UNIT 3

FREE TRADE VS. PROTECTIONISM

One view says that we should make it as easy as possible for goods and services to move between countries. This approach is based on the argument that more trade makes us wealthier and is therefore a good thing. It is known as free trade.

Another approach says that we should restrict trade. We might do this to protect certain jobs. We might think that we need certain industries – such as food production or steel-making – just in case things go wrong in the wider world. We might want to restrict imports from countries with lower labour or environmental standards so they can't undercut our industries. This approach is known as protectionism.

Many economists agree that some restrictions on trade are desirable, but that we should be careful, as such restrictions can make us poorer overall. For example, limits on agricultural imports may be good for British farmers, but they also increase food prices.

Free Trade

International trade that takes place without barriers such as tariff, quotas and foreign exchange controls is called free trade. Thus, under free trade, goods and services flow between countries freely. In other words, free trade implies absence of governmental intervention on international exchange among different countries of the world.

Arguments for Free Trade

(i) Advantages of specialisation

Firstly, free trade secures all the advantages of international division of labour. Each country will specialise in the production of those goods in which it has a comparative advantage over its trading partners. This will lead to the optimum and efficient utilisation of resources and, hence, economy in production.

(ii) All-round prosperity:

Secondly, because of unrestricted trade, global output increases since specialisation, efficiency, etc. make production large scale. Free trade enables countries to obtain goods at a cheaper price. This leads to a rise in the standard of living of people of the world. Thus, free trade leads to higher production, higher consumption and higher all-round international prosperity.

(iii) Competitive spirit prevails:

Thirdly, free trade keeps the spirit of competition of the economy. As there exists the possibility of intense foreign competition under free trade, domestic producers do not want to lose their grounds. Competition enhances efficiency. Moreover, it tends to prevent domestic monopolies and free the consumers from exploitation.

(iv) Accessibility of domestically unavailable goods and raw materials:

Fourthly, free trade enables each country to get commodities which it cannot produce at all or can only produce inefficiently. Commodities and raw materials unavailable domestically can be procured through free movement even at a low price.

(v) Greater international cooperation:

Fifthly, free trade safeguards against discrimination. Under free trade, there is no scope for cornering raw materials or commodities by any country. Free trade can, thus, promote international peace and stability through economic and political cooperation.

(vi) Free from interference:

Finally, free trade is free from bureaucratic interferences. Bureaucracy and corruption are very much associated with unrestricted trade.

In brief, restricted trade prevents a nation from reaping the benefits of specialisation, forces it to adopt less efficient production techniques and forces consumers to pay higher prices for the products of protected industries.

Arguments against Free Trade

(i) Advantageous not for LDCs:

Firstly, free trade may be advantageous to advanced countries and not to backward economies. Free trade has brought enough misery to the poor, less developed countries, if past experience is any guide. India was a classic example of colonial dependence of UK's imperialistic power prior to 1947. Free trade principles have brought colonial imperialism in its wake.

(ii) Destruction of home industries/products:

Secondly, it may ruin domestic industries. Because of free trade, imported goods become available at a cheaper price. Thus, an unfair and cut-throat competition develops between domestic and foreign industries. In the process, domestic industries are wiped out. Indian handicrafts industries suffered tremendously during the British regime.

(iii) Inefficient industries remain perpetually inefficient:

Thirdly, free trade cannot bring all-round development of industries. Comparative cost principle states that a country specialises in the production of a few commodities. On the other hand, inefficient industries remain neglected. Thus, under free trade, an all-round development is ruled out.

(iv) Danger of overdependence:

Fourthly, free trade brings in the danger of dependence. A country may face economic depression if its international trading partner suffers from it. The Great Depression that sparked off in 1929-30 in the US economy swept all over the world and all countries suffered badly even if their economies were not caught in the grip of depression. Such overdependence following free trade becomes also catastrophic during war.

(v) Penetration of harmful foreign commodities:

Finally, a country may have to change its consumption habits. Because of free trade, even harmful commodities (like drugs, etc.) enter the domestic market. To prevent such, restrictions on trade are required to be imposed.

In view of all these arguments against free trade, governments of less developed countries in the post-Second World War period were encouraged to resort to some kind of trade restrictions to safeguard national interest.

Protection

By protection we mean restricted trade. Foreign trade of a country may be free or restricted. Free trade eliminates tariff while protective trade imposes tariff or duty. When tariffs, duties and quotas are imposed to restrict the inflow of imports then we have protected trade. This means that government intervenes in trading activities.

Thus, protection is the anti-thesis of free trade or unrestricted trade. Government imposes tariffs on ad valorem basis or imposes quota on the volume of goods to be imported. Sometimes, export taxes and subsidies are given to domestic goods to protect them from foreign competition. These are the various forms of protection used by modern governments to restrict trade.

Arguments for Protection

The concept of protection is not a post-Second World War development. Its origin can be traced to the days of mercantilism (i.e., 16th century). Since then various arguments have been made in favour of protection.

(i) Economic Arguments:

(a) Infant industry

When the industry is first established its costs will be higher. It is too immature to reap economies of scale at its infancy. Workers are not only inexperienced but also less efficient. If this infant industry is allowed to grow independently, surely it will be unable to compete effectively with the already established industries of other countries.

Thus, an infant industry needs protection of a temporary nature and over time will experience some sort of ‘learning effect’. Given time to develop an industry, it is quite likely that in the near future it will be able to develop a comparative advantage, withstand foreign competition and survive without protection.

(b) Diversification

As free trade increases specialisation, so protected trade brings in diversified industrial structure. By setting up newer and variety of industries through protective means, a country minimises the risk in production. Comparative advantage principle dictates narrow specialisation in production.

(c) Employment

Protection can raise the level of employment. Tariffs may reduce import and, in the process, import-competing industries flourish. In addition, import- substituting industries—the substitution of domestic production for imports of manufactures—develop. The strategy of import-substituting industrialisation promotes domestic industry at the expense of foreign industries.

Thus, employment potential under protective regime is quite favourable. In brief, tariff stimulates investment in import-competing and import substitution industries. Such investment produces favourable employment multiplier.

(d) Balance of payments

A deficit in the balance of payments can be cured by curtailing imports. However, imports will decline following a rise in tariff rate provided other trading partners do not retaliate by imposing tariff on a country's export. However, import restrictions through tariff may be uncalled for if the balance of payments crisis becomes serious and chronic. In view of this and other associated problems of tariff, it is said that tariff is a second best policy.

(e) Anti-dumping

Usually, we hear about unfair competition from firms of low-cost countries. One particular form of unfair competition is dumping which is outlawed by international trade pacts, such as WTO. Dumping is a form of price discrimination that occurs in trade. Dumping occurs when a country sells a product abroad at a low price because of competition and at a high price in the home market because of monopoly power.

In other words, dumping is a kind of subsidy given to export goods. This unfair practice can be prevented by imposing tariff. Otherwise, workers and firms competing with the dumped products will be hit hard.

(f) Strategic trade advantage

It is argued that tariffs and other import restrictions create a strategic advantage in producing some new products having potential for generating some net profit. There are some large firms who prevent entry of new firms because of the economies of large scale production. Thus, these large firms reap pure profits over the long run during which new firms may not dare enough to compete with these established large firms. Thus, the large scale economies themselves prevent entry of new firms.

(ii) Non-Economic Arguments:

(a) National defense

There are some industries which may be inefficient by birth or high cost due to many reasons and must be protected. This logic may apply to the production of national defence goods or necessary food items. Whatever the cost may be, there is no question of compromise for the defence industry since 'defence is more important than opulence'. Dependence on foreign countries regarding supply of basic food items as well as defence products is absolutely unwise.

(b) Miscellaneous arguments against protection

There are some good 'side effects' or 'spillover effects' of protection. This means that it produces some undesirable effects on the economy and the basic objective of protection can be attained rather in a costless manner by other direct means other than protection. That is, protection is never more than a second-best solution.

PAYMENTS METHODS FOR FOREIGN TRADE

In order to become successful in today's global marketplace, exporters should provide their customers with appealing sales terms supported by suitable payment methods. The ultimate goal is getting paid in full and on-time for each export sale. An applicable payment method must be chosen carefully to reduce the payment risk while also fulfilling the needs of the buyer.

There are a variety of ways that payments can be made, including a different level risk for collection. We will try to explain these methods from most secure to least secure for exporters.

1. CASH-IN-ADVANCE

Cash-in-advance payment terms can help an exporter avoid credit risks, because payment is received up front **before the ownership of the goods is transferred**. For international sales, wire transfers and credit cards are the most common used cash-in-advance options available for importers. This presents the **least risk to a seller** while having the **most risk to the buyer**.

However, requiring payment in advance is the **least favorite option for the buyer,** because it generates an unfavorable cash flow. Especially when traders do not know each other, buyers are concerned that the goods may not be sent if payment is made in advance. Also, exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms.

2. LETTERS OF CREDIT

A letter of credit, or "credit letter" is one of the most secure payment methods available to international traders. It is a **letter from a bank guaranteeing that a buyer's payment to a seller** will be received on time and for the correct amount and it is one of the **most secure payment methods** available to international traders. The buyer sets up credit and **pays his or her bank for this service**. A Letter of Credit is useful when well-founded credit information about a foreign buyer does not exist or is difficult to secure, but **the exporter is satisfied with the creditworthiness** of the buyer's foreign bank. A Letter of Credit also protects the buyer as they do not **need to make a payment until the goods have been shipped as promised.**

3. DOCUMENTARY COLLECTIONS

In a documentary collection process, the seller instructs their bank to forward **documents related to the export of goods to a buyer's bank with an instruction to present these documents to the buyer for payment**, pointing when and on what circumstances these documents can be released to the buyer. Funds are received from the importer and transferred to the exporter through the banks involved in the collection in exchange for those documents. Documentary Collections involve **using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date** (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods.

This can be done in two ways-
Documents against payment - The exporter gives the ownership documents of an asset to their bank, which then presents them to the importer after payment is received.
The importer can then use the documents to take possession of the merchandise.

Documents against aceptance - The exporter's bank on behalf of the exporter instructs the importer's bank to release the transaction documents to the importer.

Although banks do act as facilitators for their clients, Documentary Collections offer **no verification process** and limited recourse in the event of non-payment. They **do not provide the same level of security as Letters of Credit**, but, as a result, the costs are lower. Unlike Letters of Credit, for a Documentary Collection, the bank acts as a channel for the documents but does not issue any payment covenants (does not guarantee payment). The bank that has received a Documentary Collection may debit the buyer's account and make payment only if authorized by the buyer.

4. OPEN ACCOUNT

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in **30, 60 or 90 days**. Obviously, this method is based on the trustworthiness between the two parties and this is one of the **most advantageous options to the importer** in terms of cash flow and cost, but is consequently one of the **highest risk options for an exporter**.

Because of high competition in export markets, foreign buyers often press exporters for open account terms since the **extension of credit** by the seller to the buyer is more **common abroad**. Therefore, **exporters who are not willing to extend credit may lose a sale to their competitors**. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques. When exporters offer open account terms, they can also use **export credit insurance** for extra protection.

5. CONSIGNMENT

Consignment is another method of an open account in which **payment is sent to the exporter only after the goods are sold by the foreign distributor to the end customer**. An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold. Clearly, exporting on consignment contains high risks as the exporter may not receive any payment and its goods are in a foreign country in the hands of an independent distributor or agent.

Consignment increases the chances of exporters to become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate **insurance** should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

EXIM BANK

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 (Small and Mid sized enterprises) through a wide range of products and services.

Founded: 1982
Headquarters: Mumbai
Subsidiaries: Export-Import Bank of India, Asset Management Arm, Export Import Bank of India, London Branch

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. During the year ended March 31, 2020, EXIM Bank sanctioned loans of Rs 40255 crore, while disbursements amounted to Rs 33735 crore. Loan Assets stood at Rs 99447 crore as on March 31, 2020.

FUNCTIONS OF THE EXIM BANK

Let us take a look at some of the main functions of Export and Import Bank of India bank:

1. Finances import and export of goods and services from India
2. Provides refinancing facilities to other financial institutions.
3. It also finances the import and export of goods and services from countries other than India.
4. It finances the import or export of machines and machinery on lease or hires purchase basis as well.
5. Provides refinancing services to banks and other financial institutes for their financing of foreign trade.
6. EXIM bank will also provide financial assistance to businesses joining a joint venture in a foreign country.
7. The bank also provides technical and other assistance to importers and exporters. Depending on the country of origin there are a lot of processes and procedures involved in the import-export of goods. The EXIM bank will provide guidance and assistance in administrative matters as well.
8. Undertakes functions of a merchant bank (loans and investments) for the importer or exporter in transactions of foreign trade.
9. Will also underwrite(determining the risk and price of a particular commodity) shares/debentures/stocks/bonds of companies engaged in foreign trade.
10. Will offer short-term loans or lines of credit (duration within which a customer can draw the funds) to foreign banks and governments.

11. EXIM bank can also provide business advisory services and expert knowledge to Indian exporters in respect of multi-funded projects in foreign countries

IMPORTANCE OF THE EXIM BANK

Other than providing financial assistance, the Export and Import Bank of India is always looking for ways to promote the foreign trade sector in India. In the early 1990s, EXIM introduced a program in India known as the Clusters of Excellence.

The aim was to improve the quality standards of our imports and exports. It also has a tie-up with the European Bank for Reconstruction and Development. It has agreed to co-finance programs with them in eastern Europe.

In order to promote exports EXIM bank also has schemes such as production equipment finance program, export marketing finance, vendor development finance, etc.

EXIM BANK INITIATIVES

Export-Import Bank of India (Exim Bank) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India’s trade and investment with the CIS (Common wealth of independent state) countries.

Exim Bank provides a range of funded and non-funded facilities, guarantees, information and advisory services to support project exports from India. In the CIS region, Exim Bank has supported a number of Indian project exporters to secure contracts in various sectors including mining, energy, and transportation. Exim Bank also offers a range of information, advisory and support services to Indian companies to effectively participate in projects funded by multilateral funding agencies such as the World Bank, Asian Development Bank, European Bank for Reconstruction and Development (EBRD).

With a view to helping Indian companies in their internationalization efforts, Exim Bank provides term loans both for equity investment in their ventures overseas as well as for lending purposes. In the CIS region, Exim Bank has supported Indian companies to set up joint ventures as for instance in Kazakhstan, Ukraine and Uzbekistan in pharmaceuticals sector.

ROLE IN FOREIGN TRADE

- To provide Indian exporters with alternate financial solutions and enable them to become competent internationally.
- To provide relevant and timely information to Indian exporters about export opportunities in various areas of export.
- To provide currency advice to Indian producers to enable them make cost-competent exports.
- To provide marketing and production finance to Indian manufacturers to make their products internally competitive.
- To take into the problems of Indian exporters and work on policies for resolution.

The bank also plays a critical role in partnering Indian industries in their globalization efforts. The bank provides assistance in various financial, marketing and technical aspects to accelerate growth of Indian economy. The bank engages into various programs and services in the interests of Indian exporters, commercial banks, financial institutions to promote foreign trade in the country.

Indian exporters are provided with supplier's credit, Pshipment credit, import finance, besides deferred credit against technology and consultancy services to foreign buyers. Under the Import finance scheme, the bank finances export related imports like computers systems, software, machinery, plant for installation / upgrading / expansion of production etc.

EXIM Bank offers credit facility for setting up export-oriented units, export processing zones(EPZs), Domestic Tariff Areas (DTA) and units exporting at least 25% of their total annual sales. Indian companies seeking equity share in joint ventures abroad are also availed credit facility by EXIM bank.

The bank offers facilities like export bill discounting, refinance of export credits and term loans for Commercial Banks of India. Short-term export bills (for which usage period is not more than 180 days) of small scale industrial units can be discounted with EXIM bank.

ECGC

(EXPORT CREDIT GUARANTEE CORPORATION)

The ECGC Limited is a government owned export credit provider. 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.

Founded: 30 July 1957
Headquarters: Mumbai
CEO: M. Senthilnathan
Type: Government of India enterprise
Products: Export Credit Insurance
Owner: Ministry of Commerce and Industry, Government of India

Export Credit Guarantee Corporation of India (ECGC) is an Indian enterprise that is administered by the Government of India through the Ministry of Commerce and Industry. ECGC which is wholly owned by the Indian Government was set up in year 1957 with the intention to promote exports by offering credit risk insurance and allied services to the exporters.

Export Credit Guarantee Corporation of India is fundamentally an export promotion organization, which seeks to enhance the competitiveness of Indian exports by offering them credit insurance covers.

ECGC is the 5th largest credit insurance company dealing with the exports of any country.

- Export **promotion** organization.
- Administered by the GoI - **Ministry of Commerce and Industry.**
- **Wholly owned** by the Government of India.
- Based in **Mumbai**, Maharashtra.
- **Naming**:
  - Export Risk Insurance Corporation (ERIC) - **30th July 1957.**
  - Export Credit & Guarantee Corporation Ltd – **1964.**
  - Export Credit Guarantee Corporation of India - **1983**.
  - Renamed as ECGC limited - **August 8th, 2014.**
- Enhance the **competitiveness** of Indian exports.
- **Protection** against the non-payment by an importer.
- Provide export credit **guarantee/ insurance** to the exporters.

FUNCTIONS OF ECGC

1. Offers an array of **Credit Risk Insurance** covers.
2. Provides **Export Credit Insurance** covers to the banks and other financial institutions.
3. Offers **Overseas Investment Insurance** to the Indian companies investing in (JVs) abroad.
4. Offers insurance **protection** to exporters in the case of any **payment risks.**
5. Provides **guidance** to activities related to export.
6. Provides **information** regarding different countries with its own **credit ratings.**
7. Assists exporters in **recovering** bad debts.
8. Provides information regarding **creditworthiness** of overseas buyers.

INSURANCE COVERS & GUARANTEES

Insurance Covers:	Guarantees:
a. Standard policies b. Construction works and services policies c. Financial Guarantees d. Special policies	i. Export finance guarantee ii. Packing credit guarantee iii. Post-shipment export credit guarantee iv. Export production finance guarantee v. Transfer guarantee vi. Export performance guarantee

Uncovered Risks
i. Exchange loss due to fluctuations in exchange rates.
ii. Failure on the part of buyer abroad to obtain import authorization.
iii. A default of the exporter or his agent.
iv. Any loss which arises due to dispute in quality.
v. Risk which is inherent in the nature of goods.

Packing Credit Guarantee: It helps the exporter to obtain better and adequate facilities from their bankers. The Guarantees assure the banks that, in the event of an exporter failing to discharge his liabilities to the bank, ECGC would make good a major portion of the bank's loss. bank is required to be co-insurer to the extent of the remaining loss. Features of this guarantee are:

- Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a firm order or Letter of Credit qualifies for Packing Credit Guarantee.
- Pre-shipment advances given by banks to parties who enter into contracts for export of services or for construction works abroad to meet preliminary expenses in connection with such contracts are also eligible for cover under the Guarantee.
- The Guarantee, issued for a period of 12 months based on a proposal from the bank, covers all the advances that may be made by the bank during the period to an individual exporter within an approved limit.
- Approval of ECGC has to be obtained if the period for repayment of any advance is to be extended beyond 360 days from the date of advance.
- Whole-turnover Packing Credit Guarantee (WTPCG) can be issued to banks which wish to obtain cover for packing credit advances granted to all its customers on all-india basis. Premiums are lower and higher percentage of cover is offered under this option.

Export Production Finance Guarantee: The purpose of this Guarantee is to enable banks to sanction advances at the pre-shipment stage to the full extent of cost of production when it exceeds the f.o.b. value of the contract/order, the differences representing incentive/duty drawback receivable.
Post-Shipment Credit Guarantee: Banks extend post-shipment finance to exporters through purchase, negotiation or discount of export bills or advances against such bills. The post shipment credit guarantee provides protection to banks against non-realisation of export proceeds and the resultant failure of the exporter to repay the advances availed. Features of this guarantee are:
Export Finance Guarantee: This guarantee covers post-shipment advances granted by banks to exporters against export incentives receivable in the form of cash assistance, duty drawback, etc.
Export Performance Guarantee: This is akin to a counter-guarantee to protect a bank against losses that it may suffer on account of guarantees given by it on behalf of exporters.
Export Finance (Overseas Lending) Guarantee: It protects the banks providing foreign currency loans to the contractors executing overseas project, against the risk of non-payment by the contractor.

STC (STATE TRADING CORPORATION)

STC was set up on 18th May 1956 primarily with a view to undertake trade with East European countries and to supplement the efforts of private trade and industry in developing exports from the country. STC played an important role in country's economy. It arranged imports of essential items of mass consumption (such as wheat, pulses, sugar, edible oils, etc.) and industrial raw materials into India and also contributed significantly in developing exports of a large number of items from India.

The present Board of Directors of STC comprises of Director (Personnel) with additional charge of CMD, one Director (Marketing), Director(Finance), MMTC who has additional charge of Director(Finance), STC and two ex-officio Directors from the Ministry of Commerce. Presently, STC has no independent directors on its Board.

9. State Trading Corporation of India (STC): The Government directly participates in foreign trade business through its agencies. Hence the State Trading Corporation was established in 1956 as an entirely state owned organisation, primarily to deal with bilateral trading partners in East European Countries. Now its aim is to stimulate foreign trade of India, by enlarging the scope of exports and facilitating essential imports.

Fllowing are the main objectives of State Trading Corporation:

(1) To provide developmental finance and to boost exports of small Scale sector,

(2) To check unhealthy competition in international marketing.

(3) To promote the production of non -traditional items and opening new fields for the export of traditional items.

4) To facilitate imports in specific commodities

(5) To regulate foreign trade in certain commodities.

(6) To facilitate the implementation of trade agreements and barter deals.

(7) To increase the revenue of the Government

(8) To undertake internal trade as and when the situation warrants.

(9)To ensure adequate and regular supplies at reasonable and stable prices of essential commodities.

(10) To stimulate the production of essential agricultural and industrial commodities.

(11) To promote the export activities.

(12) To encourage economic equality.

(13) To act as vehicle for the implementation of Government policies.

in order to fulfill the above objectives, the State Trading Corporation has to carry out the following important functions.

- ≥ Improving domestic and international trade.
- ≥ increasing the national resources of the countries
- ≥ undertaking trade with State Trading Countries and other foreign traders.
- ≥ Exploring of new markets for traditional items
- ≥ Developing exports of new products.
- ≥ Ensuring the quality and quantity of various products to foreigners at competitive rates.
- ≥ Assisting in the settlement of trade disputes.
- ≥ Implementing all trade agreements entered in to by the Government of India with other countries
- ≥ Diversifying and supplementing the foreign trade of India.
- ≥ Securing better terms of trade and economies in handling imports and distribution of essential raw materials.

The State Trading Corporation of India has some subsidiaries:

(a) Projects and Equipment Corporation of India (PEC):- It was established in 1971, with the following objectives.

() To boost the export of engineering and railway equipment in established markets.

() To penetrate new markets.

() To promote the export of nontraditional and new products.

() To boost the exports of turnkey projects in the field of railway systems, public utilities and industrial plants.

(b) Cashew Corporation of India: It was formed in 1970, with the following objectives:-

- To find new markets for the export of cashew kernels.
- To establish new sources of the import of raw cashew nuts.
- To ensure an uninterrupted supply of imported raw cashew nuts at fair prices for export oriented industries.

(c) Handicraft and Handloom Export Corporation of India: It was incorporated in 1962. The main object of this corporation is to develop new markets, expand traditional ones and helping private sector handloom and handicraft.

The following are the important criticisms leveled against State Trading Corporation of India

- ✓ It lacks business expertise as its key officials are bureaucrats.
- ✓ Its efficiency is affected by periodical changes in the officials
- ✓ It often delays the execution of foreign orders.
- ✓ It has failed to solve technical problems of foreign trade relating to buyers and producers.
- ✓ It is not able to take quick actions and decisions
- ✓ It has tailed to arrange the import of raw materials at competitive
- ✓ prices and supply them to industries.
- ✓ The red tapism in the STC is at its peak

MINERALS AND METALS TRADING CORPORATION OF INDIA

Was formed on 26 September, 1963
Headquarters: New Delhi
Subsidiary: Mica Trading Corporation of India [MITCO] - 1974
Present chairman: Sudhanshu Pandey

MMTC Ltd., Metals and Minerals Trading Corporation of India, is one of the two highest earners of foreign exchange for India and India's largest public sector trading body.

Promotes export of Minerals and Metals
Import large amount of raw material

The Minerals and Metals Trading Corporation of India Ltd. (MMTC) is **India's largest public sector trading** body. Apart from overseeing the export of primary products such as coal and iron ore, and manufactured agricultural and industrial products, the MMTC also imports much-needed commodities such as ferrous and nonferrous metals for industry, and agricultural fertilizers.

Established in 1963, Minerals and Metals Trading Corporation (MMTC), one of the two highest foreign exchange earner for India, is a leading international trading company with a turnover of over $7 billion.
MMTC is major global player in the minerals trade and is the **single largest exporter of minerals from India.** With its comprehensive infrastructural expertise to handle minerals, the company provides full logistic support from procurement, quality control to guaranteed timely deliveries of minerals from different ports, through a wide network of regional and port offices in India, as well as international subsidiary.

As a leading player in fertilizers and fertilizer raw material, the company has become a major **fertilizer marketing company in India**, through planned forward integration of its import activities with the direct marketing of urea, DAP, MOP, sulphur, rock phosphate, SSP and other farming and agricultural inputs.

MMTC is the largest importer of gold and silver in the Indian sub–continent, handling about 146 MT of gold and 1250 MT of silver during 2008–09. It supplies gold on loan and outright basis to exporters, bullion dealers and jewellery manufacturers on all India.

MMTC has retail jewellery and its **own branded 'Sterling Silverware' (Sanchi) showrooms** in all the major metro cities of India. **It also supplies branded hallmarked gold and studded jewellery.** Besides organizing major jewellery exhibitions in India and abroad, the company also has a medallion manufacturing unit for minting of gold/ silver medallions.

MMTC is India's largest seller of imported non–ferrous metals viz. copper, aluminium, zinc, lead, tin and nickel. It also sells imported minor metals like magnesium, antimony, silicon and mercury, as also industrial raw materials like asbestos and also steel and its products. MMTC imports quality products conforming to international specifications like ASTM or BSS or LME approved brands.

The company sources its metals from empanelled suppliers including producers and traders throughout the world.

MMTC is amongst the leading Indian exporters and importers of agro products. The company's bulk exports include commodities such as rice, wheat, wheat flour, soyameal, pulses, sugar, processed foods and plantation products like tea, coffee, jute, etc. It also undertakes **extensive operations in oilseed extraction**, from the procurement of seeds to the production of de–oiled cakes for export, as well as the production of edible oil for domestic consumption and imports edible oils.

MMTC is the largest non–oil importer in India. It's diverse trade activities encompass third country trade, joint ventures, link deals – all modern day tools of international trading. It has vast international trade network, which includes a wholly owned international subsidiary in Singapore MMTC Transnational Pte. (MTPL), spanning almost all countries in Asia, Europe, Africa, Oceania and Americas.

The company operates 13 regional offices located at Kolkata, Bhubaneshwar, Mumbai, Goa, Ahmedabad, Delhi, Jhandewalan (Delhi), Jaipur and Bangalore, Bellary, Chennai, Hyderabad, Vizag.

OBJECTIVES OF MMTC

- To be a leading international trading house in India operating in the competitive Global trading environment with focus on “bulk” as core competency and to improve returns on capital employed.
- To retain the position of single largest trader in the country for product lines like minerals, metals and precious metals.
- To promote development of trade related infrastructure.
- To provide support services to the medium and small scale sectors.
- To render high quality of service to all categories of customers with professionalism and efficiency.
- To streamline system within the company for settlement of commercial disputes.
- To upgrade employees skills for achieving higher productivity.

BUSINESS AREAS

- Minerals
- Precious Metals
- Fertilisers
- Metals
- Agro Products
- Coal and Hydrocarbon
- General trading

MANAGEMENT

Chairman and Managing Director
Two additional secretary
Five directors

RECOGNITION AND ACHIEVEMENTS

- MMTC is the first public sector enterprise to be accorded the 'Five Star Export House' status by the Government of India for long standing contribution to exports.
- The company has won the top export award from Chemicals and Allied Products Export Promotion Council (CAPEXIL) as the largest exporter of minerals from India for the eighteenth year in a row.
- MMTC is a proud winner of gold trophy for exports of engineering and metallurgical product in non–SSI sector and also awarded the All India Trophy for highest export in the category of prime metal by EEPC.
- MMTC has won the gold trophy from FIEO for highest exports in agriculture & plantation product in non–SSI sector.
- 2011 –CAPEXIL's award for Highest Export in Minerals and Ores Sector for the year 2010–11(20th time in a row).
  MMTC Limited was awarded DHL–CNBC–TV18 International trade award 2010–11, powered by ICRA.
  EEPC Gold Trophy for 'Star Performance in Product Groups for 2009–10– Export of Non Alloy Pig Iron'– for being Top Exporter – at the 42nd EEPC India National Awards for Export Excellence – held on 22 December 2011
  PRSI National Award 2010–11 – for Festival of Gold (Oct.'11), in Event Management Category – by the Public Relation Society of India – held on 23 December 2011
  Top Rankers Award 2010–11 – for Organizational Excellence – held on 23 December 2011
- 2012

EPZ (EXPORT PROCESSING ZONE)

It is an industrial estate that has been established for producing manufactured goods for export. Managed by Department of Commerce under ministry of commerce, Government of India.

- These are the areas within developing nations.
- These were formed near the ports or airports for easy accessibility.
- These were first established in 1965.

- Domestic rules, barriers and tarriffs don’t apply to these zones.
- Goods produced in such zones are directly exported.
- Due to duty free environment the quality and prices of goods were competitive on global platform.
- Asia’s first EPZ – Kandla (Gujarat) in 1965
- Santa Cruz (Mumbai) for electronic goods, gems and jewellery items.
- Other EPZs – Falta (West Bengal), Noida (Uttar Pradesh), Cochin (Kerala), Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh), Surat Export Process Zone
- Nowadays many EPZs have been converted to SEZs, ex- Kandala, Santa Cruz, Cochin and Surat have been converted to SEZ in 2000.

SEZ (SPECIAL ECONOMIC ZONE)

•A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country. SEZs are located within a country's national borders.

• Their aims include increased trade balance, employment, increased investment, job creation and effective administration. 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.

HISTORY

Indian Special Economic Zone was structured with the establishment of the first Export Processing Zone (EPZ) at Kandla in the year 1965. Special Economic Zone came in to existence because the economic reforms incorporated in the early 1990s did not resulted in the overall growth of the Indian economy. The economic reforms incorporated during the 1990s did not produce the desired results. The Indian manufacturing sector witnessed a sudden dip in the overall growth of the industry, during the second-half of 1990s. The History of SEZs in India suggests that red tape, lengthy administrative procedures, rigid labor laws and poor physical infrastructural facilities were the main cause of deterioration of Foreign Direct Investments (FDI) inflow in to India. Further, the Indian markets were not mature enough to facilitate easy entry of Foreign Institutional Investors (FIIs) in to the Indian economic system. Furthermore, the legal framework of Indian economy was not strong enough to prevent misuse of Indian markets by the foreign investors. Thus, the lack of investor friendly environment in India prevented growth of Indian industry, in spite of implementation of liberal economic policy by the central government. This resulted in the formation of a much larger and more efficient form of their predecessors with world-class infrastructural facility. The Special Economic Zone (SEZ) Policy was announced in April 2000. This resulted in the formation of a much larger and more efficient form of their predecessors with world-class infrastructural facility. The SEZ Act, 2005 and SEZ Rules became effective on and from 10th February 2006.

These zones are specially created industrial zones having world class facilities such as road, electricity, water, transport, storage etc.These zones are created to attract foreign investment and is free from rules and regulations governing import and export except for labour laws and banking rules.

Ex-Mumbai Pune cluster belt has a lot of industries as all the facilities are provided for the same. Like fast transport, low cost electricity etc.

Why companies invest in SEZ?

World class facility

Exemption in the payment of taxes for initial 5 years

Flexibility in Labour laws. As MNCs want to reduce cost of labour

DIFFERNCE

EPZ	SEZ
1965	2000
Near to ports	Even in interiors
Small areas	Large areas
Export business	Both for export and domestic consumption
Estb by Govt	Estb by Central & State govt and even Private enterprices
	-Investors and developers
No IT services provided	IT services provided, Manufacturing and processing.
Lower tax benefits and incentives	Higher tax benefits and incentives
Complex laws for certification	Simple laws for certification

EXPORT PROMOTION

Export promotion will be defined as those public policy measures which actually or potentially enhance exporting activity at the company industry for National level.

Export promotion is one of the principal opportunities where the governments have to influence the volume and types of goods and services exported from the areas of jurisdiction.

The Government of India like other nations has been endeavouring to develop exports. Government measures aim at an overall improvement of the export performance of the nation for the general benefit of the economy. Export promotion strategy promotes only the industries that have the potential for developing and competing with foreign rivals.

Instrument used to support Exports:
These instruments may be divided into direct and indirect-

Direct instruments include subsidies for exporters, supplies and customer export loans, investments abroad, loans for export production, tax credit, guarantee and export insurance.

Indirect instruments include informational support, technical assistance, promotion of domestic exporters and their products abroad.
At present the direct subsidies are increasing the regulated and so there is increasing emphasis on indirect export promotion.

Main export support instruments are:

1. Export subsidies: The subsidies mean of financial assistance to exporters. The state pays contributions according to the volume of exports or there is a return/ refund of taxes paid.
2. Export credit: The state helps its exporters through different types of loans. It grants supplier credit which allows exporters to be provided to the buyer in the foreign country to attract him. The buyer can after sale, return the loan amount. The exporter can avail loans against goods exported at subsidised rates.
3. State guarantees for loans: state guarantees are used mainly for coverage of so called market insurable risks.
4. Information support: this service aims to provide exporter information that will help them in the process of export. It can be information for international trade in general and specific information from specific territories and specific business partner.
5. Technical assistance: These services are provided by the state or state institutions. These services include not only the transmission of information on foreign technical regulations, legal standards for technical requirements but also assistance as mode of dealing with business partners.

6. Marketing promotion: The state tries to promote domestic exporters and their products abroad by building the reputation of the country in foreign markets.
7. Monetary policy: The monetary policy of the state is a specific instrument of export promotion. When the native currency exchange rate is undervalued intentionally (like China has practiced of late), it makes native product cheap in the foreign country thereby increasing competitive power of exporters.
8. Rebate in taxes: The state can provide rebate or exemption from certain taxes like excise duty, service tax etc so as to provide high competitive power to its exported products.

OBJECTIVES OF EXPORT PROMOTION BUREAU (EPB)

Export promotion has been defined as "those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level". To increase the foreign currency the development of export is must. The foreign trade contributes a lot in the economic development of the country. To increase and develop the export of the country the Export Promotion Bureau (EPB) plays very important role.

The EPB has performed several performances in exporting products to abroad regarding different objectives. The EPB has been established for implementing the following objectives-

1. Formulating proper planning and determining policy with a view to developing the export of the country and help them get implemented.
2. Giving recommendations to the Govt. in case of formulation and determination of export policies and helping in their implementation.
3. Analyzing the prospects of exportable goods in the country, creating and finding market for the product in the foreign countries.
4. Arranging various types of International Trade Fairs and Exhibitions in developing countries like, Laos, Bangladesh and abroad for the promotion of the local exportable products.
5. Establishing supporting Institutions for the export development both in the country and abroad.
6. Launching wide promotional and circulating activities of the products in the foreign markets.
7. Helping other institutions for the exporting development of developing countries like, Laos, Bangladesh.