International Business
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Lecture - 41
Trade Promotion, Institutions Involved in Export Finance, Foreign Trade Organizations in India

Hello everyone. So, I welcome you to the lecture on International Business. So, today we will be continuing from our last lecture where we had stopped, where we will be discussing about Foreign Trade Promotion measures.

And here we are discuss largely about what is trade promotion and what is it is role in the development of a the country right, on the economic perceptive.

Then in the last lecture we also discussed about the trade regulations and it is issued by the commerce ministry we are discuss that. Then, we also discussed about the measure destinations for export and import, for Indian exporters and you know Indian exporters.

And we discussed that there are several countries to which India exports a lot of commodities and services. And also imports a largely from especially in the petrochemical and other sectors right.

So, from there we also discussed about how you can start and somebody can start an export import business. And then we talked about the difficulties in exporting. And finally we talked about the we had started with the schemes right, what are the schemes that the government has you know has initiated, which will help in the export import businesses right.

So, we will continue from there. So, let us talk let us start with the definition of trade promotion again. So, as you understand.

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Trade promotion is an umbrella term for economic policies and developmental interventions and private initiatives, which is aimed to improve the trade performance of a country right.

So, it may be within region or within the country or among a few countries right, or a group of countries involved in an economic trade area. So, for example, some of the major companies I had discussed is like for example Tatas, Reliance, BHEL, JSW Steel right.

Then there are almost there large numbers of companies, which are involved in exporting of goods right from India. And the export the exporting of goods is highly essential because we earn foreign reserves through that, foreign exchange through that right. So, it is becomes very important.

So, then we talked about some of the schemes that the government has brought in recently and since some year right and to facilitate this export import business.

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So, various trade promotional measures and schemes are available for business firms to facilitate their export and import operations, announced by the government in it is export import policy.

So, the government in it is export import policy has brought in several schemes. So, in the last class we had discussed about this three schemes, the duty draw back scheme, export manufacturing under bond scheme and the advance license scheme right.

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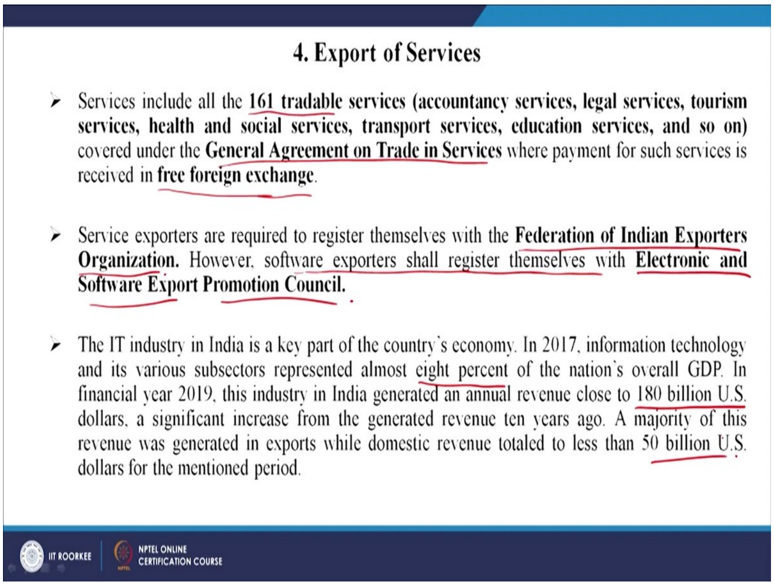

Now, we will continue from the fourth one. So, the forth one which is the export of services right. So, as you know services can be defined generally in terms of marketing as something which is intangible or something which is you know which does not have a which has, which is not tangible basically largely right.

So, services include all the 161 tradable services for example, like accountancy, services, legal services, tourism health and social services, transport, education and so, on which is covered under the general agreement on trade in services right, so we say GATS, GATS. So, where payment for such services is received in foreign, free foreign exchange right.

So, exports of services is especially very important for India right, India has been one of the major contributors to the GDP has been India service sector right.

So, service sectors are required how one goes about service sectors are required to register themselves, with the federation of Indian exporters organization. So, this is an organization which is a premier organization and it is, it represents the Indian exporters in the it helps in promoting the Indian exporters in the world market right.

However, software exporters there is the special registration process they have to register themselves with the electronic and software export promotion council ok. Because software although it is one of those services which is which has a significant presence in the among the services.

As you can see the IT industry in India is a key part of the country's economy, in 2017 it is various subsectors represented almost 8 percent of the nation's GDP. In 2019 this industry generated an annual revenue close to 180 billon US dollars which was a significant increase from the generated revenue a decade back right.

So, a majority of this revenue was generated in exports right, while domestic revenue totaled to less than 50 billion right US dollars for the mentioned period. So; that means, that are export in services is a very significant factor for growth and it takes a large size in the entire business.

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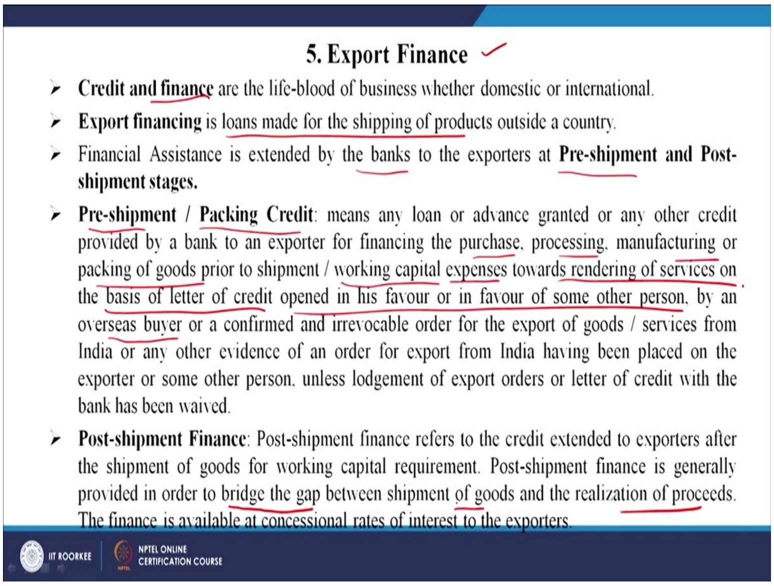

The next part of the schemes in which the government has brought in is relating to the export finance right.

So, as you know credit and finance right are the life blood of business. So, the you know the most important part for any business is that it has to have the right finance right. So, if credit facilities are financial financing, facilities are not available business is would not grow well.

So, export financing is loans made for the shipping of products outside a country. Now, financial assistance is extended by the banks to the exporters at pre shipment and post shipment stages. So, what happens? So in order to you know encourage and help the business, the government has initiated schemes, which helps in financing the exporters and even for import purpose right.

So, what it does basically? It says it is through the banks right, the financial assistants is extended to the exporters and at what stages? At the pre shipment and post shipment stages. Now what is a pre shipment and a post shipment stage let us see.

So, the pre shipment stage also called as packing credit; means, any loan or advanced advance granted. Or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to the shipment; that means, anything before the final shipment is done.

So, for that or for, in another way you can understand it as the working capital expenses towards rendering of services on the basis of a letter of credit opened in his favour or in favour of some other person by an overseas buyer right.

So, this is basically, when you talk about pre-shipment for all the working capital expenses and all the banks give the finance right. Then, in post-shipment finance what happens here it refers to the credit extended to the exporters after the shipment of. So, there is shipment. So, pre shipment and post shipment after the shipment right of goods for the working capital requirement.

Now post shipment finance is generally provided, in order to bridge the gap between shipment of goods and the realization of the proceeds. So, there is a gap in which the you know exporter exports and he receives the proceeds.

So, in between this time, so there is a requirement of finance. So, for this reason the banks or the government makes has made such schemes right. The finance is available at concessional rates of interest to the exporters. So, the in order to encourage the exporters to do more business.

The government has try made this scheme and try to make it lucrative by offering them at the finance at a lower interest rates ok.

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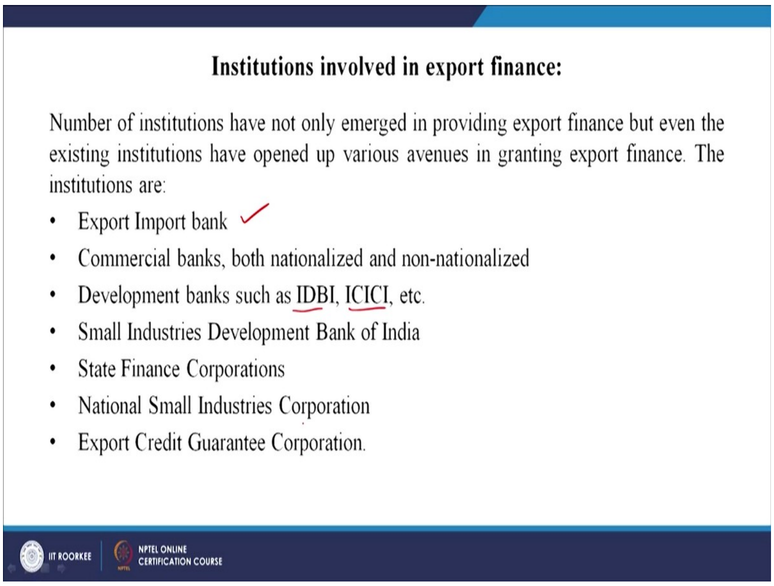

Now some of the institutions which are involved in export finance are, for example there are number of institutes for some of them are for example, the EXIM Bank. We say Export Import Bank, the commercial banks, both nationalized and non nationalized development bank, such as IDBI, ICICI etcetera, SIDBI, Small Industries Development Bank of India.

State Financial Corporation's right National Small Industries Corporation, Export Credit Guarantee Corporation. So, these are some of the institutions which are there in order to lend finance to the exporters. So, that it could easily carry on it is activity and you know make it is export in a much better way right example.

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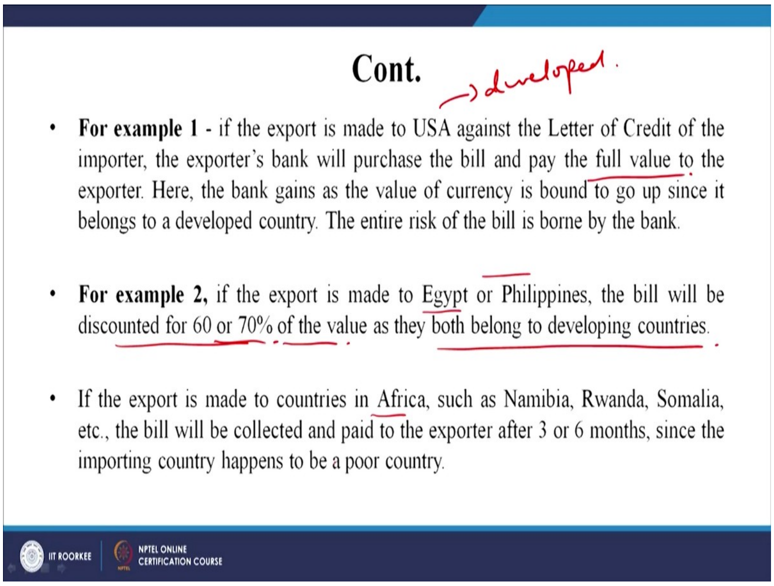

If the export is made to USA against the letter of credit of the importer let us say. So, there is an importer and against the letter of credit of the importer the exporter's bank will purchase the bill right, and pay the full value to the exporter right.

Here the bank gains as the value of currency is bound to go up, since it belongs to a developed country and the entire risk of the bill is borne by the bank. So, it is not necessary it will happen all the time, but there could be times went it might not happen also, so but then this risk is borne by the bank right.

Example two if you see, if the export is made to suppose Egypt or Philippines, the bill will be discounted for 60 or 70 percent of the value as they both belong to developing countries.

Now, that is very interesting you see again if you see what is happening if the export is made to a developed country. So, this is the developed country USA. So, in that case the you know the bank gives the full value right, but when it is going to a country which is developing or less developed.

So, in that case he will the bill will be discounted only to 60 to 70 percent. So, that you know the if there is any risk which, is possibly which might be there. So, that will not be much and it will be neutralized.

If the export is made to countries in Africa such as Namibia, Rwanda, Somalia etcetera, then what does the what is the process? The bill will be collected and paid to the exporter after 3 to 6 months, since the importing country happens to be a poor country. So, these are some of the you know ways how do the, how the banks operate and try to nullify the risks associated with this different countries ok.

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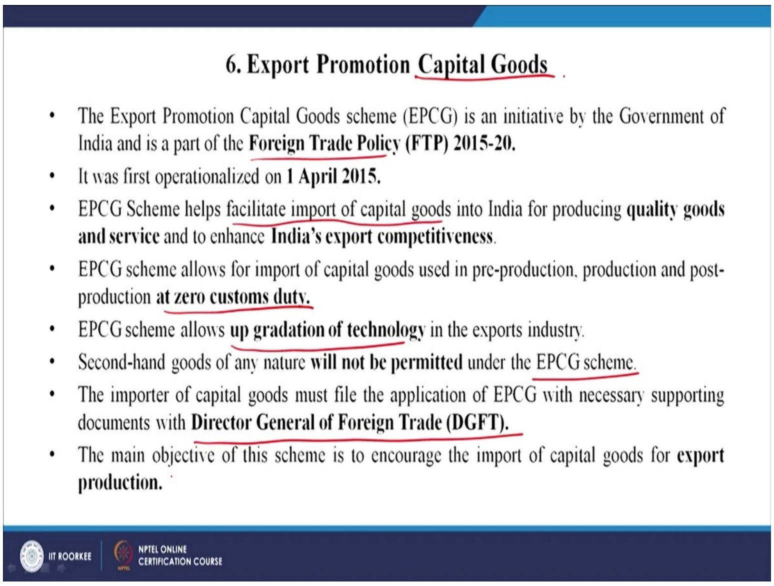

Another important measure which, the government initiated is the Export Promotion Capital Goods. So, we say EPCG right. So, what is it it is an initiative by the government of India and is a part of the foreign trade policy 15-20.

It was first operationalized on 15, a first April 2015. So, April this is the fool’s day right. So, first April so, EPCG scheme helps to facilitate import of capital goods into India for producing quality goods and services.

So, for suppose for example, to make some you know some items you need to import certain capital goods right. So, for that you this EPCG scheme helps in this process right and to enhance finally India’s export competitiveness.

So, this is one big important role of this EPCG. It also allows for the import of capital goods used in pre production, production and post production at zero customs duty ok. This schemes allow for allows up gradation of technology in the exports industry right.

Second hand goods of any nature will not be permitted under the EPCG scheme. So, these are some of the guidelines the importer of capital goods. So, this scheme is largely related to the capital goods only. The importer of capital goods must file the application with necessary supporting documents with the director general of foreign trade.

So, we have already learned about the director general foreign trade in the last lecture. So, it is a very important premium body, which is a responsible for in the foreign trade policies and basically their businesses export import business.

The main objective of this scheme is to encourage the import of capital goods for export production. So, this for whenever you require certain capital goods or items, which are important for the production of export oriented goods. In that case the EPCG comes into you know the plays it is role and facilitates the entire process.

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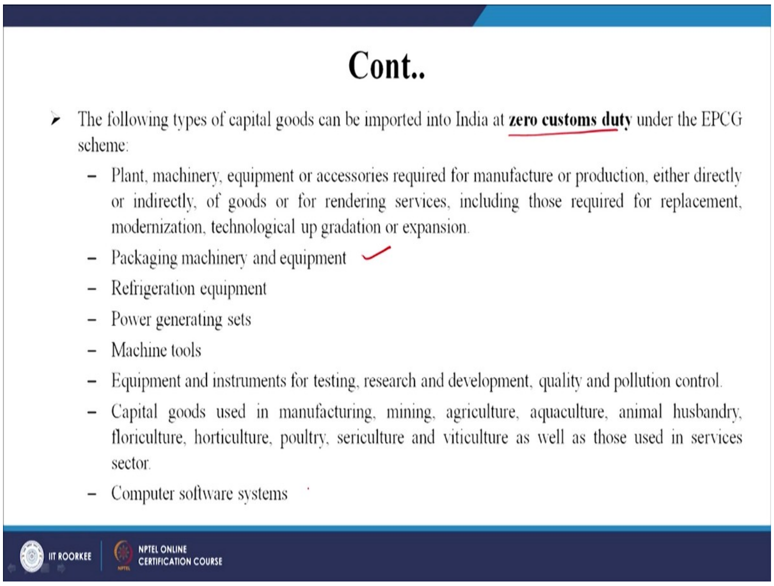

The following types of goods, capital goods can be imported into India at zero customs duty, under this scheme. What are they? Plant machinery equipment or accessories required for manufacture or production either directly or indirectly of goods or for rendering services including those required for replacement, modernization, technological up gradation. So, as we said the EPCG is also responsible for a up gradation of the technology right.

Packaging machinery and equipment, refrigeration equipment, power generating sets, machine tools, equipment and instruments for testing research and development, quality and pollution control. Then capital goods in used in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, poultry, sericulture, viticulture as well as those used in the services sector and finally, computer software systems.

So, the EPCG has a very big role to play; because it helps in the import of the capital goods and up gradation of the capital goods of the technologies also. So, it play’s a very vital role in the entire export sector.

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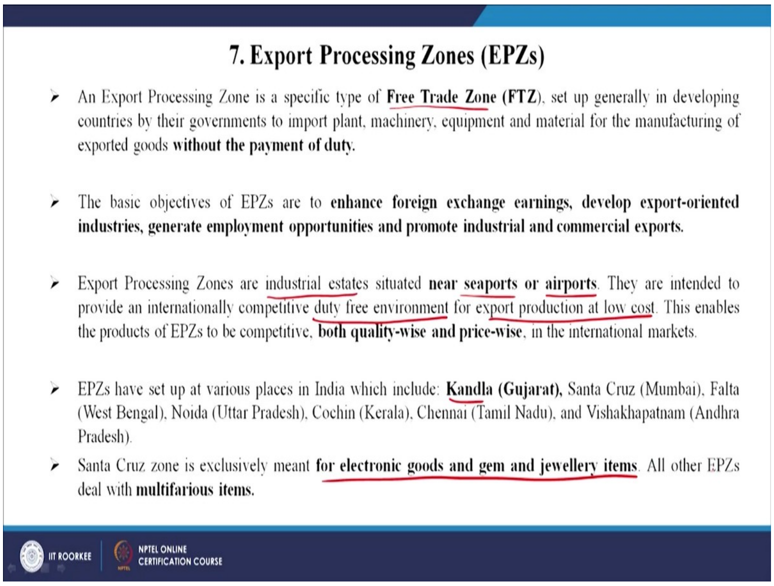

The next important body you can say or scheme that the government strategies the Export Processing Zones EPZ's. So, what is this Export Processing Zone? Export processing zone is a specific type of Free Trade Zone, FTZ right, setup generally in developing countries by their governments to import plant machinery equipment and material for the manufacturing of exported goods without the payment of duty right.

The basic objective is to enhance foreign exchange earnings, develop export oriented industries, generate employment opportunities and promote industrial and commercial exports. So, Export Processing Zones are industrial estates, you must have heard of industrial estates in your localities and regions where you are staying.

So, these come under the EPZ's right. Situated near seaports or airport I come from a place where I am close I stay close to an seaport. Right that is a, we have a port out there and we have our own industrial estate. So, these are basically that zones which help in the entire process of business.

They are intended to provide an internationally competitive duty free environment, for export production at low cost right. This enables the product of EPZ's to be competitive both quality wise and price wise because then the transportation cost and other cost comedown.

So, in terms of price they become very competitive right EPZ’s have been set up at various places in India like, Kandla in Gujarat, Santa Cruz in Mumbai, Falta in West Bengal, Noida Uttar Pradesh, Cochin in Kerala, Chennai in Tamil Nadu, Vishakhapatnam Andhra Pradesh right.

Santa Cruz basically is exclusively meant for electronic goods and gem and jewellery items, all other EPZ’s deal with different kinds of multifarious items ok.

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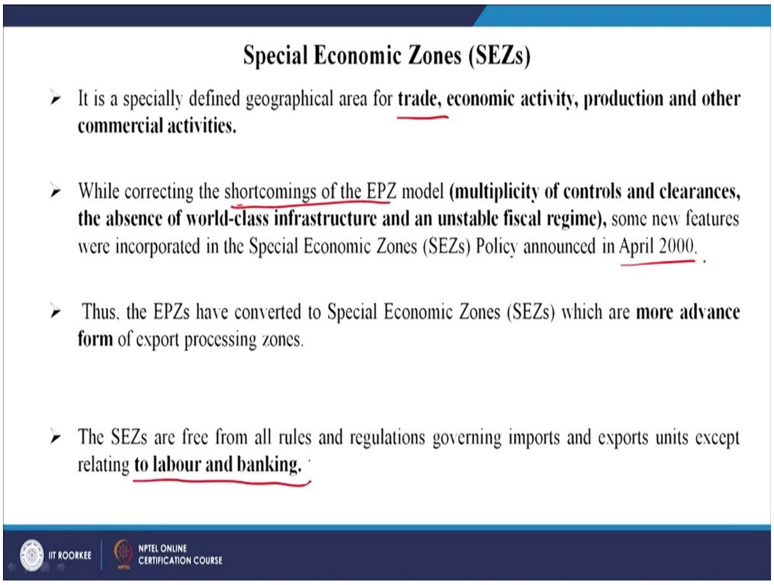

Then we come to the under the, under this only EPZ’s we have something called the Special Economic Zones right. So, what is this Special Economic Zone? It is a specially designed geographical area right, for trade, economic activity, production and other commercial activities.

So, what is basically this, what it is? It is a geographical area which is done with this purpose right. So, what it is what does happen let us see, while correcting the shortcomings. So, EPZ model has some shortcomings right. So, for example, like the multiplicity of controls and clearances the absence of world class infrastructure and an unstable fiscal regime right, so these were some of the shortcomings of the EPZ model.

So, in this SEZ’s, this were corrected. So, some new features where incorporated in the SEZ’s policy announced in April 2000, the EPZ’s have converted to SPZ’s SEZ’s which are more advanced form of Export Processing Zones.

So, the EPZ’s only have been recreation now today’s special economic zones. These are free from all rules and regulations governing import and export units except relating to labour and banking ok.

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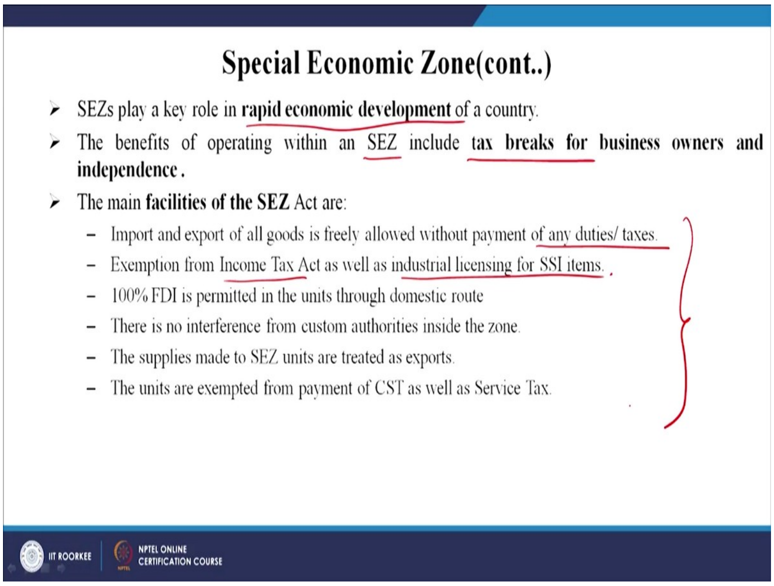

SEZ’s play a key role in the rapid economic development of a country, so you must have seen that governments play lot of emphasis on the special economic zones right.

So, benefits of operating within an SEZ, include tax breaks for business owners and independence. The main facilities, some of the main facilities under the SEZ act are import and export of all goods is freely allowed without payment of any duties or taxes. So, you do not have to pay right exemption from income tax act as well as industrial licensing for SSI items right.

100 percent FDI is permitted in the units through the domestic route right. There is no interference from custom authorities inside the zone. The supplies made to SEZ act treated as exports right.

The units are exempted from payment of CST as well as service tax right. So, some these are some major benefits right. And these benefits is what makes it very attractive some of the success stories for example, Nokia Special Economic Zone in Tamil Nadu.

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Make especially for Telecom equipment’s right. Mahindra City SEZ in Tamil Nadu again for apparels and fashion accessories IT hardware auto ancillary, Wipro Limited Andhra Pradesh IT, Biocon Limited for Biotech, Reliance Jamnagar Infrastructure Limited multi product it is a multi product SEZ. Maharashtra Airport Development Corporation for multi product, Hyderabad Gems Limited gems and jewellery. So, Mundra Port for multiproduct again.

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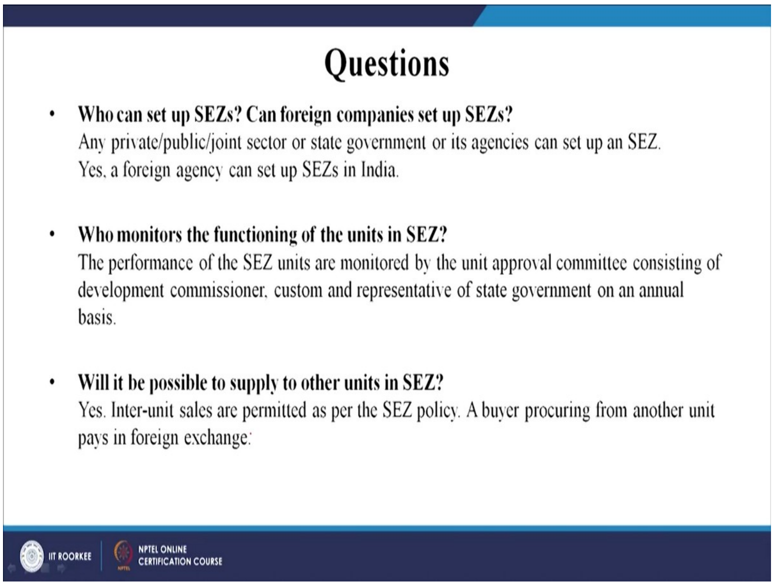

So, these are some of the success stories under SEZ categories ok. So, the question comes is who can set up SEZ's? Can foreign companies set up SEZ's? So, as you saw some of the names for example we said Biocon, Reliance, Wipro, Mahindra, Nokia.

So, the name of the companies are associated right so; that means, can anybody setup? So, the question here is can foreign company set up SEZ's? Any private public joint sector or state government or it is agencies can set up an SEZ. So, the SEZ the good thing is there is a public private partnership basically right.

A foreign agency also can set up SEZ's in India right. Who monitors it is functioning the performance of the SEZ units are monitored by the unit approval committee, consisting of a development commissioner, custom and representative of state government, on an annual basis ok.

Will it be possible to supply to other units in the SEZ right, within the SEZ or something yes. Inter unit sales are permitted as per the SEZ policy a buyer procuring from another unit pays in foreign exchange.

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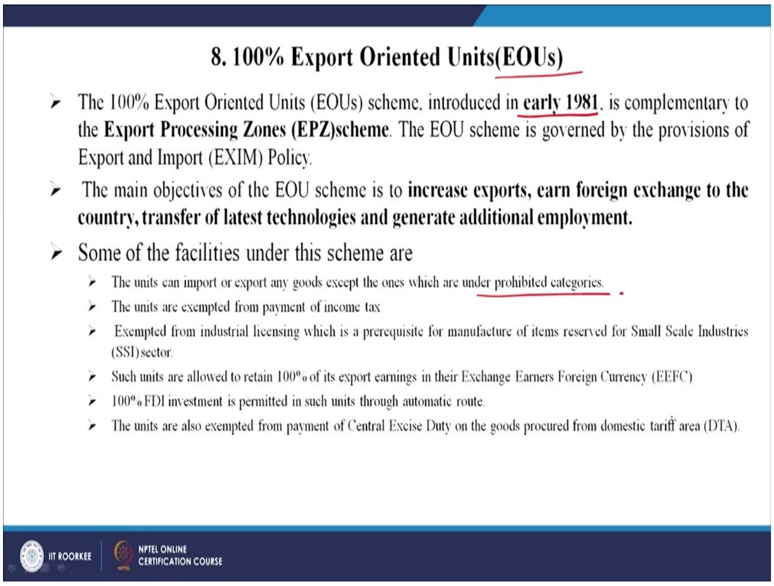

So, these are some of the questions, which are connected with the SEZ's which may be now clear to you. The next you know thing that comes in this export oriented schemes and measures is the 100 percent export oriented units or EOU's Export Oriented Units. Now what are these? These are introduced in the early 1981.

And it is complimentary to the export processing zones scheme. The EOU is governed by the provisions of this Exim policy right. So, what is it is main objective? To increase the exports, earn foreign exchange to the country, transfer of latest technologies and generate additional employment right.

What are the facilities under this scheme, under this hundred percent export oriented units? The facilities are the units can import or export any goods except the ones which are under the prohibited categories right.

The units are exempted from payment of income tax. So, some of the things you can see with the you know, the other schemes also they are some common things right. Exempted from industrial licensing which is a prerequisite for manufacture of items reserved for the small scale industries the SSI's right.

Such units are allow to retain 100 percent of it is export earnings in their exchange earners foreign currency ok. 100 percent FDI investment is permitted in such units through the automatic route right. The units are also exempted from payment of central exercise duty on the goods procured from domestic tariff area. So, these are some of the you know facilities or the benefits of the export oriented units.

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Some other new schemes have come in recently and we will talk about this also some new export promotional schemes.

The ministry of commerce has implemented the following export promotion measures at micro level. Now this is important. To resolve the short problems short term problems faced by the trade and industry related to the external sector.

So this schemes are like, for example, the ASIDE scheme the ties MAI and MDA scheme right. So, let us understand each one of them, what this schemes are because they are working at the micro level. Why the government had thought of it because; obviously, to take care of the short term you know the short term problems right.

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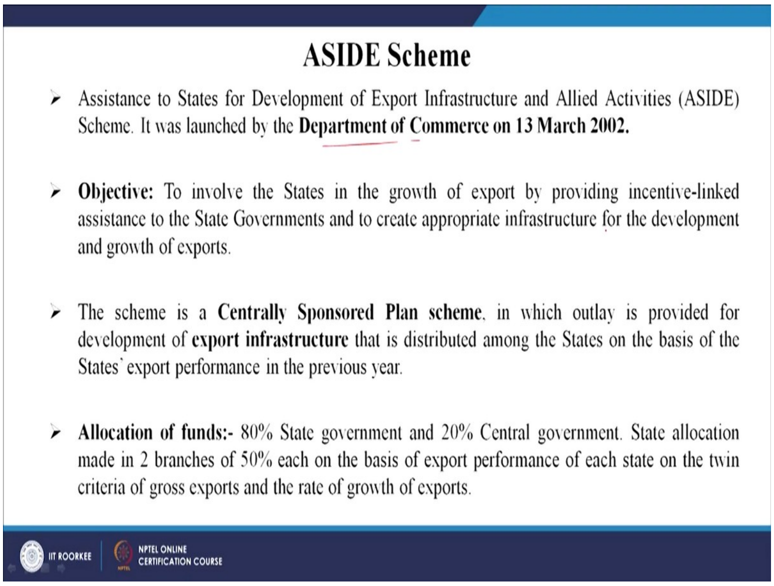

What is this ASIDE scheme? First one so, as a name suggest assistance to states for development of export infrastructure and allied activities. So, the full form is assistance to states, for development of export infrastructure and allied activities. This scheme was launched by the department of commerce on 2002 march, 13^{th} march, 2002. What is the objective of this scheme? To involve the states in the growth of export by providing incentive linked assistance right.

So, there are incentives attached. So, the state governments would try to be more oriented and progressive towards, or try to progress in this export businesses right and to create appropriate infrastructure for the development and growth of exports.

So, as we have seen there are lot of thing which are required for the development of exports, for example, unit right infrastructure you need took you know settle down some of the policies or remove some of the, make some of the policies less difficult for the clearance policies and the all these things.

So, to do all these things the government has started such schemes right. This scheme is a centrally sponsored plan scheme, in which outlay is provided for development of export infrastructure. That is distributed among the states on the basis of the states export performance in the last year previous year right.

And how is the funds allocated? 80 percent state government and 20 percent central government. So, the 80 percent of the fund has to come from this state governments and 20 percent will given by the central government.

State allocation made in two branches of 50 percent each on the basis of export performance of each state, on the twin area of gross exports and the rate of growth of exports. So, the ASIDE scheme is largely done for encouraging the states, to participate in development of exports and develop accordingly the infrastructure.

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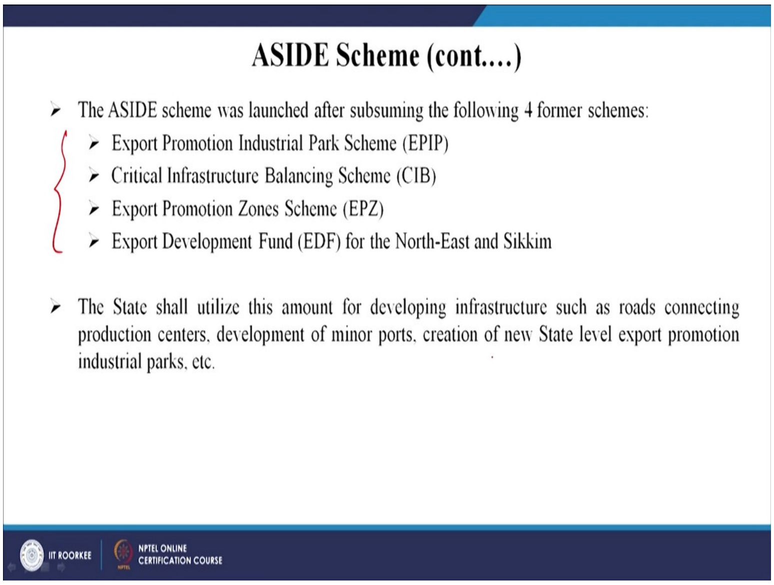

The ASIDE scheme was launched after subsuming the following 4 schemes. So, this is these 4 schemes, that are merge where merge to make this ASIDE scheme. Export Promotional Industrial Park Scheme right EPIP, Critical Infrastructure Balancing scheme CIB, Export Promotion Zone Scheme EPZ, Export Development Fund for North East and Sikkim EDF, right.

The state shall utilize this amount for whatever the you know government gives, for developing infrastructure such as roads connecting to the production centers development of minor ports, creation of new state level export promotional industrial, parks, etcetera ok.

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Some of the success stories in India are for example, Maniram Dewan Trade Centre in Guwahati, Land Custom Station and Trade Centre at Moreh on the Myanmar, Manipur Trade Route, Strengthening of Institute of Auto parts and Hand Tools Technology Ludhiana, International Flower Auction Yard Bangalore, India Export Centre and Mart, Greater Noida right.

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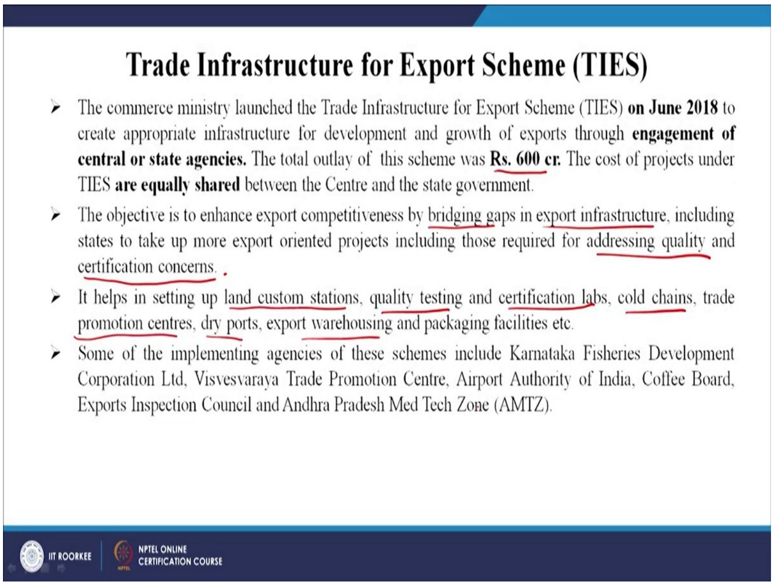

The next after the ASIDE is the Trade Infrastructure for Export Scheme TIES right. So, the commerce ministry launched the Trade Infrastructure for Export Scheme on June 2018, to create appropriate infrastructure for development and growth of exports, through engagement of central and state agencies.

The total outlay was 600 crore and the cost of the projects under TIES are equally shared, there it was 80, 20 in ASIDE, here it is equally shared between the Centre and the state government.

What is the objective of this? The objective is to enhance export competitiveness, by bridging the gap in export infrastructure including states to take up more export oriented projects. Including those required for addressing quality and certification concerns. So, these concerns if it would be removed or address then export competency would be enhanced obviously.

It helps in setting up land custom stations, quality testing and certification labs, cold chains, trade promotion centre, dry ports export warehousing and packaging facilities etcetera right.

Some of the implementing agencies of these schemes include Karnataka Fisheries Development Corporation Limited, Visvesvaraya Trade Promotion Centre, Airport Authority of India, Coffee Board, Export Inspection Council and Andhra Pradesh Med

Tech Zone right. So, these are some of the schemes and it is objective and the benefits we have seen.

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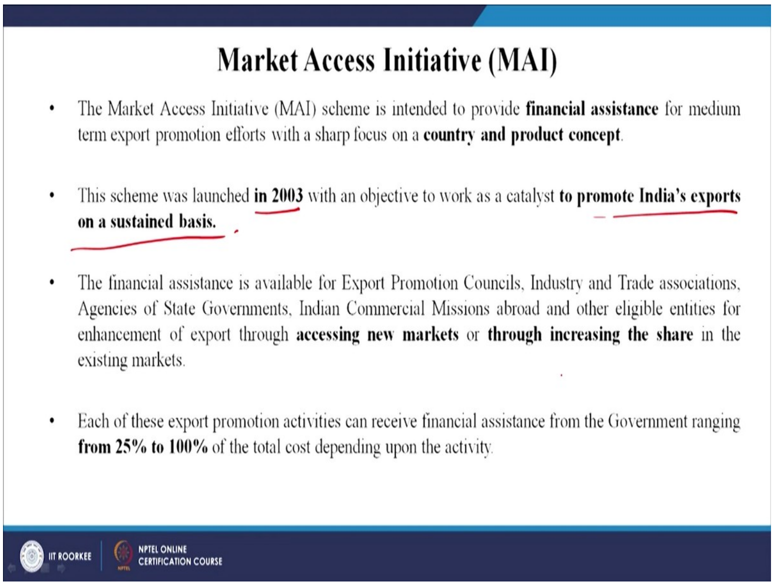

Now, we will go into the next one, which is called MAI. So, Market Access Initiative, the market access initiative scheme is intended to provide financial assistance for medium term export promotion right, with a sharp focus on a country and product concept. This was launched in 2003 with an objective to work as a catalyst to promote India's export on a sustained basis right.

The financial assistance is available for Export Promotion Councils, Industry and Trade associations, Agencies of the State Government, Indian Commercial Missions, abroad and other eligible entities for enhancement of export, through accessing the new markets or through increasing the share in the existing market.

So, it is basically a market access initiative, an initiative to get into new markets or even wherever you are to you know encourage or grow your market share. Each of this export promotion activities can, receive financial assistance from the government ranging from 25 percent to 100 percent of the total cost, depending on the activity.

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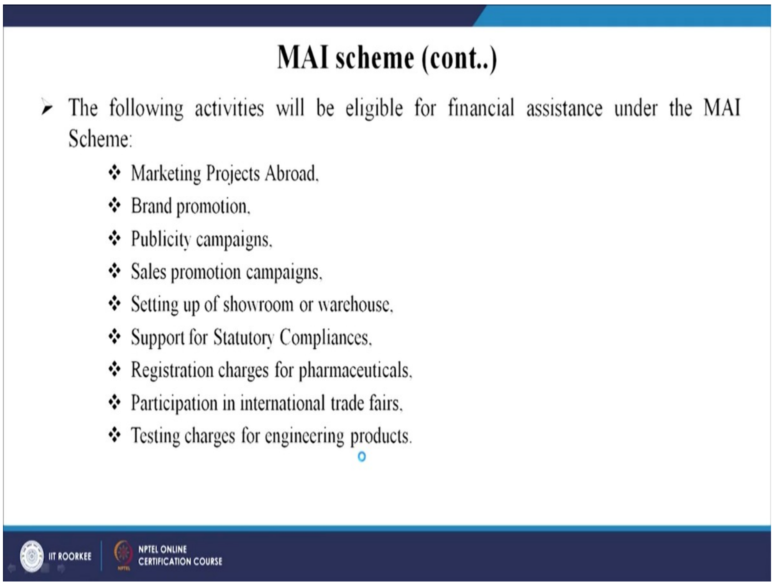

Some of the following activities which will be eligible for financial assistance under the scheme are, marketing projects abroad, brand promotion, publicity campaigns, sales promotional campaigns, setting up of showroom or warehouse, support of statutory compliances, registration charges for pharmaceuticals, participation international trade fairs, testing charges of for engineering products.

So, this is basically done to enter into the foreign market and to promote the brands and try to increase the market share in the other markets right the last in this scheme.

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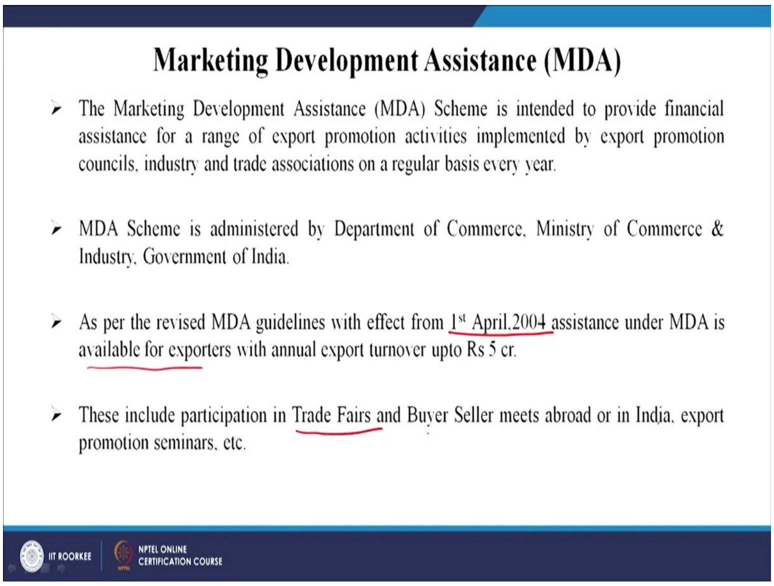

The forth one is the market development assistance. So, this scheme is intended to provide financial assistance for a range of export promotional activities, implemented by export promotion councils industry and trade associations on a regular basis every year ok.

The MDA scheme is administered by the department of commerce, ministry of commerce and government of India right. As per the revised MDA guidelines with effect from 1st April 2004, assistance under MDA is available for all exporters with annual export turnover up to rupees 5 crores.

So, all who away you know, export up to 5 crore they can available this benefits. These include participation in trade fairs and buyer seller meets abroad or in India it was like more like the MAI right.

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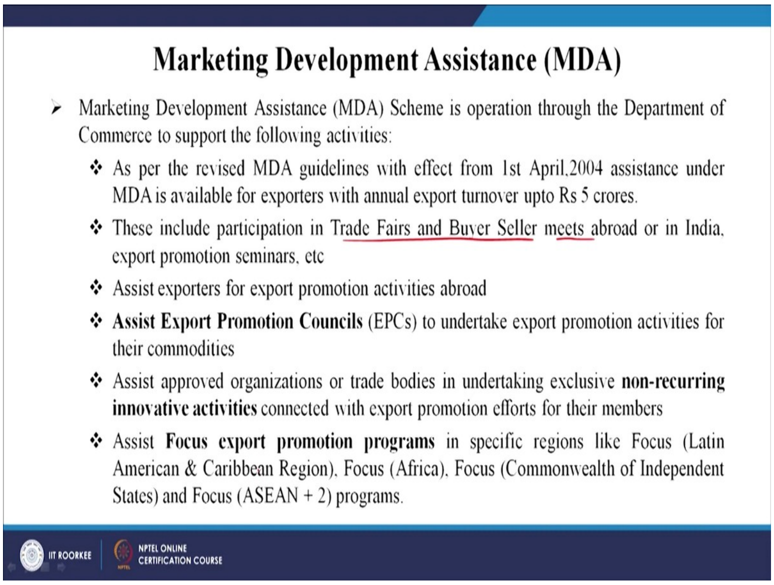

So, the scheme is operational through the department of commerce to support the following activities. So, what are they? So, this are some of the activities are for example, include participation in trade fairs and buyer seller meets. Assist exporters for export promotion activities abroad.

Assist Export Promotion Councils to undertake export promotion activities for their commodities. Assist approved organizations or trade bodies in undertaking exclusive non recurring innovative activities connected with export promotion efforts for their members.

And finally, assist focus export promotion programs in specific regions like the Latin American Caribbean region, Focus Africa, common wealth of states ASEAN etcetera right.

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So, these are some of the ah you know, these are the four policies as started with the you know government recently and you know. In fact, it has been there for some time, but the government has been trying to develop this more, the present government has been trying to focus more on them.

And trying to you know although they are there from since 2004, 2003, but the point is the government has been trying to give more emphasis on this since recent times. So, that are Exposure in the foreign markets is more and we are, we will have a foothold in this other market in a much better way right. So, this is all we have discussed today.

I will wind up the lecture here and we will continue from the, the next part which is organizations in foreign trade regulations and all. So, foreign trade you know in the business of foreign trade what are the different organizations in India which are assisting in this. So, we will discuss about it in the next class so.

Thank you so much.