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IMPORTING FROM INDIA TO FINLAND

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The purpose of this thesis was to investigate how the importing process from India to Finland happens. The aim of the project was to increase writer knowledge regarding importing process as the degree program is related to this project. This thesis is not focused to any particular company. Any new company or person willing to import from India can be benefit from this thesis. The theoretical part of this thesis includes brief introduction of Finland and India economy, export and import, supplier selection and transportation methods. In this thesis, theory and practical part are combined in the same chapter. The purpose of combining is to make relevance of all theory with the practical.

The empirical part of the thesis was conducted by means of qualitative research methods. The data was collected by interviewing with the people doing trade between India and Finland. The questions asked were structured and unstructured. The questionnaires were sent ten days before the interview. The purpose of doing the interview was to get the practical way of importing and to hear their experience while importing from India.

The research shows the different challenges Finnish importer faces while importing from India and also gives solution to overcome those challenges. The research discovered the best way of finding suppliers in India was to visit trade fairs, talking help of FINPRO or other consultant and writing mail to AEPC. During the research it was found that any company can start importing garments and textile from India without any trade barriers. The relevance of the thesis can be proved as trade between Finland and India is growing every year and also the fact that Free trade agreement (FTA) is due to sign by early 2012 which aims to increase trade and service.

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1 INTRODUCTION

India is the fourth largest economy of the world behind United States, China and Japan in terms of purchasing power parity dollars. It is one of the fastest growing economies in the world. Looking at these prospects and opportunities, both countries India and Finland can benefit by doing trade with each other. In Nepal, I was working in a company which used to import goods from India to Nepal and I had some experience of Indian custom and business culture. However, importing goods from India to Nepal was less time consuming and easy due to open border and culture similarities between two countries. In the last four years I have been in Finland studying International Business Marketing and Logistics, I now have some idea regarding Finnish business culture. This got me interested in importing goods from India to Finland. I also want to explore the opportunities and challenges Finnish companies face while importing goods from India to Finland. The quality of product and EU standards make it difficult to import product from Asia. Product has to meet both EU and quality standards of respective countries.

There are several limitations of this thesis like others. Many parts of importing process such as marketing, pricing, legal issue of importing are not discussed. Details about the different trade documents, transport documents and insurance policy is not mentioned as these papers are mainly prepared by a supplier or a freight forward company.

1.1 Research problem

The research problem of this thesis is how to handle the import process from India to Finland. The following sub questions should be answered before addressing main questions.

- a. What are the challenges of importing from India?
- b. What are the steps of importing from India?
- c. What are the import restrictions in Finland?
- d. How to make sure importing process happens smoothly?

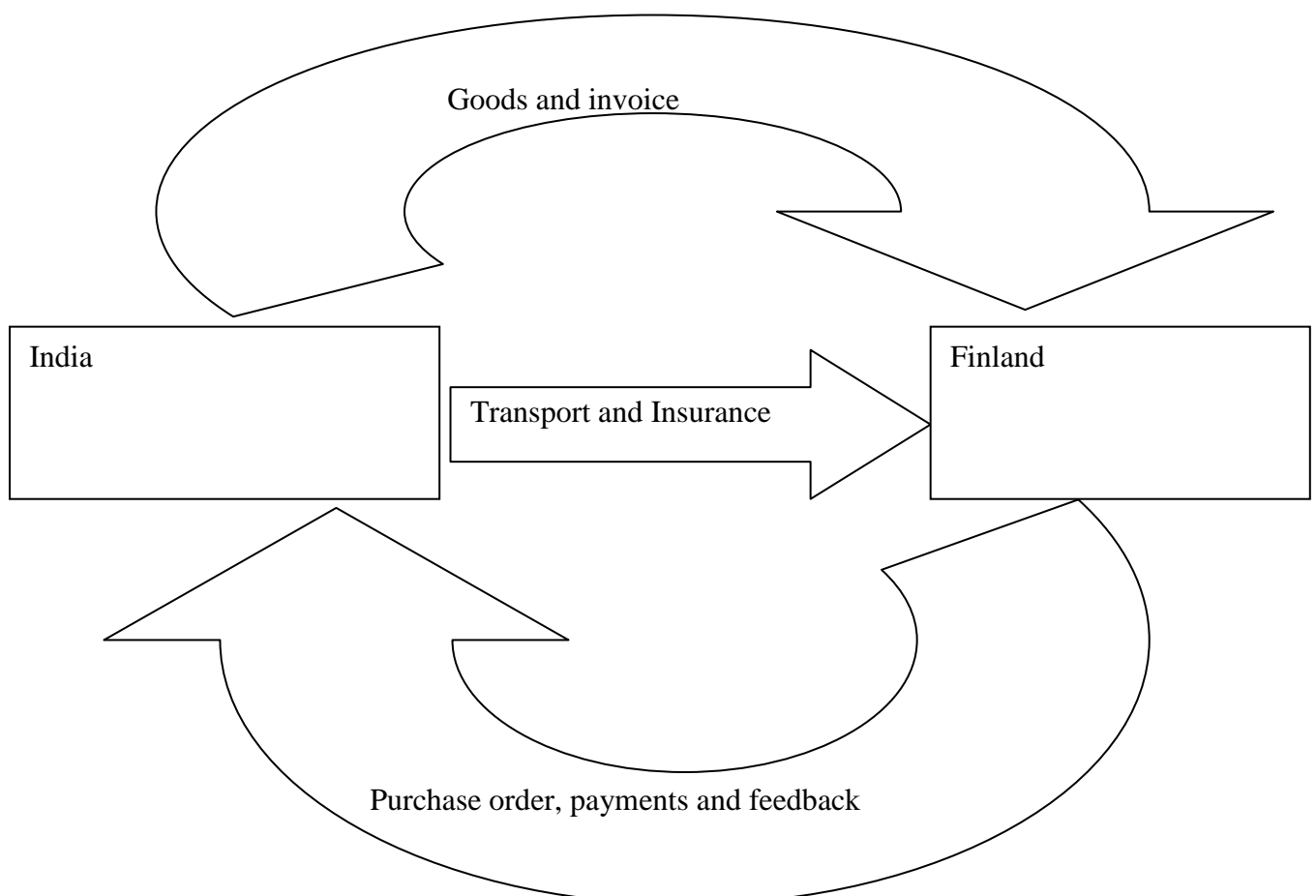
1.2 Research method

Qualitative research method is used in analyzing the source. As this thesis is based on importing process, many of the sources are based on web pages, government publications and books. Reason behind using web pages is to obtain up to date data and information. Qualitative research can be conducted through different methods such as interview, focus group or personal participation which helps to explore the attitude, behavior and experience of the respondent. In this research, researcher selects few participants and data collection is easier. (Flick 2011, 12)

Both primary and secondary method of collecting data was used to collect data. The primary data was collected through interview and telephone. The interviewee were a Finnish importer and business consultant based in India. In order to get to know more about Indian business practices, one Indian student studying in SAMK was also chosen. Secondary data was collected through desktop research, books, business journal and articles. The data obtained was more theory and based in Indian and Finnish economy, and other data regarding import. The purpose of using secondary data is to save time as collection of primary data sometimes can be very difficult. Secondary data can be problematic as all the data may not fit in the research (Flick 2011, 123). Ten people were selected for the interview and among them only four people were interested to reply. The interview questions were sent ten days before the interview. This was done to make respondents familiar with the issue to be discussed. The questions are attached on the appendix. The purpose of interview was to understand the challenges while importing from India and how to overcome that challenges. The conversation was more informal as the writer was also familiar with India and Indian business practice. The interview was carried out in January and lasted 45-60 minutes. The interview was held in Rauma and Turku. Face to face interview was done with the respondent as they were easily available and to initiate a regular contact between interviewer and interviewee. Some of the questions asked in the interview were part of the business secret and some respondents did not feel free to answer those questions. Phone interview was done with business consultant in India. Both structured and unstructured methods were used so that respondent can freely reply in their own words.

The selection of interviewee was done on the basis of personal contact of the writer. First the purpose and idea of the thesis was discussed with Finnish importer based in Eurajoki then the rest of the interviewee was contacted through his reference. Talking about the respondents, they all are trading between India and Finland for more than five years and running their business in some cities like Helsinki, Tampere and Turku. Among the four respondents, three were importing garments and one was importing spice and food from India. The consultant based in Delhi is giving advice especially to foreign buyer about Indian business culture and helps them to find supplier of different product. The interview was documented for further analysis. Later on, all the information obtained was structured, organized and the irrelevant information was excluded. The reliability and validity of the research cannot be measured in absolute term as the numbers of respondent were small and way of doing business may differ from one person to the other. So the reliability is not as high but similar answers can be obtained if the research was carried out by other researcher in the same field.

1.3 Conceptual framework



The conceptual figure above gives the graphical illustration of the thesis. While importing from India to Finland, goods and invoice moves from India to Finland and purchase order, payments and feedback moves from Finland to India.

2 INTERNATIONAL TRADE

2.1 Export and import

When an exchange of goods takes place across national boundaries it is called international trade. Exports are the goods and service sold by individuals or nations and import are the goods and service purchased (Nelson 2000, 3). ``Export are the industrial cross-border supply of goods, services and intellectual property rights(patent right, utility models, design, trademark ,copyrights) to foreign customers (Grafers & Schlich 2006, 15). For example many companies in India export clothing and other textile products to European Union.

Export and import is not just physical goods (cloths, oil, cars) they also include service provided by international airlines, cruise lines, reservation agencies, and hotels. One of the major India export is its entertainment and movies to other Asian countries (Rugman, Collinson, M. Hodgetts 2006, 6).

Trade and commerce have played a vital role in Indian economy from the ancient times. The first product to be exported from India was textile and spices. The scenario of Indian trade gradually evolved after the independence in 1947. From 1950 to late 1980s, India followed socialist policies, and heavy trade regulations were imposed on foreign companies involving trade with India. In the late 1980s, India's international trade improved after reforming trade policies including tax, deregulating and privatization initiatives. Since that time, India's trade helped increase its GDP from 15 to 35 percent between 1990 to 2005, and now the country is among the world's fastest growing economies. Indian economy mainly comprises of engineering and textile products, precious stones, petroleum products, jewelry, sugar, steel

chemicals, and leather products. India also exports service to several countries mainly to USA and is among the world's largest exporters of service related information and communication technology (Economy Watch 2010).

Finland is a highly industrialized country and the economy relies heavily on exports. Finland trade accounts about 85% of the GDP. Finland imports raw material due to scarcity of natural resources and arable land. Forestry is traditionally well developed in Finland as the country exports wide variety of products ranging from simple wooden products to high tech tags and labels including paper, cardboard, packing etc. Metal production, mechanical engineering and electronic goods are other key industries of the country. Finland specializes in exporting information and communication technologies as Nokia is the world leading manufacturer of mobile handsets (Website of Global trade).

(In million Euros)

| | 2008 | 2009 | 2010 | 2011 |
|-------------------------------|--------|--------|------|------|
| Exports from India to Finland | 219.49 | 230.44 | 349 | 670 |
| Export from Finland to India | 529.24 | 450.24 | 599 | 625 |
| Total | 784.73 | 680.68 | 948 | 1295 |

Table 1

The figure above was obtained from Indian embassy website. From this figure we can see trade relation between two countries has grown steadily in recent years with bilateral trade reaching 748 million euro in 2008, but slightly decline in 2009 due to economic downturn.

Garments and textiles are the main items exported from India to Finland and this accounts about a third of exports. Other major item of exports includes metals, iron and steel, chemicals, petroleum products and leather. A major export from Finland to In-

dia includes telecommunication equipment, power generation machinery, electrical and other machinery. In terms of investment, Finnish companies like Nokia, Kone elevators, Wärtsila and Elcoteq have set up manufacturing facilities in India and over 80 Finnish companies now have operations in India. Finnish national carrier Finnair is also operating direct Flight from Helsinki to New Delhi since 2006 and 30 Indian companies, mainly in the software and consultancy sector are working in Finland (Website of Ministry of external affairs India).

2.2 Importance of international trade

There are two basic reasons for trading among the countries.

- The first, when the country cannot produce the goods or provide the service or they don't have enough.
- The second, when the country has the capability of producing the goods or supplying the service, but still import them.

It is obvious to import when a country cannot produce goods or services to meet their national demand. The second kind of trade accounts for majority of world trade today. It seems more complex than first as we can see developed countries importing motors cars, coal, TV sets, clothing and many other products which they can produce domestically. The reason for importing can be.

- The imported goods may be cheaper than those produced domestically.
- A great variety of goods can be obtained from worldwide.
- Imported goods may be of better quality or design, higher status (related to prestige, labeling), technical features.

In this case producing garments in Finland can be expensive due to high labor costs so it is better to import from India.

Establishment of global and regional trade agreement has made international trade easy. Due to agreement like free trade areas, customs unions, common market, economic and political unions. WTO was established in 1994 during the Uruguay Round and General Agreement on Trade and Tariff (GATT) to promote and protect free

trade. WTO has now more than 140 member states. While WTO represents a multi-lateral approach to trade liberalization, regional trade agreement (RTAs) have grown importance in post war period. These are formed between countries in broad geographical areas, such as continents of Europe and North America. They are designed to bring down trade barriers among their member states and opening regional markets for national producer. More than 60% of world trade is regional trade and almost all major countries belong to at least one RTA (Morrison 2002, 267, Sherlock & Reuvid 2008, 6). For India, regional trade agreements are vital steps towards overall objective of trade liberalisation. So it is participating in number of RTA's which include Free Trade Agreements (FTA's); Preferential Trade Agreements (PTA's); Comprehensive Economic Cooperation Agreements (CECA's): etc. These agreements are done either bilaterally or in regional grouping (Website of Business Government of India).

India is an important trade partner for the EU and growing global power with more than 1 billion population and growth rate of between 8-10% a year. Despite of substantial tariff and non-tariff imposed by India, trade relation between India and EU is improving every year. The EU and India hope to increase their trade in both goods and services and investment through the Free Trade Agreement (FTA). Negotiations for a Free Trade Agreement between India and EU started in 2007 and several rounds of consultations have been held so far. The purpose FTA aims to remove duties on more than 90 percent of total tariffs lines. By early 2012 FTA negotiations is due to conclude (Website EU Commission).

Global competitiveness report released by world economic forum 2010-2011 Switzerland was ranked in the first position and Finland was on the seven positions. The ranking was based on competitiveness of macroeconomic, infrastructure, high technology and innovation. Finland is an innovative driven economy with stable government and lack of corruption. Tax rate, restrictive labour regulation and tax regulation were most problematic factor of Finnish economy. India ranked on 51 positions and its factor driven economy with lack of infrastructure, primary health and education. India's competitive advantage is market size and sound banking system. Business sophistication and innovation are the sector where India is doing well. Inadequate infra-structure, corruption and inefficient government bureaucracy are the most

problematic sector of Indian economy (Website of World economy forum 2010-2011).

2.3 Risk of international trade

International trade are always more insecure than domestic trade. In international trade, there are seldom common laws that can support the transaction than there is in domestic trade. In case of certain disputes, established trade and practice and also conventions are used to settle the disputes. The key successful trade transactions, therefore, depends on a knowledge of these established practice. Therefore it is very important for a seller and buyer to have knowledge of all these practice before entering into the transactions. The main sources for international trade practice are publications issued by the International Chamber of commerce (ICC). There are mainly five types of trade risks.

- Product, production and transport related risk
- Financial risk
- Political and legal risk
- Commercial risk
- Cross-cultural risk

All these above mentioned risk often occurs or do not in the same transaction. For example sale to Indian customer in USD may be just a matter of a straight commercial risk on the buyer, where as delivery of a tailor- made machine to India has to be risk assessed in quite different way. The economic environment of India differs sharply from that of Finland. The legal environment of India does not resemble that of Finland. The culture environment of Finland is very distinct from that of India. Risk should be anticipated and managed as they cannot be avoided. Therefore it is important that each party involved in international trade such as importer, exporter, carrier, insurers etc. should understand each other roles. It is very difficult for importer to physically check quality of the goods before shipment, and they may not receive goods of the quality which has been expected. There is also greater risk of damage, loss or theft than in domestic trade. Mutual understanding

between parties involved and carefully composed contract can help to minimize risk. There is another option to appoint agent for quality inspection if the purchase quantity is huge (Grath 2008, 9-11, Cavusgil, Knight & Riesenberger 2008, 11-13).

When it comes to quality of Indian product, all the respondent advice to ask samples from suppliers before making any purchase decision. They also like to import small quantity for the first time and check the quality. During the interview one of the respondents said he personally checks the quality of goods before making purchase order. Another importer did not see quality as a problem as he knows supplier personally and trust him. The business consultant suggested to mention the condition of cancelling the contract or get compensation if the quality is not as promised.

Cross- culture risk arises routinely in international business because of the diverse culture heritage of the countries. Culture refers to the learned, shared and enduring orientation patterns in a society. People demonstrate their culture through values, ideas, attitudes, behavior and symbols. What is considered ethical in one culture may be considered unethical in another culture. Different countries have different languages and culture. Most Finns are uncomfortable with small talk, quiet and shy when it comes with playful chatting. Personal relation with other colleagues is not strong as in Indian business culture. Finnish prefer to be direct when they want to say something which is quite opposite when it comes to Indians. However in India people like to discuss issues and prefer to have personal relation with colleagues (Website of Haaga-helia).

According business consultant, it is very important to establish good relation with Indian suppliers on a personnel level rather than professional because maintaining trust and relationship is the key success while doing business in India. It is advised to have informal talk or dinner before entering into business deal. English skills, friendly, flexibility and reliability are the features of Indian suppliers as they are able to supply on time despite of long holidays and festivals in India.

Commercial risk refers to purchase risk, which is defined as the risk of buyer going to bankruptcy and in any another way of being incapable of fulfilling the contractual obligation by both buyer's and seller's. In most industrialized countries within the

Organization for Economic Co-operation and Development (OECD) area, it is relatively easy to obtain a fair picture of potential buyers. Also, it is possible to study their published accounts or ask for an independent business credit report which help seller to reduce the risk of dealing with customers. In this case Finland being Member of OECD, there is less risk for Indian exporter as they can easily obtain financial position of Finish importer (Grath 2008, 9-11).

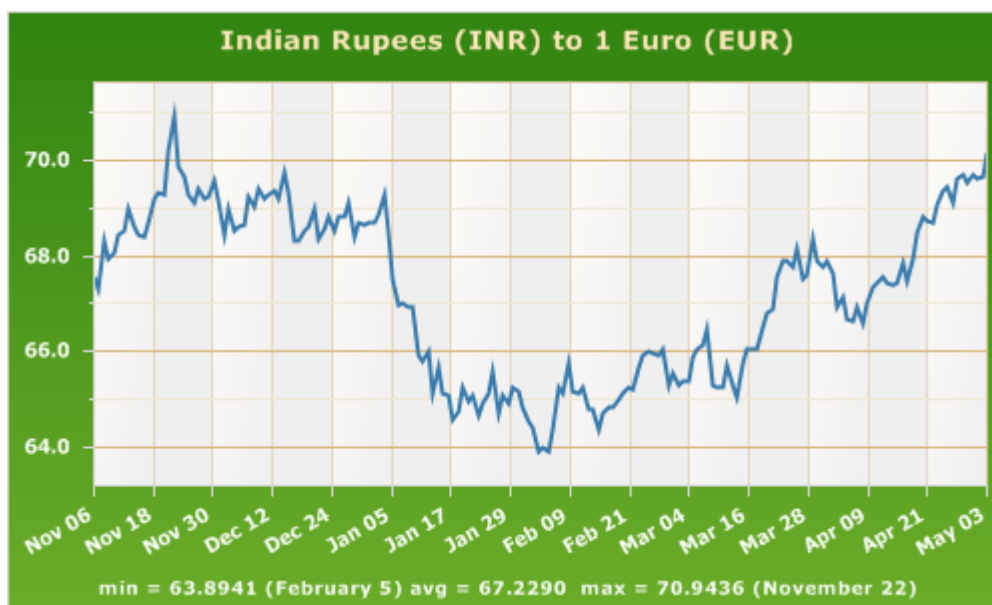
Political and legal risks are caused by development in the political, legal and economic environment in a foreign country. This kind of risk includes the possibility of foreign government intervention in firm's business activities. For example, government may restrict access to markets, impose bureaucratic procedures on business transactions and limit the amount of earned income that firm can bring home from foreign operations. The degree of government intervention in commercial activities varies from country to country. Finland is known as substantial economic freedom which is a fairly liberal economic environment and by contrast Indian government intervenes regularly in business affairs. (Grath 2008, 9-11, Cavusgil, Knight & Riesenberger 2008, 11-13)

According to Indian student in SAMK, multi party system exists in India with no party having clear majority in the parliament. Due to this, central government is not effective as the agendas of various parties should be met. On the other hand various party controls different states in India. Therefore companies willing to do business in India should maintain good relation with different parties in the states. Law enforcement in India is very weak. Corruption is common problem and spreads from police to judiciary. The financial cost and time spent in the legal case is high so any company willing to do business in India should be aware of legal system.

Currency fluctuation is common in international business because international transaction is often conducted in more than one national currency. The final value of purchase may rise if the agreed currency becomes stronger than domestic currency. Inflation and other harmful economic condition may also affect the exchange rate due to growing interconnections between countries (Grath 2008, 9-11, Cavusgil, Knight & Riesenberger 2008, 11-13). This can be prevented by entering into an

agreement with a bank to buy foreign currency at a predetermined rate on a specified date in future as a form of hedging (Weiss 2008, 127).

Currency used for payment should be decided before entering into contract. Normally suppliers set the currency whether he wants payment in euro, dollar or in Indian currency. During the interview it was clear that dollar and euro was the most popular methods of receiving money for Indian suppliers. According to business consultant in Delhi, in this current economic situation it is not good for Finnish importer to pay in euro as euro is fluctuating rapidly against Indian currency which can be proved from the graph below. One of the respondents prefers to pay in Euro as it is easy for him.



Graph 1

The graph above shows exchange rates between Indian Rupee (INR) and Euro (EUR) between November 6 2011 to May 3 2012. (Website of exchange-rates 2012).

Despite the challenging global economic environment, the Indian economy has recorded average annual growth of around 8 percent over the past five years. This is due to increasing domestic demand and continuing strength in service and manufacturing.

The buying power in country with large population offers plenty of opportunities to increase trade and investment. Looking at this opportunity, more Finnish companies are going to India. Finnish companies especially related with software technology, clean technology and engineering are investing in India.

To facilitate Finnish company's doing business in India and to minimize risk, FINPRO is acting as consultant group. Currently it has 3 offices in Delhi, Mumbai and Chennai. Embassy of Finland in New Delhi is also acting as a facilitator for Finnish companies working in India. FINPRO is an expert and service organization which has the mission to speed up the internationalization of Finnish businesses while minimizing risks involved. It provides assistance especially to small and medium sized Finnish companies in the international competition. FINPRO offers its clients services related to market entry and market position consolidation, as well as market intelligence. According to Ippo Sarikka, head, FINPRO India, FINPRO is helping Finnish companies interested to do business in India by finding right partners and helping them to overcome language barrier, contrasting weather condition of both countries and corporate culture. FINPRO has been also proactive in helping Indian companies and partnering them to invest in Finland as FINPRO India team is in close touch with Finnish counterparts and are well connected with Finnish companies (Electronics bazaar 2010).

3 STEPS IN PURCHASING PROCESS

3.1 Recognize the needs of purchase

Before making purchasing decisions, a company should be able to determine whether to produce the product itself or to buy from other suppliers. After identifying the purchasing needs a company passes the detail to procurement department.

Then the department has to examine the request to purchase and examine the materials, costs and budget before the buying process (Waters 2009, 308- 319).

3.2 Supplier selection

Before choosing the right suppliers, purchasing department has to make a list of suppliers who can supply the right product on time. There are different ways to find suppliers which are listed below.

- Most countries have yellow pages where the list of potential suppliers can be found. This can be ordered from trade association of particular countries for free or a small handling charge.
- Trade directories can be good source. These books are printed in better paper and may cost \$50 to over \$100.
- Calling or writing to embassy or consulate can be good idea to get list of suppliers.
- Trade magazine are most effective ways. Every trade has a magazine and most are free especially to buyers.
- Chamber of commerce of particular country can also provide list of supplier.
- Trade associations and trade fair can also be good way to find suppliers.
- Going online and finding suppliers from internet.

After finding the list, each supplier should be evaluated. Evaluation criteria may differ from company to company but the general criteria can be reliability, price, quality and lead time. Financial position of supplier should also be evaluated as this might affect the final delivery of product. The labor condition and the environmental issue should also be considered as it may hamper the reputation of the buyer (Waters 2009, 308- 319, Weele 2005, 47- 59).

Indiamart.com and tradeindia.com can help foreign buyer to find Indian suppliers as they are the largest online B2B market place for small and medium size business which connects global buyers with Indian suppliers.

Indian embassy in Helsinki, Indian chamber of commerce, and India- Finland chamber of commerce can also help to find potential Indian suppliers. One of the best ways of finding Indian suppliers are trade fairs and sales event as there are many products available. In such trade fairs, buyers can easily compare and get information of products and suppliers. International buyer can also find supplier by directly

contacting Apparel Export Promotion Council (AEPC). Talking about AEPC, it is the official body of all garments exporter of India which works closely with Ministry of Textiles of India and provides valuable information to all the Indian Exporters and international buyers. The main objective of AEPC is to bridge the gap between exporter and foreign buyer by organizing meeting between buyer and seller through national and international trade fairs and sending trade delegation to different countries (Website of AEPC).

According to all the respondents, the best way of finding suppliers is visiting trade fairs and sales event as it helps importer to look and compare different products. It is beneficial to use consultant as there are many suppliers in trade fairs and it is hard to judge all of them. When asked about AEPC, one of the respondents said he first prefers to contact AEPC to inquiry about the required product and select suppliers according to the supplier list provided by AEPC. The consultant suggests that is not a good idea to search suppliers on internet as they might provide false information and also some good suppliers may not have their web pages. Initial contacts can be done by writing letters, sending emails or phone call.

3.3 Purchasing contract

After selecting the suppliers, contract can be done with suppliers about the product. Depending on the nature of product, company and culture terms, the contract may be different but in general these things are included.

3.4 Follow up and evaluation

Sometimes there can be a problem with the material, deliveries and some mistakes in the supply chain process. So continuous follow up is necessary to make sure that quality product is delivered on time. Buyer needs to keep record about suppliers and monitor the process and lesson should be learned in future if there is any mistake in the process (Waters 2009, 308- 319, Weele 2005, 47- 59). Producer cannot always guarantee that the entire delivery would be of same quality as the quality criteria in India and Finland may be different.

4 IMPORT PROCESS AND DOCUMENTATION

Custom activity is important in the European Union as it handles 20% of world import and over 100 million of custom declarations every year. Custom helps to ensure free flow of goods, protect environment and cultural heritage. Also, protect jobs by combating counterfeiting and piracy and collect taxes. It is a single trading area where goods circulate freely, whether made within EU or imported from outside. Finland being member of European Union practices common custom tariffs and EU's legislation as well as national custom legislation (Website of Europa).

4.1 SAD and its Use

Single Administrative Documents (SAD) is the main custom declaration used in international trade. Trader and agent use the SAD to declare imports, exports, transit and community status declarations. Also used to enter goods and remove them from custom procedure EU from non EU countries. For trade within the European Union single market, the SAD is not necessary, but it covers trade with third countries and movement of Common Agricultural policy goods and non-EU goods in the EU. It was first introduced in 1998 and the aim was to reduce the amount of document, rationalize and standardize the data. Being part of European Union, SAD is used in Finland to fulfill custom procedure. SAD is divided into 54 boxes and full version comes in eight pages out of which 6, 7, 8 are for imports. SAD is available online and can be filled by trader or an agent can be used (Website of Business link of government of UK).

All the goods imported to EU from non EU countries must clear customs before they can be put on sale. After the goods arrive in Finland, they are examined by customs and the importer or agent of importer make customs clearance by filling SAD form. Other documents such as certificate of origin and transportation documents must also be presented in custom (Website of Finnish Custom).

4.2 Commercial and pro forma invoice

Commercial invoice is a document issued by exporter to importer for payment of goods and can be used by customs to determine the value of imported goods. The standard commercial invoice at least should contain (LUK 2011, 29-30).

- name and address of the seller
- name and address of the buyer
- date of issue of the documents
- invoice number or seller's reference number
- the description of goods, quantity, unit price and total value
- The trade terms or incoterms

Pro forma invoice is different from commercial invoice and it serves as price quotation by the exporter to importer. It can be used by importer to apply for import license and open letter of credit (L/C) account to pay for the goods. Pro forma invoice should be made carefully by seller because it can be very difficult to change the price in the final invoice. Exporter also uses pro forma invoice for export license (LUK 2011, 30). In this case when importer from Finland chooses the supplier, then he or she can ask pro forma invoice from supplier and do all the necessary arrangements.

4.3 Duty and tariff

Tariff and duty is a tax collected by government when moving goods from one country to another. Different country imposes different tariff and different products. Tariff and duties are also levied on goods imported to EU from non EU countries. European commission offers a TARIC data base from which the amount of duties can be seen, the information given is based on the country of origin and goods code. Each product is assigned a particular code. The first thing is to find out the Tariff code for each import product. Custom duty is generally calculated as percentage of custom value and some goods are subjected to specific duty such as weight or number of copies. The duty is different for different products and is available in TARIC. Detail about the tariff rates of the stated item can be found on EU TARIC Consultant. The layout of TARIC consultant is attached in appendix. Custom value is calculated by adding

transportation costs in the total price of goods. Importer should also pay VAT which is calculated on total value of goods which includes import duty and other duty as well as transportation costs. The most common VAT in EU is 23% (Website of Finnish Custom).

India is one of the developing countries and enjoys general system of preference (GSP) benefits. GSP is a scheme which allows wide range of industrial and agricultural product originated in certain developing countries allowing special access to markets of EU. This system is designed to benefit certain developing countries and integrate them in world economy. Under this system certain products imported into EU are eligible for reduced or Zero rates of custom and duties. Certificate of origin Form A is required to claim GSP preference while declaring goods in EU. This is issued by government of exporting countries and is given to importer by exporter. Form A must be submitted to custom authority of the importing state (this case Finland) within 10 months of date of issue (Website of Irish Tax and customs). There is also provision of graduation which means if a country can compete without GSP benefit in some product areas, then the product can be removed from the GSP preferences. Some Indian textile product in section XI from 50-60 groups can be excluded from the benefit (Website of Finnish Custom).

To protect domestic industries from imported goods and to protect local jobs, a country imposes trade barriers which restrict free flow of goods between nations. EU also imposes some form of trade barrier on goods imported from outside EU. According to Minister for Foreign Affairs of Finland from 2004, there is no more trade barrier on imports of textile and clothing between WTO countries. Both India and Finland is the member of WTO so a company willing to import garments and textiles should not worry of any quotas or any Trade barrier (Website of Ministry of external Affairs Finland).

Anti-dumping duty is imposed on suspiciously low-priced imports; this increases their price in importing country and protects local industry from unfair competition. If the export price is lower than the home price of a product then the exporter is dumping. This duty can be imposed by the government of the importing country after a thorough investigation has determined that the product is being dumped and sales

of that dumped product are causing negative effects to domestic industry producing the same product (Sherlock & Reuvid 2008,74, Cook, Alston & Raia 2004, 430) .The European Commission is responsible for investigating allegations of dumping by exporting producers in non-EU countries. It usually opens an investigation after receiving a complaint from the Community producers of the product concerned, but it can also do so on its own (website of EU commission). Especially Chinese products face anti-dumping issue in EU. These products vary from chemicals, textile, metals, bicycle etc. There are some Indian products which are subjected to anti-dumping duties, but these are mainly chemicals. Anti-dumping duty imposed by EU on the import of Oxalic acid from India and China can be good example (Website of Antidumping).

Besides import duty in EU, there is also possibility to export duty in India. At present there are only few articles like skin and leather subject to export duty. This is done to restrict the export of certain goods. This duty is paid as soon as the goods leave Indian Territory (Website of Indian industry) .

5 TRANSPORTATION AND TERMS OF DELIVERY

Transport is essential for exploitation or development of economic resources of nation. It helps to move materials from areas of low utility to areas of high utility and adds more value to the product. Reliable and low cost transport is necessary to move goods worldwide. International shipment of goods can be made by ocean going vessel, airplane, rail, barge on inland water ways, courier or by any modes (multi modal). Transport documents are distinguished from the commercial documents in that they represent a contract of carriage with a third party. Transport documents are fundamental to the payment and delivery process in an import transaction. The main purpose of these documents is to:

- Provide proof that the carrier has received the goods
- Show evidence of a contract of carriage
- Produce a freight bill (information on transport details and costs)

Nature of goods, weight and delivery terms determine the modes of transportation. In this case, transporting goods to Finland can be done using combined modes of transport. Truck can be used in India (using CRM way bill) and crossing the border can be done by Air (using Airway bill) or sea (using bill of lading). Sea way is a better option to transport goods as it is less costly than airway. Air way can be used when goods are valuable, light and have short life span (Branch 2006, 52- 57)

Cargo should be insured to protect against loss of goods while they are transported. Value of insurance is determined by different factors like packing, route used, modes of transportation and availability of cargo securities guards. According to Incoterms 2010 ,Carriage AND Insurance Paid(CIP) Seller must obtain expenses of cargo. The insurance will cover minimum price and is calculated by adding 10% in the price provided in the contract. (Incoterm 2010, 162)

International Chamber of Commerce (ICC) published latest Incoterms in 2010 and has been applied effectively from 1 January 2011. Incoterms sets of rules used in domestic and in international trade and has 11 rules. Incoterms 2010 mention the seller's and buyer's obligation reflecting under column A the seller's obligations and under column B the buyer's obligations. These obligations can be carried out personally by seller or the buyer or sometimes through intermediaries such as carrier, freight forwarder or other person nominated by seller or buyer for the specific purpose. These Incoterms are can be divided in two parts.

| Rules for any modes or modes of Transport | Rules for sea and inland waterway transport |
|---|---|
| EXW | FAS |
| FCA | FOB |
| CPT | CFR |
| CIP | CIF |
| DAT | |
| DAP | |
| DDP | |

Table 2

A bill of lading is a transport document for the goods shipped by sea and is issued by shipping company. It is a contract between the shipping company and exporter or foreign buyer to deliver the goods at the stated destination or port (LUK 2011, 31).

5.1 Forwarder

Freight forwarder is a person or company which is involved in the processing and or movement of goods across international boundaries on the behalf of another company or person. They play an essential role in international trade as most exporters and nearly all the importers use freight forwarder. Some use only one, others use dozens of forwarders. The main duty of forwarder is to act as intermediaries between shipper with goods to send and carrier with space to be filled. Forwarder provides services such as advice relating to international trade, documentation, custom clearance, transport booking etc. Using forwarder will increase costs for traders as forwards are third party working for profit and sometimes traders may lose control as forwarder has more excess to their business (Branch 2006, 241)

Most of the importers suggested using freight forwarder while importing from India. This helps to reduce paper work and overcome the bureaucratic challenges which helps importer to focus on the core business process. One of the respondents said he only uses freight forwards in India and makes all the arrangement by himself in Finland to reduce the cost.

Transport cost can vary depending on the modes of transport used, nature of goods and destination. Many exporters prefer to use freight forwarders as they can arrange more efficient arrangement for transportation. In this case while importing goods from India to Finland, there can be two possible ways of transportation i.e. Air way and Sea way. Air way is far more expensive and is used for high value, light weight or if buyer needs the goods urgently. Sea can be good option because it is less expensive and can be used for heavy goods.

While choosing methods of transport, respondent prefer to choose air freight as they are importing in small quantity and that they can minimize the damage during transportation. Air freight should be used while importing fashionable item. They only use Sea transport while importing bulk quantity.

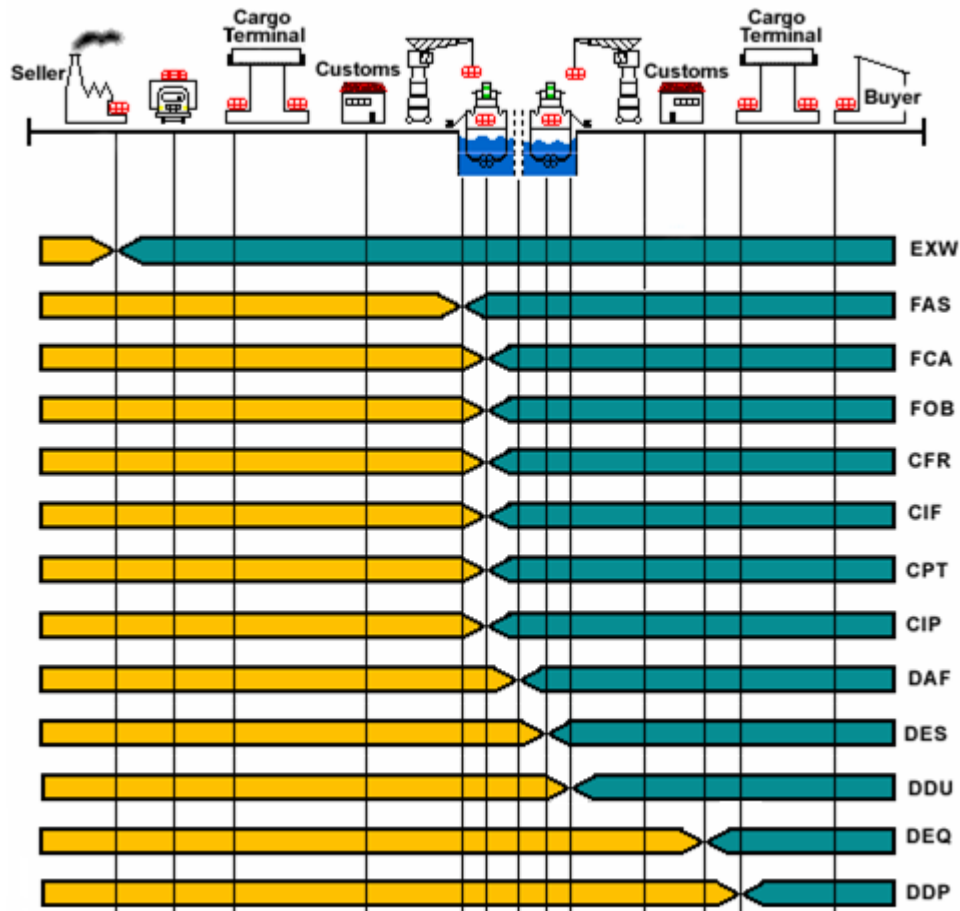
5.2 Terms of delivery

Terms of delivery are important factors for companies involved in international trade. Each parties involved in international trade should be aware of their duty and responsibility. Incoterms 2010 can act as legal trade instrument and helps to reduce disputes. The choice of terms of delivery can be influenced by various factors such as business environment, industries, countries and companies. Most important factors to determine is negotiations between two parties as both parties want to spend less time and money and bear less risk. Under incoterms rule CPT, CIF, CIP, CFR, DAT, DAP and DDP, the seller must make arrangements for carriers of goods to agreed destination. Though it seems seller is paying freight but it is calculated in total selling price.

Geography can be initial factor for choice of terms of delivery as India and Finland do not have land border thus transportation can be done through sea or by air. In this instance, transporting goods may involve multi modes of transport. First rail or truck is used to transport goods from factory to Indian port. Then sea transport can be used to bring goods to Rauma port or Helsinki port then again road transportation can be used to bring goods from port to buyer's warehouse. So, in this case, Incoterms for multi modes or any modes can be used (Incoterms 2010, 125). The figure below

clearly shows level of risk buyer and seller has to take in different Incoterms. The left hand side represents seller and right hand side represents buyer. Yellow line indicates risk for seller and blue-green shows risk for buyer. In this case, EXW Incoterms is beneficial to seller as he\she has less risk and DDP Incoterms is beneficial to buyer as it involves less risk.

If buyer wants to minimize risk, a company has to choose the Incoterms which minimize risk. DDP, DDU, DEQ can be less risky as the seller bears most of the risk while transporting goods or can use other Incoterms which is beneficial to a company. For small and medium size Finnish companies who do not have time and money to take care of transport, they can use freight forwarder in India and make all the arrangement in Finland. This helps to overcome all the bureaucratic challenges in India and makes the importing process easy (Website of Johannesburg business law voice 2011)



Graph 2

When asked about Incoterms, all the respondents agreed that they decide Incoterms in mutual understanding between buyer and seller. They did not see it a means of disputes as both parties are aware of their responsibility. During the interview one of the respondent said he prefers CIF when he orders goods from Finland because it is easy for him and he does not have to care about transportation. Another importer Prefers EXW when he personally visits India to make purchase order and it is less costly for him. The choice of Incoterms depends on how much time and money the buyer wants to invest in getting goods. CIF Rauma or CIF Helsinki was most preferred Incoterms for all of them. If the buyer is new and wants to save costs, EXW can be better option. Also, choosing EXW can be sometimes costly and time consuming as buyer has to arrange for transportation.

5.3 Methods of payments

Companies doing international business are profit oriented so for them receiving payment on time is very important. Sales and payments methods must be chosen carefully to minimize the payment risk. Terms of payment in international trade will depend on the relationship between seller and buyer, nature of goods, industry norms, geographical distance of parties, currency used and stability of countries involved. Exporters often seek to develop foreign market by using payment method that is less costly to buyers such as open account. Whereas the seller is paid by foreign buyer only after the goods have been received or sold. (Seyoum 2000, 193) There are four methods of payments for international transactions. Negotiations between buyers and supplier should be done to choose appropriate methods of payments.

5.3.1 Cash in advance

It is the most secure methods of payments because exporter can avoid credit risk as the payment is received prior to the transfer of ownership of goods. Wire transfer and credit cards are mostly used in these methods. However, payment in advance is least attractive option for the buyer as it creates cash flow problems. Buyers are concerned that the goods may not be sent if payments are made in advance. It is common methods of payments for buyer from certain high risk countries to pay in advance and many African countries are paying in advance. Since Finland is not high risk country, cash in advance may not be appropriate for Finnish importer (Website of U.S. Department of Commerce 2007).

5.3.2 Letter of credit

Letters of credit are among the most secure methods of payment in international trade. It is a commitment by bank on behalf of the buyer that the payment will be made if all the terms and conditions are fulfilled. Exporters prefer this payment method as it can be difficult to obtain information about the foreign buyer. L\C also ensures the buyer that he or she receives goods as ordered and no payment obligation

arises until the goods have been delivered as promise (Website of U.S. Department of Commerce 2007).

5.3.3 Open account

If the relation between buyer and seller is good, then open account can be used as the means of payment. Here the seller simply dispatches the goods to buyer and wants the payment. Usually payment is made in 30 to 90 days. This is the most advantageous option for importers (Brach 2006, 292). It is regularly used in low risk market and is common in western European countries and USA where the seller will send goods and documents directly to the buyer and trust them to pay on the agreed date (Website of U.S. Department of Commerce 2007).

In practice methods of payment is decided in mutual understanding between buyer and seller. All the respondents agreed letter of credit was the most popular and secure means of payment for big amounts. For small amounts, it is always good to negotiate with suppliers and agree the payment terms. Cash in advance was not preferred by the Finnish importer. During interview, one respondent said he always prefers to do bank transfer because he is a small importer and knows suppliers personally. He pays 30% in advance and 70% after the goods have been received.

Finnish banks such as Handelsbanken which has co-operation in India can help in transferring money from Finland to India. Payment through banks can be most suitable method while doing trade with India (Website of Handelsbanken).

6 CONCLUSION AND RECOMENDATIONS

The purpose of this thesis was to find out how the importing process from India to Finland happens and how any company willing to import from India can find reliable suppliers in India. Any new company which is unknown about the Indian market, the findings from this thesis can provide some guidelines.

In the beginning of the thesis some theory about export, import and importance of international trade has been explained. The purpose of this theory is to show importance of international trade in the global economy, particularly in the context of India and Finland. Basic economic facts, figure of both countries are explained and also risk involved while importing from India is explained.

While importing from India, there is various risk involved. The main risk is quality and currency risk. Quality can be sometimes big issue as the quality standards in India and Finland can differ. It is better for a company to ask samples and use consultant to check the quality as there is no previous experience of Indian product. According to one importer, he does not worry about the product quality as he knows the supplier and trusts him.

Payment methods can be decided in mutual understanding between buyer and seller. Among the various methods of payment, letter of credit was the most popular and secure methods of payment and some importers even prefer to do bank transfer if they know the supplier personally. Dollar and Euro are the most common methods of receiving money by Indian supplier in international currency. In this current situation, it would be better for a company to use Dollar instead of Euro because Euro is quite unstable with Indian currency.

When there is no previous experience about the Indian suppliers, visiting trade fairs can be the best source of finding potential suppliers for a company. This is because in trade fairs, a company can get clear view about the product availability in the market and also can have direct contact with many suppliers. It is always better to use the services of consultants as all products and suppliers participating in the trade fair may not be suitable. While visiting trade fair, it must be remembered all the rooms in trade fair may not be equipped with air conditioning and sometimes Finish importer who visit trade fair in India may feel difficult as climate in India is very hot.

Methods of transportation can be decided after the quantity and nature of the product is clear. During the interview it was clear if the product is in less quantity, light and fashionable item, air freight is the best option and for the bulk quantity sea transpor-

tation can be used. It is also recommended for a company to use a freight forwarder while importing from India so that the importing process becomes much easier and faster.

As mentioned earlier, the choice of Incoterms can be decided in mutual understanding between buyer and seller. CIF Rauma or CIF Helsinki can be the best option for a company as it has to put less effort to get the goods to the stated destination. The transportation and all paper works is handled by seller, though relying on business partner is not always good and can be risky sometimes. EXW can be less costly but time consuming for a company as it should arrange transportation and all the paper works. The choice of Incoterms depends on how much effort and money a company wants to put before getting the goods.

The tariff rates can fluctuate so it is always better for a company to check the tariff rates before starting the business. As mentioned earlier, at present there is no trade barrier but also it is good to check if any barrier exists at the time of starting the business. This is just to ensure that the importing process occurs smoothly.

7 FINAL WORDS

Every country in this world is involved in import and export activities. No country on earth is self-sufficient and cannot produce everything it needs. This applies to Finland also as it imports various things from different countries. This thesis is about importing garments and textile from India to Finland.

In the beginning I was supposed to write thesis about general importing process from India, but later on me and my supervisor decided to focus on one product and to narrow the scope of thesis. During the course writing thesis I was lost somewhere in the middle, but with constant feedback and aid of my supervisor Anssi pajala finally I was able to overcome all the obstacles. This thesis has taught me a lot about international trade and gave me practical view of importing.

When looking back to the project it must be said that if the research was carried out with some case company, the project would be more realistic and practical. Furthermore a study relating to Indian and Finnish business culture, how both countries India and Finland can benefit from each other competitive factor can be done. The scenario of trade between European Union and India after Free Trade Agreement (FTA) can also be future thesis topic. The research of this thesis was carried out by interviewing people involved in trade between India and Finland. Four importers from Finland, one Indian student from SAMK were interviewed face to face. Phone interview was done with one business consultant in Delhi, India. Face to face and phone interviews were done over email interview to get more precise results and to have regular interaction with the respondents. Email could have been a better option to reach many respondents and get different views but, it must be remembered that it can take long time and lower rate of response could have been achieved.

The research objective of this thesis was achieved, as this thesis can provide some guideline to a company or person who wants to import garments and textile from India. The theory part covers all the general importing process from selecting suppliers, Terms of delivery and payments methods. Furthermore couples of interviews were made with people importing from India to get practical experience.

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APPENDIX 1

Questions asked in the interview

1. What are the main risks you face while importing from India and how do you minimize them?
2. How do you check the quality of Indian products?
3. What is the best method of finding suppliers in India?
4. How do you evaluate the suppliers?
5. What is the best way of making initial contacts with suppliers?
6. Have you used a consultant while importing from India? If yes how and where did you find them? If not why?
7. Which incoterms do you use while importing from India? Why?
8. Which methods of transportation do you use while importing from India? Why?
9. Do you use freight forwarders while importing from India? Why? Why not?
10. Which payment methods do you use while importing from India? Why?
11. Which currency do you find appropriate while importing from India? Why?

APPENDIX 2

Contact Information of various consultants.

Contact Information:

Embassy of Finland, New Delhi

Address:

Embassy of Finland
E-3, Nyaya Marg, Chanakyapuri
New Delhi 110021
India

Tel: +91-11-4149 7500
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Fax: +91-11-4149 7555
Fax visa section: +91-11-4149 7550

E-mail: sanomat.nde@formin.fi
Web page: www.finland.org.in

Customer Service: Mon-Fri 10.00-12.00

FINPRO India

Finpro New Delhi

Finpro India, New Delhi, Finland Trade Center
Embassy of Finland, DLTA Complex, South Block, 1st Floor
1, Africa Avenue
New Delhi- 110 029

Finpro MUMBAI

Mumbai, Finland Trade Center

c/o Times International Consulting, 601, Maithili Sygnet, 6th floor 400705 Mumbai

tel. +91 22 2287 6013

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Finpro India, Chennai, Finland Trade Center

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tel. +91 44 3988 2040

faksi/fax +91 44 3914 1760

Apparel Export Promotion Council India

Head office

Apparel House, Institutional Area Sector-44

Gurgaon-122003 Haryana

Phone: 0124-2708004

Fax: 0124-2708004

APPENDIX 3

List of some trade fair organized in India

| Date | Place | Name | Products |
|---------------------------|--|--|--|
| 25.05.2012- 27.05.2012 | Surat International Exhibition & convention centre Surat, Gujarat, In- dia | Garfab-TX Surat | Garments & Ap- parel, Textiles, Germs& jewellery, kitting, leather, weaving etc |
| 06.07.2012- 08.07.2012 | Hotel Golden Tu- lip, Raipur, Chhattisgarh, India | Fashionista Life- style and Fashion Exhibition- Raipur | Gift items, gold and dimond jewel- ry, handicrafts, kitchen accessories etc |
| 16.07.2012- 18.07.2012 | Pragati Maidan New Delhi, India | India International Garment Fair | Casual wear, Chil- dren wear, Ladies wear, Leather garments, Vest, Wool garments etc. |
| 26.07.2012- 29.07.2012 | Hotel Matthan Bengaluru, India | Bangalore Fashion week | Garments & tex- tiles, fashion ac- cessories, batik, silk, kitting textiles etc |

APPENDIX 4

Last update: 25-05-2012

| | |
|--|--------------------------------------|
| Measure | |
| Geographical area | |
| Regulation | |
| Search for measures | |
| Goods code [Browse] | Country of origin/destination |
| | India - IN |
| [Advanced search] | |
| Retrieve Measures | |
| The current reference date for the query is 27-05-2012 | |
| [change] | |

SECTION I LIVE ANIMALS; ANIMAL PRODUCTS

SECTION II VEGETABLE PRODUCTS

SECTION III ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES

SECTION IV PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES

SECTION V MINERAL PRODUCTS

SECTION VI PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES

SECTION VII PLASTICS AND ARTICLES THEREOF; RUBBER AND ARTICLES THEREOF

SECTION VIII RAW HIDES AND SKINS, LEATHER, FURSKINS AND ARTICLES THEREOF; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTHER THAN SILKWORM GUT)

SECTION IX WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK

SECTION X PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD; PAPER AND PAPERBOARD AND ARTICLES THEREOF

SECTION XI TEXTILES AND TEXTILE ARTICLES

CHAPTER 50 SILK

CHAPTER 51 WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC

CHAPTER 52 COTTON

CHAPTER 53 OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND WOVEN FABRICS OF PAPER YARN

CHAPTER 54 MAN-MADE FILAMENTS; STRIP AND THE LIKE OF MAN-MADE TEXTILE MATERIALS

CHAPTER 55 MAN-MADE STAPLE FIBRES

CHAPTER 56 WADDING, FELT AND NONWOVENS; SPECIAL YARNS; TWINE, CORDAGE, ROPES AND CABLES AND ARTICLES THEREOF

CHAPTER 57 CARPETS AND OTHER TEXTILE FLOOR COVERINGS

CHAPTER 58 SPECIAL WOVEN FABRICS; TUFTED TEXTILE FABRICS; LACE; TAPESTRIES; TRIMMINGS; EMBROIDERY

CHAPTER 59 IMPREGNATED, COATED, COVERED OR LAMINATED TEXTILE FABRICS; TEXTILE ARTICLES OF A KIND SUITABLE FOR INDUSTRIAL USE

CHAPTER 60 KNITTED OR CROCHETED FABRICS

CHAPTER 61 ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED

CHAPTER 62 ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED

CHAPTER 63 OTHER MADE-UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS

SECTION XII FOOTWEAR, HEADGEAR, UMBRELLAS, SUN UMBRELLAS, WALKING STICKS, SEAT-STICKS, WHIPS, RIDING-CROPS AND PARTS THEREOF; PREPARED FEATHERS AND ARTICLES MADE THEREWITH; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR

SECTION XIII ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE

SECTION XIV NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL, AND ARTICLES THEREOF; IMITATION JEWELLERY; COIN

SECTION XV BASE METALS AND ARTICLES OF BASE METAL

SECTION XVI MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES

SECTION XVII VEHICLES, AIRCRAFT, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT

SECTION XVIII OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES THEREOF

SECTION XIX ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF

SECTION XX MISCELLANEOUS MANUFACTURED ARTICLES

SECTION XXI WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES