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UNIT-3

FOREIGN TRADE

Foreign Trade:-

Foreign Trade is the exchange of goods and services between two countries in the international market. It helps in the availability of raw material/finished product in a country that either does not have it or has it in scarcity. No country is self-sufficient in terms of natural or man-made resources, so it is prudent to approach other countries that have them in abundance.

Types of Foreign Trade

There are three different types of foreign trade, which are as follows:

- **Import trade:** It is the purchase of goods and services by one country from another country. Here the flow of goods is from a foreign land to the home nation. Countries import goods and services when they need raw materials for producing goods or when they need a finished product for domestic consumption.
- **Export trade:** It is the selling of goods and services to another country. Here the flow of goods is from the home nation to a foreign land. Countries export goods and services to another nation when they have that particular commodity in abundance.
- **Entrepot trade:** This process is also called re-export. In this form of trade, a business purchases goods or services from one country, reprocesses those products, and then sells them to another country.

Benefits of Foreign Trade:

Foreign Trade has many benefits for all the countries involved in it. Some of the advantages of exchanging goods in the international market are as follows:

- **Foreign Exchange:** Foreign Trade helps countries get access to foreign currency and boost up their reserves. This currency is essential when it comes to paying for imports of goods and services.
- **Consumers get more options:** People from one country enjoy superior quality goods and services from other nations. They would not have gained access to these products were it not for International trade. These products can also help them improve their standard of living in the long run.
- **Optimum use of a nation's resources:** No country can fulfil all its consumption needs independently. They have to depend on other nations for specific products. International trade allows them to procure raw materials/finished products that they don't have. It helps countries focus on producing what they are good at and help increase efficiency in the production process of those products.
- **Economic Benefits:** International trade generates employment opportunities for organisations and countries involved in the export/entrepot of goods and services. It also helps to improve the Gross Domestic Product for that country.

Steps involved in Import transactions :

1. Trade Enquiry: The importing company should first gather information about the countries and companies that export the given product. The importer is able to collect such data from trade directories and/or trade associations as well as organisations. After identifying the countries and firms that export the product, the importing firm contacts the export firms by using a trade enquiry to learn about their export prices and terms of export.

A trade enquiry is a written request from an importing firm to an exporter for information on the price and various terms and conditions under which the latter is willing to export goods. The importer will receive a quotation from the exporter in response to this inquiry. The quotation includes information about the goods available, such as their quality and price, as well as the terms and conditions of the sale.

2. Procurement of Import Licence: Certain goods can be imported freely, while others require licencing. The importer must consult the current Export-Import (EXIM) policy to determine whether the goods he or she intends to import require import licencing. If goods can only be imported with a licence, the importer must obtain an import licence. Every importer (and exporter) in India must register with the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority and obtain an Import Export Code (IEC) number. This number is required on the majority of import documents.

The Imports and Exports (Control) Act of 1947 governs the import trade in India. Without a valid import licence, a person or company cannot import goods into India.

The Indian government declares its import policy in the Import Trade Control Policy Book, also known as the Red Book. Every importer must first determine whether or not he can import the goods he desires, as well as how much of a particular class of goods he can import during the time period covered by the relevant Red Book.

3. Obtaining Foreign Exchange: The supplier in an import transaction requests payment in a foreign currency because they are based overseas. Indian currency must be converted into foreign currency in order to make a payment in another currency. The Reserve Bank of India's Exchange Control Department oversees all foreign exchange transactions in India (RBI).

Every importer is required by the current regulations to obtain the approval of foreign currency. The importer must submit an application to a bank that the RBI has authorised to issue foreign currency in order to receive such a sanction. In accordance with the Exchange Control Act's guidelines, the application must be submitted in the prescribed format and include an import licence.

The exchange bank endorses and forwards the applications to the Reserve Bank of India's Exchange Control Department. The Reserve Bank of India sanctions the release of foreign exchange after scrutinising the application on basis of the Government of India's exchange policy in effect at the time of application. The importer obtains the necessary foreign exchange from the relevant exchange bank. It should be noted that, whereas import licences, which are issued for a specific period of time, the exchange is only released for a specific transaction. Most restrictions have been lifted as the rupee has become convertible on a current account as the economy has liberalised.

4. Placing Order or Indent: The importer places an import order or indents with the exporter for the supply of the specified products after obtaining the import licence. The import order includes details about the cost, size, grade, and quality of the goods ordered, as well as packing, shipping, ports of departure and arrival, delivery schedule, insurance, and payment method instructions. In order to avoid any ambiguity and subsequent conflict between the importer and exporter, the import order should be carefully drafted.

It contains the importer's instructions regarding the quantity and quality of goods required, the method of forwarding them, nature of packing, mode of payment and price, and so on. Indentations are typically prepared in duplicate or triplicate. Indent types include open indent, closed indent, and confirmatory indent. Because all of the necessary particulars of goods, price, and so on are not mentioned in the indent, the exporter is free to complete the formalities at his own end. On the other hand, a closed indent is one that clearly states the full particulars of the goods, price, brand, packing, shipping, insurance, and so on. A confirmatory indent is one in which an order is placed subject to the importer's agent's confirmation.

5. Obtaining a Letter of Credit: If a letter of credit is the preferred method of payment between the importer and the overseas supplier, the importer must obtain one from its bank and send it to the supplier. A letter of credit, as previously mentioned, is a guarantee made by the bank of the importer that it will honour payment of export bills to the bank of the exporter up to a certain amount. A letter of credit (L/C) is an undertaking by its issuer (usually the importer's bank) that bills of exchange drawn by the foreign dealer on the importer will be honoured on presentation up to a specified amount.

6. Arrangement of Finance: Prior to the arrival of the goods at the port, the importer should make arrangements to pay the exporter. To avoid grossly overpaying demurrages (fines) on imported goods that are lying uncleared at the port due to lack of payments, advanced planning for financing imports is required.

7. Advice for Shipment Receipt: The international supplier sends the importer the shipment advice after loading the goods onto the ship. Information regarding the shipment of goods is included in shipment advice. The shipment advice includes information such as the invoice number, bill of lading/airways bill number and date, vessel name with date, port of export, description of goods and quantity, and date of vessel sailing.

8. Retirement of Documents: After the goods have been shipped, the overseas supplier gathers the required paperwork in accordance with the contract and letter of credit terms and gives it to their banker for negotiation with the importer in the manner indicated in the letter of credit. A bill of exchange, commercial invoice, bill of lading or airline bill, packing list, certificate of origin, marine insurance policy, etc. are generally included in a set of documents. Retirement of import documents refers to the acceptance of a bill of exchange for the purpose of receiving delivery of the documents. When retirement is finished, the bank will give the importer the import documents.

9. Goods Arrival: The international supplier ships the goods in accordance with the agreement. The person in charge of the carrier, whether it be a ship or an airline, notifies the person in charge at the dock or the airport of the arrival of goods in the importing country. The import general manifest document is presented by him. The specific details of the imported goods are listed in an import general manifest document. It is a document that the unloading of cargo is based.

10. Custom Clearance: After they cross Indian borders, all imported goods are required to go through customs clearance. A number of formalities must be completed in the somewhat time-consuming process of customs clearance. It is suggested that importers appoint C&F agents who are familiar with such formalities and play a crucial role in getting the goods cleared through customs.

The importer must first obtain a delivery order also called an endorsement for delivery. The importer normally gets the endorsement on the back of the bill of lading when the ship docks at the port. The relevant shipping company provides this endorsement. In some cases, the shipping company issues a delivery order rather than approving the invoice. The importer has the right to accept delivery of the goods under this order. Of course, before taking possession of the goods, the importer must first pay the freight charges (if the exporter has not already done so).

Steps involved in an Export Transaction

The number and sequence of steps involved in an export process may vary from subject to subject, i.e., the exported goods category. However, the basic steps involved in a typical export transaction are discussed below:

1. Receipt of inquiry and sending quotation:

Like any buyer, an importer inquires from various exporters about the availability of goods, quality, price, terms and conditions of exporting the product. Exporter extends the information being inquired for in the form of quotation, commonly known as **Proforma Invoice**. The proforma invoice contains all the relevant information, like the price at which goods will be exported, minimum order quantity, quality and size, mode of delivery, mode of payment, etc.

2. Receipt of order or Indent:

Once the importer agrees to the terms and conditions laid down by an exporter, he/she places the order with the exporter of the product. This order is called **Indent,** which contains detailed information about the goods to be exported, quantity, price to be paid, packaging, and delivery instructions.

3. Assessing the importer's credit worthiness and securing a guarantee for payments:

After receiving an order, to minimize the risk of non-payment, the exporter inquires about the credit worthiness of the importer. The exporter demands a **Letter of credit** from the importer for the security of the payment. A letter of credit is a guarantee given by the importer's bank that in case of non-payment by an importer, the bank shall pay a certain amount of export bill to the exporter's bank, on the behalf of the importer.

4. Obtaining an export license:

All the export transactions in India are governed by custom law. An exporter once sure about the payment is bound to obtain an export license under this law, before proceeding further. To get the license, an exporter shall:

- Open a bank account in any bank authorized by the Reserve Bank of India.
- Obtain Import-Export Code(IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import-Export Licensing Authority.
- Get registered with the appropriate export promotion council.
- Get registered with Export Credit and Guarantee Corporation to minimize the risk of non-payment.

Every exporter must get registered with an appropriate export promotion council, such as Engineering Export Promotion Council (EEPC) and Apparel Export Promotion Council (AEPC). Such registration enables an exporter to avail of various export-related benefits of the government.

5. Obtaining pre-shipment finance:

Once all the above procedures are accomplished, the exporter approaches his/her bank to obtain pre-shipping finance to procure necessary items required for the production of the goods ordered and other related activities like packaging and transportation of goods to the port of shipment, delivery of goods, etc.

6. Production or procurement of goods:

After obtaining the finance from the bank, an exporter starts to procure the goods as per the instruction of the importer. The export firm either produces the goods itself or gets the ready-made goods from the market.

7. Pre-shipment inspection:

The government of India wants an assurance that only A-one quality goods are being exported from India. For this, various Inspection Agencies have been set up under the Export Quality Control and Inspection Act of 1963. After producing or procuring the goods, an exporter requires to obtain a pre-shipment inspection certificate from the concerned authorized Inspection Agency. The inspection certificate ensures the quality of the goods and is one of the important documents required at the time of export.

8. Excise clearance:

Excise Duty is the tariff charged by the government on the material used for manufacturing the goods to be exported under Central Excise Tariff Act. The exporter has to apply to the Excise Commissioner to obtain the excise clearance certificate. However, some goods are exempted from excise duty, and under such circumstances, an exporter either does not make any payment or gets a refund under the duty drawback scheme.

9. Obtaining a certificate of origin:

To avail of the benefits provided by the importing nation, an exporter shall obtain a certificate of origin. The certificate of origin is proof that the goods are actually been produced in the country from where it is being exported.

10. Reservation of shipping space:

The exporting firm approaches the shipping company for reserving shipping space for the goods. The shipping company on acceptance of such application, issue a shipping order to the captain of the ship, instructing him to board the goods after their customs clearance.

11. Packing and forwarding:

Goods are then packed and marked properly with details, like:

- Name and address of an importer.
- Gross and net weight of the goods.
- Port of shipment and destination.
- Country of origin.
- Road or Railway receipt.

12. Insurance of goods:

The exporter obtains an insurance policy for the goods to be exported to avoid transit-related risks. The insurance protects the insurer against any risk of loss or damage to the goods caused due to sea perils at the time of transit.

13. Customs clearance:

The exporter prepares a shipping bill, giving details of the goods, the name and address of the exporter, the name of the loading port, the name of the destination port, and so on. The five copies of the bill, along with the following documents are submitted to the Customs Officer-

- Export Contract or Export Order.
- Letter of Credit.
- Commercial Invoice.
- Certificate of Origin.
- Certificate of Inspection.
- Marine Insurance Policy.

Only after receiving custom clearance from the Custom House, goods are loaded on the ship.

14. Obtaining mates receipt:

Once the goods are loaded on the ship, the captain of the ship issues a mate receipt to the Port Superintendent. On receiving the port dues, Port Superintendent passes on the mate's receipt to the exporter directly or through the C&F agent. Mate receipt contains information, like the name of the vessel, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc.

15. Payment of freight and issuance of bill of lading:

On receiving the mate receipt, the shipping company calculates the freight charges for the concerned goods. After receiving the charges, the bill of lading is issued by the shipping company as proof of accepting, and delivering the goods to their destination.

16. Preparation of invoice:

After the goods are set for transmission, an exporter issue an invoice stating the number of goods and amount to be cleared by an importer. Also, the C&F agent has to get the invoice duly attested by the customs.

17. Securing payment:

Once the shipment is done and goods have reached the destination port, an importer needs the following documents to claim his title on goods:

- Verified copy of the invoice.
- Invoice of lading.
- Packing list.
- Insurance policy.
- Certificate of origin.
- Letter of credit.

These documents are passed on to an importer, by an exporter's bank after acceptance of a bill of exchange. The importer releases payment after the maturity of the bill of exchange. However, an exporter can get the payment immediately by submitting a letter of indemnity.

Documents required in an export transaction

1. **Documents related to goods**

- **Export Invoice:** An export invoice is a bill prepared by the seller giving information about the quantity of bill, the number of packages, the amount of bill, the name of the destination port, terms of delivery, etc.
- **Packing list:** The packing list states the number of packs and the nature of goods contained within the packages.
- **Certificate of origin:** A certificate of origin specifies the name of the country in which goods are being produced. It helps the exporter to avail of the benefits given by the importer country to an exporter of some specific countries.
- **Certificate of inspection:** A certificate of inspection acts as a guarantee that goods to be exported are of good quality. Such a certificate is issued by government authorized agencies, such as the Export Inspection Council of India (EICI).

2. **Documents related to shipment**

- **Mate's receipt:** A Mate's receipt is issued by the captain of the ship to the Port Superintendent after the goods are loaded on the ship. Port Superintendent, on receipt of port charges, passes on the receipt to the exporter or the C&F agent. The mate's receipt is important for computing freight charges.

- **Shipping Bill:** A shipping bill is issued by an export firm that gives details of the goods, the name and address of the exporter, the name of the loading port, the name of the destination, and so on. The shipping bill is the most important document required to obtain customs clearance.
- **Bill of lading:** After the computation of freight charges, the shipping company issues a bill of lading issued as proof of accepting and delivering the goods to their destination. When the transit is done through the airways, **Airway Bill** is issued instead of the bill of lading.
- **Marine insurance policy:** Marine insurance policy is a certificate issued by an insurance company as a promise to indemnify any loss of the insured goods in case of transit-related tragedies.

3. Documents related to payment

- **Letter of credit:** A letter of credit is a guarantee given by the importer's bank that in case of non-payment by an importer, the bank shall pay a certain amount of export bill to the exporter's bank on the behalf of the importer.
- **Bill of exchange:** Bill of exchange is a financial instrument drawn by an exporter in the name of the importer for demanding a payment related to the export consignment. The exporter's bank transfers the necessary documents to the importer only after acceptance of a bill of exchange.
- **Bank certificate of payment:** Bank certificate of payment is a certificate to ensure that the important documents related to a particular export consignment have been transferred to the importer and the payment has been received.

International Trade Documents

1. Proforma Invoice

A proforma invoice is a quote provided by the company to the buyer in an international transaction. A proforma invoice is necessary for the international prospect, which is vital for calculating financing, opening a letter of credit, applying for import licences, etc., and documents used in international trade.

A complete proforma invoice looks like a commercial invoice, which includes the following details.

- The details, like who is the buyer and seller in the transaction.
- Complete information on the goods or services, like the price and quantity for international trade.
- The source used for payment.
- The delivery details of the goods or services, like the location and source of delivery.
- The currency used for payment.

Carefully add the expiration date of your proforma invoice to avoid the hassle of even a minor error, which could prove harmful to your business.

2. Commercial Invoice

Once you have shared a proforma invoice with your buyer, start preparing goods for shipping and complete the documentation work for international trade.

The commercial invoice for international trade looks very different from the commercial invoice you use for domestic.

Commercial invoices and invoices you create for your companies are different. The invoices used for your business on a domestic level are generally the ones you need for accounting to get paid.

What is the commercial invoice in international trade included?

- Order number
- Purchase order number
- Customer reference number
- Banking and payment information
- Detail, value, and quantity of products or goods.

Furthermore, in a commercial invoice, you can add marine insurance information or other details that might help the buyer to get a clear vision of the delivery of the goods.

3. Packing List

An export packing list is a crucial international trade document for freight forwarders, banks, and customs officials. A freight forwarder requests an export packing list because with the help of the information included in the packing list, he will know about the bills of lading for the shipment.

On the same side, the bank of the seller also reads the packing list so you can receive the payment from the buyer under a letter of credit.

Furthermore, a customs official needs an export packing list to know which pack they can examine instead of checking the entire shipment.

The packing list includes the following details:

- Items in the shipment
- Packages net, gross weight, and dimensions
- Special safety instructions for delivery of the goods

In case of any damage or loss of cargo and disagreement between the carrier and exporter, the company can file an insurance claim on the bases of the packing list.

4. Shipper's Letter of Instruction (SLI)

This letter is one of the vital documents used for international trade. This document comes into use to process the export with a freight forwarder. No matter who will hire the freight forwarder for the transport of goods, the shipper's letter of instruction is a document mandatory for international trade.

Depending on your terms of the sale agreement, SLI with all the necessary information required for successful international trade.

SLI includes a limited Power of Attorney, providing authority to someone to complete the shipment on your behalf.

5. Certificate of Free Sale

A certificate of free sale is sometimes called a certificate for export and a certificate to foreign governments. It is evidence that goods like food items, cosmetics, medical devices, or biologics are legally free for sale in the open market and have no restrictions. The goods have approval from the regulatory authorities in the country of origin.

A Certificate of Free Sale is one of the documents used for registering your new product in a country for international trade. It is a kind of information you share with the authority that you have launched a new product or started a new service for importing and confirms that the good or service is legal to sell in its origin country.

6. Certificates of Origin

This document includes information about the country from where the goods originated. The certificate of origin comes into use when it has a sign of a semi-official organisation, like a chamber of commerce or a consulate officer.

A certificate of origin is still a document used for international trade if you have included the name of the country that originated the goods in your commercial invoice.

7. Inland Bill of Lading

This document is for the export of goods between the exporter and the shipper of the goods. This document includes the name of the delivery state for goods. It is also a receipt to confirm that goods are not in the warehouse and successfully picked up for delivery.

8. Air Waybill

It is a negotiable bill for the goods that are shipped on a plane. This document is used for international trade, like a contract of carriage between the shipper and the carrier. The International Air Transport Association (IATA) distributes air waybills.

9. Ocean Bill of Lading

There are two ocean bills of lading to export your goods by ocean vessel. A straight bill of lading is not negotiable and is signed by a specific consignee. A negotiable bill of lading is a document to prove that the ownership of the product or good is successfully transferred to another person and forwarded to the bank of the buyer.

10. Dangerous Goods Forms

This form is required to ship dangerous goods. No matter if your product comes under the category of dangerous goods of the International Air Transport Association (IATA) or the International Maritime Organisation (IMO), you need a dangerous good form for international trade.