, the first stage pre engagement; what does it say? So, this is the stage where the company's selling the goods and services or basically exporting. They are solely prevalent in the domestic market right companies considering, but not currently exporting. So, what it is saying? Company selling goods and services solely in the domestic market and they are considering, but not currently exporting.

So, that is the first stage where there is a pre engagement; that means, these companies are now thinking of exporting. Second step comes up is the initial exporting. So, the companies that do some kind of you know some basic exporting may not be in a regular way, but in sporadic cases so, there is a marginal exporting.

Companies that see lots of potential in the export markets; now, these companies are trying to are finding some very good potential in the export market. So, because exporting is not that easy, because we have understood from our so many classes that to export you need to have local knowledge, you need to have that host countries you know traditions, technology develop you know, you use to need to have enough good technology.

So, there are several things that resists it is not that easy. So, and their final thing is when we talk at the third phase in export development is the advanced stage where we say the companies now become regular exporters. So, here there was none, then sporadic sometimes they were doing exporting so, in in piece meals, third cases is a regular exporter the companies gain extensive overseas experience and they use other strategies for entering the market.

So, large companies basically here you find very large companies and companies who have an expertise and knowledge about various economies various countries and thus it becomes easy for them to enter into these markets and they have deep capital with them right, but what are the difficulties? What are the problems associated with exporting? So, let us talk about that, because had exporting been so easy? Everybody would have thought of exporting and earning revenue, but it is not that easy right.

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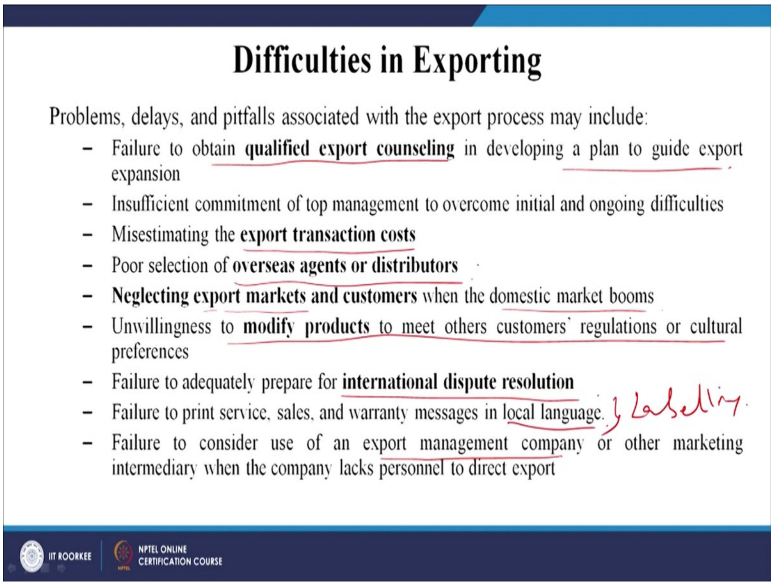

So, what are the problems associated? First problem is to obtain a qualified export counseling right, in developing a plan to guide export expansion. Suppose, you want to expand or get into export you need some counseling right; so, a qualified expert or somebody who can help you out. So, this is the first problem, people do not have a idea, they do not know and they do not have a guidance. So, that is the first problem.

Second is insufficient commitment of the top management to overcome the initial difficulties. So, many a times companies which are doing good in the domestic market and they do not see a logic as they do not want to get into the you know other international markets, because they feel it is very tough and it needs lot of understanding, lot of pain and lot of difficulties which has to be overcome. So, they tend to ignore and avoided it right.

Third is misestimating the export transaction cost. Many a times it is very difficult to calculate the transaction costs. Now, transaction cost could be for example, like suppose, I want to enter into a new market. Let us say the new market is Mexico for me. Now, what is the shipping suppose, I want to ship something I want to export, some products what is the cost of transportation? What is the cost of acquiring information out there? What is the cost of acquiring local knowledge?

What is the cost? There are several costs attach for example, storing, inventory, warehousing, all these costs right. So, how do you calculate the transaction cost, because if you do not calculate the transaction cost and you price it maybe in a wrong way, then the instead of profits the company may makes losses right and then there is a problem of you know exchange transactions right. So, the exchange rates can fluctuate within the you know in the international markets.

The next point is poor selection of overseas agents or distributors. See when you are exporting you may directly export, but many a times direct exporting is not possible right. So, we need agents or distributors who can facilitate the exporting business. So, in such a condition if we select a agent or distributor who is not good enough or who will not promote our product, then again exporting becomes tough.

Neglecting the export markets and customers when the domestic market booms right; so, sometimes when the domestic market is booming people tend to neglect the export market, because they feel the domestic market is doing well right. Unwillingness to modify products to meet the customers regulations or cultural preferences. Many a times it becomes very-very imperative, very important to understand that the product has to go through a transition, it has to be adjusted to the local needs right.

According to the you know that the habits the traditions of that particular country or the climate of that particular country. So in such a condition when there is an unwillingness to modify, because modification involves a change in the production line, a production system. So, if companies are not willing to do that again it is not easy to export. Failure to adequate prepare adequately prepare for international dispute resolution. Now, suppose there is a dispute which comes up right during any supply chain process or any financial decision or something.

How do you handle such disputes? So, that is also important that companies who are getting into export they need to, but it does not come overnight. It happens in a slow process, but one has to need to needs to have the patience and the you know willingness to stay with it right.

Failure to service, print service sales and warranty messages in the local language. Sometimes this also labeling becomes an issue, because some countries that they are very stringent on this. They need that everything should be properly mentioned over the package right, packaging.

The last is failure to consider use of an export management company or other marketing intermediary when the company lacks the personnel to direct export. So, this is something like you know poor selection, you can say close to that, but when the export management company does not have the expertise it needs to depend on somebody. So, how it selects or how; what does, how does it consider using an export management EMC, Export Management Company or a marketing intermediary is also very important.

So, all these points together and then there can be many more also, but these are some of the major points which I thought one would one faces you know as a difficulty, when gets when somebody tries to get into the export market right. How do you design an export strategy then? Ok once, you have overcome with this pitfalls these problems.

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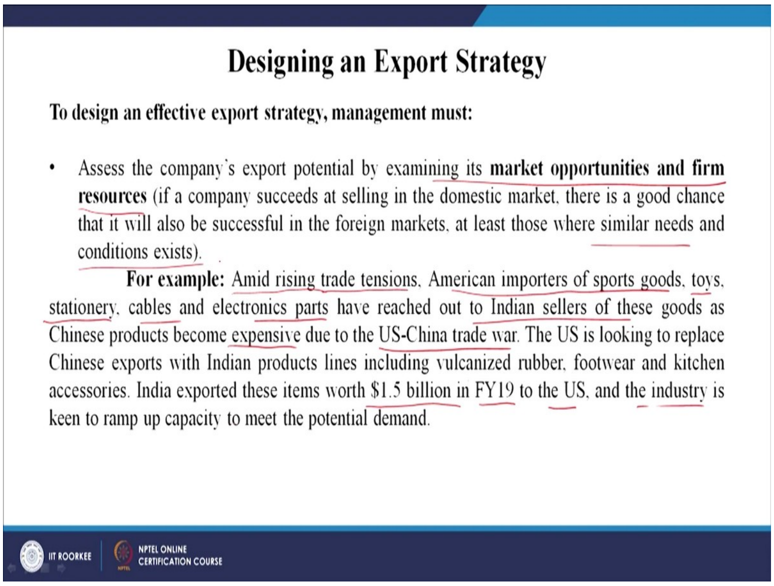

The thing is to design an effective strategy the management should assess the company's export potential by examining its marketing opportunities and firm resources.

So, what is the opportunity? Suppose, I want to get into as I said in the Mexican market right. Now, what is the opportunity? What kind of products I can sell there right? What valued products I should sell? What is the kind of designs they would demand? And to make such products do I have the resources? If a company succeeds at selling in the domestic market there is a good chance that will also be successful in the foreign markets at least, those where similar needs and conditions exist. So, suppose we get into a market which is very similar you know that is how when you are exporting, you need to identify the right clusters. Clusters are basically homogeneous markets.

So, if the market is very homogeneous is like your own domestic market, it has some similarity, then you need not do much of changes and you can sell the product, but if you want to expand and get into a market where there are lot of design changes are required, then in this case it might be slightly different. For example, let us see amid rising you know trade tension, American importers of sports goods, toys, stationery, cables and electronic parts now have reached out to Indian sellers.

Now, we know that there has been a US China tension for some time right. Now, the American buyers they are reaching out to the Indian sellers to make these goods and to buy these goods from them as Chinese products are becoming expensive due to the US China trade war.

The US is looking to replace Chinese exports with Indian products maybe there are certain several issues, several reasons for that one could be the economic perspective, one could be a political perspective, right. Indian product lines including vulcanized rubber, footwear, and kitchen accessories. India exported these items worth 1.5 billion in dollars, in US in 19 to the US and the industry is keen to ramp up capacity to meet the potential demand.

So, this is a great opportunity for the Indian sellers to reach out to the American buyers.

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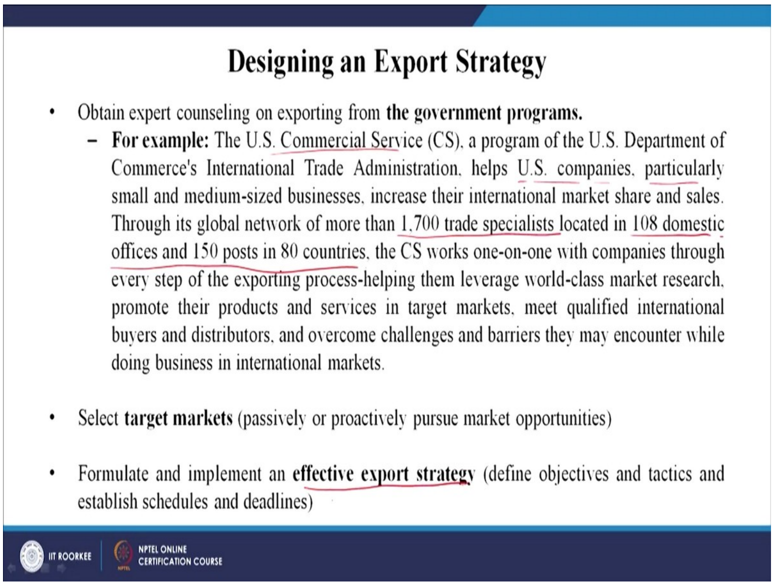

The second thing is obtain expert counseling exporting from the on exporting from the government programs. For example, the US commercial service a program of the US department of commerce international trade administration, helps the companies particularly small and medium sized businesses to increase the international market share and sales.

So, they educate these people and try to teach them how to get into and do their business well. Through its global network of more than 1700 trade specialists located in 180 domestic offices and 150 posts in 80 countries the commercial service works on one to one with companies through every step of the export processing process helping them leverage world class market research, promote their products and services, in the target markets meet qualified international buyers and distributors and overcome challenges and barriers, they may encounter while doing business in the international market.

So, what happens is government programs assist such you know small and medium sized companies to understand, because some many companies would not have the potential, would not have the capital, the resources, the knowledge to understand about the international markets.

So, in such condition the government programs are come very handy, they are very helpful to educate them about the new markets, to help them in the marketing research, to understand the climate condition and culture of these places and try to overcome the challenges right. Select event target markets and opportunities, formulate an effective exports strategy right.

So, this is all done the government assisted programs are there which can help right. So, these are to be more developed in case like India for example, the Indian government has to put fourth more energy into such kind of building strategies like in its US counterpart right. So, how does the international transaction chain happen?

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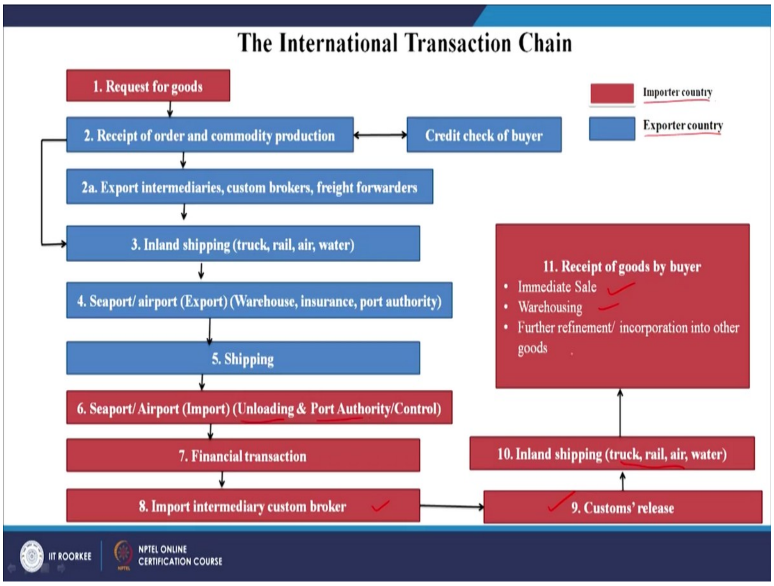

Let us look at this. So, what happens? Suppose, there is a request for goods. Now, you can see the red one stands for the importer country, the blue stands for the exporter country ok. So, there is an importing country let us say in this case the US which wants some of the products from India as we discussed in the last slide. So, these are request for goods right.

So, what happens after there is a request for goods now the exporting country the receipt of order and commodity production starts right. So, there is a credit check of the buyer, the buyer who is buying right. So, there is an who is wanting our products. Now, we will credit check whether it can pay us or not it is a credit check, then export intermediaries, custom brokers, freight forwarders come in place and then inland shipping is done right.

So, once the order comes, then what happens the fourth step is through the seaport or export we do some warehousing, insurance, port authority. So, these all come into play and finally, after the product is done through these we ship the products right. So, once the product is shipped by the exporter. Now, it goes to the importer again.

So, through the you know the importer now unloads and there is a port authority who will check the products, then there is a financial transaction and the you know the import intermediary custom broker comes into place and then the customs release happens; that means, the customs checks, checking and all is done and it is released, then it again goes to the in land shipping; that means, through it will be transported to the buyer who has purchased the good right. So, through truck rail whatever process and finally, there is a receipt of goods by the buyer. So, the buyer receives this products and the then he gets for warehousing or selling or further incorporation to in to the other goods right.

So, this is how you know and basically a transaction happens between the importing country and exporting country are basically an importer and an exporter. So, he starts with the request for goods and then there is a production, then there is shipping, then there is again it goes to the importing place the country and the importing country gets then makes its custom check and everything and then it releases to the buyer right.

And then the buyer does what it; wants to either sell it or add value and use it in its production line, maybe as a you know working process good or something. So, this is what is happens in this right. So, today we will wind up here and we will continue from here in the next lecture.

So, thank you very much.