23

EXTERNAL TRADE

With the development of human society and progress in science and technology, the scope of trade has also widened. It has now crossed the geographical boundaries of each country. Today, we can buy goods of our need from other countries and also sell our surplus goods abroad without facing much difficulty. When the business firms of two different countries participate in the process of buying and selling of goods it is termed as External Trade. Now you think yourself, is there any difference in the nature and procedure of this type of trade from the type of trade about which you have already learnt in the previous lesson?

Now let us try to find out the answer to such questions.

OBJECTIVES

After studying this lesson, you will be able to:

- define the term 'external trade';
- describe the importance of external trade;
- identify the different types of external trade;
- explain the various difficulties faced in external trade;
- state the various documents used in external trade;
- explain the procedure for import and export of goods; and
- describe the various export promotion measures undertaken by the government.

23.1 EXTERNAL TRADE – MEANING

You know that no country in the world possesses everything that is needed by its people. So they all have to depend on others to meet their requirement of certain items. For example, a country may be rich in iron and steel but poor in aluminium. So it has to meet

its requirement of aluminium from countries with surplus production of aluminium. Not only that, the countries having excess production of certain items find it beneficial to sell them to some other countries and buy items in which they are deficient from others. It is also observed that some countries attain specialisation in production of certain products by virtue of adopting advanced technology while others find it difficult or expensive to produce it in their own country. They prefer to buy those products from the former. Thus, uneven distribution of natural resources and specialisation attained in production of certain items give rise to exchange of goods and services between different countries. Such exchange is termed as "External Trade". It is also known as Foreign Trade or International Trade.

> When buying and selling of goods take place across the national boundaries of different countries it is called External trade. It is also known as Foreign trade or International trade.

23.2 Types of External Trade

On the basis of sale and purchase of goods and services, external trade can be divided into three kinds. They are:

(a) Import trade

(b) Export trade

(c) Entrepot trade

Let us discuss details about them.

(a) Import trade

When the busness firm of a country purchases goods from the firm of another country, it is called Import trade. For example, when India Govt. purchases petroleum products, electronic goods, gold, machineries, etc., from other countries it is termed as import trade.

(b) Export trade

When the firm of a country sells goods to a firm of another country, it is called Export trade. For example, the sale of iron and steel, tea, coffee, coal, etc. by Indian companies to other countries is known as its export trade.

(c) Entrepot trade

When the firm of a country imports goods for the purpose of exporting the same to the firms of some other country with or without making any change, it is known as entrepot trade or re-export trade for that country. For example, if an Indian company imports rubber from Thailand and exports it to Japan then it is called Entrepot trade for India. Now you must be thinking, why India comes between Thailand and Japan. Why doesn't Japan directly imports rubber from Thailand? Let us see what could be the possible reasons for this.

A country cannot import goods directly from others because of the following reasons:

- The exporting country may not have any accessible trade routes connecting the importing country; or
- The goods imported may require processing or finishing before exporting. And these facilities may be lacking in the exporting or importing countries;
- There may not be any trade agreement between both the countries.

Visible and Invisible trade

Visible trade refers to imports and exports of tangible goods, whereas invisible trade of a country includes services received from other countries or services rendered to other countries. Shipping and insurance services, services to foreign tourists, services of foreign technicians, interest on loans etc., are some of the example of invisible trade.

23.3 Importance of External Trade

External Trade is an important indicator of economic condition of a nation. Both importing and exporting countries are benefited by external trade. While exporting country earns more foreign exchange by exporting its surplus, the importing country at the same time gets the opportunity to use better products and raise the standard of living of its people. Let us discuss in details about the importance of external trade.

(a) Promotes specialisation

External trade promotes specialisation. When there is expansion in the demand for a particular commodity, its producer is encouraged to specialise in its production. For example, there is demand of Japanese electronic goods all over the world. The result is that Japan's efficacy in this field has developed enormously. Similarly our country has specialised in tea, coffee and sugar production.

(b) Improves standard of living

On account of import trade, a country can consume goods, which it does not produce. On the other hand, it earns foreign exchange through export trade. The import and export trade thus, help in raising standard of living of a country.

(c) Enhances competition

External trade enhances competition, which compels the domestic firms to improve technology of production, production process and quality of the products. It ultimately benefits the consumers in getting better quality products at competitive prices. It also provides a large variety of goods.

(d) Generates employment opportunities

External trade facilitates the growth of agricultural, commercial as well as industrial activities, which in turn generates more and more employment opportunities for the people.

Importance of Foreign Trade

- Promotes specialisation
- Improves standard of living
- Enhances competition
- Generates employment opportunities
- Price equalisation
- International relation
- Economic growth
- Proper utilisation of natural resources

(e) Price equalisation

External trade leads to equalisation of prices of goods and commodities in the world. Whenever the prices of commodities tend to rise because of short supply it can be checked by importing more goods. Similarly when the prices of products decline because of availability of excessive item, the country may export that surplus to others.

(f) International relation

External trade brings the people of two different countries to come closer and to understand the need and requirement of each other. They also participate in various trade and cultural exhibitions. All these activities promote harmonious and cordial relationship among the nations.

(g) Economic growth

Economic growth of every country depends to a large extend on the volume of external trade. If a country specialises in any product, it needs to produce more to meet the worldwide demand. So by producing and exporting more goods and services it can accelerate the economic growth of the country.

(h) Proper utilisation of natural resources

External trade is a means through which the natural resources of various countries can be properly utilised. For example, a country may be rich in minerals but due to lack of technological advancement it is not able to extract those minerals from the earth. So it can import modern equipments and machineries from advanced countries and make proper utilisation of those natural resources.

INTEXT QUESTIONS 23A

1. Mention any two reasons behind 'entrepot trade'.
   (a)_____
   (a)_____

2. How does external trade improves the standard of living of the people.
   _____
   _____
   _____

3. State whether there is Export trade, Import trade or 'Entreport trade' in the following cases pertaining to India.
   (a) India purchased petroleum products from a foreign company. _____
   (b) USA sold Engineering products to India._____
   (c) India bought goods from Russia and sold to Sri Lanka. _____

(d) UK bought jewellery/gold items/pearls from India._____

(e) Germany bought Telecom services from India._____

23.4 Difficulties Faced in External Trade

In internal trade generally buyers and sellers meet together and transactions take place as per their convenience. But in external trade the situation is completely different. It takes a long procedure to buy and sell the goods and services. The business people generally face a number of problems in the process of foreign trade. The various difficulties, which are faced by the buyers and sellers engaged in external trade are discribed below.

Difficulties Faced in Foreign Trade

- Distance
- Greater risk
- Difficulties of transport and communication
- Restrictions
- Lack of personal touch
- Study of foreign markets
- Cost
- Frequent Price Change
- Change in rules and regulations

(a) Distance: External trade involves transport of goods over long distances, except for neighbouring countries. Distance between various countries makes it difficult to establish quick and close trade contact between the importers and exporters.

(b) Greater risk: In external trade goods are exposed to greater degree of risk. Risk in transit of goods is more because of long distance. Goods are transported by ship, which may sink due to storm or collide with submerged rocks. The ships or goods may also be captured by the enemies. These risks may be covered through marine insurance, but that increases the cost of goods.

(c) Difficulties of transport and communication: Long distances incidental to external trade create difficulties of proper and quick means of transport and communication. Though modern means of communication have solved this problem, it is quite costly and can not be used for securing all sorts of information. Loading and unloading of goods often takes long time and also involves large expenses which increases the cost of goods.

(d) Restrictions: External trade is subject to various restrictions by way of customs, tariff, quotas and exchange regulations, which restrict the scope of external trade.

(e) Lack of personal touch: In external trade, the transactions are made with unknown persons through correspondence and other means of communication. There is no direct contact between the buyer and seller. So the risk of dispute and bad debts are always there.

(f) Study of foreign markets: Markets for different products have their own characteristics as regards demand, intensity of competition, buyers' preferences, etc. Thus, an extensive study of foreign markets is required for success in external trade. This is not easily possible from an individual exporter's or importer's point of view.

(g) Cost: Both import and export of goods involve very costly operations due to high cost of transport, insurance, intermediaries and cost of formalities to be completed.

(i) Change in rules and regulations: Every country has framed its own rules and regulations for its external trade, to protect its economic and political interest. These rules change from time to time. So the traders find it difficult to acquaint themselves with the rules and regulations and procedures followed by different countries.

(i) **Frequent price change:** In external trade the price of the product changes frequently due to change in foreign exchange rate, change in import and export duties etc.

> By foreign exchange rate we mean, the rate at which a unit of currency of a particular country is exchanged with a unit of currency of a foreign country. For example, the exchange rate of Indian rupee and US dollar is 41.13 INR as on June, 09, 2007. This rate keeps on changing according to fluctuations in the purchasing power of the foreign currency. You are requested to find out the present exchange rate of Indian currency and American dollar. One US$ = Rs. _____ as on _____.

23.5 Facilitators of External Trade

In the previous section we discussed about some of the problems and difficulties which are faced by the importers as well as exporters. After knowing all these do you think that the traders will alone be able to carryout the business successfully. The answer is obviously NO. The traders need support from others in the process of buying and selling. The persons or institutions that provide various kinds of support are termed as facilitators of external trade. Let us learn about some of such facilitators.

Facilitators in External Trade

- Indent Houses/ Indent firms
- Export Houses
- Forwarding Agents
- Clearing Agents
- Shipping Company
- Insurance Company
- Trade Commissioners
- Trade Representatives

1. **Indent Houses/Indent firms:** They help importer and exporter in sending and receiving the order of goods along with other instructions.
2. **Export Houses:** These are organisations involved in export promotion activities, such as STC, MMTC, Handicrafts and Handloom Export Corporation (HHEC) and Central Cottage Industries Corporation (CCIC) etc.
3. **Forwarding Agents:** They act on behalf of exporters to complete all the formalities of loading the goods on the ship.
4. **Clearing Agents:** Clearing agents act on behalf of the importer and complete all formalities required for clearing the goods from the port of destination. He takes delivery of the goods from the customs authority and sends the goods by rail/road to the place of importer.
5. **Shipping Company:** It carries goods on payment of freight charges, and undertakes to deliver the same to the importer.
6. **Insurance Company:** It bears the loss or damage to the goods against insured risks right from the godown of the exporter to the godown of the importer.
7. **Trade Commissioners:** These officials are appointed by the government in its embassy to represent the country's trade-interests abroad. They collect information relating to trade relations and disseminate the same among traders. They also advise the traders on matters relating to imports and exports.
8. **Trade Representatives:** These officials provide guidance to exporters abroad on behalf of the government of their own country. They make efforts to secure payment for goods and also advise on legal matter s.

INTEXT QUESTIONS 23B

1. How can a clearing agent help the importer?

_____

_____

_____

2. State any four difficulties faced by buyers and sellers in External trade.

_____

_____

_____

3. Match the following facilitations.

Column I	Column II
(a) Export Houses	(i) Carries goods on payment of freight charge.
(b) Indent Houses	(ii) Agent ready to bear the loss/damage.
(c) Clearing Agents	(iii) Organisation involved in Export promotion activities.
(d) Shipping Company	(iv) Help in receiving orders to goods with in structions.
(e) Insurance Company	(v) Complete all formalities for clearing goods from destination.

Essential Requirements for Exporter and Importer

If you want to start an export-import business then first you have to obtain the following legal documents.

1. **Import Export Code (IEC) number:** The IEC number is granted by the Director General of Foreign Trade. Every firm dealing with export-import business must obtain this number without which no documents relating to external trade will be forwarded.

2. **Registration-cum-Membership Certificate (RCMC):** Government provides certain facilities and benefits to the exporters and importers under its EXIM policy. To avail such facilities every firm must obtain the Registration-cum-Membership Certificate from the appropriate export promotion council. Export promotion councils are different organizations set up by the Government to promote and develop exports of different categories of products.

23.6 Procedure for Export Trade

The procedure generally adopted for exporting goods to a foreign country is as follows:

1. **Receipt of enquiry and sending quotations :** The importer of goods first sends an enquiry to different exporters requesting them to send information about price, quality, terms of payment etc. In reply to the enquiry, the exporters then send the quotation mentioning details about the products, price, quality, mode of delivery, terms and conditions if any.

2. **Receipt of an indent or export order:** If the prospective importer finds the terms and conditions acceptable, then he places an order for export of goods which is known as indent. An indent contains a description of the goods ordered, price to be paid, terms and conditions of delivery, packing of goods and other details. On receipt of indent if the exporter finds it satisfactory, then he forwards his acceptance to export the goods.

3. **Credit Enquiry :** The exporter must ensure that there is no risk of default in payment. He should verify the credit worthiness of the importer. For this purpose he may ask the importer to send a letter of credit, bank guarantee or any other guarantee.

4. **Obtaining export licence :** Each and every country has its own import and export policy for free goods and restricted goods. An exporter in India has to complete various formalities and apply for export license to the appropriate authority. If the authority is satisfied it will issue the export license. To get an export license, the exporter must have (i) an IEC number (ii) RCMC from appropriate export promotion council and (iii) Registration with Export Credit and Guarantee Corporation (ECGC). The registation with ECGC safeguards against risk of non-payments.

5. **Production or Procurement of goods:** The exporter has to produce the goods or buy them from the market. The goods must be in accordance with the instructions given in the indent regarding the quality, quantity, price, etc.

6. **Pre-shipment Inspection:** To ensure that only good quality products are exported from our country, the Government of India has made compulsory pre-shipment inspection of goods by certain authorised agencies .

7. **Excise Clearance:** In India, manufactured products are subject to excise duty under the Central Excise Act. Therefore excise clearance certificate is a must for the goods to be exported. It may be noted here that the Government of India has exempted excise duty in many cases if the goods are manufactured exclusively for the purpose of export.

8. **Packing and marking of the goods :** Packing should be done strictly according to the instructions given in the indent. If loss arises due to defective packing, the exporter may have to bear it. If necessary, grading should be done before packing. The packages should be properly marked according to instructions, if any, so that they may be easily recognised.

9. **Appointment of forwarding agent :** Packed goods may be despatched to the port directly by the exporter or through a forwarding agent. If the goods are stored in any location, the exporter may appoint a forwarding agent who will perform all the formalities on behalf of the exporter before shipping the goods. The forwarding agent will charge commission for this work.

10. **Despatch of goods by rail/road :** The exporter has to despatch the goods by rail/ road to the port town. He will send the R/R (railway receipt) to the forwarding agent along with other instructions. The agent will take delivery of the goods and complete other formalities before shipping them to the importer.

11. **Formalities to be completed by Forwarding agent:**

    (a) **Obtaining the custom permit:** The agent has to apply to the custom office giving full details of the goods and also their destination in order to receive the custom permit. If goods are duty free then custom permit is given immediately, otherwise it will be necessary to complete other formalities.

    (b) **Obtaining shipping order:** The agent has to secure adequate space in the ship for loading of goods. For this purpose he has to sign an agreement with the shipping company for issue of the shipping order which will enable him to put the goods in the ship.

    (c) **Completion of shipping bill and payment of export duty:** The Agent has to fill in three copies of shipping bill and submit them to the custom-house. On the basis of the bill, duty is calculated by the custom authority. The agent has to make payment of the duty and get the original and third copy of the Shipping Bill from the custom authority.

    (d) **Payment of dock dues:** The agent has to make arrangement for carrying the goods to the dock. For this purpose, two copies of properly completed 'Dock Challan' are submitted to the dock authorities along with one copy each of shipping bill and shipping order. After dock charges are received, the dock authorities retain one copy of dock challan and return the duly signed second copy to the agent.

    (e) **Custom's verification before loading of goods:** As soon as the ship touches the port, the dock authorities start loading the goods on it. Before the goods are actually loaded, custom officials verify them to know if there is anything on which duty remains to be paid or which is not mentioned in the shipping bill. The captain or his assistant (mate) will receive goods only when shipping order has been produced before him.

    (f) **Mate's receipt:** The captain or mate will issue a receipt known as "mates receipt" after the goods have been loaded. This receipt contains particulars like quantity of goods, number of packets, condition of packing, etc.

    (g) **Bill of lading:** The forwarding agent has to present the mate's receipt at the office of the shipping company and in exchange will get a document known as

Bill of Lading. He has to fill in three blank forms of bills of lading giving details regarding the goods, destination, name of the ship, date and place of loading and name and address of the person to whom delivery is to be made. If the freight is paid in advance the bill of lading is marked 'freight paid'. Otherwise it is marked 'freight forward' which means freight will be paid at the port of destination.

(h) **Insurance of cargo:** As a safeguard against marine risks, it is necessary to insure the goods. Insurance must be done strictly according to the instructions, if any, of the importer as given in the indent. If there is no instruction, the exporter himself should insure the goods. The insurance policy is sent to the importer along with the bill of lading and other documents.

(i) **Advice to the exporter:** The agent then informs the exporter about the shipment of goods and other related matters. He will send the bill of lading, insurance policy, shipping bill etc. to the exporter along with a statement showing his expenses and remuneration.

12. **Preparation of export invoice and consular invoice:** Having received the advice from the forwarding agent, the exporter prepares an export invoice known as foreign invoice. This invoice states the quantity of goods sent and amount due from the importer. Custom regulations of many countries require consular invoice for the purpose of easy clearance of goods at the port of destination in the importing country. If it is required by the importer then the exporter has to arrange for such a document also.

13. **Securing Payment:** There are two alternative methods by which payment can be received by the exporter.

(a) **Letter of credit:** The exporter can get immediate payment on the strength of the letter of credit which is issued by the importer's bank in favour of the exporter. The exporter has to draw the bill in order to get the payment from the local branch of the bank (in home country), which has issued the letter of credit on behalf of the importer.

(b) **Letter of hypothecation:** If the exporter wants to receive payment immediately, he can get the bill (accepted by the importer) discounted with his bank. But for this purpose, he has to give a letter of hypothecation to his bank. Letter of hypothecation is a letter addressed to a bank attached with the bill of exchange which is accepted by the importer. Through his letter of hypothecation, the exporter authorises the bank to sell the goods in case of dishonour of the bill by the importer so that the bank can realise the amount advanced by it to the exporter.

INTEXT QUESTIONS 23C

1. Define 'Letter of Credit'.

_____

_____

2. Name the document referred to in each of the following cases.
   (a) Agreement signed with the shipping company to enable to put goods on the ship.
   (b) Document issued by the captain of the ship after loading the goods on the ship.
   (c) Assured payment on the strength of a document issued by the importers bank.
   (d) Document which authorises the bank to sell the goods in case of dishonour of bill.
   (e) Document received in exchange of Mate's Receipt at the shipping office.

23.7 Procedure for Import Trade

The steps involved in importing goods are discussed below:

1. **Trade enquiry :** It is a written request by the importer to the exporters for supply of relevant information regarding the price, quality, quantity and various terms and conditions of export etc. In response to the trade inquiry of the importer, the exporter prepares the quotation and sends it to the importer.
2. **Obtaining import licence:** An importer cannot import goods without having a valid licence from the Import Licensing Authority. In India it is compulsory to get the IEC number from the DGFT.
3. **Obtaining foreign exchange:** As foreign exchange transactions are controlled by Reserve Bank of India, the importer has to submit an application along with necessary documents to the Exchange Control department of RBI. After scrutinising the application, the Reserve Bank of India will sanction the release of foreign exchange.
4. **Placing the Indent or order :** Indent is the purchase order to the exporter by an importer for specified goods. The indent may be sent directly to the manufacturer of goods or to the exporting agent.
5. **Sending letter of credit:** Generally, the parties in external trade are not very well known to each other. So the exporter wants to be sure of the credit-worthiness of the importer. Usually, the exporter asks the importer to send a letter of credit. An importer can get a letter of credit issued as per terms and conditions of his banker and send it to the exporter. It ensures payment of bill of exchange drawn by the exporter upto the amount specified in the letter of credit.
6. **Procuring the shipping documents:** The importer will arrange to obtain necessary documents such as bill of lading, shipping bill, etc., after receiving the advice letter from the exporter. The documents are procured to take delivery of the goods. He has to go to the exporter's bank to make payment in order to get the necessary documents for taking delivery of the goods.
7. **Appointment of clearing agent :** The importer may take delivery on his own or appoint an agent known as clearing agent, to take delivery of the goods. The importer

sends necessary documents to his agent to clear the goods. The clearing agent charges commission for his services for clearing the goods.

8. **Formalities to be completed by the clearing agent**

   (a) **Endorsement for delivery:** When the ship arrives at the port, the clearing agent approaches the concerned shipping company and gets the bill of lading endorsed in his own name from the shipping company. If the freight has not been paid by the exporter, it will have to be paid before endorsement of the bill of lading.

   (b) **Bill of entry:** The agent has to fill in and submit three copies of the bill of entry to the custom authority. The custom authority will calculate the duty and receive the same from the clearing agent.

   (c) **Payment of dock charges:** The agent has to complete and file two copies of Port Trust receipt and three copies of Bill of entry to the landing and shipping dues office. After receiving the dock charges, the dock authority will return one copy of Port Trust receipt and two copies of the Bill of entry to the agent. Then the agent has to submit this copy alongwith two copies of Bill of entry to the custom office. If customs duty is to be paid, he will make the payment and take delivery of the goods.

   (d) **Despatch of goods by Rail/Road:** The clearing agent has to arrange carriage of the goods to the railway station or the transport authority after taking the delivery from the dock authority. He will despatch the goods by rail/road to his principal and get the railway receipt/carrier receipt.

   (e) **Advice to the importer:** The clearing agent has to write a letter of advice to the importer after despatch of goods. In this letter of advice, information regarding arrival of goods and their despatch by rail/road are specified. He has to enclose with it the railway receipt/carrier receipt and a statement of his expenses and charges.

9. **Delivery of goods from Railway/Transport Authority:** The importer can take delivery of the goods from the railway or transport authority and carry them to his godown.

INTEXT QUESTIONS 23D

1. Mention any three roles played by clearing agent in external trade.

   (a)_____

   (b)_____

   (c)_____

2. Answer the following questions:

   (a) Name the specific department of RBI that controls the foreign exchange transactions.

(b) In import trade, who sends the letter of credit to whom?

(c) Who appoints clearing agent?

(d) To whom is letter of advice forwarded by the clearing agent.

23.8 Documents used in External Trade

The main documents which are used in external trade are discussed below:

1. **Indent :** It is an order placed for import of goods. It is sent to the exporter for supply of goods. It contains full information regarding the goods to be imported i.e., quantity, quality, mode of packing and marking, period of delivery, mode of payment and other instructions regarding shipment and insurance, etc.

2. **Letter of credit :** In external trade, the importer has to prove his credit-worthiness to the exporter, who may demand a certain amount of deposit or even full payment of due price before the shipment of goods. For this purpose, the importer arranges with his bank for issuing a letter of credit in favour of the exporter. Thus, a letter of credit is issued by a bank of the importer's country in favour of the foreign dealer. It contains an undertaking by the bank concerned that the bill of exchange drawn by the foreign dealer on the importer will be honoured on presentation to the extent of amount specified in it. Thus, it establishes the credit-worthiness of the importer and guarantees payment of price to the exporter for the goods exported by him.

3. **Bill of Lading :** It is a document prepared by the ship owner or by the master of the ship acknowledging the receipt of goods and undertaking to deliver the goods at the port of destination. This, on one hand, acts as a proof of the receipt of goods specified there in and on the other, is a document of title to the goods. The document is sent by the exporter to the importer who can take delivery of the goods at the port of destination on presentation of the bill of lading and other shipping documents.

4. **Advice letter :** It is a document, which is prepared by the forwarding agent and sent to the exporter indicating that all the formalities for export of goods have been completed and goods have been shipped. Along with this letter, the forwarding agent sends a statement showing expenses incurred on the goods exported and his remuneration. Similarly, a letter of advice is also prepared by the clearing agent and sent to the importer stating that all the formalities for clearing the imported goods have been completed. Along with this letter, the clearing agent sends the railway receipt as a proof of goods sent to importer as well as his statement of account for expenses incurred and commission charged. Thus, it is a document used both in export and import trade.

5. **Documentary Bill :** When the documents of title to goods are sent along with the bill of exchange drawn by the exporter on the importer, it is called a documentary bill. It may be of two types (a) Documentary bill against payment (b) Documentary bill against

acceptance. In case of documentary bill against payment, the documents of title to exported goods are delivered to the importer only when the importer has paid the amount specified in the bill of exchange. In case of documentary bill against acceptance, the documents of title to the exported goods are delivered to the importer after he has accepted the bill of exchange drawn by the exporter.

6. **Insurance Policy :** The insurance policy is issued by the insurance company to cover the risks of loss or damage to goods due to specified causes. If there is no insurance then the loss will have to be borne by the owner of the goods, the exporter or importer. Under CIF (Cost Insurance Freight) contract, insurance is generally done by the exporter while under FOB (Free on Board) contract, insurance is done by the importer. There are different types of insurance policies to cover different types of risks in external trade.

7. **Shipping order:** In order to hire space in the ship, the exporter or his agent has to enter into an agreement with the shipping company. The shipping company on the conclusion of the agreement gives a shipping order, which contains instruction to the captain of the ship to receive on board the specified quantity of goods from the exporter.

8. **Shipping Bill:** The shipping bill is a document prepared by the exporter, or the forwarding agent on the basis of which the custom authority calculates the duty to be paid by the exporter.

9. **Mate's receipt :** When goods are brought to the docks for shipment, the document issued by the dock authority is known as a dock receipt. It is the duty of the dock authority to load the goods in the ship. But if goods are directly taken into the ship, the captain or his assistant (mate) gives a receipt as a proof of goods loaded in the ship. This receipt is known as Mate's receipt. If the mate is not satisfied regarding the packing of goods, he issues a foul Mate's receipt, otherwise he issues a clean Mate's receipt.

10. **Dock Challan, Dock Warrant and Dock Receipt :** The exporter has to fill up a form for the payment of dock charges. This form is known as 'Dock Challan'. After paying the dock charges, a document is issued permitting the goods to be brought to the docks for loading. This document is known as Dock Warrant. After the goods are actually brought to the docks and handed over to the dock authority for loading in the ship, the document issued as a proof of delivery is known as Dock Receipt.

11. **Consular Invoice :** The exporter fills up a special invoice form mentioning all the particulars about the goods shipped and certifying the accuracy of the prices shown. This invoice is signed by the consul of the importer's country stationed in the exporter's country. This special invoice is known as Consular invoice. This document is obtained to avoid under and over invoicing as well as for easy clearance of goods by the custom authority at the importer's country.

12. **Certificate of origin :** It is a document issued as a proof of the fact that the goods have been produced in the country mentioned on it, i.e., a certificate about the genuine origin of the goods exported. This document is issued on the basis of trade agreements between the countries in which they agree to levy lower rates of import duties on the goods produced by them. Some chambers of commerce are authorised to issue such certificates.

13. **Airway bill :** When goods, especially perishable ones, are sent to the importer by air, then this document is needed. It is a receipt given by the airline authority for the goods it is carrying. At the destination it has to be surrendered by the importer for releasing goods. It contains such information as name and address of exporter, name and address of importer or his agent, description of goods, number of packages, weight and volume of goods, rate of freight and total freight, airport of loading and destination, flight number and date, etc.

14. **Export Invoice/Foreign Invoice :** The foreign invoice is prepared by the exporter and he/she sends it to the importer after the shipment of goods. This invoice contains details such as the name of the ship, port of shipment, port of destination, number of indent, details regarding packing and marking, price of goods and other expenses including freight, dock dues and insurance charges.

15. **Bill of Entry :** Bill of entry is a form to be filled up by the importer at the time of receiving the goods. It is a document based on which imported goods are cleared from the port. These are two types of bill of entry.

    (a) Bill of entry for Home Consumption: Where an importer wants to get his goods cleared in one lot, he has to present the bill of entry for home consumption.

    (b) Bill of entry for Warehousing: Where an importer wants to shift the goods to warehouse and thereafter get his goods cleared in small lot, he has to present the bill of entry for warehousing. Reason may be that he is unable to pay duty on all goods in one instalment or because he has a storage problem.

    For imports through post, no bill of entry is used. Instead a way bill is prepared by Foreign post office for ascertainment of duty.

INTEXT QUESTIONS 23E

1. What is meant by Consular Invoice?

_____

_____

2. Arrange the following document in proper sequence.
   (a) Dock Receipt
   (b) Dock Challan
   (c) Dock Warrant
3. Answer the following in a word or phrase.
   (a) The document prepared by the master of the ship acknowledging the receipt of good.
   (b) The document issued as a proof of the fact that goods have been produced in the country mentioned on it.
   (c) The document forwarded by the exporter to the importer after the shipment of goods.
   (d) The document issued by the dock authority after receiving the goods from the exporters.
   (e) The document needed in sending goods by air.
   (f) Document which acts as a proof that goods of stated value and quantity are being brought into the country from abroad.

23.9 Export Promotion Measures

Like other countries, India imports and exports a large number of goods and services. After independence, external trade of India has considerably expanded. For economic development it is necessary to import machinery, raw materials and fuel oil. As a result, import into India has increased. However, it is also necessary to increase exports to pay for the imports. The government of India has provided a number of facilities to boost its export trade. Let us discuss some of the promotional measures taken up by Government of India in this regard.

1. **Export Processing Zones/Special Economic Zones**

   Export Processing Zones (EPZs) are industrial estates normally set up near the sea ports where goods are produced primarily for the purpose of exporting to other countries. The raw materials, equipments and machineries for production of finished goods are allowed to be imported without payment of custom duty. Custom clearance and facilities needed for financial transactions are also provided inside the zone. With a view to overcome the shortcomings experienced on account of controls and clearances, EPZs have been converted into Special Economic Zones (SEZs).

   Special Economic Zones (SEZs) are also set up in different parts of the country to provide internationally competitive and hassle free environment for export production. These units may be established in public, private or joint sector for manufacturing, trading or service activity. The SEZs are free from various rules and regulations governing exports and imports except relating to labour and banking.

2. **Hundred per cent Export Oriented Units**

These units are established any where in the country and avail all those facilities being provided to the EPZs. They export all of their products to foreign countries.

3. **Export Houses**

On the basis of the export performance the government has recognised various export units as Export House, Trading Houses, Star Trading Houses, and Super Star Trading Houses. This recognition is given with an aim to encourage the units to put greater efforts and work in a highly professional manner.

4. **Organising Trade Fair**

The government generally arranges trade fairs at international level to provide a platform both for the buyers and sellers to interact where by the export promotion can takes place. Goods are displayed and demonstrated and their sale is also conducted in trade fairs. 'International Trade Fair' in New Delhi at Pragati Maidan, which is held from 14th to 27th November every year, is a well-known example of Fairs that promotes foreign trade.

5. **EXIM Policy**

To provide detailed guidelines on trade and taking various policy decisions for foreign trade Government of India announces the Export Import (EXIM) policy from time to time.

6. **SAFTA**

SAFTA stands for South Asian Free Trade Agreement. It is an attempt to carry on foreign trade activities within SAARC (South Asian Association for Regional Cooperation) countries without many formalities. It aims at trade among all the SAARC countries with zero customs duty by the end of 2012.

SAARC Countries
- Afghanistan
- Bangladesh
- Bhutan
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka

7. **Tax Relief**

Income tax exemptions are allowed to the businessmen on export profits and foreign exchange earnings. They are also entitled for relief under Value Added Tax (VAT) and Excise Duty.

8. **Brand Promotion and Quality Awareness**

In order to encourage manufacturers and exporters to attain internationally accepted standards of quality for their products, the Central Government has extended support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of Total Quality Management (TQM).

INTEXT QUESTIONS 23F

1. State any four Export Promotion measures taken up by the Government of India.
   (a)_____
   (b)_____
   (c)_____
   (d)_____
2. Expand the following terms.
   (a) EPZ_____
   (b) SEZ_____
   (c) EXIM Policy_____
   (d) SAFTA_____
   (e) VAT_____

23.10 WHAT YOU HAVE LEARNT

- **Meaning of External trade :** When buying and selling of goods take place across the national boundaries of different countries it is called External trade. It is also known as Foreign trade or International trade.
- Kinds of External trade

Import trade	Export trade	Entrepot trade
- A firm purchases goods and services from another country	- A firm sells goods and services to another country	- A firm imports goods in order to export the same to another country.

- **Importance of External trade:** A country earns foreign exchange by exporting its surplus and while importing gets the opportunity to use better products and technology. Some of the points of importance are:
  - Promotes specialization
  - Improves standard of living
  - Enhances competition
  - Generates Employment opportunities
  - Price equalisation
  - International Relation
  - Economic Growth
  - Proper utilisation of natural resources.

- Difficulties faced in External Trade : It is generally accompanied by many problems, as listed below.
  - Distance
  - Greater risk
  - Difficulties of transport and communication
  - Restrictions
  - Changes in rules and regulations.
  - Lack of personal touch
  - Study of foreign markets
  - Cost
  - Frequent price change
- **Facilitators of External Trade :** The traders need the support of others in the process of buying or selling in External Trade. Some of them are Indent house, Export house, Forwarding, Clearing Agents, Shipping Company, Insurance Company Trade Commissioners and Trade Representatives.
- Essential requirement for Exporters/Importers:
  (i) IEC number; and
  (ii) RCMC.
- Procedure for Export Trade
  - Receipt of enquiry and sending quotations
  - Receipt of indent or export order
  - Credit enquiry
  - Obtaining Export license
  - Production or procurement of goods
  - Packing and Marking of goods
  - Appointment of Forwarding Agent
  - Despatch of goods by rail/road
  - Formalities by completed by Forwarding Agent
  - Preparation of Export Invoice and Consumer Invoice
  - Securing payment
  - Letter of Credit
  - Letter of Hypothecation
- Procedure for Import Trade
  - Trade enquiry
  - Obtaining import license
  - Obtaining foreign exchange

- Placing the indent or order
- Sending Letter of Credit (Loc)
- Procuring the shipping documents
- Appointment of Clearing Agent
- Formation completed by Clearing Agent
- Delivery of goods from Railway/Transport authority

- Documents Used in External Trade
  - Indent
  - Letter of Credit
  - Bill of Lading
  - Advice Letter
  - Documentary Bill
  - Insurance Policy
  - Shipping order
  - Shipping bill
  - Mates Receipt
  - Dock challan etc.
  - Consular Invoice
  - Certificate of origin
  - Airway bill
  - Export Invoice/Foreign Invoice
  - Bill of Entry
- Export Promotion Measures : The Indian government has provided export promotion measures to boost its export trades and enhance economic development. Some of these are EPZs, SEZs, Hundred Percent Export Oriented Unit, Export houses, Organising Trade Fairs, EXIM Policy, SAFTA, Tax Relief, Brand promotion and Quality Awareness.

23.11 Key Terms

Advice Letter	Bill of Entry	Bill of Lading
Clearing Agent	Consular Invoice	Dock Challan
Dock Receipt	Dock Warrant	Documentary Bill

Foreign Invoice	Forwarding Agent	IEC number
Indent	Invisible Trade	Letter of Credit
Mate's Receipt	Shipping Order	Special Economic Zones

23.12 Terminal Questions

Very Short Answer Type Questions

1. What is External Trade?
2. Name the different types of External trade.
3. What is meant by Entreport trade?
4. Give two reasons for the importance of External trade.
5. Name any two promotion measures for Export trade.

Short Answer type Questions

6. Explain 'packing and marking' of the goods in external trade.
7. Explain the two alternative methods of payment to the exporter.
8. What is meant by 'Letter of Credit'.
9. What are the previleges of EPZs and SEZs.
10. What are (i) Bill of Lading, (ii) Shipping order and (iii) Mate's receipt.

Long Answer type questions

11. Explain the various measures taken up by Government of India to facilitate exports.
12. Discuss the various documents used in External Trade.
13. Advise Suresh, the procedure to import ball pens from Japan.
14. Satish wants to export leather goods to Singapore. You are required to explain to him the procedure for the same.
15. Explain the need and importance of external trade to the Indian Economy.

23.13 Answers to Intext Questions

23A

2. (a) Import
   (b) Import
   (c) Entrepot
   (d) Export
   (e) Export

23.B

3.

Column I	Column II
(a)	(iii)
(b)	(iv)
(c)	(v)
(d)	(i)
(e)	(ii)

23C

1. (a) Shipping order
   (b) Mate's Receipt
   (c) Letter of credit
   (d) Letter of Hypothecation
   (e) Bill of Lading

23D

2. (a) Exchange control department
   (b) Importer sends the letter of credit to exporter
   (c) Importer
   (d) Importer

23E

2. (a) Dock challan
   (b) Dock warrant
   (c) Dock Receipt
3. (a) Bill of Lading
   (b) Certificate of origin
   (c) Export Invoice/Foreign Invocie
   (d) Dock Receipt
   (e) Airway Bill
   (f) Bill of Entry

23F

1. (a) Export Processing Zones
   (b) Special Economic Zones
   (c) Import Export Policy

(d) South Asian Free Trade Agreement

(f) Value Added Tax

DO AND LEARN

You are required to Survey in the nearby area and record the observation of the following:

(a) The goods and services that are not available and you think can be imported.

(b) Find out what are the speciality goods of your local area that can be exported to boost the foreign exchange of our country.

ROLE PLAY

Gaurav was importing goods from USA and was a very accomplished and successful businessman. One day he met his friend Sanjeev who was also into the same business but not very successful. Read the conversation between them as given below.

Gaurav : Hello Sanjeev! How are you?

Sanjeev : Fine, but as usual very busy.

Gaurav : You seem to have no time for your family and friends.

Sanjeev : I am disturbed because I am not able to manage my firm well.

Gaurav : Why, what do you think is the reason?

Sanjeev : I do the running around all by myself. Sometimes I go for obtaining foreign exchange, sending letter of credit, I run for shipping documents. If find it impossible to meet all ends.

Gaurav : Remember when you try to do everything by yourself you end up doing nothing. What I feel is you must appoint an expert for carrying out certain functions. Half of your job will be done by him. Then you can relax and concentrate on other needs of your business.

Sanjeev : You said experts, handling functions? Could you elaborate that?

Gaurav : Now you see, if you appoint a Clearing Agent by paying him commission for his services he will complete the formalities like Endorsement for delivery, payment of dock charges etc.

Now continue the conversion as Gaurav explains the role of clearing agent to Sanjeev.

Chapter at a Glance