MODULE- IV:
VARIOUS GOVERNMENT INSTITUTES SUPPORTING FOREIGN TRADE AND THEIR ROLE

INTRODUCTION

Foreign Trade leads to division of labour and specialisation at the global level. There is no shortage of labour in India. That is one of the reasons Indian government promotes and stimulates policies and schemes to expand the Foreign Trade.

The government of India initiates different incentives and plans to help business firms enhance the competitiveness of their exports. The Government has likewise established a number of institutions to give infrastructural help and also marketing help to organizations doing International business.

In India there are a number of organisation and agencies that provides various types of support to the exporters from time to time. These export organisations provides market research in the area of foreign trade, dissemination of information arising from its activities relating to research and market studies.

What is Foreign Trade?

Foreign trade is the exchange of goods across national boundaries. Prof. J.L. Hanson said, "An exchange of various specialized commodities and services rendered among the corresponding countries is known as foreign trade."

Foreign trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade does not change fundamentally depending on whether a trade is across a border or not.

The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays, and costs associated with country differences such as language, the legal system, or a different culture.

Foreign trade is all about imports and exports. The backbone of any foreign trade between nations is those products and services which are being traded to some other location outside a particular country's borders.

Some nations are adept at producing certain products at a cost-effective price.

Perhaps it is because they have the labor supply or abundant natural resources which make up the raw materials needed. No matter what the reason, the ability of some nations to produce what other nations want is what makes foreign trade work.

Types of Foreign Trade

1. **Import: -** Importing is the purchasing of goods or services made in another country. For example, importing edible oil from Chinese producers to sell in Africa.
2. **Export: -** Exporting is selling domestic-made goods in another country. For example, Hameem Garments exports Readymade Garments (RMG) products to Western Countries.
3. **Re-export: -** When goods are imported from a foreign country and are re-exported to buyers in some other foreign countries, it is called re-export.

   For example, Firm/ Readymade Garments located at EPZs imports raw materials (cotton) from Korea and produces Readymade Garments products by Thai cotton and then those products to Canada.

Reasons / Need / Importance / Advantages of Foreign Trade

The following points explain the need and importance of foreign trade to a nation.

1. **Division of Labor and Specialization**

   Foreign trade leads to the division of labor and specialization at the world level. Some countries have abundant natural resources.

   They should export raw materials and import finished goods from countries which are advanced in skilled manpower. This gives benefits to all the countries and thereby leading to the division of labor and specialization.

2. **Optimum Allocation and Utilization of Resources**

   Due to specialization, unproductive lines can be eliminated, and wastage of resources avoided. In other words, resources are canalized for the production of only those goods, which would give the highest returns. Thus there is rational allocation and utilization of resources at the international level due to foreign trade.

3. **Equality of Prices**

   Prices can be stabilized by foreign trade. It helps to keep the demand and supply position stable, which in turn stabilizes the prices, making allowances for transport and other marketing expenses.

4. **Availability of Multiple Choices**

   Foreign trade helps in providing a better choice to the consumers. It helps in making available new varieties to consumers all over the world.

5. **Ensures Quality and Standard Goods**

   Foreign trade is highly competitive. To maintain and increase the demand for goods, the exporting countries have to keep up the quality of goods. Thus quality and standardized goods are produced.

6. **Raises Standard of Living of the People**

Imports can facilitate the standard of living of the people. This is because people can have a choice of new and better varieties of goods and services. By consuming new and better varieties of goods, people can improve their standard of living.

7. **Generate Employment Opportunities**

   Foreign trade helps in generating employment opportunities by increasing the mobility of labor and resources. It generates direct employment in the import sector and indirect employment in other sectors of the economy. Such as Industry, Service Sector (insurance, banking, transport, communication), etc.

8. **Facilitate Economic Development**

   Imports facilitate the economic development of a nation. This is because, with the import of capital goods and technology, a country can generate growth in all sectors of the economy, agriculture, industry, and service sector.

9. **Assistance During Natural Calamities**

   During natural calamities such as earthquakes, floods, famines, etc., the affected countries face the problem of shortage of essential goods. Foreign trade enables a country to import food grains and medicines from other countries to help the affected people.

10. **Maintains Balance of Payment Position**

    Every country has to maintain its balance of payment position. Since every country has to import, which results in an outflow of foreign exchange, it also deals in export for the inflow of foreign exchange.

11. **Brings Reputation and Helps Earning Goodwill**

    A country which is involved in exports earns goodwill in the international market. For example, Japan has earned a lot of goodwill in foreign markets due to its exports of quality electronic goods.

12. **Promotes World Peace**

    Foreign trade brings countries closer. It facilitates the transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements.

    Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

Features of Foreign Trade (Export/ Import)

1. Import dependency (our country foreign trade depend on import because of high demand and low supply),
2. Import capital goods and industrial goods,
3. Export of readymade garments (RMG), RMG and Knitwear 74% export,
4. Export of agricultural raw materials and products,

5. Unfavorable balance of payment (More import but less export),
6. Operate most business by sea/ocean,
7. More import from Asia (China, Singapore, India) and export in Western countries (USA, England),
8. Government initiation and control (By TCB and EPB govt control foreign trade and operate helpful initiative),
9. Export of jute and jute goods,
10. Export of manpower,
11. Private initiative,
12. Diversity of import goods (necessary goods and unnecessary luxurious goods).
13. Effect of free trade economy (for open market economy unnecessary luxurious goods are imported in our country, and our country's money went to another country)
14. Business with all countries.

Various Government Institutes supporting foreign trade and their role

Export Promotion Councils (EPC)

Export Promotion Councils are government-initiated authorities that promote and support export firms in developing their overseas trade and presence by providing technical and industry insights. Additionally, EPCs also promote government schemes, act as a data store and conduct overseas tours and studies. They also act as an intermediary between the government and the export industry and are critical in formulating the foreign policies of the country.

These Councils are registered as non-profit organizations under the Companies Act/ Societies Registration Act. EPCs perform both advisory as well as executive functions. Export Promotion Councils are responsible for country's image abroad as a council of reliable suppliers of high quality goods and services. The EPCs encourage and monitor the observance of international standards and specifications by exporters. Each product has its own Export Promotion Council; hence the promoter should register under a certain EPC as per their line of product.

Role of Export Promotion Council

- To provide information which is useful for exporters or its members in increasing their exports, they are supposed to make the exporters aware of the Government Schemes and other benefits.

- ❖ Export Promotional Council collects export and import data of its members, as well as other data which is relevant to International Trade to build a statistical base to compare industry growth.
- ❖ They organize Trade Delegations to explore opportunities of exporting products in other countries.
- ❖ They offer advice to their members related to Technology, quality control, standards and specifications etc.
- ❖ They organize Trade Fairs, Exhibitions, Seminars, Meets between buyers and sellers to promote business etc.
- ❖ They are also responsible for promoting communication between Export business community and the Government.

Functions and benefits of Export Promotion Council

- → On being admitted the member is granted Registration cum Membership Certificate (RCMC) of the EPC concerned.
- → For availing export import advantages or concessions in Foreign Trade Policy.
- → To meet prospective buyers by participating in events conducted by EPCs.
- → To stay updated about latest trends in the respective industry through the informational events and activities conducted by EPCs for its members.

For example, members of APEDA (Agricultural and Processed Food Products Export Development Authority Agricultural Products & Processed Foods), an export promotion council which is responsible for promoting export of agricultural and processed foods can avail rebates under its Financial Assistance Scheme on Infrastructural, Quality and Market Development activities undertaken by them.

Directorate General of Foreign Trade (DGFT)

Directorate General of Foreign Trade (DGFT) organisation is an attached office of the Ministry of Commerce and Industry and is headed by Director General of Foreign Trade. DGFT is responsible for implementing the Foreign Trade Policy with the main objective of promoting India's exports.

It is a government organisation in India responsible for the formulation of guidelines and principles for importers and exporters of country. DGFT provides a complete searchable database of all exporters and importers of India. The search can be completed only if full IEC code and first three letters of company name are entered.

DGFT India - Director General of Foreign Trade provides a set of guidelines and framework for importers and exporters wanting to trade in India. DGFT IEC stands for Importer Exporter Code issued by DGFT. Any bonafide person/ company starting a venture for International trade requires DGFT IEC. The guidelines are set by DGFT India -Director General of Foreign Trade.

Presently DGFT India office is presided over by Mr. P.K. Chaudhery, Director General Of Foreign Trade. DGFT India Foreign Trade enables companies to acquire benefits on their imports, exports, customs, exports promotion council etc.

DGFT India is laying stress on the development of foreign trade in the country in the recent years. This is because foreign trade is gaining immense importance in the country by the day. DGFT views this as a national priority in terms of gaining economic as well as overall growth.

Functions of DGFT

Some of the major functions of DGFT and its regional offices throughout the country are as follows:

1. To implement the Exim Policy or Foreign Trade Policy of India by introducing various schemes and guidelines through its network of DGFT regional offices thought-out the country. DGFT perform its functions in coordination with state governments and all the other departments of Ministry of Commerce and Industry, Government of India.
2. To Grant Exporter Importer Code Number to Indian Exporter and Importers. IEC Number is a unique 10 digit code required by the traders or manufacturers for the purpose of import and export in India. DGFT IEC Codes are mandatory for carrying out import export trade operations and enable companies to acquire benefits on their imports/exports, indian customs, export promotion councils council etc in India.
3. DGFT permits or regulate Transit of Goods from India or to countries adjacent to India in accordance with the bilateral treaties between India and other countries.
4. To promote trade with neighboring countries.
5. To grant the permission of free export in Export Policy.
6. DGFT also play an important role in controlling DEPB Rates (Duty Entitlement Passbook).
7. Setting standard input-output norms is also controlled by the DGFT.

Apart from the above, DGFT also acts as a trade facilitator. It also deals with the quality complaints of the foreign buyers. Officials DGFT works in close coordination with other related economic offices like Customs Commissionerates, Central Excise authorities, DRI authorities and Enforcement Directorate.

DGFT Digital Signature

In the year 2004, DGFT has also introduced the digital signature. DGFT

ECGC Ltd. (Export Credit Guarantee Corporation of India Ltd.)

The ECGC Limited is a government enterprise. It is under the ownership of Ministry of Commerce and Industry, Government of India based in Mumbai, Maharashtra. It provides export credit insurance support to Indian exporters. Its topmost official is designated as Chairman and Managing Director who is a central government civil servant under ITS cadre.

Wholly owned by Government of India, was set up in 1957 with the objective of promoting exports from the country by providing credit risk insurance and related services for exports. Over the years it has designed different export credit risk insurance products to suit the requirements of Indian exporters. ECGC is essentially an export promotion organization, seeking to improve the competitiveness of the Indian exports by providing them with credit insurance covers.

The Corporation has introduced various export credit insurance schemes to meet the requirements of commercial banks extending export credit. The insurance covers enable the banks to extend timely and adequate export credit facilities to the exporters. ECGC keeps its premium rates at the optimal level. ECGC provides (i) a range of insurance covers to Indian exporters against the risk of non – realization of export proceeds due to commercial or political risks (ii) different types of credit insurance covers to banks and other financial institutions to enable them to extend credit facilities to exporters and (iii) Export Factoring facility for MSME sector which is a package of financial products consisting of working capital financing, credit risk protection, maintenance of sales ledger and collection of export receivables from the buyer located in overseas country.

Functions of ECGC

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services as well.
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan and advances.

Facilities by ECGC

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with its own credit ratings

- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debt
- Provides information on credit-worthiness of overseas buyers

Special Economic Zone (SEZ)

A special economic zone (SEZ) is an area in a country that is subject to different economic regulations than other regions within the same country. The SEZ economic regulations tend to be conducive to—and attract—foreign direct investment (FDI). FDI refers to any investment made by a firm or individual in one country into business interests located in another country.

To encourage businesses to set up in the zone, financial policies are introduced. These policies typically encompass investing, taxation, trading, quotas, customs and labour regulations. Additionally, companies may be offered tax holidays, where upon establishing themselves in a zone, they are granted a period of lower taxation.

The creation of special economic zones by the host country may be motivated by the desire to attract foreign direct investment (FDI). When a country or individual conducts business in an SEZ, there are typically additional economic advantages for them, including tax incentives and the opportunity to pay lower tariffs.

The prime **objective** was to enhance foreign investment and provide an internationally competitive and hassle free environment for exports. The idea was to promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally. Legislation has been passed permitting SEZs to offer tax breaks to foreign investors.

What is the role of state governments in establishing SEZs?

State governments will have a very important role to play in the establishment of SEZs. Representative of the state government, who is a member of the inter-ministerial committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the ministry of commerce and industry (department of commerce), the states must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc.

Export Processing Zones (EPZs)

Many developing nations are trying to transform their economies by integrating themselves into the global supply chain. This means moving away from an import-centric economy to one based on exports. Countries in Asia, Africa, and Latin America are creating export development programs that encourage investments from multinational companies.

One tool which is used by many nations is Export Processing Zones (EPZ). These are selected areas in a country that are designed to do the following:

- Attract foreign investment to create jobs
- Expand the industrial base
- Introduce technology
- Create backward linkages between the zones and the domestic economy

The EPZ will have some resources that can attract investment such as natural resources, cheap skilled labor, or logistical advantages.

Export Processing Zones (EPZs) also encompasses pre-defined infrastructural facilities and regulations pertaining to establishment of such zones and environmental stipulations, respectively. These Export Processing Zones of India were established to help the growth of Indian export commodities, especially from the fast growing sectors.

Features of the Export Processing Zone

Although export processing zones are located in different geographic regions, they do share some commonalities:

1. Companies based in an EPZ tend to benefit from tax concessions that are generally long-term in nature.
2. Imports of materials and goods for export are duty-free.
3. While parts of countries that do not contain EPZs can remain underdeveloped in terms of technology and infrastructure, EPZs are fitted with advanced communication facilities and enhanced infrastructure. These zones also provide subsidies for utilities and rent to their occupants.
4. EPZ zones can accommodate both domestic and foreign firms; they even offer the opportunity for joint venture operations.
5. The zones are typically located in the vicinity of ports of air and sea, therefore making the import and export process more convenient.
6. Companies do not require as much government approval for practices as firms outside of the zone, with labor laws being more flexible.

Advantages of the Export Processing Zone

- The increase in foreign exchange through increased exports
- Job creation
- Foreign direct investment (FDI) to the host country

- The introduction of technology into the country
- And generating backward linkages from the EPZ to the domestic economy

Disadvantages of Export Processing Zones

There are significant benefits associated with the establishment of an EPZ, with countries such as China, Indonesia, and South Korea boasting great benefits. However, countries like the Philippines have faced poor performance from EPZs. In this example, the cost of establishment of the facilities has outweighed the gains in profits. Other disadvantages include:

1. Labor that is skewed mainly toward the female population leaving the problem of unemployment of the male population unresolved.
2. In some situations, employees work excessive hours in unsafe conditions such as extreme heat, around faulty machinery, and in buildings that are not routinely inspected and maintained.
3. Wages are typically low, often below that of the required country minimum wage.
4. Most employees have to accept the previously mentioned working conditions as trade unions, and labor movements are not allowed.
5. Due to the competitive nature of EPZs, workers often cannot expect any improvement in conditions as operating costs are purposely kept low to attract investors.

The Export Oriented Units (EOUs)

EOUs scheme, introduced in early 1981, is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st December 2005, 1924 units are in operation under the EOU scheme.

Objectives of the Export oriented unit:

The main objectives of the EOU scheme is to increase exports, earn foreign exchange to the country, transfer of latest technologies stimulate direct foreign investment and to generate additional employment.

Applicability

EOUs were mainly concentrated in Textiles and Yarn, Food Processing, Electronics, Chemicals, Plastics, Granites and Minerals/Ores. But now a day, EOU has extended it area of work which includes functions like

Major Sectors in EOUs:

- Granite
- Textiles / Garments
- Food Processing
- Chemicals
- Computer Software
- Coffee
- Pharmaceuticals
- Gem & Jewellery
- Engineering Goods
- Electrical & Electronics
- Aqua & Pearl Culture

Benefits of Export Oriented Units

1. They can procure raw materials and capital goods through domestic sources or import without paying any duty on the purchase
2. They can claim reimbursement on GST amounts they pay
3. In case they have paid duty on the purchase of fuel from domestic oil companies, they can claim a refund on the same
4. EOUs are allowed to claim an input tax credit on goods and services
5. EOUs enjoy priority-basis clearance facilities
6. EOUs are not required to obtain the industrial licensing which is required for manufacturing items that are reserved for the SSI sector

Export–Import Bank of India

Exim Bank was established by the Government of India, under the Export-Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit Agencies. Exim Bank serves as a growth engine for industries and SMEs through a wide range of products and services. This includes import of technology and export product development, export production, export marketing, pre-shipment and post-shipment and overseas investment.

Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructure projects, equipment, goods and services from India, on deferred credit terms. EXIM Bank has laid strong emphasis on enhancing project exports, the funding options for which have been enhanced with introduction of the Buyer's Credit-National Export Insurance Account (BC-NEIA) program.

The Foreign Exchange Management Act, 1999 (FEMA) : - is an Act of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India"
FEMA was formulated to fill all the loopholes and drawback of FERA (Foreign Exchange Regulation Act) and hence several economic reforms (major reforms) were introduced under the FEMA act. FEMA was basically introduced to de-regularize and have a liberal economy in India.

Applicability of FEMA Act

FEMA (Foreign Exchange Management Act) is applicable to the whole of India and equally applicable to the agencies and offices located outside India (which are owned or managed by an Indian Citizen). The head office of FEMA is situated at New Delhi and known as Enforcement Directorate.
FEMA is applicable to:

- Foreign exchange
- Foreign security
- Exportation of any commodity and/or service from India to a country outside India
- Importation of any commodity and/or services from outside India
- Securities as defined under Public Debt Act 1994
- Purchase, sale and exchange of any kind (i.e. Transfer)
- Banking, financial and insurance services
- Any overseas company owned by an NRI (Non-Resident Indian) and the owner is 60% or more
- Any citizen of India, residing in the country or outside (NRI)

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