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IMPORT AND EXPORT MANAGEMENT FROM A GLOBAL PERSPECTIVE

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ABSTRACT

Primarily import and export duties aim to encourage or restrict the consumption as well as production in the domestic economy and market. Countries levy Import and Export Duties on specific items and also based on countries of origin. The management of duties and tariffs is managed through Trade laws and policies.

INTRODUCTION:

Countries levy Import and Export Duties on specific items and also based on countries of origin. The management of duties and tariffs is managed through Trade laws and Policies. Besides imposing duties, countries also restrict and manage the import and export of items with the help of licenses to Import and Export. Export and imports are important for development and growth of national economies because not all countries have the resources and skills required to produce certain goods and services.

Objectives of Import and Export management from a Global perspective:

- To understand how International Trade is managed.
- To understand the payment Mechanism in Global Trade.
- To understand Types of custom duties and taxes.
- To understand what is custom clearance Agency and its process.
- To understand Import and Export procedures in India.

International Trade Integration:

No doubt international trade has existed spanning civilization, in the current global economic situation no country can keep away without participating in international trade. Countries are moving cautiously away from capitalistic and protectionist outlook and engaging in trade with other countries. One such example in Economic Union of European Countries initially EU was a custom Union that further developed into Economic union.

Customs Union:

Customs Union refers to a coming together of member countries to form a union where in they allow free trade amongst the member countries without customs duties and tariffs. This would result in increased economic efficiency and improve political relationship amongst the members too paving way for further economic integration.

The Custom Union of Zollverein which was formed out of coming together of German States is another example of Customs Union. Customs Union can also be called Free Trade Zones with common trade tariffs and polices.

Free Markets and Economic Integration:

Customs Union can also be called Free Trade Zones with common Trade Tariffs and Policies. Customs Union is the first step towards building Economic integration that leads to formation of common markets and economic union and federation. Common markets allow free movement of all resources including labor, capital as well as other resources without tariffs and formalities.

Economic Integration:

Economic Union and Monetary Unions finally lead up to complete Economic integration in final stage. To achieve and stabilize single economy, it necessitates the political integration, which brings into being the concept of United Countries with autonomous states governed by federal government. Unites States of America is the outstanding example of such integration evolving into one nation.

Payment Mechanisms in International Trade:

Setting up International Trade Mechanisms involves inter disciplinary processes including Finance, Logistics, Taxation and Supply Chain disciplines. Every Business Manager would need to know the nuances of the trade even though he may or may not be involved in the micro management of the processes.

Letters of Credit:

An Exporter if dealing with an unknown customer at the other end may not have any prior Exposure to the credit worthiness of the Customer and would normally insist on Confirmed Letter of Credit to be opened by the Customer before shipping the goods. In such cases the Exporter may not be extending any credit. Also in case of high value transactions with known customers too; exporters prefer to get paid through Letter of Credit.

Bill of exchange of Documentary Drafts

When there has been sufficient relation between an Exporter and the Customer (Importer) and the customer's credit worthiness is known through previous records, the Exporter might decide to extend credit and accept payment on bill of exchange basis. This system is also called as Documentary Drafts. Documentary drafts are of two types namely Sight Drafts and Date and Time Drafts.

Open or Ongoing Account

When there is a huge volume of continuous business transactions between the Exporter and Importer and exports continue to happen on ongoing basis, the Exporter can simply export on the basis of a purchase order and expect the Importer to pay promptly on due date. This is the usual method adopted by most of the Multi National Companies as well as the large organizations that have sufficient import volumes spread across various countries and are dealing with multiple vendors on ongoing basis. In such cases they just determine the annual volumes to be supplied by each vendor, issue an open purchase order and keep reviewing only the delivery schedule. They offer standard payment commitment on a particular date to all vendors as a global policy. The payment process will be set and determined as a part of their business agreement.

Other Types of Trade and Related Payment Mechanisms

Besides the above types of payment mechanisms based on normal Exports and Imports, there are other types of business models which work on various other modes of payment terms too.

Consignment Sale

An exporter might sign up a contractor with a distributor overseas to import, hold stock and sell the goods on his behalf. In such a situation, the distributor may not own the stocks and the ownership might continue to lie with the exporter. The distributor would only be an intermediary to sell the stocks and repatriate the money realized back to the exporter and get remunerated in terms of service charges or commission. In such cases there may be a business agreement in place but no fixed payment mechanism may be adopted.

Counter Trade / Counter Purchase / Barter Trade

In yet another case of business arrangement called counter trade, exports may be linked with return purchase of some other items from the importer or from another source in the country. The payment may also involve services other than products. This kind of trade becomes a necessity while dealing with countries that do not have sufficient foreign currency. There is also another system of international barter. which is not very commonly practiced in the commercial world.

International Payment Systems:

Brief Introduction about International Payments

If you have shopped online on international portals or have received payments from abroad, you would have wondered about how the payments flow across the world and which banks and financial institutions underpin global commerce and trade. Further, if you work in a corporate that has global supply chains with international suppliers and customers, you would be again dealing with a complex network of institutions and banks that route the payments from one end of the supply chain or the value chain to the other. In addition, when nations trade with each other and when central banks transact with each other as well as banks in different countries deal with each other, then they are all participating in the international payment system that is the bedrock of global payment flows.

Components and Constituents of the International Payment System

So, who and what are the constituents and components of the international payment system? To start with, banks and financial institutions form the first layer of the international payment wherein they hold accounts of other global banks who in turn hold accounts of the former. This enables the banks to send and receive payments from each other as they can simply debit their accounts and credit the other bank's account with them and this in turn leads to payments flowing to the recipient bank that debit the sending bank and credit their account.

Indeed, it can be said that banks such as Citibank which is part of the international financial conglomerate, Citigroup, Standard Chartered, HSBC, and Barclays form the lifeline of the international payment system by routing the money from the senders to the recipients anywhere in the world, anytime of the year, and any place that they are located in.

The SWIFT Protocol

However, it is not enough for banks and other financial institutions to simply transfer money to each other without having a common protocol and standard by which they can communicate with each other. In other words, they need to talk to each other in a language that is understood by them.

Hence, there is indeed a common protocol that forms the basis for such communication, this is the SWIFT standard wherein the acronym stands for Society for Worldwide International Funds Transfer wherein this payment standard prescribes the rules and regulations that all participants in the international payment network must abide with to ensure that there is a common standard of messaging and communication between the banks and other financial institutions.

For instance, the sender, the recipient, the intermediary, and the address and other details are to be captured in a specific format that is standard across banks so that each participant in the payment value chain knows exactly what is contained in the payment message.

An Example of How International Payments Work

To take an example, if you are located in the United States and want to send a funds transfer to India, you must first setup the beneficiary and then transfer funds from your account to the beneficiary. While this completes your end of the value chain, the next step is when your bank in the United States debits your account and credits its account with the funds. After this, it transfers the money to its partner bank in India or if it does not have any dealings with Indian banks, it contacts a bank in the United States that has such dealings and in both these cases; the funds are then transferred from the banks in the United States to the bank in India. Once the banks in India receive the funds, they must then send it to the ultimate beneficiary wherein the funds are debited from its account and credited to the recipient. Again, this step might be a single or two step processes depending on the recipient holding an account with the funds concerned bank that receives.

Automation and Digitalization of the International Payment System

As you can see from the above example, international payments involve a complex chain of transactions and payment routes that entail cooperation and coordination between multiple banks and financial institutions. All these flows are made possible by automated payment systems that use the SWIFT standard which as explained earlier enables and ensures that the payments flow smoothly throughout the value chain.

Further, in recent years, there has been so much automation and digitalization of the payment systems that funds from one country to the other are flowing in an almost real time manner with just minor delays because of the clearing houses in between.

Clearing houses are financial institutions such as the Reserve Bank of India in India and the United States Federal Reserve in the US which function as the node for the payments between domestic banks and international banks. Clearing houses are also places where traditionally there have been like the village markets where at the end of the day, the various merchants gather to settle their accounts and square the debts and the credits.

Conclusion

As can be seen from the points raised so far, international payment flows go smoothly as long as all participants in the value chain do their part in addition to adhering to the SWIFT protocol. Further, the global payment value chain is efficient mainly because globalization has led to liberalization of the banking rules and regulations that have enabled banks anywhere to deal with other banks everywhere and anytime and every time.

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