FOREIGN TRADE
&
INSTRUMENTS OF FOREIGN TRADE

- **Foreign Trade**
- The foreign trade of a country refers to its imports and exports of merchandise from and to other countries under contracts of sale.
- **Foreign Trade: Meaning**
- Trade is the exchange of goods and services between a purchaser and a seller.

Foreign Trade is of 2 types: (a) Import (b) Export

- If the seller is abroad (across the borders) and the buyer is in the home country, trade is known as Import trade, while when the seller is in the home country and the purchaser is abroad, the trade is known as Export. What is import for one country is export for other country and vice-versa. Foreign Trade can be divided into 2 more types according to visibility; viz.:

- **Visible and Invisible**
- **Dumping**
- Apart from the export of goods under contracts of sale, goods may also be sold in foreign markets by a process known as 'dumping'.
- Dumping may be **sporadic, predatory or persistent.**

Balance of Trade

- The difference between a country's imports of merchandise and its exports thereof, is referred to as its 'balance of trade'.

There are two factors for variation in balance of trade position, viz.:

(i) External Factors

(ii) Internal Factors

Balance of Payments—Meaning—Accounting

The balance of payment is a difference between international transfer of funds for a country’s imports and exports during a certain period of reference.

The balance of payment accounting has two types of accounts, Current Account and Capital Account.

Foreign Contracts

(a) Terms

(b) Mode of Delivery

- (c) Freight and Insurance
- (d) Mode of Payment
- (i) OD/DP
- (ii) DA
- (iii) VP/COD

- Euro money is a monetary system of eleven European countries, which started its functioning since January 1999.
- Conditions for this agreement are:
- (a) The countries have to keep their Budget deficit, below 3% of the Gross Domestic Product (G.D.P.).
- (b) Countries should have Government debts below 60% of G.D.P.
- (c) Inflation should not exceed 1.5%.
- (d) Rate of interest should not be more than 2%.

- **Methods of Foreign Trade**
- (a) On Open Account Basis
- (b) Under Bill of Exchange
- (c) Under Letter of Credit
- **Role of Exim Bank**
- The functions of the Exam Bank are
- (i) To provide financial assistance to exporters and importers;
- (ii) To act as the principal financial institution for co-ordinating the working of other institutions, engaged in the field of financing internal trade.
- (iii) To undertake limited development and merchant banking activities in relation to export-oriented industries.

Documents used in Foreign Trade

Documents are used to record a written evidence of having carried out a transaction in both the local and the international trade.

Commercial Invoice: It is the sellers' bill for the merchandise.

Types of Bill of Lading:

(a) "Freight Paid" and "Freight Collect" Bill of Lading:

(b) "Clean" vs. "Claused" Bill of Lading:

(c) Through Bill of Lading:

(d) Transmission of the Bill of Lading to Importer:

(e) Charter Party B/L:

Marine Insurance Policy (Art. 28 UCPDC – 600)

In international trade, it is customary to insure the goods against the risk of loss or damage.

A marine insurance policy can be taken either by an open policy or a specific policy.

For the financing bank, a marine policy is a very important document, accompanying the shipping documents, as it provides additional cover for the advance it has made to the importer.

Marine Risks

The risks usually covered under marine insurance are:

(i) Perils of the sea: These include damage to the cargo while at sea by the force of waves or storm, or by contact with sea water, or by collision, stranding or sinking;

(ii) Fire;

(iii) Piracy;

(iv) Jettisoning: This refers to the throwing overboard of cargo or a part thereof, or the cutting of masts, rigging of sails, etc., voluntarily to lighten the ship in order to avoid sinking or damage;

(v) Barratry: This is a marine term used to refer to the misconduct or fraudulent or unlawful act on the part of the master and/or the crew of the ship on account of which the ship may be abandoned or may run ashore;

(vi) Perils of war;

(vii) Theft, pilferage and/or non-delivery (TPND);

(viii) Additional risks due to explosion, damage to machinery, latent defects, breakage, leakage, heating, bursting, sweating, damage by other cargo, etc.

Marine Insurance Losses

Marine insurance losses may be broadly classified into total losses and partial losses.

As per provisions of the Carriage of Goods by Sea Act of 1925, the following documents should be submitted along with the claim:

(i) The insurance policy;

(ii) The original invoice and the packing list;

(iii) A copy of the bill of lading and

(iv) Copies of correspondence with the shipping company.

Bills of Exchange

A Bill or Exchange is a negotiable instrument and is payable to the bearer or to the person in whose favour it is endorsed.

Types of Bill of Exchange

i. Clean and Documentary Bills:

ii. Sight and Usance Bills:

Consular Invoice

A consular invoice is a special type of invoice required by some countries for their imports.

The main purpose of the consular invoice to the importing country is to have authenticated particulars of the goods that are imported into their country.

The essential feature is certification of the country of origin, indicating where the goods were originally produced and/or manufactured.

Packing List

The exporter prepares a packing list showing, item by item, the contents of the containers or cases to enable the receiver of the shipment to check the identity of the shipment. It should give the description of the goods, number and marks on the packages, quantity per package, net weight and gross weight, measurement, etc.

G R Form

GR form is an exchange control document required by the RBI.

Bill of Lading (B/L), is the document duly signed and issued by a shipping company, acknowledging that the goods mentioned in the document have been shipped or received for shipment and undertaking to deliver the goods at the agreed destination.

Thank YOU