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CERTIFICATE COURSE ON INTERNATIONAL TRADE

Today's Content – Macros impacting International Trade

Macroeconomic Factors Impacting International Trade

International trade is heavily influenced by macroeconomic factors, which determine the volume, direction, and terms of trade between countries.

Below are the major macroeconomic variables impacting international trade:

1. Exchange Rates

- **Definition: The value of one country's currency relative to another.**
- **Impact:**
    - **Appreciation of Currency: Makes exports more expensive and imports cheaper, reducing export competitiveness.**
    - **Depreciation of Currency: Makes exports cheaper and imports more expensive, boosting export demand.**

- **Example: If the Indian Rupee depreciates against the US Dollar, Indian goods become cheaper for US buyers, boosting Indian exports.**

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2. Gross Domestic Product (GDP)

- **Definition: The total value of goods and services produced in a country.**

- **Impact:**
    - **High GDP Growth: Indicates a strong economy with higher demand for imports.**
    - **Low GDP Growth: Reduces purchasing power, affecting import demand.**

- **Example: Rapid economic growth in China has driven its import of raw materials and capital goods.**

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3. Inflation Rates

- **Definition: The rate at which the general price level of goods and services rises.**
- **Impact:**
    - **Countries with high inflation see reduced export competitiveness as their goods become more expensive globally.**
    - **Low inflation keeps exports competitive.**

- **Example: If Turkey experiences high inflation, its exports may lose market share to countries with stable prices.**

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4. Interest Rates

- **Definition: The cost of borrowing or the return on savings.**
- **Impact:**
    - **High interest rates attract foreign capital, leading to currency appreciation, which may reduce export competitiveness.**
    - **Low interest rates can stimulate economic activity but may weaken the currency.**
- **Example: High interest rates in the US attract foreign investment, strengthening the Dollar and impacting trade.**

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5. Trade Policies

- **Definition: Tariffs, quotas, subsidies, and other measures that regulate trade.**
- **Impact:**
    - **Protectionist policies (e.g., higher tariffs) reduce imports and may lead to retaliatory measures.**

    - **Free trade agreements encourage cross-border trade by reducing barriers.**
- **Example: The US-China trade war, marked by tariffs, significantly affected global trade flows.**

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6. Balance of Payments (BoP)

- **Definition: A country's financial statement summarizing its trade and financial transactions with the rest of the world.**
- **Impact:**
    - **A trade surplus (exports > imports) strengthens the currency and economy.**
    - **A trade deficit (imports > exports) may weaken the currency and lead to debt accumulation.**
- **Example: Persistent US trade deficits have implications for its currency and debt levels.**

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7. Political Stability and Policies

- **Definition: The degree of stability in a country's government and economic policies.**
- **Impact:**
    - **Political instability increases risk, discouraging trade and investment.**
    - **Stable governments with clear policies attract trade and investment.**
- **Example: Brexit created uncertainty in trade relations between the UK and the EU.**

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8. Global Economic Conditions

- **Definition: The overall health of the global economy.**
- **Impact:**
    - **A global slowdown reduces demand for goods and services, affecting trade volumes.**
    - **Economic booms lead to higher trade activity.**
- **Example: The 2008 financial crisis led to a significant decline in global trade.**

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9. Commodity Prices

- **Definition: Prices of key commodities like oil, gold, and agricultural products.**
- **Impact:**
  - **Commodity-exporting countries benefit from rising prices but suffer when prices fall.**
  - **Import-dependent countries face higher costs during price hikes.**
- **Example: Rising oil prices increase costs for oil-importing countries like India.**

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10. Technology and Infrastructure

- **Definition: Development of communication, logistics, and transportation systems.**
- **Impact:**
  - **Advanced infrastructure and technology reduce costs and time for trade, boosting competitiveness.**
  - **Underdeveloped systems act as barriers to trade.**
- **Example: Digitization of customs and trade documentation improves efficiency in global trade.**

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11. Demographics and Consumer Preferences

- **Definition: Population size, age distribution, and consumer habits.**
- **Impact:**
  - **Growing populations with high purchasing power drive import demand.**
  - **Preferences for local or global goods affect trade patterns.**
- **Example: Rising middle-class income levels in India boost demand for imported luxury goods.**

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12. Natural Disasters and Pandemics

- **Definition: Events disrupting normal economic activities.**
- **Impact:**
  - **Interrupt supply chains, reduce production, and decrease global trade volumes.**
  - **Create shifts in demand (e.g., increased demand for medical supplies during COVID-19).**
- **Example: The COVID-19 pandemic caused severe disruptions in international trade.**

13. Regional Trade Agreements and Economic Blocs

- **Definition: Agreements like EU, and ASEAN that regulate trade within regions.**
- **Impact:**
  - **Facilitate free trade within the bloc.**
  - **Pose challenges to non-member countries due to preferential treatment.**
- **Example: The European Union's single market facilitates seamless trade among member countries.**

By understanding these macroeconomic factors, policymakers and businesses can anticipate and respond to changes in international trade dynamics effectively.

I. Balance of Payment

Balance of Payment (BOP) is a statement that records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy.

When all the elements are correctly included in the BOP, it should be zero in a perfect scenario. This means the inflows and outflows of funds should balance out. However, this does not ideally happen in most cases.

A BOP statement of a country indicates whether the country has a surplus or a deficit of funds, i.e. when a country's export is more than its import, its BOP is said to be in surplus. On the other hand, the BOP deficit indicates that its imports are more than its exports.

Tracking the transactions under BOP is similar to the double-entry accounting system. All transactions will have a debit entry and a corresponding credit entry.

For example:

Funds entering a country from a foreign source are booked as credit and recorded in the BOP. Outflows from a country are recorded as debits in the BOP. Let's say Japan exports 100 cars to the U.S. Japan books the export of the 100 cars as a debit in the BOP, while the U.S. books the imports as a credit in the BOP.

What is the Formula for Balance of Payments?

The formula for calculating the balance of payments is current account + capital account + financial account + balancing item = 0.

Why is the Balance of Payment (BOP) vital for a country?

A country's BOP is vital for the following reasons:

- The BOP of a country reveals its financial and economic status.
- A BOP statement can be used to determine whether the country's currency value is appreciating or depreciating.
- The BOP statement helps the government to decide on fiscal and trade policies.

- It provides important information to analyze and understand the economic dealings with other countries.

By studying its BOP statement and its components closely, one would be able to identify trends that may be beneficial or harmful to the county's economy and, thus, then take appropriate measures.

Elements of a Balance of Payment

There are three components of the balance of payment viz current account, capital account, and financial account. The total of the current account must balance with the total of capital and financial accounts in ideal situations.

Current Account

The current account monitors the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods.

It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, they make up a country's **Balance Of Trade (BOT).**

There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, **unilateral transfers** or other payments/receipts. Trading in goods between countries is referred to as visible items, and import/export of services (banking, information technology etc.) are referred to as invisible items.

Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

Capital Account

All capital transactions between the countries are monitored through the capital account. Capital transactions include purchasing and selling assets (non-financial) like land and properties.

The capital account also includes the flow of taxes, purchase and sale of fixed assets etc., by migrants moving out/into a different country. The deficit or surplus in the current account is managed through the finance from the capital account and vice versa. There are three major elements of a capital account:

- **Loans and borrowings –** It includes all types of loans from the private and public sectors located in foreign countries.
- **Investments –** These are funds invested in corporate stocks by non-residents.
- **Foreign exchange reserves –** Foreign exchange reserves held by the country's central bank to monitor and control the exchange rate do impact the capital account.

Financial Account

The flow of funds from and to foreign countries through various investments in real estate, business ventures, foreign direct investments etc., is monitored through the financial account. This account measures the changes in the foreign ownership of domestic assets and domestic ownership of foreign assets. Analyzing these changes can be understood if the country is selling or acquiring more assets (like gold, stocks, equity, etc.).

Illustration

If, for the year 2018, the value of exported goods from India is Rs. 80 lakh and the value of imported items to India is 100 lakh, then India has a trade deficit of Rs. 20 lakh for the year 2018. The BOP statement acts as an economic indicator to identify the trade deficit or surplus situation. Analyzing and understanding the BOP of a country goes beyond just deducting the outflows of funds from inflows. As mentioned above, there are various components of BOP and fluctuations in these accounts, which provide a clear indication of which economic sector needs to be developed.

What is the importance of the Balance of Payments in India?

The importance of the balance of payment in India can be determined from the following points:

- It monitors the transaction of all the imports and exports of services and goods for a given period.
- It helps the government analyze a particular industry's export growth potential and formulate policies to sustain it.
- It gives the government a comprehensive perspective on a different range of import and export tariffs. The government then increases and decreases the tax to discourage imports and encourage export, individually, and self-sufficiency.

What is the difference between the balance of trade and payments?

Balance of trade is the difference between exports and imports of goods. Only the visible items are considered in the balance of trade. The exchange of services between countries is not considered.

The current account of the balance of payment comprises exports and imports of goods, services and unilateral transfers like remittances, gifts, donations, etc. The net value of all these constitutes the balance of the current account. Thus, the balance of trade is a part of the current account of the balance of payments.

What are the sources of supply of foreign exchange?

The sources of supply of foreign exchange are:

- Purchase of goods and services by foreigners
- Foreign Direct Investment (FDI) into our country
- Inflow by the NRIs settled in foreign countries
- Speculative purchase of home currency by foreigners

What is the meaning of a deficit in the balance of payments?

When autonomous foreign exchange payments exceed autonomous foreign exchange receipts, the balance of payments deficit is the difference. Autonomous transactions in foreign exchanges are those transactions that are independent of the state's balance of payments and are undertaken for an individual's own sake.

What are official reserve transactions and their importance in the balance of payments?

Official reserve transactions mean running down the country's foreign exchange reserves in case of a deficit in the balance of payments by selling foreign currency in the foreign exchange market. In surplus, the country can buy foreign exchange and increase its official reserves.

A country is said to be having its balance of payment in equilibrium when the sum of its current account and non-reserve capital account equals zero, which means the current account deficit is financed entirely by international borrowings without any movement in the country's official reserves.

II. International Liquidity: An Overview

International liquidity refers to the availability of financial resources or assets that countries can use to settle international trade and payment obligations. It is a measure of the ease with which nations can meet their external debt and trade commitments without facing significant balance of payment (BoP) issues or currency crises.

Components of International Liquidity

1. **Foreign Exchange Reserves:**
    - **Reserves held by central banks in foreign currencies like USD, EUR, or JPY.**
    - **Used for intervention in currency markets and settling international trade.**
2. **Special Drawing Rights (SDRs):**
    - **An artificial reserve asset created by the International Monetary Fund (IMF).**
    - **SDRs can be exchanged for freely usable currencies among IMF member countries.**
3. **Gold Reserves:**
    - **Held by central banks as a traditional and historical reserve asset.**
    - **Can be sold or used to back currencies.**
4. **Reserve Tranche Position (RTP) with IMF:**
    - **A member country's portion of its IMF quota that can be accessed without conditions.**

5. **Borrowing Arrangements:**
    - **Credit lines and agreements between countries or with international organizations like the IMF.**
6. **Private Capital Flows:**
    - **Foreign Direct Investment (FDI) and portfolio investments can also contribute to international liquidity.**

Importance of International Liquidity

1. **Facilitates International Trade:**
    - **Ensures smooth functioning of global trade by providing countries with the means to pay for imports and settle debts.**
2. **Stabilizes Exchange Rates:**
    - **Helps central banks intervene in forex markets to stabilize their currencies during volatility.**
3. **Prevents BoP Crises:**
    - **Adequate liquidity prevents countries from defaulting on external payments or facing currency shortages.**
4. **Supports Global Economic Stability:**
    - **Ensures that countries can meet their obligations without disrupting international financial markets.**
5. **Promotes Confidence:**
    - **Availability of liquidity reassures international investors and trade partners about a country's economic stability.**

Challenges in International Liquidity

1. **Unequal Distribution:**
    - **Developed countries often have greater access to liquidity than developing or underdeveloped nations.**
2. **Dependence on Reserve Currencies:**
    - **The dominance of currencies like the USD creates vulnerabilities for nations that rely on them.**
3. **Volatility in Capital Flows:**
    - **Rapid inflows or outflows of private capital can destabilize international liquidity.**
4. **Economic Shocks:**
    - **Events like financial crises or pandemics can strain global liquidity.**
5. **Inflationary Pressures:**
    - **Excessive international liquidity can lead to inflation or currency devaluation in some countries.**

Role of the IMF in International Liquidity

The International Monetary Fund (IMF) plays a key role in managing international liquidity by:

- **Issuing Special Drawing Rights (SDRs) to member countries.**
- **Providing financial assistance through its lending programs.**
- **Offering technical support to strengthen economic policies and institutions.**

Conclusion

International liquidity is a cornerstone of the global financial system, enabling countries to engage in trade and settle payments efficiently. However, its management requires careful coordination to ensure stability and equitable access for all nations.

III. GLOBAL SETTLEMENT MACHANISM

The global settlement mechanism refers to systems and processes that facilitate the settlement of financial transactions, including payments, securities, and other financial instruments, across borders and jurisdictions. These mechanisms ensure the safe, efficient, and timely transfer of funds or ownership between parties in different countries, minimizing risks and operational inefficiencies.

Key Elements of Global Settlement Mechanisms

1. **Clearing and Settlement:**
    - **Clearing: The process of reconciling transaction details and calculating obligations between buyers and sellers.**
    - **Settlement: The actual transfer of funds or ownership of financial instruments.**
2. **Intermediaries:**
    - **Central counterparties (CCPs): Institutions that act as intermediaries, reducing counterparty risks.**
    - **Correspondent banks: Facilitate cross-border payments when direct relationships do not exist.**
3. **Infrastructure:**

    - Payment systems (e.g., SWIFT, RTGS, ACH).
    - Securities depositories and registries (e.g., Euroclear, Clearstream).
    - Platforms for digital currencies and blockchain-based settlements.

Types of Settlement Mechanisms

A. Payment Settlement

- Facilitates the transfer of money for goods, services, or financial obligations.
- Systems include:
    - SWIFT (Society for Worldwide Interbank Financial Telecommunication): A messaging network for global payments.
    - RTGS (Real-Time Gross Settlement): Settles transactions individually and in real time.
    - ACH (Automated Clearing House): Processes batch payments.

B. Securities Settlement

- Deals with the transfer of ownership for stocks, bonds, and other securities.
- Systems include:
    - Delivery versus Payment (DvP): Ensures payment and securities transfer occur simultaneously.
    - Central Securities Depositories (CSDs): Safekeep and transfer securities (e.g., NSDL in India, DTC in the U.S.).

C. Foreign Exchange (Forex) Settlement

- Facilitates currency exchange transactions.
- Mechanisms include:
    - CLS (Continuous Linked Settlement): A global system mitigating settlement risks in forex transactions.

D. Blockchain and Distributed Ledger Technology (DLT)

- Emerging technologies enabling decentralized, transparent, and near-instant settlement.
- Examples:
        - RippleNet for cross-border payments.

- **Central bank digital currencies (CBDCs) under development for sovereign payment systems.**

Challenges in Global Settlement

1. **Counterparty Risk:**
   - **The risk of one party defaulting before settlement completion.**
2. **Currency Risk:**
   - **Exchange rate volatility impacting transaction value.**
3. **Time Zone Differences:**
   - **Delay in settlements due to overlapping business hours across regions.**
4. **Regulatory and Compliance Issues:**
   - **Variations in legal and regulatory frameworks between countries.**
5. **Technological Disparities:**
   - **Inefficiencies due to outdated systems or lack of interoperability.**

Risk Management in Global Settlement

1. **Netting:**
   - **Offsetting multiple transactions to reduce the number of payments or deliveries required.**
2. **Collateralization:**
   - **Using assets as collateral to secure transactions.**
3. **Guarantees:**
   - **Central counterparties provide guarantees to mitigate default risk.**
4. **Technology Integration:**
   - **Adoption of blockchain and DLT for enhanced transparency and efficiency.**

Major Institutions in Global Settlement

1. **SWIFT:**
   - **Facilitates secure financial messaging between banks worldwide.**
2. **IMF (International Monetary Fund):**
   - **Assists in liquidity management through mechanisms like Special Drawing Rights (SDRs).**
3. **CLS Bank:**
   - **Reduces settlement risk in forex transactions by linking settlement participants.**
4. **Central Banks:**

- **Oversee domestic and cross-border payment systems.**

Future Trends in Global Settlement Mechanisms

1. **Blockchain and Digital Currencies:**
   - **Use of blockchain for faster and transparent settlements.**
   - **Development of CBDCs for seamless international trade.**
2. **Interoperable Systems:**
   - **Integration of disparate payment systems for real-time cross-border transactions.**
3. **AI and Automation:**
   - **Enhancing efficiency in clearing and settlement processes.**
4. **Global Regulatory Frameworks:**
   - **Efforts to harmonize regulations for smoother international transactions.**

Conclusion

The global settlement mechanism is vital for maintaining trust, liquidity, and efficiency in the international financial ecosystem. As technology evolves and global trade expands, these mechanisms will continue to adapt, ensuring robust, secure, and seamless transactions across borders.

IV. Nostro and Vostro Accounts: An Overview

Nostro and Vostro are terms used in banking and finance to describe accounts that banks maintain with each other, especially for international transactions. These terms are rooted in Latin and are commonly used in cross-border banking.

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1. Nostro Account

- **Meaning:** *Nostro* means "ours" in Latin. It refers to an account that a bank holds in a foreign currency with a bank in another country.
- **Purpose:**
  - To facilitate international trade and currency exchange.
  - To manage foreign currency reserves and settlements.
- **Example:**
  - If an Indian bank (e.g., SBI) has an account in USD with a US bank (e.g., Citibank), SBI will refer to it as its *Nostro account*.

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2. Vostro Account

- **Meaning:** *Vostro* means "yours" in Latin. It refers to an account that a foreign bank holds in the domestic bank's currency.
- **Purpose:**
  - Allows foreign banks to manage funds in the domestic currency.
  - Facilitates local clearing and settlement for foreign clients.
- **Example:**
  - If Citibank (a US bank) holds an account in INR with SBI (an Indian bank), SBI will refer to it as a *Vostro account*.

Key Difference Between Nostro and Vostro Accounts

Aspect	Nostro Account	Vostro Account
Definition	"Our account in your bank"	"Your account in our bank"
Currency	Held in a foreign currency	Held in the domestic currency
Purpose	Used by a domestic bank for foreign transactions	Used by a foreign bank for domestic transactions
Example	SBI's USD account with Citibank in the US	Citibank's INR account with SBI in India

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3. Loro Account

- **Meaning:** *Loro* means "theirs" in Latin. It refers to an account that a third-party bank maintains with another bank on behalf of its clients.
- **Purpose:**
  - Used when Bank A refers to an account held by Bank B with Bank C.
- **Example:**

- If Bank A (e.g., Deutsche Bank) refers to Bank B's (e.g., SBI) account with Bank C (e.g., Citibank), it is a *Loro account* for Bank A.

How Nostro and Vostro Accounts Work

1. **International Trade:**
   - When an Indian importer buys goods from a US exporter, SBI (Indian bank) may use its Nostro account with Citibank (US bank) to pay the exporter in USD.
2. **Currency Exchange:**
   - Nostro accounts help in holding foreign currencies, enabling smooth currency conversion and exchange.
3. **Cross-Border Payments:**
   - Vostro accounts allow foreign banks to handle transactions in the local currency, aiding local settlements for global businesses.

Importance of Nostro and Vostro Accounts

1. **Facilitates International Trade:**
   - Simplifies payments and settlements in foreign currencies.
2. **Enhances Liquidity:**
   - Ensures that banks have access to foreign currencies when needed.
3. **Reduces Transaction Costs:**
   - Enables direct currency settlements without multiple intermediaries.
4. **Promotes Banking Relationships:**
   - Strengthens global banking networks through interbank partnerships.

Challenges with Nostro and Vostro Accounts

1. **Exchange Rate Risk:**
   - Fluctuations in currency values may impact account balances.
2. **Regulatory Compliance:**
   - Different countries have varying rules for cross-border accounts.
3. **Operational Costs:**
   - Maintaining multiple Nostro accounts can be expensive for banks.
4. **Liquidity Management:**
   - Banks need to ensure sufficient funds in Nostro accounts for settlements.

Nostro Account: Comprehensive Overview

A Nostro account is a critical concept in international banking and trade. It is an account that one bank holds in a foreign currency with another bank to facilitate foreign exchange and international transactions.

Definition of a Nostro Account

- **The term "Nostro" comes from the Latin word meaning *"ours."***
- **A Nostro account is essentially "our account in your bank."**
- **It is maintained by a domestic bank in a foreign bank, denominated in the foreign currency of the respective country.**

Purpose of a Nostro Account

1. **Facilitate International Trade:**
   - **Used by banks to make payments and receive funds for cross-border trade transactions.**
2. **Currency Exchange:**
   - **Provides banks access to foreign currencies for settlements.**
3. **Simplify Cross-Border Payments:**
   - **Enables transactions without needing multiple intermediaries.**
4. **Forex Management:**
   - **Allows banks to manage foreign currency liquidity efficiently.**

Example of a Nostro Account

- **Suppose State Bank of India (SBI) wants to handle payments in the United States in USD.**
- **SBI opens an account in USD with Citibank in the US.**
- **This USD account maintained by SBI with Citibank is referred to as SBI's Nostro account.**

Features of a Nostro Account

1. **Held in Foreign Currency:**
   - **The account is denominated in the currency of the foreign country where it is held.**
2. **Operated by Domestic Banks:**

    - The domestic bank (account holder) uses it to manage international payments.
3. **Reduces Complexity in Transactions:**
    - Enables direct settlements without routing through multiple banks.
4. **Currency Conversion:**
    - Allows for smooth conversion between local and foreign currencies.

How a Nostro Account Works

1. **Opening the Account:**
    - A domestic bank opens an account with a foreign correspondent bank in the foreign currency.
2. **Depositing Funds:**
    - The domestic bank maintains foreign currency reserves in the Nostro account.
3. **Processing Transactions:**
    - Funds are debited or credited based on international transactions.
4. **Example Transaction:**
    - An Indian importer buying goods from a US exporter can pay in USD using the Nostro account of their Indian bank with a US bank.

Benefits of a Nostro Account

1. **Efficient Cross-Border Transactions:**
    - Enables faster payments and settlements in foreign currencies.
2. **Reduces Intermediaries:**
    - Simplifies the process of international payments.
3. **Improves Liquidity Management:**
    - Provides banks with ready access to foreign currencies.
4. **Supports International Trade:**
    - Facilitates seamless payment mechanisms for importers and exporters.

Risks and Challenges of a Nostro Account

1. **Exchange Rate Risk:**
    - Fluctuations in currency values can impact the account balance.
2. **High Maintenance Costs:**
    - Maintaining multiple Nostro accounts in different currencies can be expensive.
3. **Regulatory Compliance:**

- Varying international regulations can complicate account management.

4. **Liquidity Risk:**
   - Insufficient funds in the Nostro account may delay payments.

Differences Between Nostro and Other Accounts

Aspect	Nostro Account	Vostro Account	Loro Account
Definition	"Our account in your bank"	"Your account in our bank"	"Their account in a third bank"
Currency	Foreign currency	Domestic currency	Depends on the third-party agreement
Holder	Domestic bank with a foreign bank	Foreign bank with a domestic bank	Third-party bank relationship
Example	SBI's USD account with Citibank in the US	Citibank's INR account with SBI in India	Deutsche Bank referring to SBI's account with Citibank

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Reconciliation of Nostro Accounts

Banks reconcile Nostro accounts regularly to ensure:

1. **Accuracy of Transactions:**
   - All debits and credits are correctly recorded.
2. **Minimizing Discrepancies:**
   - Any mismatches between internal records and the foreign bank's records are identified and resolved.
3. **Timely Settlements:**
   - Avoid delays in international payments.

Modern Innovations in Nostro Accounts

1. **Blockchain Technology:**
   - Streamlines cross-border payments and reduces reliance on traditional Nostro accounts.
2. **SWIFT GPI (Global Payments Innovation):**
   - Enhances transparency, speed, and tracking of Nostro account transactions.
3. **Digital Currencies:**

- Central Bank Digital Currencies (CBDCs) may reduce the need for Nostro accounts in the future.

A. Special Vostro Account (SVA)

- Definition: A Special Vostro Account is used for trade settlement in domestic currencies between two nations, bypassing the use of international currencies like the USD.
- Purpose:
  - Promotes bilateral trade in local currencies.
  - Encourages currency stability and reduces reliance on foreign reserves.
- Example:
  - A Russian bank holding INR in an Indian bank for trade between India and Russia.

B. Settlement of Trade in INR

What is it?

- A mechanism allowing international trade to be settled in Indian Rupees (INR).
- Objective: Reduce dependency on the USD and Euro, promote the use of local currencies, and protect against exchange rate volatility.

Key Features:

1. Special Vostro Accounts:
   - Used for holding INR for trade transactions.
2. Role of RBI:
   - Approves banks to act as intermediaries.
3. Trade Procedure:
   - Importers pay in INR to the Special Vostro Account.
   - Exporters receive payment in INR from the same account.

Advantages:

- Reduces exchange rate risk.
- Promotes bilateral trade.
- Saves foreign exchange reserves.

C. Exchange Earners' Foreign Currency (EEFC) Account

What is an EEFC Account?

- **A type of account in India that allows exporters to hold foreign currency earnings without converting them to INR immediately.**

Key Features:

- **Eligibility: Only available to exporters of goods and services.**
- **Usage:**
  - **Payment of import bills.**
  - **Foreign travel or education expenses.**
- **Limits: No interest is paid on balances.**

Benefits:

- **Avoids frequent currency conversions.**
- **Minimizes foreign exchange transaction costs.**

D. Resident Foreign Currency (RFC) Account

What is an RFC Account?

- **A savings account in foreign currency for resident Indians who have returned to India after residing abroad.**

Key Features:

- **Eligibility: Returning Indians with foreign income or assets.**
- **Usage:**
  - **Manage foreign currency savings.**
  - **Remittance for international expenses.**
- **Currencies: USD, EUR, GBP, etc.**

Benefits:

- **Retain and manage foreign earnings.**
- **Protects against INR depreciation.**

E. Liberalized Remittance Scheme (LRS)

What is the LRS?

- **A scheme by the Reserve Bank of India (RBI) allowing resident individuals to remit foreign exchange for specific purposes.**

Key Features:

- **Annual Limit: USD 250,000 per financial year.**
- **Permitted Uses:**
    - **Travel and education.**
    - **Gifts and donations.**
    - **Investment in foreign stocks or real estate.**
- **Prohibited Uses:**
    - **Trading in forex and crypto assets.**
    - **Margins or margin calls for derivatives.**

Advantages:

- **Simplifies international remittances for individuals.**
- **Encourages outward investments.**

Comparison Table: EEFC vs. RFC vs. LRS

Aspect	EEFC Account	RFC Account	LRS
Purpose	Hold foreign earnings of exporters	Manage foreign savings of returning NRIs	Remit funds abroad for residents
Eligibility	Exporters	Returning NRIs	Resident individuals
Currency	Foreign currencies	Foreign currencies	INR converted to foreign currency
Limits	No specific limit	No specific limit	USD 250,000/year
Usage	Trade, travel, education	Savings, remittances	Travel, education, investment

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Conclusion

Nostro, Vostro, and Special Vostro accounts form the backbone of international banking and trade. Complementary frameworks like EEFC, RFC accounts, and the LRS simplify foreign currency management for businesses and individuals. Together, these mechanisms promote smoother trade, effective forex utilization, and economic integration in a globalized world.

V. Direct Export vs. Indirect Export: Overview

When businesses decide to enter international markets, they often choose between two primary methods of exporting: Direct Export and Indirect Export. Each method has distinct characteristics, advantages, and challenges.

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1. Direct Export

Definition:
Direct export involves the company (exporter) selling its products directly to a foreign customer or buyer, without relying on intermediaries. The exporter manages all aspects of the transaction, from marketing to shipping.

Characteristics:

- **The exporter interacts directly with the overseas buyers.**
- **Requires the exporter to manage logistics, customs, and legalities.**
- **Offers better control over branding, pricing, and distribution.**

Advantages:

1. **Higher Profit Margins:**
   - **Eliminates intermediaries, allowing exporters to retain more revenue.**
2. **Control Over Operations:**
   - **Provides better oversight of the marketing and distribution process.**
3. **Market Insight:**
   - **Direct interaction with customers provides valuable feedback and market knowledge.**
4. **Brand Recognition:**
   - **Strengthens the company's presence and reputation in the foreign market.**

Challenges:

1. **Resource Intensive:**

    - Requires significant investment in logistics, distribution networks, and staff.
2. **Complex Procedures:**
    - The company must navigate international trade regulations and compliance requirements.
3. **Market Risk:**
    - Direct exposure to market fluctuations and customer defaults.

Examples:

- A small manufacturer selling handmade goods directly to retailers in Europe.
- A tech company exporting software solutions to international clients without intermediaries.

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2. Indirect Export

Definition:
Indirect export involves selling products to a foreign market through intermediaries, such as export agents, trading companies, or distributors. The exporter delegates part or all of the exporting process to third parties.

Characteristics:

- The exporter does not directly interact with foreign buyers.
- Third parties handle most of the logistics, sales, and regulatory aspects.
- Suitable for companies new to exporting or with limited resources.

Advantages:

1. **Low Initial Investment:**
    - Reduces the need for infrastructure or expertise in international trade.
2. **Simplified Processes:**
    - Intermediaries handle complex aspects like documentation and compliance.
3. **Risk Mitigation:**
    - Reduces financial and operational risks for the exporter.
4. **Faster Market Entry:**

- Intermediaries often have established networks, allowing quicker access to foreign markets.

Challenges:

1. **Lower Profit Margins:**
   - Intermediaries take a portion of the revenue as commission or fees.
2. **Limited Control:**
   - Exporters have little say in marketing, pricing, or distribution strategies.
3. **Brand Dependency:**
   - The company's brand identity may take a backseat to that of the intermediary.
4. **Potential Misalignment:**
   - Interests of the intermediary may not always align with the exporter.

Examples:

- A textile manufacturer using an export trading company to sell fabrics overseas.
- A food producer relying on a distributor to market and sell their products in foreign supermarkets.

Comparison: Direct vs. Indirect Export

Aspect	Direct Export	Indirect Export
Definition	Exporting directly to foreign buyers	Exporting through intermediaries
Control	Full control over operations	Limited control due to intermediaries
Profit Margins	Higher (no intermediaries)	Lower (commission to intermediaries)
Market Knowledge	Direct insight into foreign markets	Limited market insight
Complexity	High (requires expertise)	Low (handled by intermediaries)
Risk	Higher exposure to market risks	Lower due to shared responsibility
Initial Investment	Requires significant resources	Lower cost to start

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When to Choose Each Method

Direct Export:

- Suitable for companies with experience in exporting.
- Ideal for high-value or niche products.
- Companies seeking to establish long-term brand presence in foreign markets.

Indirect Export:

- Suitable for small or new exporters with limited expertise.
- Ideal for low-value or bulk products.
- Companies looking to test a market without significant investment.

Conclusion

Both direct and indirect exporting have their unique advantages and challenges. The choice depends on a company's resources, experience, and goals for entering foreign markets. While direct exporting offers more control and profitability, indirect exporting provides ease and risk mitigation, especially for beginners.

VI. Types of Exports

Exports can be broadly classified based on the nature of goods/services, methods of delivery, and compliance requirements. Below is a comprehensive categorization:

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1. Classification Based on the Nature of Exports

A. Merchandise Exports

- Export of tangible goods.
- Includes raw materials, intermediate goods, and finished products.
- Example: Automobiles, textiles, machinery, and agricultural products.

B. Service Exports

- Export of intangible services.
- Includes IT services, financial consulting, healthcare, and tourism.
- Example: Indian IT firms providing software solutions to global clients.

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2. Classification Based on Compliance

A. Authorized Exports

- Exports compliant with all government regulations, including licensing, permits, and documentation.

B. Unauthorized Exports

- Exports that bypass legal frameworks and regulations, often considered smuggling.

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3. Classification Based on Export Destination

A. Direct Export

- Goods or services are sold directly to foreign buyers without intermediaries.
- Example: An Indian textile firm sells directly to a U.S. retailer.

B. Indirect Export

- Goods or services are sold through intermediaries like export houses or trading companies.
- Example: Selling products to a domestic export agent who ships them overseas.

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4. Classification Based on Mode of Delivery

A. Physical Exports

- Physical movement of goods from one country to another.

- **Example: Exporting automobiles from India to Europe by ship.**

B. Digital Exports

- **Delivery of services, software, or digital products over the internet.**
- **Example: Exporting e-learning services or software development.**

C. Drop Shipping

- **A third-party supplier ships products directly to international customers without the exporter handling the inventory.**

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5. Classification Based on Value Addition

A. Primary Exports

- **Raw materials or unprocessed goods are exported.**
- **Example: Crude oil, coal, and agricultural produce.**

B. Secondary Exports

- **Processed or manufactured goods.**
- **Example: Refined petroleum, garments, and electronics.**

C. Tertiary Exports

- **Services or high-end intellectual property.**
- **Example: Consultancy, software, and media content.**

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6. Classification Based on Incentives

A. Duty-Free Exports

- **Goods exported without paying customs duty.**
- **Example: Exports under Free Trade Agreements (FTAs).**

B. Subsidized Exports

- **Exports where the government provides financial incentives.**
- **Example: Export Promotion Capital Goods (EPCG) Scheme in India.**

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7. Special Types of Exports

A. Deemed Exports

- Goods supplied within a country are treated as exports due to their end-use.
- Example: Supply of goods to Special Economic Zones (SEZs) or export-oriented units (EOUs).

B. Countertrade

- Exports paid for with goods or services instead of money (barter system).
- Example: Exchanging machinery for raw materials.

C. Re-Exports

- Exporting imported goods without significant value addition.
- Example: Importing electronics from China and exporting them to Africa.

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8. Based on Agreements and Trade Relations

A. Intra-Regional Exports

- Export of goods/services within a specific region or trade bloc.
- Example: Exports within the European Union (EU).

B. Inter-Regional Exports

- Export of goods/services outside the originating region.
- Example: India exporting textiles to the U.S.

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9. Based on Mode of Transportation

A. Sea Freight Exports

- Exports shipped via cargo ships.
- Example: Heavy machinery, vehicles.

B. Air Freight Exports

- Exports shipped via air cargo.
- Example: High-value items like jewelry, electronics.

C. Land Freight Exports

- Exports transported via road or rail to neighboring countries.
- Example: India exporting goods to Nepal or Bangladesh.

D. Multimodal Exports

- Goods transported using multiple modes (e.g., sea, air, rail).

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10. Strategic Exports

A. Strategic Goods

- Goods with dual-use (civilian and military) requiring strict regulations.
- Example: Advanced technology or chemicals.

B. Emergency Exports

- Export of essential goods during crises or emergencies.
- Example: Sending medical supplies during a pandemic.

Key Points for Exporters

1. Documentation Requirements:
   - Commercial invoice, shipping bill, bill of lading, etc.
2. Compliance:
   - Adherence to export regulations, including foreign trade policy.
3. Incentives:
   - Avail export promotion schemes for financial benefits.
4. Quality Standards:
   - Ensure products meet international quality standards.

Conclusion

Understanding the types of exports helps businesses identify opportunities, navigate regulatory requirements, and implement effective strategies for global trade. Whether direct or indirect, physical or digital, exports remain a vital component of international commerce, driving economic growth and development .

VII. Theories of International Trade: A Comprehensive Guide

International trade theories explain how and why nations engage in trade, the benefits they derive, and the policies they adopt. These theories have evolved over centuries, from classical concepts of absolute and comparative advantage to modern perspectives like strategic trade and new trade theories.

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1. Classical Theories of International Trade

A. Mercantilism (16th–18th Century)

- **Concept**: A nation's wealth is measured by its stock of precious metals (gold/silver).
- **Policy**: Governments encouraged exports (to earn gold) and discouraged imports (to retain gold) through tariffs and subsidies.
- **Criticism**:
    - Focuses on wealth accumulation, not economic welfare.
    - Ignores mutual benefits of trade.

B. Absolute Advantage (Adam Smith, 1776)

- **Concept**: A country should specialize in producing goods for which it has an absolute advantage (producing at a lower cost).
- **Assumption**: Trade benefits both nations when one is better at producing certain goods.
- **Example**:
    - Country A produces 10 cars or 5 ships, while Country B produces 3 cars or 15 ships.
    - A should specialize in cars, and B in ships, to maximize production and trade.

C. Comparative Advantage (David Ricardo, 1817)

- **Concept**: A country should specialize in goods where it has a relative efficiency advantage, even if it has an absolute disadvantage in all goods.
- **Key Idea**: Opportunity cost determines trade patterns.
- **Example**:
    - Country A: 10 cars or 5 ships.
    - Country B: 3 cars or 2 ships.
    - A should produce cars, B should produce ships, as their relative efficiency is higher in these goods.

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2. Modern Theories of International Trade

A. Heckscher-Ohlin Theory (Factor Proportions Theory)

- **Concept**: Trade is based on the relative abundance of factors of production (labor, capital, land).
- **Key Idea**:
  - Countries export goods requiring abundant factors.
  - Countries import goods requiring scarce factors.
- **Example**:
  - Labor-abundant Country A exports textiles (labor-intensive).
  - Capital-abundant Country B exports machinery (capital-intensive).
- **Criticism**: Does not explain intra-industry trade.

B. Leontief Paradox

- Empirical observation that the U.S., a capital-rich country, exported labor-intensive goods, contrary to Heckscher-Ohlin predictions.
- Highlights complexities not accounted for in the theory, like technology and workforce skill.

C. Product Life Cycle Theory (Raymond Vernon, 1966)

- **Concept**: Trade patterns evolve as products mature through three stages:
  1. **Introduction**: Innovating country exports.
  2. **Growth**: Standardization leads to production in other nations.
  3. **Maturity**: Innovating country may start importing.
- **Example**:
  - U.S. invented computers → exported them.
  - Production shifted to Asian countries (lower costs).
  - U.S. now imports computers.

D. New Trade Theory (Paul Krugman, 1980s)

- **Concept**: Emphasizes economies of scale and network effects.
- **Key Ideas**:
  - Industries with high fixed costs benefit from concentration in fewer countries.
  - Trade allows specialization and access to larger markets.
- **Example**:
  - Aircraft manufacturing concentrated in a few countries due to scale of economies.

E. Strategic Trade Theory

- **Concept**: Governments can influence trade outcomes by supporting key industries through subsidies, R&D, or policies.
- **Example**:
  - Subsidizing domestic tech firms to compete globally in strategic sectors.

3. Contemporary Theories of International Trade

A. Gravity Model of Trade

- **Concept**: Trade is directly proportional to the size of economies (GDP) and inversely proportional to the distance between them.
- **Example**:
  - Large economies like the U.S. and EU trade significantly, especially with close neighbors.

B. Porter's Diamond Model (Competitive Advantage)

- **Concept**: National competitiveness depends on:
  1. **Factor Conditions**: Skilled labor, infrastructure.
  2. **Demand Conditions**: Domestic demand for innovative goods.
  3. **Related Industries**: Presence of supportive industries.
  4. **Firm Strategy and Rivalry**: Domestic competition drives innovation.
- **Example**:
  - Germany excels in automobile manufacturing due to advanced engineering education, strong domestic demand, and a competitive car industry.

C. Technological Gap Theory

- **Concept**: Trade arises from technological differences between countries.
- **Key Idea**:
  - Innovating countries export new technology products.
  - Trade diminishes as technology diffuses globally.

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4. Key Concepts in International Trade

A. Terms of Trade (TOT)

- **Definition**: The ratio of export prices to import prices.
- **Example**:
  - If export prices rise while import prices remain constant, TOT improves.

B. Gains from Trade

- Trade increases global efficiency by:
  - Allowing specialization based on comparative advantage.
  - Enhancing consumer choices.

- Promoting innovation and technology transfer.

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5. Limitations and Criticisms

1. **Assumptions of Classical Theories**:
   - Perfect competition.
   - Constant returns to scale.
   - Absence of transportation costs.
2. **Dynamic Factors**:
   - Modern theories address changes in technology, economies of scale, and global integration.
3. **Trade Barriers**:
   - Tariffs, quotas, and non-tariff barriers can distort theoretical outcomes.

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6. Relevance of Theories Today

- **Globalization**: Theories like comparative advantage remain relevant, explaining trade in globalized supply chains.
- **Technological Advancements**: The product life cycle and technological gap theories highlight the role of innovation.
- **Policy Influence**: Strategic trade theory is evident in nations protecting industries like semiconductors and renewable energy.

Conclusion

Theories of international trade provide a framework for understanding global trade patterns and economic policies. While classical theories focus on resource-based advantages, modern perspectives incorporate technology, government roles, and dynamic factors. Together, they explain the complexities of today's interconnected global economy.

VIII. International marketing

International marketing is the application of marketing principles by industries in one or more than one country. It is possible for companies to conduct business in almost any country around the world, thanks to the advances in international marketing.

In simple words, international marketing is trading of goods and services among different countries. The procedure of planning and executing the rates, promotion and distribution of products and services is the same worldwide.

In recent times, companies are not restricted to their national borders, but are open for international marketing. With the increasing change in customers' demands, choices, preferences and tastes, the economies are expanding and giving way to more competitive marketing. Thus, organizations need to respond rapidly to the demands of the customers with well-defined marketing strategies.

International Marketing – Overview

The word 'International Marketing' is defined as the exchange of goods and services across national borders to meet the requirements of the customers. It includes customer analysis in foreign countries and identifying the target market.

The **major participants** in international marketing are as follows –

- **Multinational Corporations** (MNCs) – A multinational corporation (MNC) is an organization that ensures the production of goods and services in one or more countries other than its home country. Such organizations have their offices, help desks or industrial set-up across nations and usually have a centralized head office where they co-ordinate global management.
- **Exporters –** They are the overseas sellers who sell products, and provide services across their home country by following the necessary jurisdiction.
- **Importers** – They are the overseas buyers who buy products and services from exporters by complying with the jurisdiction. An import by one nation is an export from the other nation.
- **Service companies –** A service company generates revenue by trading on services and not on physical commodities. A public accounting company is the best example of a service company. Revenue here is generated by preparing returns of income tax, performing audit services, and by maintaining financial records.

Many companies believe that their targets are limited if they only concentrate on a single market like the U.S. Market and Global marketplace is competitive. Thus, to enrich their market presence such companies are always on a lookout for better opportunities worldwide.

International marketing simply means the sale and purchase of products and services in a market that acts as a platform for several other markets. Companies from different countries attempt to draw customers by advertising their products and services on the same platform.

The **major objectives** of international marketing are outlined as follows −

- To enhance free trade at global level and attempt to bring all the countries together for the purpose of trading.
- To increase globalization by integrating the economies of different countries.
- To achieve world peace by building trade relations among different nations.
- To promote social and cultural exchange among the nations.
- To assist developing countries in their economic and industrial growth by inviting them to the international market thus eliminating the gap between the developed and the developing countries.
- To assure sustainable management of resources globally.
- To propel export and import of goods globally and distribute the profit among all participating countries.
- To maintain free and fair trade.

International marketing aims to achieve all the objectives and establish a connection among the nations that participate in global trade. Establishing a business in one's home country has limited restrictions and demands but when it comes to marketing at international level, one has to consider every minute detail and the complexities involved therein. In such instances, the demand grows as the market expands, preferences change and the company has to abide by the rules and regulations of two or more countries.

Some basic modes are followed to enter into the global market and the organizations planning to expand their business globally need to know some basic terms. These have been discussed in the next chapter.

The mode of entry is the path or the channel set by a company to enter into the international market. Many alternative modes of entry are available for an organization to choose from and expand its business.

Some of the basic modes or paths companies use to enter into the global market are as follows −

Internet

For some companies, internet is a new mode of marketing while for some it is the only source of marketing. With the change in recent trends, a large number of innovative enterprises promote their goods and services on the internet through E-marketing.

For example, online shopping websites like Amazon provide a wide range of products for all age groups. A customer only needs an active internet connection to browse through the website and order any product of his choice. The product gets delivered at your doorstep and shopping is made simple and easy with E-marketing.

Licensing

Licensing is a process of creating and managing a contract between the owner of a brand and a company which wants to use the brand in association with its product. It refers to that permission as well which is given to an organization to trade in a particular territory. Licensing further has different channels namely.

Franchising

It is that form of business where the owner of a firm or the franchiser distributes his products and services through affiliated dealers or the franchisees. Franchising comes with its own benefits. The franchiser here provides brand name, right to use a developed business concept, expertise, and also the equipment and material required for the business.

For example, Domino's Pizza, Pizza Hut, and McDonald's are a few fast food chains we can't do without. They have a significant presence around the world. However, they have standard recipes and follow the same techniques across all the branches. Such aspects are governed and monitored by the main branch or the franchiser.

Turnkey Contracts

It is a type of project which is constructed and sold to buyer as a complete product. Once the project is established and handed over to the buyer, the contractor no more holds any ownership over it.

For example, the local government has published an invitation for contractors to make proposals or put in their tenders for the construction of a highway. Many contractors put forth their proposals and the best out of all is chosen. The contractor is assigned the task of constructing the highway. A certain amount is paid in cash to the contractor after negotiation. The government promises to pay the remaining amount after the completion of the project. After the work is finished, the contractor hands over the project to the concerned government. This is an example of turnkey contracts.

International Agents and Distributors

The companies or individuals who handle the business or market representing their home country in some foreign country are called international agents and distributors. These agents may work with more than one enterprise at a time. So, their level of commitment and dedication towards achieving their goals should be high.

International distributors are like international agents; the only thing that makes them different is that the distributors claim ownership over the products and services whereas agents don't.

For example, travel agents who book tickets and deal with the passport and visa issues of their clients are international agents. **Amway** with its large variety of products being distributed in more than one country is an example of international distributor.

Strategic Alliances

A large number of companies share the international market ground collaboratively. These companies collaborate while remaining apart and distinct based on non-equity strategic alliance. The companies may or may not belong to the same countries.

For example, Maruti Suzuki's is a strategic alliance between the Government of India, under the United Front (India) coalition and Suzuki Motor Corporation, Japan.

Joint ventures

When two parties having distinct identities come together to establish a new company it is known as a joint venture. The profit gained and also the loss incurred by the company is shared or borne by both the parties.

For Example, Hulu is a profitable joint venture extremely popular as a video streaming website. It is a joint venture of NBC Universal Television Group (Comcast), Fox Broadcasting Company (21st Century Fox), and Disney-ABC Television Group (The Walt Disney Company).

Overseas Manufacture or International Sales Subsidiary

When a company invests in a new project, plant or machinery overseas, i.e., at the global level, it is said to be undertaking overseas manufacturing. The major advantage is that the business suits the existing local standards, and the products match with the demands of the customers of that particular area.

International Sales Subsidiary is to a certain extent like overseas manufacturing. However, it is less risk prone when compared to overseas manufacturing. It comes with its own set of benefits too. It possesses the characteristics of a distributor authorized by a local company. A project or plant established in some foreign country but governed by a different company in the home country is international sales subsidiary. This is also referred to as Foreign Direct Investment (FDI).

We have learnt about the different modes of entry into the international market and we can summarize it by marking the stages of internationalization. Some companies do not aim to expand their business overseas and thus need not worry about single stage but enterprises who tend to expand their business globally need to consider the stages represented above through various modes.

IX. HOW TO START EXPORT

Exports are one of the fundamental drivers of growth for any economy. It can influence a country's GDP, exchange rate, level of inflation as well as interest rates. A robust export data is beneficial as it leads to increase in job opportunities, enhances foreign currency reserves, boosts manufacturing and also increases government's revenue collection. It is also a good means by which a country can bring itself out of the recession phase.

Exporting to countries with a favorable economic climate helps in increasing the GDP levels as well as helps in reducing unemployment. Entering international markets is a long and complex process that requires companies/entrepreneurs to allocate numerous resources in terms of time and money. However, it is a rewarding effort because exporting is also the fastest way to internationalize a company / business -a strategy that facilitates long-term survival Exporting is an investment that can be very profitable if carried out right the main advantages that exporting offers to any business or company.

1. Increasing Profit Margins:

Exporting products manufactured in countries with low production costs to markets where the retail price may be higher is a way to achieve higher profit margins. Moreover, exporting is a way to reduce costs and increase revenues—two variables that lead to profit growth.

2. Reducing Production Cost per Unit:

It is usually necessary to increase production to enter new markets. This is a gateway to achieve economies of scale, generate large business volumes and reduce production costs per unit.

3. Improving Liquidity:

Payment terms with low financial risk—such as full or partial advance payment, letter of credit or documentary collection—are common in exports. Thanks to them, the exporting company reduces the risk of the operation, increases cash flow and has more liquidity at its disposal.

4. Enhancing Competitiveness:

The mere fact of competing in new markets against new companies is a test for the exporter and its products or services. Continuous adaptation becomes essential, generating a constant evolution that leads to a permanent improvement of processes, strategies, equipment, etc. In short, the exporting company becomes increasingly competitive.

5. Operating in Markets with Less Competition:

Before starting to export, it is essential to choose the country in which we want to sell our products and services. A good market research should take into account the export costs derived from transport, the customs tariffs and the competition that exists in each market. One of our priorities must be to export to countries where our products and services have less competition.

HOW TO START ENTERPRISE / SETTING UP EXPORT BUSINESS

Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. To start export business, the following steps may be followed:

1. **Establishing an Organization:**

To start the export business / start up, first a sole Proprietary concern/Partnership firm/Company has to be set up as per procedure with an attractive name and logo. Any business or an enterprise must register legally under the Companies Act of 2013. There are a several types of company registration in India. Due to several options, it's overwhelming to choose the right kind of company registration.

2. **Opening a Bank Account**

A current account with a Bank authorized to deal in Foreign Exchange should be opened.

A Current Account is an account that is meant for businesses, professionals, trusts, associations, societies, institutions, etc. It provides the account holder with a wide range of benefits, including restriction free deposits and withdrawals, a higher number of free cheques available per month, convenient transfers and deposits in different branches, and even an overdraft facility. All this makes a Current Account a must have for traders, businessmen, institutions and professionals.

Opening a Current Account is very simple. Many banks have a provision for opening the bank account online. Once the form is submitted, a customer care executive from the bank gets back to the customer to complete all further formalities.

To complete the account opening, there are certain documents which are required. Once these documents are submitted to the bank, the account opening formalities can be completed, and the Current Account can be opened.

Documents required for opening a Current Account:

Here are the documents required for opening a Current Account:

 Proof of identity of the proprietor /trader /professional /institution/ association, etc. such as the PAN card. Additional documents for individuals include voter ID, passport and driving licence.

 Proof of address for an individual: Telephone bill, electric bill.

 Proof of the existence of the business

3. Obtaining Permanent Account Number (PAN):

It is necessary for every exporter and importer to obtain a PAN from the Income Tax Department. PAN card application can be applied online or offline. Further, requests for changes or correction in PAN data may also be made online. The online process is the most hassle-free way of obtaining PAN. The applicant is only required to fill and submit the online application form along with online payment of the respective processing fee. Copies of required documents can then be sent by post to either NSDL or UTIITSL, for verification purposes.

4. Obtaining Importer-Exporter Code (IEC):

The Importer -Exporter Code (IEC) is a key business identification number which is mandatory for Exports or Imports. No person shall make any import or export except under an IEC granted by the DGFT. In case of import or export of services or technology, the IEC shall be required only when the service or technology provider is taking benefits under the Foreign Trade Policy or is dealing with specified services or technologies.

The nature of the firm obtaining an IEC may be any of the follows-

"Proprietorship, Partnership, LLP, Limited Company, Trust, HUF and Society."

Consequent upon introduction of GST, IEC number is the same as the PAN of the firm. The IEC would be separately issued by DGFT. Procedure of IEC Code Registration Steps for IEC Registration Process:

 Step 1: Go to the DGFT Website.

 Step 2: Then you need to go on Services tab.

 Step 3: Enter your PAN number (A Person/if any Company PAN Card)

 Step 4: Enter the your details (As Mentioned on PAN Card)

 Step 5: Enter your mobile number and mail ID to get (OTP) verification process.

 Step 6: Fill and Update Application Entity Details

 Step 7: Add Branch Details (Within 15 minutes)

 Step 8: Fill and update the Director/Partner details.

 Step 9: Upload Documents Scanned Copies of Essential Documents.

 Step 10: Fee Payment (Debit/Credit Card Net Banking)

 Step 11: Preview & Print Application

 Step 12: Final Submission

Documents Required:

1. E-mail & Mobile Number

2. PAN Card

3. Address Proof (Aadhar Card or Passport or Voter ID is accepted for proprietary ship.

For other forms documents like Sale deed, Rent agreement, lease deed, etc are accepted.)

4. Valid Bank Account in the name of applicant with pre-printed cancelled cheque

5. Fees of Rs.500/- with applicable taxes can be paid via Net Banking, Debit Card or Credit Card.

BENEFITS OF IEC:

 Open International Market IEC helps you in taking your organization and products to the worldwide market and develop your organizations. You can also sell your products on international platforms Product scaling and Increased Revenue there will be a vast increase in the revenue of the organization

 Several benefits are availed the organization and various companies can avail several benefits from DGFT, customs, etc as per the IEC registration. On Exports the organization can claim tax benefits as well

 No need of any renewal IEC code is successful for the lifetime of a substance and requires no recharging. It could also be utilized by a substance against all fare and import exchanges

WHEN YOU REQUIRE IEC:

 If an importer needs to clear his shipments from the traditions at that time IEC is required by the traditions experts When in importer sends cash to another country through banks at that point IEC is required by the bank

 At the point when an exporter needs to send his shipments then its required by the traditions port

 When an exporter receives foreign currency in his bank account, IEC is required

NEEDS OF IEC:

 Importer needs IEC License for custom clearance.

 Exporters need IEC License for export subsidy.

 Bank requires IEC License for sending and receiving money to foreign customers.

 For Food Licensing and APEDA Licensing IEC is required.

5. Registration cum membership certificate (RCMC)

Registration-Cum-Membership Certificate (RCMC) is a certificate that validates an exporter dealing with products registered with an agency/ organization that the Indian Government authorizes.

As mentioned above, an exporter desiring to obtain an RCMC has to file an application in Form ANF 2C with the concerned Export Promotional Council (EPC) and declare his mainstream business in the application. With this Trade Notice, DGFT informed that a new Common Digital Platform (DGFT e-RCMC module) for Issuance of RCMC/RC had been developed, which would be single-point access for all exporters & importers.

There are 27 Export promotion councils and nine commodities boards in India. Export Promotional Councils (EPC) and Commodities board in India are the authorities for issuing the RCMC.

Each of the Export Promotion Councils and commodities boards in India categorizes itself according to the Type of products. In case an export product is not covered by any Export Promotion Council/Commodity Board etc., RCMC in respect thereof is to be obtained from FIEO.

Further, in case of multi-product is yet to be settled, the exporter has an optionto obtain RCMC from the Federation of Indian Exporters Organization (FIEO). Regarding multi-product exporters having their head office/registered office in the North Eastern States, RCMC may be obtained from Shellac & Forest Products Export Promotion Council (except for the products looked after by APEDA, Spices Board, and Tea Board).

In respect of exporters of handicrafts and handloom products from the State of Jammu & Kashmir, the Director, Handicrafts, Government of Jammu & Kashmir, is authorized to issue Registration Cum Membership Certificate (RCMC)

6. Selection of product:

All items are freely exportable except few items appearing in prohibited/restricted list. After studying the trends of export of different products from India proper selection of the product(s) to be exported may be made.

ITC-HS Code: ITC-HS Codes or better known as Indian Trade Classification based on Harmonized System of Coding was adopted in India for import-export operations. Indian custom uses an eight digit ITC-HS Codes to suit the national trade requirements.

7. Selection of Markets:

An overseas market should be selected after research covering market size, competition, quality requirements, payment terms etc. Exporters can also evaluate the markets based on the export benefits available for few countries under the FTP.

DGCIS data, Export Promotion Councils, Indian Missions abroad, colleagues, friends, and relatives might be helpful in gathering information. The Demand, Distance, Fright & Other Expenses, Free Trade Agreements, Accessibility, Etc May be factors to be considered.

8. Finding Buyers:

Participation in trade fairs, buyer seller meets, exhibitions, B2B portals, web browsing are an effective tool to find buyers. Export Promotion Councils, Indian Missions abroad, overseas chambers of commerce can also be helpful. Creating multilingual Website with product catalogue, price, payment terms and other related information would also help.

9. Sampling:

Providing customized samples as per the demands of foreign buyers help in getting export orders. As per FTP 2023, exports of bonafide trade and technical samples of freely exportable items shall be allowed without any limit.

10. Pricing/Costing:

Product pricing is crucial in getting buyers' attention and promoting sales in view of international competition. The price should be worked out taking into consideration all expenses from sampling to realization of export proceeds on the basis of terms of sale. Incoterms may be understood before finalizing price. Goal of establishing export costing should be to sell maximum quantity at competitive price with maximum profit margin. Preparing an export costing sheet for every export product is advisable.

X. Detailed Overview of FII and FDI

Foreign Institutional Investment (FII) and Foreign Direct Investment (FDI) are two key forms of foreign investment in a country's economy. While both bring capital into the country, their modes of operation, objectives, and impacts are distinct.

Below is a comprehensive overview:

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1. Foreign Institutional Investment (FII)

Definition

FII refers to investments made by foreign entities in the financial markets of another country, typically in stocks, bonds, or other financial instruments.

Characteristics

1. **Portfolio Investment:**
    - **FIIs focus on short-term investments in financial securities.**
    - **No active involvement in the management of the companies.**
2. **Liquidity:**

- FIIs can easily enter and exit markets, making this a highly liquid form of investment.

3. **Sectors Invested In:**
   - Equity markets, debt markets, and mutual funds.
4. **Entities Involved:**
   - Mutual funds, pension funds, hedge funds, insurance companies, and investment banks.

Advantages

- Boosts liquidity in financial markets.
- Enhances the depth and breadth of capital markets.
- Brings global expertise and confidence in the local economy.

Disadvantages

- High volatility due to speculative investments.
- Risk of sudden outflows during economic instability.

Regulation in India

- Governed by the Securities and Exchange Board of India (SEBI).
- FIIs must register with SEBI to invest in Indian markets.

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2. Foreign Direct Investment (FDI)

Definition

FDI refers to the investment made by a foreign entity in the productive assets of another country, such as factories, businesses, or infrastructure.

Characteristics

1. **Long-Term Investment:**
   - FDI is aimed at establishing a lasting interest in a business or asset.
2. **Ownership and Control:**
   - Involves significant ownership and active participation in management and operations.
3. **Modes of Entry:**
   - Greenfield Investments: Setting up new facilities from scratch.
   - Brownfield Investments: Acquiring or merging with existing enterprises.
4. **Sectors Invested In:**
   - Manufacturing, services, retail, real estate, and infrastructure.

Advantages

- Promotes economic growth by creating jobs and transferring technology.
- Enhances productivity through capital inflow and expertise.
- Improves balance of payments and strengthens domestic industries.

Disadvantages

- Risk of monopolization or market dominance by foreign companies.
- Potential profit repatriation leading to outflow of foreign exchange.
- Cultural and operational differences can create management challenges.

Regulation in India

- Governed by the Foreign Exchange Management Act (FEMA).
- Controlled by the Reserve Bank of India (RBI) and Ministry of Commerce.
- Two routes of entry:
  1. Automatic Route: No prior government approval required.
  2. Government Route: Approval required for investments in sensitive sectors.

Comparison Between FII and FDI

Aspect	FII	FDI
Nature	Portfolio investment in financial markets	Direct investment in productive assets
Investment Horizon	Short-term	Long-term
Control	No control over the company	Active involvement and management control
Sectors	Stocks, bonds, mutual funds	Manufacturing, infrastructure, retail
Risk	High volatility	Relatively stable
Regulation in India	Governed by SEBI	Governed by FEMA, RBI, and Ministry of Commerce

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3. Impacts on the Economy

A. Positive Impacts

1. FII:
   - Enhances capital market liquidity.

- Helps in price discovery and market efficiency.

2. **FDI:**
    - Boosts industrial development and employment.
    - Transfers technology and skills.

B. Negative Impacts

1. **FII:**
    - Sudden capital outflows can destabilize the economy.
    - Leads to speculative trading in domestic markets.
2. **FDI:**
    - Can lead to market monopolization by foreign firms.
    - Excessive foreign influence in strategic sectors.

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4. Trends and Data

FII Trends

- FIIs tend to follow global market trends and economic indicators.
- Investments fluctuate based on geopolitical and economic stability.

FDI Trends

- FDI is attracted by factors like ease of doing business, stable policies, and a skilled workforce.
- Key sectors include technology, manufacturing, and retail.

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5. Key Considerations for Policymakers

- **Balance:** Maintain a balance between encouraging FDI and managing FII volatility.
- **Sectoral Caps:** Set appropriate caps for FDI and FII in sensitive sectors.
- **Incentives:** Provide incentives for FDI in high-priority sectors like infrastructure and technology.
- **Stability:** Ensure a stable economic and regulatory environment to attract both FDI and FII.

Conclusion

Both FDI and FII play crucial roles in a country's economic development. While FDI strengthens the industrial base and creates jobs, FII boosts financial markets and liquidity. A strategic balance between the two is essential to ensure sustainable economic growth and resilience.

XI. INCOTERMS

Definition:

Incoterms are the selling terms that the buyer and seller of goods both agree to during international transactions. These rules are accepted by governments and legal authorities around the world. Understanding Incoterms is a vital part of International Trade because they clearly state which tasks, costs and risks are associated with the buyer and the seller.

The Incoterm states when the seller's costs and risks are transferred onto the buyer. It's also important to understand that not all rules apply in all cases. Some encompass any mode or modes of transport. Transport by all modes of transport (road, rail, air and sea) covers FCA, CPT, CIP, DAP, DPU (replaces DAT) and DDP. Sea/Inland waterway transport (Sea) covers FAS, FOB, CFR and CIF.

Role of Incoterms in International Trade:

Incoterms are referred to as International Commercial Terms. They are a set of rules published by the International Chamber of Commerce (ICC), which relate to International Commercial Law. According to the ICC, Incoterms rules provide internationally accepted definitions and rules of interpretation for most common commercial terms used in contracts for the sale of goods'. While determining the price of the export products and negotiating the delivery point of goods the knowledge of incoterms is must.


Discussion on any questions


THANK
YOU