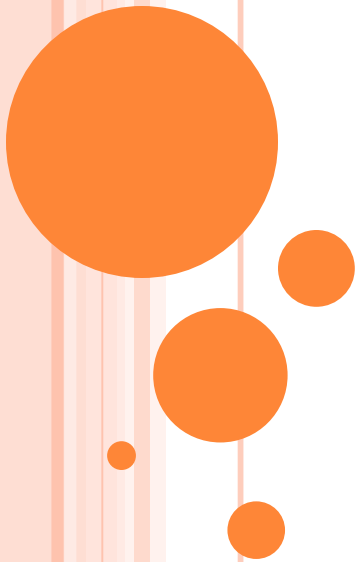


CH 3 TRADE POLICY & EXPORT PROMOTION



TRADE POLICY & EXPORT PROMOTION

Introduction

- A trade policy is set in place by a government and affects the number of goods and services a country exports and imports. Policy-makers might want to employ a trade policy to benefit the domestic market and its industries.

Definition

- A **trade policy** is a government policy that affects the number of goods and services a country exports and imports.
- **Free trade** is when there are no government restrictions on trade.
- **Protectionism** is when governments set trade restrictions to help domestic industries.



TRADE POLICY & EXPORT PROMOTION

- In an economy, there is a spectrum of trade policies. On one end there is **free trade** and on the other end, there is **protectionism**. Under a free trade policy, there is no or very little government intervention in a country's trading practices.
- Under protectionism, the government regulates the trade flowing in and out of a country to protect domestic industries and limit its reliance on other countries. Most countries are not one or the other but are located somewhere on this spectrum.



TRADE POLICY & EXPORT PROMOTION

Types of Trade Policy

- In the US, we see several types of trade policies. There are trade policies that affect which goods and services can be imported and how much. There are others that affect exports, currency exchange rates, or tourism. The job of trade policies though is to regulate **imports** and **exports** to the benefit of the domestic economy.

Definition

- An **import** is a good or service that is manufactured or provided in another country and sold domestically.
- An **export** is a good or service that is manufactured or provided domestically but sold in another country.



TRADE POLICY & EXPORT PROMOTION

Trade Policy: Imports

- There are several reasons why a government would want to establish trade policies for importing goods and services. First, under free trade, imports are seen to benefit the economy because they increase the selection of goods available to the consumers, lower prices, improve economic efficiency, and create global price stability.
- A trade policy that supports imports could be a **free trade agreement** between two or more nations that allows for goods from one country to be imported into the other without restrictions like tariffs or quotas.
- This would keep domestic prices low and stable by increasing the supply available. A trade policy might also restrict imports. For example, if the US steel industry were to suffer from low prices due to foreign steel being more affordable, the government might step in to help them out. It could set a **quota** limiting the total amount of steel that can be imported or impose a **tariff** that charges the importer a percentage of the value of the steel.



TRADE POLICY & EXPORT PROMOTION

Trade Policy: Exports

- Exports benefit the domestic economy first and foremost because they bring money and foreign currency into the country. Exporting also expands the consumer base that is available to producers, which is important for increasing profits.
- A situation where the government may employ a more protectionist trade policy on exports is if there is a natural resource that is being depleted or the domestic population is not able to consume the good because it is all being exported. When foreign prices for a good, let's say corn, are more profitable than what domestic consumers are able to pay, producers will want to export their corn to raise their profit margins. This causes a shortage in the domestic market for corn. The government can restrict the amount of corn that is exported to benefit the domestic consumer.



TRADE POLICY & EXPORT PROMOTION

Trade Barriers

Tariff Barriers

- Tariff barriers are government-imposed taxes on imports that raise the price of foreign goods to protect domestic industries.
- A tariff is a tax placed on imported goods to make them more expensive than local products.
- Tariffs reduce the competitiveness of foreign goods in the domestic market.
- For example, if Country A adds a tariff on toys from Country B, those toys become costlier in Country A.
- Consumers may shift to locally made products due to higher prices of imports.
- Tariffs can protect local jobs and industries, such as steel manufacturing, from cheaper foreign alternatives.
- The impact of tariffs includes reduced import volumes and possible price increases for consumers.



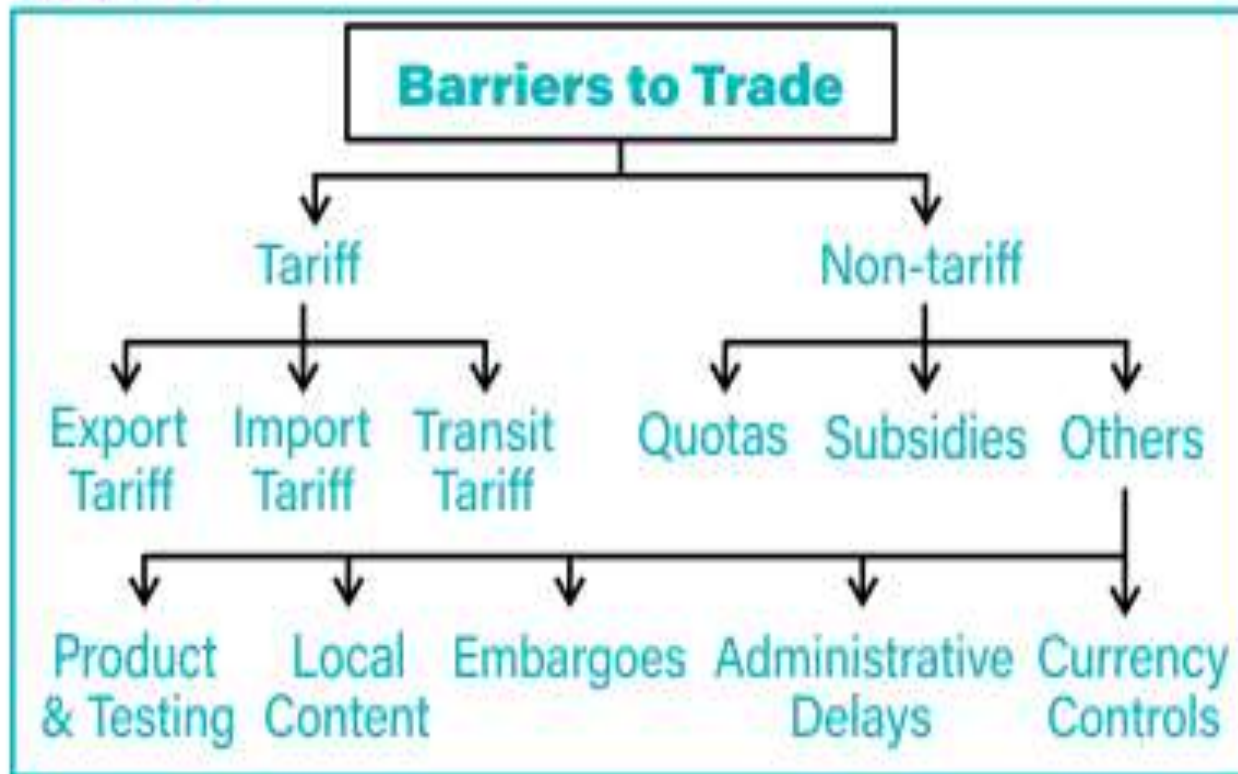
TRADE POLICY & EXPORT PROMOTION

Non-Tariff Barriers

- Non-tariff barriers are trade restrictions that use rules, regulations, or procedures instead of direct taxes to limit imports.
- These barriers include product standards, size limits, and safety requirements for imported goods.
- For instance, a country may require toys to pass safety checks before they can be sold.
- Customs paperwork or complicated procedures can delay or discourage imports.
- Even without taxes, non-tariff barriers make it harder for foreign businesses to access domestic markets.
- They protect consumers and local industries through regulation rather than cost.
- The key difference from tariffs is that non-tariff barriers use regulations instead of taxation to control trade.



TRADE POLICY & EXPORT PROMOTION



TRADE POLICY & EXPORT PROMOTION

Types of Tariffs

- Different forms of taxes imposed on imported or exported goods to control trade and protect domestic industries.
- 1. **Import Tariff:** A tax imposed on goods brought into a country to protect domestic industries and raise revenue.
- 2. **Export Tariff:** A tax levied on goods sent out of a country, usually to control supply or increase government income.
- 3. **Specific Tariff:** A fixed fee charged per unit of the imported item, regardless of its price.
- 4. **Ad Valorem Tariff:** A tax calculated as a percentage of the total value of the imported goods.



TRADE POLICY & EXPORT PROMOTION

Types of Non-Tariff Barriers

- Various trade restrictions other than taxes used by governments to regulate imports and protect local markets.
- 1. **Quotas:** Limits set by the government on the quantity of a specific good that can be imported.
- 2. **Licensing Requirements:** Government permits required before a company can import or export certain products.
- 3. **Standards and Regulations:** Rules on quality, health, or safety that imported goods must meet to enter the market.
- 4. **Subsidies:** Financial support given to domestic producers, making their goods cheaper than imported ones.
- 5. **Customs Procedures:** Extra documentation or inspections at borders that slow or restrict the flow of trade.



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Difference Between Tariff and Non Tariff Barriers

Category	Tariff Barriers	Non-Tariff Barriers
Definition	A monetary charge (tax) on imports or exports	Rules or regulations that restrict trade without using tax
Nature	Fiscal/monetary	Regulatory/administrative
Visibility	Transparent and easy to calculate	Less visible, often hidden in compliance rules
Form of Application	Imposed as a percentage of value or fixed fee on goods	Applied through rules like licensing, quotas, safety norms
Objective	Protect local industry and generate revenue	Ensure safety, standards, reduce imports indirectly



TRADE POLICY & EXPORT PROMOTION

Difference Between Tariff and Non Tariff Barriers

Impact on Price	Increases the price of imported goods directly	Increases cost indirectly through compliance or restrictions
Example	40% import duty on luxury cars	BIS certification required for imported electronic goods
Ease of Measurement	Easy to track via customs records	Hard to quantify and monitor effectively
Trade Impact	Direct impact on pricing and consumer choice	Indirect impact through regulation and procedural delays
Government Role	Sets and adjusts rates based on policy	Implements technical or legal rules often in line with international standards



TRADE POLICY & EXPORT PROMOTION

Export Promotion

- Export promotion in international marketing refers to government policies, programs, and initiatives designed to encourage and facilitate domestic businesses to sell their products and services in foreign markets. The primary goal is to boost a country's exports, leading to economic growth, foreign exchange earnings, and a positive balance of trade.
- Many countries and regions utilize export promotion to promote their companies products and services in foreign markets. This will benefit the trade balance and the overall economy of the country. Export incentive programmers may also be utilized to encourage more enterprises to export. Governments support marketing, product development, payment guarantee programmers, pre- and post-shipment finance, trade missions, training, trade displays, and international representation.



TRADE POLICY & EXPORT PROMOTION

Export Trade Promotions Initiatives

- **Duty-Free Replenishment Certificate (DFRC):** A DFRC allows a merchant exporter or manufacturer exporter to import duty-free inputs such as raw materials, components, intermediates, consumables, spare parts, and packing materials for use in export manufacturing. A license of this type is only granted if the export responsibilities are met on time.
- **The Duty Entitlement Passbook Scheme (DEPB):** DEPB allows exporters to request credit based on a percentage of the FOB (Free On Board) value of freely convertible currency exports. The credit must be used for export products and at the rates specified by the Director-General of Foreign Trade (DGFT) in the public notice.



TRADE POLICY & EXPORT PROMOTION

Export Trade Promotions Initiatives

- **The Export Promotion Capital Goods Scheme (EPCG):** EPCG was established under the EXIM policy of 1992-1997 to allow manufacturer exporters to import machinery and other capital goods for export production at reduced or no customs taxes. This facility is subject to an export obligation, which requires the exporter to guarantee minimum exports equal to the total value of imported capital goods.
- **Excise Duty Refund:** Excise duty is a tax imposed by the Indian government's central government on goods manufactured in India. This duty is collected at the point of origin or before the goods are removed from the production grounds.



TRADE POLICY & EXPORT PROMOTION

Foreign Trade Promotion Organization in India

- **Department of Commerce:-** Primary governmental agency responsible for developing and directing foreign trade policy and programmers, including commercial relations with other countries, state trading, various trade promotional measures and development, and regulation of certain export-oriented industries.
- 1. Economic Division :-** Engaged in export planning, formulating export strategies, periodic appraisal and review of policies.
- 2. Trade Policy Division :-** Keeps track of development in international organization & it is also responsible for India's relationship with regional trading agreement.



TRADE POLICY & EXPORT PROMOTION

Foreign Trade Promotion Organization in India

3. **Foreign Trade Territorial Division:-** Looks after development of trade with different countries and regions of the world. Deals with state trading and barter trade, organization of trade fairs and exhibitions, commercial publicity abroad.
4. **Export Product Division:-** Looks after problems connected with production, generation of surplus and development of products for exports.
5. **Export Services Division :-** Deals with problems of export assistance such as export credit, export house, market development assistance, transport subsidies, free trade zones, dry ports, quality control and pre-shipment inspection, assistance to import capital goods etc



TRADE POLICY & EXPORT PROMOTION

Foreign Trade Promotion Organization in India

- **Subordinate offices :-** In addition to these divisions, attached and subordinate offices are also involved in promotion of foreign trade.

These are as follows:

Directorate General of Foreign Trade

- Headed by Director General of Foreign trade.
- Responsible for execution of export-import policy announced by GOI (Government of India)
- Looks after the work relating to issuing of licenses and monitoring of export obligations.



TRADE POLICY & EXPORT PROMOTION

Foreign Trade Promotion Organization in India

- **Directorate General of Commercial Intelligence and Statistics**
 - Responsible for collection, compilation and dissemination of trade statistics and commercial information.
 - Brings out a number of publications mainly on inland and coastal trade statistics, revenue statistics, shipping and air cargo statistics.
- **Directorate General of Anti-Dumping and Allied Duties :-** Responsible for carrying out anti-dumping investigations and to recommend wherever required, the amount of anti-dumping /countervailing duty under the Customs Tariff Act, on identified articles which would be adequate to remove injury to the domestic industry.



TRADE POLICY & EXPORT PROMOTION

- **Board of Trade :-** In order to deploy an effective mechanism for maintaining continuous dialogue with trade and industry on issues related to international trade, the Board of Trade was set up under the chairmanship of the Union Minister of Commerce and Industry in May 1989. It was reconstituted on 1st April 2005 with an eminent representative from trade and industry as its chairperson.

The broad terms of reference of the Board of Trade are given below:

- To advise the govt. on policy measures for preparation and implementation of both short and long-term plans for increasing exports.
- To review the export performance of various sectors, identify constraints and suggest industry specific measures to optimize exports earnings.



TRADE POLICY & EXPORT PROMOTION

- **The broad terms of reference of the Board of Trade are given below:**
- To examine the existing institutional framework for exports and suggest practical measures for further streamlining to achieve the desired objectives.
- To review the policy instrument, package of incentives and procedures for exports and suggest steps to rationalize and channelize such schemes for optimal use.
- To commence studies for promoting trade



TRADE POLICY & EXPORT PROMOTION

- **Export Inspection Council** is a statutory body, responsible for the enforcement of quality control and compulsory reshipment inspection of various exportable commodities.
- **Indian Institute of Foreign Trade** is engaged in activities like
 - Training of personnel in modern techniques of international trade;
 - Organization of research in problems of foreign trade;
 - Organization of marketing research, area surveys, commodity surveys and market surveys;
 - Dissemination of information arising from its activities relating to research and market studies.



TRADE POLICY & EXPORT PROMOTION

○ Indian Institute of Packaging

The main objectives of the institute are:

- To undertake research on raw materials for the packaging industry
- To keep India in step with international developments in the field of packaging
- To organize training programmers on packaging technology
- To stimulate consciousness of the need for good packaging



TRADE POLICY & EXPORT PROMOTION

- **Export Promotion Councils** work for both advisory and executive functions under the Ministry of Commerce.

The major functions are:

- To provide commercially useful information and assistance to their members in developing and increasing their exports.
- To offer professional advice to their members in areas, such as technology up gradation, quality and design improvement, standards and specifications, product development, innovation etc.



TRADE POLICY & EXPORT PROMOTION

○ **Commodity Boards:**

- In order to look after the issues related to production, marketing and development of commodities, there are nine statutory commodity boards as under:
 - The Tea Board
 - The Coffee Board
 - The Coir Board
 - The Central Silk Board
 - The All-India Handlooms and Handicraft Board



TRADE POLICY & EXPORT PROMOTION

Export Incentives

- **Export incentives** are benefits, financial or non-financial, provided by governments or trade organizations to encourage businesses to sell goods and services to foreign markets. The main aim is to promote exports, increase foreign exchange earnings, and boost the country's economic growth.

Why are Export Incentives Important?

- **Promote international trade:** They help domestic companies compete globally.
- **Boost economic growth:** Increasing exports can stimulate production, create jobs, and improve GDP.
- **Improve trade balance:** More exports can reduce trade deficits.
- **Support emerging industries:** Incentives can nurture new or strategic industries on the global stage.



TRADE POLICY & EXPORT PROMOTION

Types of Export Incentives

○ Financial Incentives

- **Export Subsidies:** Direct financial payments to exporters to reduce their costs.
- **Tax Exemptions:** Reduced or zero taxes on income earned from exports.
- **Export Credit/Loans:** Low-interest loans or credit guarantees for exporters.
- **Cash Incentives:** Direct cash benefits based on export volume or value.



TRADE POLICY & EXPORT PROMOTION

Types of Export Incentives

Non-Financial Incentives

- **Simplified Export Procedures:** Faster customs clearance, reduced paperwork.
- **Export Promotion Councils:** Support organizations providing market research, trade fairs, etc.
- **Technical Assistance:** Training, quality control, and technology upgrades.
- **Market Access Support:** Assistance in finding buyers or entering new markets.



TRADE POLICY & EXPORT PROMOTION

Pros & Cons

Pros and Cons

Pros

Encourages export growth

Helps domestic firms compete abroad

Creates employment and GDP growth

Supports strategic industries

Cons

Can lead to market distortions

Risk of retaliatory trade measures

Potential misuse or fraud

Fiscal burden on government budgets



TRADE POLICY & EXPORT PROMOTION

Production Assistance

- **Production assistance** refers to the various forms of support provided by governments or export promotion agencies to help exporters enhance their production capabilities. The goal is to improve the quantity, quality, and competitiveness of goods produced for export markets.
- By strengthening production capacity, exporters can meet international demand, maintain quality standards, and reduce costs, thereby boosting their export potential.

Why is Production Assistance Important

- **Enhances Competitiveness:** Helps producers reduce costs and improve product quality to compete globally.
- **Increases Production Capacity:** Enables firms to scale up output to meet export demand.
- **Improves Product Standards:** Facilitates compliance with international quality and safety standards.
- **Encourages Technology Upgradation:** Introduces modern production techniques and equipment.
- **Supports New Product Development:** Helps diversify export products to new markets.



TRADE POLICY & EXPORT PROMOTION

Types of Production Assistance in Export Promotion

○ Technical Assistance

- Providing expertise to improve production processes.
- Training workers in modern manufacturing methods.
- Consultancy on quality control, packaging, and design.

○ Financial Assistance

- Subsidies or grants for purchasing machinery and equipment.
- Low-interest loans or credit facilities to expand production capacity.
- Tax benefits on capital investments.



TRADE POLICY & EXPORT PROMOTION

Types of Production Assistance in Export Promotion

Infrastructure Support

- Access to utilities like power, water, transport, and communication networks.
- Providing common facility centers for small and medium exporters.

Raw Material Support

- Facilitating access to quality raw materials at competitive prices.
- Duty exemptions or reduced tariffs on imported raw materials used for exports.

Research and Development (R&D)

- Funding for R&D to develop new export-oriented products.
- Support for innovation in product design, packaging, and production technology.



TRADE POLICY & EXPORT PROMOTION

Types of Production Assistance in Export Promotion

Quality and Standards Improvement

- Assistance in acquiring international certifications (ISO, HACCP, etc.).
- Setting up quality testing labs and inspection facilities.

Skill Development

- Vocational training programs tailored to export industries.
- Collaboration with educational institutions for specialized courses.



TRADE POLICY & EXPORT PROMOTION

Marketing Assistance

- **Marketing assistance** involves the support provided by governments, export promotion councils, or trade organizations to help exporters effectively market their products in international markets. This assistance aims to overcome market entry barriers, increase visibility, build brand reputation, and ultimately boost export sales.
- Marketing assistance helps exporters understand foreign markets, identify potential buyers, position their products, and promote them effectively abroad.

Why is Marketing Assistance Important

- **Enhances Exporter Visibility:** Creates awareness of products among potential international buyers.
- **Builds Brand Image and Credibility:** Supports exporters in establishing a trustworthy image overseas.
- **Expands Market Reach:** Opens new geographic markets and customer segments.
- **Provides Market Intelligence:** Offers data on demand trends, competitor analysis, and consumer preferences.



TRADE POLICY & EXPORT PROMOTION

Types of Marketing Assistance in Export Promotion

Market Research and Information

- Providing detailed reports on target export markets.
- Data on demand, competition, pricing, regulatory requirements, and consumer behavior.

Trade Fairs and Exhibitions

- Organizing or subsidizing participation in international trade fairs.
- Providing booths, logistics support, and promotional materials.

Export Promotion Campaigns

- National or regional campaigns to promote export sectors.
- Advertising and public relations support.



TRADE POLICY & EXPORT PROMOTION

Types of Marketing Assistance in Export Promotion

Branding and Packaging Support

- Assistance in developing export-oriented branding, labeling, and packaging.
- Ensuring compliance with international standards.

Export Marketing Training

- Workshops and seminars on export marketing strategies, negotiation skills, and cultural nuances.
- E-learning courses and manuals.

Financial Support for Marketing

- Grants or subsidies to cover part of the marketing expenses (e.g., advertising, trade show fees).
- Assistance in funding promotional campaigns.



TRADE POLICY & EXPORT PROMOTION

Special Economic Zones

- **Special Economic Zones (SEZs)** are geographically demarcated areas within a country that operate under different economic regulations than the rest of the country. These zones are designed to attract foreign and domestic investment by offering favorable economic policies, infrastructure, and administrative ease.
- The primary goal of SEZs is to promote industrialization, increase exports, create employment, and boost economic growth by fostering a business-friendly environment.



TRADE POLICY & EXPORT PROMOTION

Role of SEZs in Export Promotion

- SEZs play a significant role in boosting exports by providing exporters with incentives and infrastructure to efficiently produce and ship goods to international markets. Here's how SEZs contribute:

Export-Focused Industrial Hubs:

- SEZs typically focus on export-oriented manufacturing and services.
- They provide a concentrated environment where exporters can leverage economies of scale.

Competitive Advantages:

- Offer fiscal and non-fiscal incentives tailored to encourage export activities.
- Facilitate easy access to modern infrastructure, utilities, and logistics.



TRADE POLICY & EXPORT PROMOTION

Role of SEZs in Export Promotion

Attracting Investment:

- By reducing the cost of doing business and bureaucratic hurdles, SEZs attract foreign direct investment (FDI) and domestic investors.
- Investment inflows enhance production capabilities and technology adoption, increasing export quality and volume.



TRADE POLICY & EXPORT PROMOTION

Key Features of SEZs for Export Promotion

Fiscal Incentives

- Exemption or reduction of customs duties and tariffs on imports of raw materials, machinery, and intermediate goods.

Simplified Procedures

- Single-window clearances for licenses, permits, and approvals.
- Faster customs clearance and less paperwork for import/export transactions.

World-Class Infrastructure

- Dedicated roads, ports, warehouses, power supply, telecommunications, and water facilities.

Focused Support Services

- Availability of business support services such as banking, insurance, legal, and consultancy services within the zone.



TRADE POLICY & EXPORT PROMOTION

Export Houses

- **Export Houses** are specialized business entities or firms that engage primarily in the export of goods and services. They act as intermediaries or facilitators between domestic manufacturers and international buyers, helping to streamline the export process.
- In many countries, export houses are officially recognized by government authorities once they meet specific export performance criteria. This status often grants them special privileges and assistance aimed at promoting exports.



TRADE POLICY & EXPORT PROMOTION

Types of Export Houses (Common Classification)

- **Export House:** Firms that achieve a minimum export turnover prescribed by the government (e.g., \$3 million).
- **Trading House:** Firms with higher export turnover (e.g., \$25 million).
- **Star Trading House:** Firms with even larger export volume (e.g., \$100 million).
- **Super Star Trading House:** Top exporters exceeding a very high threshold (e.g., \$500 million or more).



TRADE POLICY & EXPORT PROMOTION

Role of Export Houses in Export Promotion

- **Aggregating Supply:** They consolidate goods from multiple small producers to meet large international orders.
- **Market Access:** Export houses have established networks of overseas buyers, helping domestic producers enter global markets.
- **Risk Reduction:** They assume risks related to export documentation, financing, and foreign exchange.
- **Quality Control:** Ensuring that exported products meet international standards and buyer specifications.
- **Handling Logistics:** Managing shipping, customs clearance, and insurance, simplifying processes for manufacturers.
- **Market Intelligence:** Providing exporters with information on demand trends, regulations, and competitors.
- **Product Diversification:** Encouraging manufacturers to diversify products based on global market needs.



THANK YOU

