FORMATION OF A COMPANY

As company is a legal entity, certain legal procedure for its formation is to be followed. The following are the steps to be followed in the formation of a company.

A. Promotion
B. Incorporation or Registration
C. Commencement of Business

A. PROMOTION

Promotion stands for all those activities which give existence to a business unit. Firstly of all, an idea is born in the mind of an individual or among a group of people regarding establishing a business. After that to convert this ides into reality, certain preliminary functions are performed.

Stages of Promotion:-

From conception of business to bring business into operation, there are various activities performed. All these activities are included in promotion. These have been classified into following four categories.

(i) Discovery of a New Idea : The promotion of business starts with the discovery of a new idea. The new idea can be come into mind by observing the deficiency of some of product in the market or abut a product which has not been launched yet. For discovering new idea, help can be taken from professional inventors, trade associations, government bureaus etc.

(ii) Detailed Investigation : After performing the preliminary investigation, a detailed investigation is carried out to find out the actual position. Under this, the information is collected about demand of product, availability of raw material, cost of raw material , need of machinery, possibility of competition, expected sale price, expected profit, government policy about the business , place of business etc. a report is prepared after thorough consultation about all these facts which is called as project report. This report helps in getting licenses and finance form government.

(iii) Assembling Different Factors : After satisfying with the success of business being established on the basis of new idea, the promoter starts assembling the different factors. For this, he has to contact with various persons, specialists and organizations and after doing so, he enters into contracts with them. These contracts are mainly for raw material, building, machinery, etc.

(iv) Financing the Proposition : Before commencing any business , enough capital is required . for this , financial planning is done. Under this, the main things which are to be determined are total amount of capital, various sources of capital, time of collecting money etc. if capital is collected by issuing shares or debentures that types of shares and debentures are determined.

B. INCORPORATION OR REGISTRATION

The second stage of the formation of company is incorporation or registration of company. Under this, after performing certain initial activities, documents are to be submitted in the office of Registrar. After this, certificate of incorporation is received after depositing a certain fee. A company comes into existence only after incorporation (Registration). Till the time, company is not incorporated, it cannot be said accompany from legal point of view. Following is the procedure to be followed for incorporating a company.

(1) Preliminary Activities

(i) **Registration Office :** First of all it is decided that in which state, the company's registered office will be? This decision is taken by promoters. It is necessary to do because company is registered in that state only where it has its registered office.

(ii) **To Decide the Name of the Company :** For deciding the name of the company, it should be confirmed from the registrar office whether the permission for the name can be granted or not. Though name of company is selected by its owner yet is should be in accordance with the Section 20 of Indain

Companies Act. Hence name of the company should not be similar to the name of already existing company. It should not be unfit from government's standards and at the end of name of company; the word "Limited" should be used.

(iii) **To get License under Industrial Development and Regulation Act, 1951:** The company is supposed to get license under if the company is going on to start such a business in which license is required.

(iv) **To make Necessary Appointments :** Under writers, broker, bankers, legal advisors, auditors etc. are appointed and name of people who will be signing Memorandum of Association are decided.

(v) **To get the Important Documents Prepared :** Memorandum of Association and Articles of Association are prepared and printed.

(vi) **Sending Application to the Registrar :** After completing the above mentioned preliminary work, promoters of company present application for registration to registrar of company of that state where company has its registered office.

(2) Documents to be filed with Registrar

Along with the application, the following documents are to be filed.

(i) Memorandum of Association
(ii) Articles of Association
(iii) Information about registered office
(iv) List of Directors
(v) Written consent of Directors
(vi) Undertaking regarding Qualification Shares
(vii) Preliminary agreement with managerial personnel

(3) Payment of Prescribed Fee

Along with the above documents, a predetermined fee is also sent ot registrar of companies. This fee is as per section 611 of Companies Act. This fee is deposited in Government of India account with Reserve Bank of India.

After completion of above formalities, registrar checks and inspects the documents related to incorporation of company . if he satisfied about the completion of legal formalities then Certificate of Incorporation and a CIN (Corporate Identity Number) is issued to the company.

C. COMMENCEMENT OF BUSINESS

A private company can commence its business immediately after incorporation. But a public company cannot commence business until it obtains certificate of commencement of business.

A public company has to comply with provisions of Section 149 to obtain certificate of commencement of business. If a company has issued a prospectus, Section 149 (1) will be applicable. If it has not issued a prospectus, then Section 149 (2) will be applicable.

After fulfilling all the formalities, Registrar will issue a certificate of commencement of business. Such certificate is conclusive evidence that company is entitled to commence business.

Main Documents Used in Company Formation

(I) Memorandum of Association
(II) Articles of Association
(III) Prospectus

(I) MEMORANDUM OF ASSOCIAITON

Memorandum of Association is an important document of the company. Memorandum of Association is such a document in which those conditions are stated on the basis of which a company is incorporated. A company cannot be incorporated with out it. In this document, rights and objectives of company are defined. It is in fact a foundation stone on which a company form of organization is established as a house. This document works as a boundary wall for a company. Any act done beyond it is considered ultra-vires.

Contents or Clauses of Memorandum or Subject-matter of Memorandum of Association : according to Section 13 of the Companies Act, 1956 every company must have to state following 6 clauses in its Memorandum of Association.

(i) Name Clause : In this clause, that name is stated by which company is registered. The name of a company is necessary not only for its identification but also for a symbol of its personal existence. A company has full independence to select its name. Thus a company can at its free discretion name itself, but while choosing a name, following statutory restriction will be kept in mind.

(a) The name must not be undesirable in the opinion of the Central Government
(b) The name must not be prohibited under Emblems and Names Prevention of Improper use Act 1950.
(c) Use of word limited in case of public company and private limited in case of private Company after its name.]

(ii) Situation Clause : In this clause, the name of that state is mentioned in which the registered office of the company is situated. On the basis of this clause, it is decided that whether the company is Indian company or foreign one .generally, full address of the company is given in the Memorandum of Association at he time of incorporation, but this is not done, the address of registered office of the company must be sent or Registrar with in 30 days of commencement f business or date of incorporation which ever is earlier.

(iii) Object Clause : Object clause is the most important clause in the Memorandum .in this clause, all the objects for attainment of which a company is established, are stated. This clause defines the powers of company and confines its limits. Statutorily, a company cannot do any business clause in the following two parts:

(a) **Main Objects:** In this, company has to state those objects for the attainment of which, a company is incorporated and those objects which are helpful and related and incidental to attain man objects.

(b) **Auxiliary or other objects:** Those objects for this attainment of which a company, if necessity arises can work on and nevertheless those are not stated in part (a). in relation to those companies, which are not trading companies and whose working is not limited to only single state, it is necessary to give names of all states, in which they would attain its objects.

(iv) Liability Clause: According to Companies Act, the liability clause of companies limited by shares or by guarantee, must state that liability is limited. In the company limited by shares, liability clause means that shareholders of the company will be liable for the face value of shares purchased by them. It means that a company cannot receive any amount over and above the face value of shares in its life time.

(v) Capital Clause: In case of Company having share capital it is necessary that its memorandum must mention that what will be the authorized capital of the company and in what manner shares will be divid3ed. Information related to division of shares and corresponding rights of shareholders hold be given in Articles. A Company in its life time cannot issue shares beyond its registered or authorized capital unless and until a proper alteration is done. Every person signing the Memorandum of Association has to take minimum one share each.

(vi) Association and Subscription Clause: This is the last clause of Memorandum of Association. In this, association of person signs the Memorandum. In this clause, person signing the memorandum expresses intention to establish the company. After this clause, name, address and occupation of signing persons and number of shares taken by them will be stated. After this, there will be signature of witness against the name of persons.

(II) ARTICLES OF ASSOCIATION

An article of Association is second important document which is prepared by the propters and for the purpose of incorporation, is resented before the Registrar along with other documents. Articles of Association of company are prepared in accordance with the Companies Act, 1956 and Memorandum of Association of the Company. Basically, it is an assisting document to the memorandum of Association. Articles of Association are the internal rules of company which can be said as the assisting rules to Memorandum of Association of the Company. In this document, rules and regulations for attaining the objects stated in the Memorandum of Association, for running the affairs smoothly, are stated.

Contents or Subject matter of Articles of Association

Articles are the internal rules of the company. So, in articles all such things are st6aed which have a bear on company's internal management and administration. Generally, every company prepares its articles according to its requirements. Soothe contents of Articles for different companies may be different. Generally, Table A is considered to be a standard structure of Articles and on the basis of it , various rules and sub-rules is prepared. Following points are mentioned generally in a company 's Articles of association.

(1) Extent of applicability of Table A
(2) Division of various types of shares andrights of shareholders
(3) Mode of issue and allotment of shares
(4) Fixation of minimum subscription
(5) Method if ussyubg sgares certificate
(6) Rules regarding calls on shares
(7) Mode of increase, decrease or restructuring of share capital
(8) Payment of underwriting commission
(9) Payment of commission and brokerage on shares and debenture
(10) Appointment of auditors, their powers, duties and remuneration
(11) Manager's, Managing director's, Treasure's, Secretary's appointment relating provisions
(12) Rules regarding use of common sea
(13) Method of keeping and writing books of accounts
(14) Procedure for forfeiture and reissue of shares
(15) Voting rights of members
(16) Powers taking loans and its limits
(17) Powers of Board of Directors
(18) Declaration of Dividend and rules regarding their payment.
(19) Rules regarding maintenance of Reserves and Funds
(20) Procedure for winding up of company.

Difference between Memorandum and Articles of Association

Memorandum of Association	Articles of Association
It defines the objectives of the company	It defines the rules for attaining the objectives mentioned in the memorandum of association
It is very vital document	It is a subsidiary document
It defines the relationship between the company and outsiders	It defines the relationship between the members and the company
To get the company registered the preparation of memorandum of association is necessary	It is not necessary to prepare it for Public Limited Company but it is necessary for Private Company.
Memorandum of Association cannot be easily altered. Many matters require approval of Court	Articles of Association can be easily altered by a special resolution.

(III) PROSPECTUS

Prospectus is third important document in relation to formation of a company. Generally, prospectus is issued by public company to obtain money from public. Promoters of company generally issue prospectus after obtaining the certificate of incorporation. In fact, it is a chief source of attracting he attention of public regarding the birth of company. In this way, prospectus is an advertisement of a company. According to Companies Act, power to issue prospectus vests only with a company having share capital.

Objects of Prospectus

(i) To invite public to purchase shares and debentures
(ii) To give details of those condition on which invitation to purchase shares and debentures is given to public.
(iii) To declare that promoters will be liable for the information contained in prospectus.

Need of Prospectus

It is not necessary that every company issues a prospectus. A restriction is imposed ion a private company to offer for sale of shares and debentures to the public, that's why it cannot issue prospectus. But for a public company unlimited by shares it is necessary before issuing a prospectus and allotting shares to onward a prospectus or statement in lieu of prospectus, to registrar. If a public company limited by share receives the capital from the public, it is necessary for it to issue prospectus, but the promoters of those companies who can collect capital from their personal sources, are not required to issue prospectus, but they have to send a statement in lieu of prospectus.

Contents of Prospectus

Prospectus is such a basic document of a company which attracts the public to invest their money by taking them aware of company's commercial planning and its profit earning capacity. So, it is necessary that prospectus should indicate the real picture of company's position.

Generally the following details are given in prospectus

(1) Main objects of the company and signatories of the Memorandum
(2) Share Capital of the company
(3) Managerial Personnel
(4) Minimum Subscription
(5) Opening of Subscription List
(6) Application and Allotment Money
(7) Shares or Debentures issued for consideration other than cash
(8) Share premium
(9) Underwriters
(10) Preliminary Expenses
(11) Promoters
(12) Auditors
(13) Details of Business

Statement in Lieu of Prospectus

Statement in lieu of prospectus is that document which is prepared in place of prospectus and presented to Registrar. A company which has share capital but has not issued prospectus cannot issue shares or debentures till the time it presents statement in lieu of prospectus at least 3 days in advance prior to allotment of shares or debentures with registrar. Generally the contents of statement in lieu of prospectus are same as in case of prospectus.

EXTERNAL TRADE OR INTERNATIONAL BUSINESS (UNIT 10)

"External trade is a compulsion to beat the Odd Distribution of Natural Resources"

Meaning of External Trade

An individual cannot fulfill all hiss requirements by his own sources. He has to exchange the goods and services with other individuals. In the same manner, a country cannot fulfill all its requirements by its own sources. In certain cases, it has to depend on other countries. This dependency of one country to another is mainly due to odd distribution of natural resources. Any country can reduce any product only as per the natural resource available in the country. The products produced in this manner are first consumed internally in a country and excess is solid to other countries for this sale, in exchange, the country purchases the products which are in scarcity and demand and supply is balanced. Hence business taking place between two countries is called external trade or international business.

Nature of International Business

(1) **Involvement of two countries:** Two countries are required to prove international business successful. Thus, international business is possible only when there is a business transaction between two countries.

(2) **Many Basis:** There are many basis which help international Business possible like unequal distribution of natural resources. Because of this unequal distribution of natural resources there is no country which is self dependent to produce all the goods of tis own need. It has to take the help of some other nations. In the same way varied cost of production encourages international Business.

(3) **Language Difference:** Ever y country has its own different language. It is mandatory for a successful businessman to know the language of different nations. Language difference is a main feature to understand the nature of international business because the awareness about international languages plays a significant role in the success of international business.

(4) **Comparative More Risk:** International business involves more risk in comparison to Domestic Business. Oftenly, the material comes from distant place and that too from sea route. The glaciers, waves and climate/environment/weather of sea can cause great harm to the material.

(5) **Government Intervention:** International business is totally monitored by the government. Prior approval of the government is needed before sale-purchase with a foreign country. Apart from this, for the export-import of the products license needs to be taken from time to time.

(6) **Payment of Foreign Currency:** Every country has its own different currency. Export-import, to arrange foreign currency is none of the most important feature of International Business.

Importance or Advantages of International Business

(1) **Maximum utilization of natural resources:** Due to international business, maximum utilization of natural resources is possible. Each producer will produce only those products, which will give him the maximum profit. This process is not only beneficial for individual producer but also for a country. By doing so, the goods which were being manufactured at higher cost, now can be produced from other countries at lower cost. Benefits of specialization can also be achieved if one product is produced repeatedly and sold in the market.

(2) **Stability in Prices:** The whole work has turned into a local market due to prevalence of international trade. Due to open export-import, things from places of excess supply are transported to places of excess demand. This has helped in stabilizing the prices of products in various countries.

(3) **Encouragement to Industrialization:** With the help of international trade, machinery, raw materials and modern techniques are imported and industrialization is encouraged. The natural recourses available in country are also utilized optimally.

(4) **Benefits of Large Scale Production:** Due to availability of export facilities, the industrialists of the country can concentrate more on the products which are demanded in foreign countries and for which

suitable production facilities are also present in the country. In this manner, industrialist can produce such commodities on large scale and can enjoy the benefits of large scale production.

(5) **Check on Monopoly:** International trade can help in checking the evils of monopoly. In monopolistic market, only one seller is present and he can charge desirable prices. If international trade is present in market, monopolist will always be afraid of import of product if he raises the prices.

(6) **A Friend in Difficulty:** During difficult times, international trade proves to be a good friend. For instance, if production of any country destroys due to drought, famine or earthquake, lives can be saved by importing goods from abroad.

(7) **Earning of Foreign Exchange:** Foreign currency or foreign exchange is important for every country. Valuable foreign exchange can be received by international trade. By exporting more than required, gold and silver can be produced. The more the foreign exchange with a country, the more well off that country will be.

(8) **Less Cost due to the use of Modern Techniques:** For making good reputation in international market, each producer uses modern machines and advance techniques of production. This increases not only production but also reduces the cost.

(9) **Establishment of International Cooperation:** Due to international trade, people on one country meet with people of other countries regularly. This enhances the mutual cooperation among people. They start understanding each others feeling and exchange of thoughts takes place. This all increase the world peace.

(10)**Development of Transport and Communication:** Development of International trade helps in developing the transport and communication. For sending information and commodities from one place to another place faster, these mediums are required.

COMPLEXITIES OF INTERNATIONAL BUSINESS

(1) **Language Difference:** Every country has its own different language. It is mandatory for a successful businessman to know the language of different nations. Language difference is a main feature to understand the nature of international business because the awareness about international languages plays a significant role in the success of international business.

(2) **Comparative More Risk:** International business involves more risk in comparison to Domestic Business. Oftenly, the material comes from distant place and that too from sea route. The glaciers, waves and climate/environment/weather of sea can cause great harm to the material.

(3) **Government Intervention:** International Business is totally monitored by the government. Prior approval of the government is needed before sale-purchase with a foreign country. Apart from this, for the export-import of the products license needs to be taken from time to time.

(4) **Difference in Laws:** The rules related to export-import are separate in each country. Due to this difference of rules in each country. There is always some doubt in minds of trader regarding payment and other terms of business.

(5) **Difficulty in Payment:** Each country has different currency. Due to this difference in currency, businessmen face a lot of problems while paying or receiving money. To do away this difficulty, businessmen should have the knowledge of changes in exchange rates.

(6) **Custom Duty:** To control the export-import of country, the government used custom duty. The objective of tax on import is to increase the price of foreign goods so that it becomes unattractive for domestic consumers. On the other hand, objective of tax on export is to check the flow of goods to other countries .tax on export is usually levied on raw material.

(7) **Lack of information about foreign trade:** It is difficult to find out the details of financial position and business dealing about any businessman sitting at some far off place. Such information can be taken from Banks, Information agencies, Chamber of Commerce, etc.

IMPORT TRADE PROCEDJRE AND DOCUMENTS

When the trader of one country purchases goods from trader of another country, it is known as import trade. Trader cannot import the goods in any manner he wants but he has to follow a fixed procedure. This procedure is called as procedure of import trade. Under this procedure, various formalities are fulfilled. While following this procedure, various documents are also prepared.

Procedure of Import Trade

An Indian importer has to follow the following procedure while importing the goods:

(1) **Trade Enquiry :** As soon as a trader thinks of importing the goods, he does trade enquiry. First of all, he collects the information in which country there is availability of goods of his requirement and with which exporter. This information he can collect from agent of exporters in India, other importers and trade commissionaires of foreign countries. After collecting information about exporters he contacts them. When contacted, information is gathered from them about price of product, type of product, items of payment etc. after satisfying himself with all such information, importer takes the final decision of importing the goods.

(2) **Obtaining Import Licence:** Certain products are prohibited to import. To fulfill this object that one does not import this product importer has to take import licence from government. For taking import licence, an application is given to controller of imports and exports.

(3) **Obtaining Foreign Exchange:** After receiving the import licence, import has to arrange the foreign exchange. All most in all the countries, transaction in foreign currency is done by their Central Bank. In India this work was done by Reserve Bank of India. But in 19991, under the liberalization policy of government, a foreign exchange market was established. In this market, free sale and purchase of foreign currency is done. Hence, importer pays the exporter by purchasing the currency from the market.

(4) **Placing an Indent or Order:** Placing order for goods, in language of international trade is known as indent. In this, the details like name of product type, quantity, price, packaging, time of delivery, insurance instructions etc. are mentioned.

(5) **Sending Letter of Credit:** In international trade, exporters and importers are not known to each other. In such situation, there is always some doubt in the mind of exporter about the financial position of importer. For the satisfaction of exporter, importer sends a letter of credit to him. Letter of credit is issued by the importer's bank. In letter of credit, there is a written promise that importers bank will accept a bill of exchange of a fixed amount. Letter of credit is issued to those customers only who are considered as reputed customers of the bank.

(6) **Arrangement and Shipmen of Goods by Exporter:** As soon as exporter receives the letter of credit from importer, he arranges the goods mentioned in indent. He keeps in mind the other things mentioned in indent like quantity, packing etc. and when goods are ready fro mall aspects then exporter appoints forwarding agent for further proceedings.

(7) **Obtaining Document of Title:** There are two ways of sending all documents related with goods to importer. One, if there is no term or condition related with payment then all the documents are directly sent to importer. Two, if there are terms or condition related with payment then documents related to goods are sent to bank. As soon as the importer get the information of reaching the document in bank, he makes arrangement for receiving the documents.

(8) **Appointment of Clearing agent:** After receiving all the concerned documents, importer arranges for taking the deliver y of goods. Importer, if wants, can arrange for taking deliver y of goods himself but appointment of clearing agent is more important. These agents are specialist of this work. Hence, at this stage, after appointing clearing agents , all documents are handed over to him.

(9) **Clearing the Goods:** At this stage, the clearing agents clear the goods by fulfilling following formalities.

(i) **Payment of Custom Duties:** Before taking goods from ship, agent has to go to custom office where he has to fill three copies of bill of entry. In this bill, full information of goods imported is given. On the basis of this information, custom authorities determine the custom duties payable.

(ii) **Payment of Dock Dues:** After payment of custom duties, clearing agent fill up two copies of Dock Challan for payment of Dock Dues. After payment of dock dues, one copy is returned to him as receipt.

(iii) **Endorsement for Delivery:** Now clearing agent has to get bill of lading by officer in office of shipping company. This is called as endorsement for delivery.

(iv) **Taking Delivery of Goods:** For taking the delivery of goods, clearing agent submits custom duty receipt, dock dues receipt and singed bill of lading or order of delivery to port authorities. When authorities are satisfied with the documents submitted, then they allow the picking of goods from dock.

(v) **Sale of goods before taking delivery:** Some times, importer sells the goods before taking delivery, he wants that purchaser himself take the delivery. In such condition importer issues written order to Dock authorities.

(vi) **Keeping Goods in Bonded Warehouse:** If, due to some reasons, importer is not in a condition of paying custom charges immediately or if he does not want ot take the deliver y immediately, then goods are kept in Bonded warehouse.

(vii) Loading the goods

(viii) Taking delivery from Railway or Transport

(ix) Payment of Octroi Duty

EXPORT TRADE PROCEDURE AND DOCUMENTS

When trader of one country sell goods to trader of another country, then this is called as export trade. Trader who sells goods is known as exporter and trader who purchases goods is known as importer.

Procedure of Export Trade

An Indian exporter has to follow following procedure at the time of exporting the goods:

(1) Trade Enquiry: The trade who wants to export, he has to contact with export commission agent, export broker. With their help, he can find out that where his product is being demanded. After establishing contact with importer, he explains him about he specification of his product and terms of payment. Many a times, exporters directly receive the inquiry from importers. The things which are inquired by the importer are price of product, type, packing, time taken in delivery, terms of payment etc. these are answered by exporter.

(2) Receipt of Indent: After trade enquiry, importer sends indent to exporter. In indent, name of product, type, price quantity, packing method, time of sending goods, insurance instructions, payment method etc. are mentioned. Id every thing has been explained properly in indent means that exporter will have to follow the importers' guidelines regarding exporting of good. It is known a closed indent. If indent is incomplete, i.e., things have not been mentioned completely, then it is called as open indent. In this condition exporter takes many decisions as per his own discretion.

(3) Credit Enquiry: Before proceeding further, exporter wants to satisfy himself regarding payment of goods. For this, he demands letter of credit form importer. This letter of credit is issued by importer's bank in favor of exporter. Through letter of credit, bank gives assurance to exporter of accepting bill of exchange of certain amount.

(4) Obtaining Export Licence: After satisfying himself from payment side, exporter has to get export licence. For receiving export licence, he has to apply to office of controller of imports and exports. Along with application, he has to deposit certain fee also. Controller of imports and exports heck the application thoroughly and after satisfaction, issues an export licence to exporter.

(5) Declaration Regarding Foreign Exchange:

(6) Fixation of Exchange Rate

(7) Collection of Goods
(8) Packing and Marking of Goods
(9) Appointment of Forwarding Agent
(10) Forwarding Foods to the port
(11) Functions of forwarding agent at port
  (i) Obtaining the Shipping Order
  (ii) Preparing Shipping Bill
  (iii) Payment of Dock Dues
  (iv) Obtaining Mate's Receipt
  (v) Obtaining Bill of Lading
  (vi) Insurance of Goods
  (vii) Advice to the Exporter
  (viii) Preparing Invoice

EXPORT PROMOTION

Export promotion refers to that policy of the government that offers encouragement to the exporters with a view to enhance the export of the country. In order to achieve this objective they are given numerous incentives and facilities.

Means of Export Promotion

In order to encourage exports the following means are adopted:

(1) **Modernization of Export Industries:** The first important step to be taken by the government in order to encourage exports is the modernization of those industries which have possibilities of export. Once such industries are identified, the government offers them all the modern facilities.

(2) **Marketing Assistance:** The second important step for the promotion of export is to help the exporters in their marketing activities. This includes international market survey, collecting market information, organizing international trade fairs and exhibitions, providing export risk insurance facility, providing foreign exchange for marketing activities helping in quality control, arranging meetings among the exporters and importers.

(3) **Financial Assistance:** The exporters are provided financial assistance chiefly by the Export Import Bank of India and other commercial banks. Moreover the Reserve Bank of India and the Industrial Development Bank of India also play an important role in encouraging export trade.

(4) **Production Assistance:** The government is making available many facilities in the field of production. Some of the major facilities are given below:

(i) To make available the raw material of good quality at he proper time and at reasonable rates.
(ii) To provide help in the import of capital goods like machinery , etc.
(iii) To help in importing foreign technique
(iv) To help in increasing production capacity.

(5) **Establishing Export Processing Zones (EPZs):** The government has established export processing zones in order to give encouragement to exports. EPZ is an exclusive industrial area where the government gives special facilities and concessions to the industrial units established therein. Almost all the entire goods produced by the industrial units established in the EPZ are exported.

(6) **Establishing Special Economic Zones (SEZs):** The industrial units established in the SEZs can sell their products in the domestic market along with exporting them to other countries. SEZs are given comparatively more facilities as compared to EPZs. SEZs can be established in the private sector or by the state governments.

(7) **Introducing 100% Export-Oriented Units Scheme (EOU):** The government has not only encouraged exports by establishing EPZs and SEZs but has established EOUs also. All those industrial

units which are identified as EOUs are provided many facilities and concessions. There is no need to establish any special zone for these industrial units. They can be established a ny where in the country.

(8) **Providing Training Facility:** The Indian Institute of Foreign Trade has been established with a view to imparting training to the exporters. Foreign trade is taught in the colleges and the universities as a special subject.

(9) Appointing a Trade Representative: the Government of India has appointed trade representatives in the Indian Embassies abroad. These representatives survey the foreign markets and try to find out the possibility on the sale of Indian goods. The information provided by these representatives is highly useful in the export trade.

(10) **Establishing Various Institutions:** The government has established various institutions to encourage the exports. Some of the prominent institutions are given below:

(i) **Export Import Bank (EXIM Bank):** The Exim Bank provides financial and non-financial help for the export trade.

(ii) **Export Inspection Council:** This council inspects the goods meant for export.

(iii) **Central Advisory Council on Trade:** The function of this council is to advise the government on the export trade.

(iv) **Indian Institute or Packing:** This institute gives advice on the packing of goods meant for export.

Incentives Available for Export Promotion

The government has not only taken several steps to promote exports, but also it has offered many incentives to the businessmen to get linked with export. Encouraged by these incentives, the businessmen have started taking interest in the export trade. These incentives can both be financial and non financial. The financial incentives include various tax concessions and low rate of interest. The non financial incentives are in the form of awarding merit certificate for outstanding performance in the field of export trade. The incentives given have been detailed below:

(1) **Duty Free Import:** The exporters do not have to pay any import duty on the goods purchased abroad and imported in the country. This applies to raw material, capital goods like machinery.
(2) **Excise Duty Exemption:** All those industrial units which produce goods for the purpose of export are exempted from the excise duty.
(3) **Concessional Rent:** The industrial units established for the purpose of export are given modern plants on cheap rent, specially the constructed factory buildings and sheds.
(4) **Income tax exemption:** Profits under the export trade are exempted from taxation under the provisions of the Income Tax Act.
(5) **Lower Rate of Interest:** The exporters are offered financial assistance at low rate of interest.
(6) **Concessional Freight:** The exporters are also given concession in freight for transporting goods meant for export from one place to another.
(7) **Awards:** Many awards have been instituted to encourage the exporters to establish their identity in export trade. There are different awards for different categories of exporters. These awards re given on the basis of their participation in export trade.

EXPORT PROCESSING ZONES

EPZ means that industrial Estate where competent industrial units were established. These industrial units are to promote export trade. They are established by the central government .the chief features of these industrial units are that the government provides all the basic needs. Presently there are seven Export Processing Zones in India. They are as follows:

(1) Kandla Free Trade Zone
(2) Santa Cruz Electronics Export Processing Zone
(3) Export Processing Zone at Chennai

(4) Export Processing Zone at Cochin
(5) Export Processing Zone at Noida U.P.
(6) Export Processing Zone at Falta West Bengal
(7) Export Processing Zone at Vishakapatnam Andhra

Nature or features of EPZs

(1) **Special Area:** The first important feature of the EPZs is that they are established in special areas. The areas around sea ports or air ports are chosen for their establishment. Its chef purpose is to provide transport facility for export trade.
(2) **Established by Government:** EPZs are established by the Central Government. The government selects a proper place for their establishment and provides all the basic facilities.
(3) **Export Objective:** The major objective of the establishment of EPZs are provided those facilities which are not given to the units established in these estates produce only those goods which have good possibility of export.
(4) **Extraordinary Facilities:** The units established in the EPZs are provided those facilities which ae not given to the units established in other area. These facilities include exemption in taxes, Concessional rate of interest, Concessional rent, Concessional freight, and availability of basic infrastructure.
(5) **Entry of Competent Industrial Units:** Only competent industrial units are established in the EPZs. The government above decides about the entry of industrial units in this EPZ.

Special Economic Zones – SEZs

The Ministry of Commerce, Government of India, issued guidelines for the establishment of the SEZs on 13th December, 2000. The SEZ is the improved form of the EPZ. The main difference between the two relates to their 3establishment and the facilities available in them. The EPZs established by the central Government, whereas the permission for the establishment of the SEZs has been given to the people in the private sector and the state governments. In short, SEZs means that industrial estate which has been established for boosting the exports either in the private sector or public sector or both.

IMPORTANCE OF EPZs AND SEZs

(1) **Foreign exchange Earnings:** The objective of the establishment of the EPZs and SEZs is to give a boost to the exports, and the increase in exports aims at earning foreign exchange. In this way, the establishment of these industrial estates leads to the receipt of foreign exchange.
(2) **Higher Quality Production at Lower Costs:** The government processes all the modern facilities in these industrial estates. The cost of production I these industrial units get reduced on account of the availability of cheap raw material and exemption from taxes. A special attention is paid to the quality of the goods meant for export.
(3) **Increase in Employment:** The establishment of these industrial estates has increased the chances of employment. All those professionals who used to search for employment in foreign countries have opted to remain in India.
(4) **Identity in International Market:** A special attention is paid to the quality of the goods produced in the industrial estates. It establishes the country's identity in the international market.
(5) **Increase in Industrial Development:** The establishment of the industrial estates leads to the industrial development in the country. It is of great importance to promote industrial development of a country. This dream of a country is realized through the establishment of industrial estates.

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