

**Note****19****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 countries across the globe. Today, we can buy goods of our need from other countries and also sell our surplus goods abroad without facing any 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. External trade also facilitates efficient allocation of resources. 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.

**LEARNING OUTCOMES**

- explains what is external trade and its importance for business;
- identifies the challenges faced by external trade from a business prospective;
- distinguishes between export and import trade procedures; and
- identifies the various measures adopted to promote export in the economy.

19.1 EXTERNAL TRADE - MEANING

You know that no country in the world possesses everything needed by its people. So they all have to depend on other countries of the world 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

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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 gives 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.

19.2 TYPES OF EXTERNAL TRADE

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

- (a) Import trade (b) Export trade (c) Entrepot trade

Let us discuss these in detail .

- (a) **Import Trade:** When the business firm of a country purchases goods from the firm of another country, it is called Import trade. For example, when Indian government 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 the 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.

In India formulation of policies concerning external trade comes under the authority of Ministry of Commerce and Industry.

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

- o **Non-accessibility of Trade Routes:** The exporting country may not have any accessible trade routes connecting the importing country; or
- o **Processing/Finishing Required:** The goods imported may require processing or finishing before exporting. And these facilities may be lacking in the exporting or importing countries;
- o **Lack of Trade Agreement:** There may not be any trade agreement between both the countries. Let's understand this, Thailand, Japan and India are Asian countries. Thailand imported electronic goods from Japan and exported it to India as the latter does not have any trade agreement with Japan. In this example Thailand carried out "enterpot" trade.



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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. Visible trade is also known as merchandise trade.

19.3 IMPORTANCE OF EXTERNAL TRADE

External Trade is an important indicator of the economic condition of a nation. Both importing and exporting countries are benefitted 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 detail 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 and competency 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

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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 in 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 of country.

Tracing the History of External Trade in India

In India, external trade as a concept dates back to as old as Indus valley civilization (3300-1300 BCE) wherein the traders carried out trade with contemporary civilizations like Babylon, Mesopotamia and Persia. They exchanged goods like gold, silver, copper and turquoise. There are evidences which exhibit that Harappan era traders participated in maritime trade network spanning from Central Asia to modern day West Asia such as Iraq, Iran, Kuwait and Syria. In the modern day Iraq (ancient Mesopotamian civilization), archaeological sites have found Harappan seals and jewellery. The period of early Harappan period (3200-2600 BCE) also showed cultural similarities when it comes to designs of pottery, seals, figurines and ornaments between Harappan and Central Asian civilizations. Some of the Harappan sites like Lothal, Surkotada and Balakot were important trading coastal cities which were facilitating external trade. In the Lothal site of Harappan civilization a circular buttoned seal from Persian Gulf had been found which indicates that trade links existed between these two coastal cities.

- (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 other countries of the world.
- (f) **International Relations:** External trade brings the people of two different countries to come closer and to understand the need and requirement of each other. International trade leads to cultural and trade related exchanges. All these activities promote harmonious and cordial relations among the nations.

- (g) **Economic Growth:** Economic growth of every country depends to a large extent 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) **Efficient Utilisation of Natural Resources:** External trade is a means through which the natural resources of various countries can be efficiently and 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.



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INTEXT QUESTIONS 19.1

1. Mention any two reasons for 'entrepot trade'.
2. How does external trade improve the standard of living of the people?
3. State whether there is Export trade, Import trade or 'Entrepot 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.

19.4 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 carrying out foreign trade. The various difficulties, which are faced by the buyers and sellers engaged in external trade are described as follows:

- (a) **Geographical 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.

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- (b) **More Risky in Nature:** In external trade goods are exposed to greater degree of risk. Risk in transit of goods is more because of long distance. Transit of goods may be affected due to poor weather, enemy actions, sea pirates though some of these risks can be covered and mitigated through insurance coverage but it inflates the cost of goods shipped. Risks in foreign trade also arise out of instability in exchange rates.
- (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 cannot 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) **Legal and Custom Related 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) **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.
- (f) **Change in Rules and Regulations:** Every country has framed its own rules and regulations for its external trade in order to protect its economic and political interests. 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.
- (g) **Fluctuations in Exchange Rate :** One of the greatest risks associated with external trade is that prices of products is subject to movement in the exchange rate of the countries which changes frequently-followed by either appreciation or deprecation in the value of currency of any country. Taking into account ever changing currency fluctuations, is a difficult task for business firms.

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 75.64 INR as on June, 26, 2020. 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 _____. In India foreign exchange rate management comes under the authority of RBI.

19.5 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 carry out 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.

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 state trading corporations (STC), Minerals and Metals Trading Corporation (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 (warehouse) of the exporter to the godown of the importer.
 7. **Trade Commissioners:** These officials are appointed by the government in their embassies 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.
- (h) **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 matters.



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INTEXT QUESTIONS 19.2

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):** The 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.

19.6 PROCEDURE FOR EXPORT TRADE

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

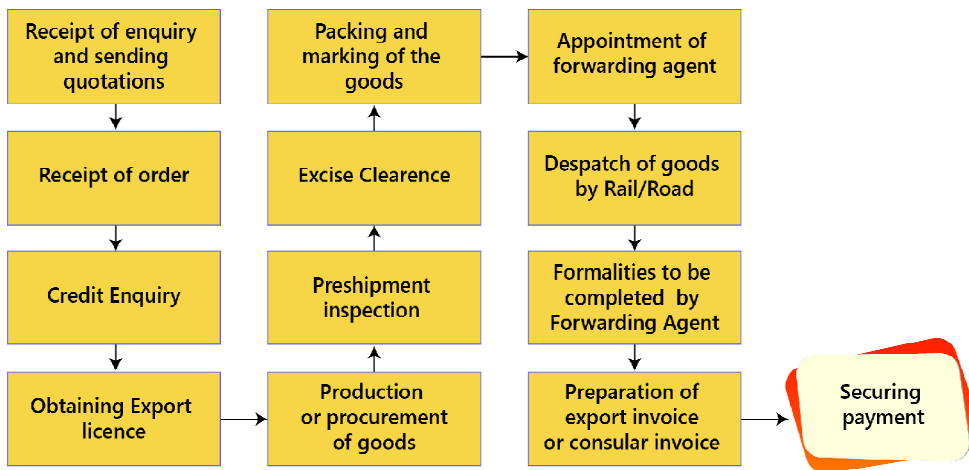


Fig. 19.1 Procedure for export trade

- 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 Export-Import Code (IEC) number (ii) Registration Cum Membership Certificate (RCMC) from appropriate export promotion council and (iii) Registration with Export Credit and Guarantee Corporation (ECGC). The registration with ECGC safeguards against risk of non-payments.

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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 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 to be shipped 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 "mate's 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.



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(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 19.3

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 importer's bank. ()
- (d) Document which authorises the bank to sell the goods in case the () bill is dishonoured.
- (e) Document received in exchange of Mate's Receipt at the shipping office. ()

19.7 PROCEDURE FOR IMPORT TRADE

The steps involved in importing goods are discussed below:

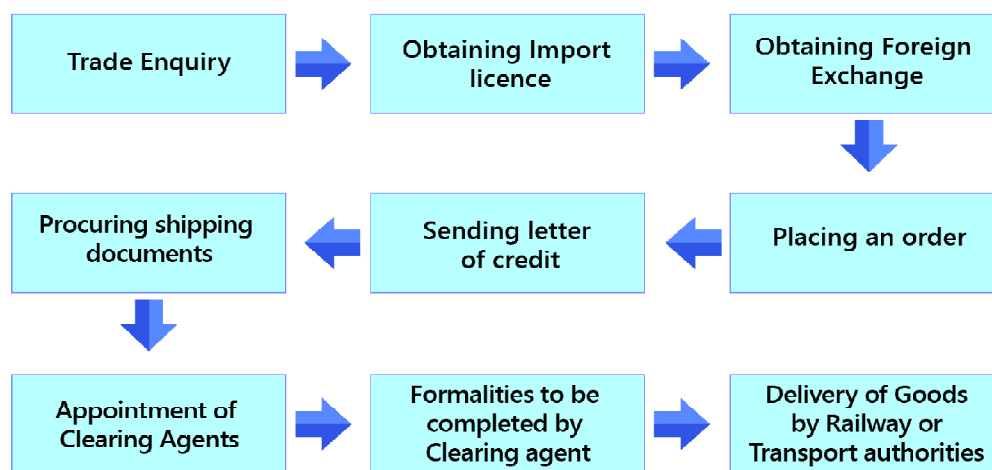


Fig. 19.2

- 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.
- 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 Directorate General of Foreign Trade (DGFT).
- 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.
- 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.



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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 along with two copies of Bill of entry to the custom office. If custom duty is to be paid, he will make the payment and take delivery of the goods. Dock charges are defined as charges which are being paid to concerned port by a shipping company using for loading and unloading of 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 is 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.



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INTEXT QUESTIONS 19.4

1. Mention any three roles played by clearing agent in external trade.
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 the clearing agent?
 - (d) To whom is letter of advice forwarded by the clearing agent.

19.8 DOCUMENTS USED IN EXTERNAL TRADE

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

1. **Indent:** It is an official order or requisition 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 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**

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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 document
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.



Note

Trade



Note

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 lots, he has to present the bill of entry for warehousing. The reason could be 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 19.5

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.
- The document prepared by the master of the ship acknowledging the receipt of goods.
 - The document issued as a proof of the fact that goods have been produced in the country mentioned on it.
 - The document forwarded by the exporter to the importer after the shipment of goods.
 - The document issued by the dock authority after receiving the goods from the exporters.
 - The document needed in sending goods by air.
 - Document which acts as a proof that goods of stated value and quantity are being brought into the country from abroad.



Note

19.9 WORLD TRADE ORGANISATION

The Eighth Uruguay Round was successful and led to the setting up of the World Trade Organisation (WTO). The WTO was launched on January 1, 1995 replacing the General Agreements on Trade and Tariffs (GATT). Naturally, the GATT members became the members of WTO. It administers the agreements contained in the Final Act of the Uruguay Round.

As on December 2017, WTO has 164 members. WTO is headquartered at Geneva, Switzerland.

As the name suggests, GATT was meant to deal with tariffs and other trade restrictions and prescribe rules for international trade. The removal of trade barriers was sought to be achieved through negotiations among the GATT members. In all, GATT had seven rounds of prolonged negotiations, the last one being the Uruguay Round, which was launched in September 1986 and concluded in December 1993. These negotiations covered not only the traditional subjects such as tariffs and non-tariff restrictions, but also extended to cover seven broad areas, viz., (i) market access, (ii) agriculture, (iii) textiles, (iv) trade related intellectual property rights (TRIPS), (v) trade related investment measures and services (TRIMS), (vi) trade in services, and (vii) institutional matters. While negotiations on the various aspects of trade related matters were concluded quite successfully by the GATT, it was however realised that the GATT did not have any mechanism for resolving trade disputes among the member nations.

Trade



Note

Consequently, any powerful member could veto any decision arrived at by the organisation and impose its will on the small member countries. Thus, an organisation was required which could provide a level playing field to all the members and resolve trade disputes with authority and equity. This led to the establishment of the World Trade Organisation (WTO), which offers a far more powerful mechanism for resolving disputes in international trade. India has been a member of WTO since January 1, 1995 and member of GATT since 8th July 1948.

Before we proceed further, let's learn some key differences between GATT and WTO which can be summarized as follows:

1. **Conceptual Framework:** GATT was basically a set of rules and regulations for multilateral trade agreements with the objective of promoting international trade while WTO is an institutional mechanism which attempts to regulate, monitor and liberalize international trade.
2. **Institutional Existence:** GATT does not have any institutional existence while WTO bears permanent institutional character with functioning secretariat.
3. **Nature of Participation:** In case of GATT participating nations were contracting parties while WTO has membership for nations.
4. **Scope of Application of Rules and Regulations:** The rules and regulations pertaining to GATT were applicable for goods only while in case of WTO it extends to both goods and services.

Objectives of WTO

- i. Raising standard of living
- ii. Employment generation.
- iii. Optimal use of world resources.
- iv. Promoting sustainable development.

WTO has been playing an important role in facilitating and promoting international trade. The following points sum up the "Role of WTO"

- (i) WTO facilitates international business and promotes international peace.
- (ii) It has reduced trade and non-trade barriers in the conduct of international trade.
- (iii) WTO agreements have made international trade and relations very smooth and predictable.

- (iv) Free trade improves the living standard of the people by increasing their income level.
- (v) Free trade provides ample scope of getting varieties of qualitative products.
- (vi) Economic growth has been speeded up because of free trade.
- (vii) WTO helps fostering growth of developing countries by providing them with special and preferential treatment in trade related matters.

**Note****TERMINAL EXERCISE****Very Short Answer Questions**

1. What is meant by 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 Questions

1. Explain 'packing and marking' of the goods in external trade.
2. Explain the two alternative methods of payment to the exporter.
3. What is meant by 'Letter of Credit'?
4. What are (i) Bill of Lading, (ii) Shipping order and (iii) Mate's receipt.

Long Answer questions

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

Trade

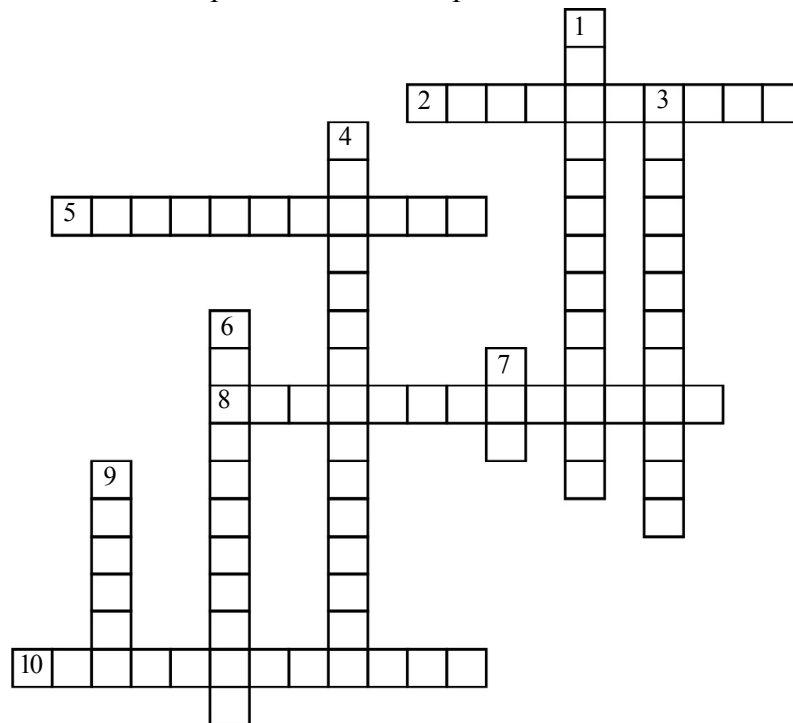


Note

Activity

Name:.....

Complete the crossword puzzle below



Horizontal

- 2. Receipt given by airline authority for the goods it is carrying (alrwaybill)
- 5. document filled by importer, based on which imported goods are cleared from the port (billofentry)
- 8. Firm imports goods in order to export to other country (entrepottrade)
- 10. Document issued by the captain of the ship after the goods have been loaded (matesreclpt)

Vertical

- 1. Request by the importer to the exporter for details (price, quality, qty etc) regarding supply of goods (tradeenquiry)
- 3. Document received in exchange of Mates receipt at the shipping office (billofiading)
- 4. Special invoice form filled by exporter certifying the accuracy of prices shown (consuiarinovice)
- 6. Under this contract insurance is done by the importer (freeonboard)
- 7. launched on january 1995 replacing GATT (wto)
- 9. contains description of goods ordered, packing, price, conditions of delivery etc (indent)



ANSWERS TO INTEXT QUESTIONS

19.1

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

19.2

- 3. (a) iii; (b) iv; (c) v; (d) i; (e) ii

19.3

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



Note

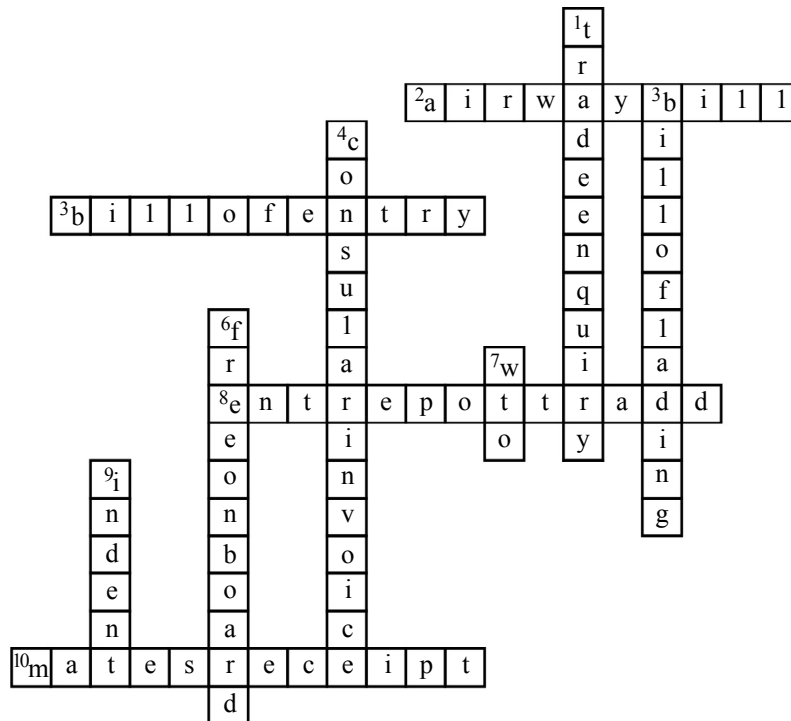
19.4

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

19.5

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

Solution to crossword puzzle:



Horizontal

2. Receipt given by airline authority for the goods it is carrying (airwaybill)
5. document filled by importer, based on which imported goods are cleared from the port (bill of lading)
8. Firm imports goods in order to export to other country (entrepot trade)
10. Document issued by the captain of the ship after the goods have been loaded (mates receipt)

Vertical

1. Request by the importer to the exporter for details (price, quality, qty etc) regarding supply of goods (trade enquiry)
3. Document received in exchange of Mates receipt at the shipping office (bill of lading)
4. Special invoice form filled by exporter certifying the accuracy of prices shown (consular invoice)
6. Under this contract insurance is done by the importer (free on board)
7. launched on January 1995 replacing GATT (WTO)
9. contains description of goods ordered, packing, price, conditions of delivery etc (indent)

Trade



Note

DO AND LEARN

1. You are required to survey the nearby area and record the observations on 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.
 - (c) After identifying the goods as in part (a), that can be imported, determine the country from where to import and enlist the various steps for import procedure for the same.

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. I 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 conversation as Gaurav explains the role of clearing agent to Sanjeev

WHAT HAVE YOU LEARNT

