BUSINESS STUDIES

Chapter 11: INTERNATIONAL BUSINESS

INTERNATIONAL BUSINESS

Meaning of International Business

Manufacturing and trade beyond the boundaries of one's own country is known as international business.

International or external business can, therefore, be defined as those business activities that take place across the national frontiers. It involves not only the inter- national movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

International trade comprises exports and imports of merchandise (goods). It is also called 'visible trade' because goods are tangible. Items of visible trade include machinery, electronic goods, gold and silver, chemicals, etc.

Difference between Internal Trade and International Trade

Basis	Internal Trade	International Trade
Definition	Internal trade is trade that involves buying and selling taking place between two parties which are located within the political and geographical boundaries of a country	International trade is referred to as a trade that involves buying and selling of goods between two individuals or businesses located in two different countries or it can be trade between two different countries
Currency exchange	There is no exchange of currency as trade takes place within the boundaries of the nation	Exchange of currency is there between the two countries/individuals/businesses involved in the trade
Trade Restrictions	No trade restrictions for internal trade	International trade has different restrictions as the two countries involved in trade have different policies with regards to trade
Transportation Cost	Transportation cost is less when trade is taking place within the borders of a country	Comparatively higher transportation costs as goods need to be transported across the world
Goods traded	Only those goods and services are traded that are available in the country	Helps countries to trade goods that are produced in surplus or purchase goods that are scarcely available
Foreign reserve	Does not generate any foreign reserve	International trade generates foreign reserves for the two trading countries

Reason for International Business

1. **Unequal Distribution of Natural Resources:** Countries cannot manufacture the same level of quality and at the same cost. This is due to the unequal distribution of natural resources and differences in productivity levels among different geographical places.

2. **Varied Differences:** There is a disparity between labour productivity and manufacturing costs. Because of varied socioeconomic, geographical, and political factors, it varies in each country.

3. **Specialization Advantage:** The principle of territorial division of labour can be applied internationally as well. Most developing countries with plenty of labour, for example, specialize in producing and exporting clothing.

4. **Price Differences:** Firms also engage in the export and import of goods due to the difference in prices of products. They import cheaper things from other countries and export goods to other countries where they can fetch better prices for their products.

Benefits of International Trade

Benefits to Nations:

1. **Earning of foreign exchange:** International business helps a country to earn foreign exchange which can be used for payment for imports of capital goods, technology, petroleum products, fertilizers, pharmaceutical products, etc.

2. **More efficient use of resources:** Every country produces select goods and services which it can produce most effectively and efficiently. Gradually, it attains specialization in the production of these goods and services, leading to efficient utilization of resources.

3. **Improving growth prospects and employment potentials:** Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'exp- ort and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries.

4. **Collecting market information:** Retailers serve as an important source of collecting market information about the tastes, preferences and attitudes of customers which is useful in taking important marketing decisions.

5. **Help in promotion:** Manufacturers and distributors have to conduct various promotional activities in order to increase the sale of their product. Retailers participate in these activities and promotes sales of product.

Benefits to Business Firms:

1. **Prospects for higher profits:** International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in the international markets where prices are high.
2. **Increased capacity utilisation:** By procuring ex- port orders, a firm can make use of its surplus pro- duction capacity. Production on large-scale leads to economies of scale which, in turn, lowers the cost of production.
3. **Way out to intense competition in domestic market:** Highly competitive domestic market drives many companies to go international in search of markets for their products.
4. **Prospects for growth:** When demand of a firm's products starts getting saturated in the domestic market, the firm has to search overseas markets for improving its growth prospects.
5. **Improved business vision:** The growth of inter- national business of many companies (e.g., Pepsi, Samsung, Ford Motors, Hindustan Unilever Ltd., etc.) is essentially a part of their business policies to become more competitive and to diversify.

Modes of Entry into International Business

1. **Exporting and Importing:** Exporting means selling or sending goods and services form the home county to foreign country. Importing means purchasing goods and services from a foreign country or bringing them to the home county.

   Advantages Major advantages of exporting include:

   - As compared to other modes of entry, exporting/ importing is the easiest way of gaining entry into international markets. It is less complex an activity than setting up and managing joint-ventures or wholly owned subsidiaries abroad.
   - Export ing/ import ing is less involving in the sense that business firms are not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.
   - Since exporting/ importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when firms opt for other modes of entry into international business.

   Limitations:

   - Since the goods physically move from one country to another, exporting/importing involves additional packaging, transportation and insurance costs. Especially in the case of heavy items, transportation costs alone become an inhibiting factor to their exports and imports. On reaching the shores of foreign countries, such products are subject to custom duty and a variety of other levies and charges. Taken together, all these expenses and payments substantially increase product costs and make them less competitive.

- Exporting is not a feasible option when import restrictions exist in a foreign country. In such a situation, firms have no alternative but to opt for other entry modes such as licensing/franchising or joint venture which makes it feasible to make the product available by way of producing and marketing it locally in foreign countries.

- Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. Except a few visits made by the executives of export firms to foreign countries to promote their products, the export firms in general do not have much contact with the foreign markets. This puts the export firms in a disadvantageous position visa-vis the local firms which are very near the customers and are able to better understand and serve them.

2. **Contract Manufacturing:** Contract manufacturing is a mode of entry into ' international business under which a business firm in a country enters into a contract with local manufacturer in the foreign country to get certain goods produced or services rendered as per its specification! However, the firm retains with itself the responsibility of marketing the goods.

   Advantages:

   - Contract manufacturing permits the international firms to get the goods produced on a large scale without requiring investment in setting up production facilities. These firms make use of the production facilities already existing in the foreign countries.

   - Since there isno or little investment in the foreign countries, there is hardly any investment risk involved in the foreign countries.

   - Contract manufacturing also gives an advantage to the international company of getting products manufactured or assembled at lower costs especially if the local producers happen to be situated in countries which have lower material and labour costs.

   - Local producers in foreign countries also gain from contract manufacturing. If they have any idle production capacities, manufacturing jobs obtained on contract basis in a way provide a ready market for their products and ensure greater utilization of their production capacities. This is how the Godrej group is benefitting from contract manufacturing in India. It is manufacturing soaps under contract for many multinationals including Dettol soap for Reckitt and Colman. This has considerably helped it in making use of its excess soap manufacturing capacity.

   - The local manufacturer also gets the opportunity to get involved with international business and avail incentives, if any, available to the export firms in case the international firm desires goods so produced be delivered to its home country or to some other foreign countries.

   Limitations:

   - Local firms might not adhere to production design and quality standards, thus causing serious product quality problems to the international firm.

   - Local manufacturer in the foreign country loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications of the contract.

- The local firm producing under contract manufacturing is not free to sell the contracted output as per its will. It has to sell the goods to the international company at predetermined prices. This results in lower profits for the local firm if the open market prices for such goods happen to be higher than the prices agreed upon under the contract.

3. **Licensing and Franchising:** Licensing is a contract arrangement in which a firm in a country allows a firm in a foreign country to use its patent or trademarks or technology for a consideration known as royalty. Franchising is very much similar to licensing. The patent company which gives the franchise for a fed is called the franchiser, and the other company is called the franchisee.

   Franchising covers the business of restaurant, hotel, travel agency, wholesale trade, retail trade, etc.

   i. **Joint venture:** Joint venture is a business jointly owned by two or more firms located in two different countries.

   ii. **Wholly owned Subsidiary:** A wholly-owned subsidiary is subsidiary company which is owned by a parent company or holding company. In other words, a wholly-owned subsidiary is a subsidiary company in whose equity capital, 100% investment is made by the parent or holding company.

Procedure for conducting international trade

The procedure for conducting international trade can be studied with respect to export procedure and import procedure.

Export procedure

A number of steps are required to be taken to complete an export transaction. These steps are explained below:

Step 1 Receipt of Enquiry and Sending Quotations:

The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. The exporter sends a reply to the enquiry in the form of a quotation, referred to as proforma invoice.

Step 2 Receipt of Order or Indent:

In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, he places an order for the goods to be despatched. This order (also known as indent) contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

Step 3 Assessing Importer's Creditworthiness:

And Securing a Guarantee for Payments After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risk of non-payment by the importer once the goods reach the import destination. To minimise such risk, most of the exporters demand a letter of credit from the importer.

Step 4 Obtaining Export License:

After becoming assured about payments, the exporting firm initiates the steps relating to compliance of export regulations and take following steps to obtain license.

a. Open a bank account in any bank authorized by the Reserve Bank of India (RBI) and get an account number.

b. Then obtain Import Export Code (IEC) Number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.

c. After this, register with an appropriate export promotion council in order to safeguard against risk of non-payment.

Step 5 Obtaining Pre-shipment Finance:

Once a confirmed order and a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production.

Step 6 Production or Procurement of Goods:

Having obtained the pre-shipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer.

Step 7 Pre-shipment Inspection:

The Government of India has initiated many steps to ensure that only good quality products are exported from the country. The government has passed Export Quality Control and Inspection Act, 1963 for this purpose and has authorised some agencies to act as inspection agencies. The exporter is required to get the goods inspected before shipment.

Step 8 Excise Clearance:

As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise Commissioner is satisfied, he may issue the excise clearance. Also, in many cases the government exempts payment of excise duty or later on refunds it, if the goods so manufactured are meant for exports.

Step 9 Obtaining Certificate of Origin:

Some importing countries provide tariff concessions or other exemptions to the goods coming from a particular country. For availing such benefits, the importer may ask the exporter to send a certificate of origin.

Step 10 Reservation of Shipping Space:

The exporting firm applies to the shipping company for provision of shipping space. It has to specify the type of goods to be exported, probable date of shipment and the port of destination. On acceptance of application for shipping, the shipping company issues a shipping order.

Import procedure:

Following steps are required to be followed to import goods om a foreign country

Step 1 Trade Enquiry:

The first thing that the importing firm has to do is to gather information about the countries and firms which export the given product. The importer can gather such information from the trade directories and/or trade associations and organizations. After identification, the importing firm approaches the export firms for collecting information about their export prices and terms of exports. After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer.

Step 2 Procurement of Import License:

There are certain goods that can be imported freely, while others need licensing. The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he/she wants to import are subject to import licensing or not.

Step 3 Obtaining Foreign Exchange:

In India, all foreign exchange transactions are regulate by the Exchange Control Department of the Reserve Bank of India (RBI). As per the rules in force, every importer is required to secure the sanction of foreign exchange. . For obtaining such a sanction, the importedhas to make an application to a bank authorized by RBI to issue foreign exchange. The application is made in a prescribed form alongwith the import license as per the provisions of Exchange Control Act. Aften proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

Step 4 Placing Order or Indent:

After obtaining the import license, the importer places ani import order or indent with the exporter for supply of the specified products.

Step 5 Obtaining Letter of Credit:

If the payment terms between the importer and the overseas supplier is accepted by both parties, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier.

Step 6 Arranging for Finance:

The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary so as to avoid huge demurrages (i.e., penalties) on the imported goods, lying uncleared at the port for want of payments.

Step 7 Receipt of Shipment Advice:

After loading the goods on the vessel, the overseas supplier dispatches the shipment advice to the importer. A shipment advice contains information about the shipment of goods.

Step 8 Retirement of Import Documents:

Having shipped the goods, the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit. The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.

Step 9 Arrival of Goods:

Goods are shipped by the overseas supplier as per the contract. The person in charge of the carrier (ship or airway) informs the officer in charge at the dock or the airport about the arrival of goods in the importing country. He provides the document called import general manifest. Import general manifest is a document that contains the details of the imported goods. It is a document on the basis of which unloading of cargo takes place.

Step 10 Customs Clearance and Release of Goods:

All the goods imported into India have to pass through customs clearance after they cross the Indian borders. Firstly, the firm has to obtain a delivery order, pay dock dues and obtain port trust due to receipt. The firm is then required to fill 'bill of entry for assessment of customs duty. After payment of customs duty the bill has to be presented to dock superintendent for examination. Upon his satisfaction, the bill will be presented to the port authority who will issue release order of the goods after receiving necessary charges.

Documents Used in the Course of International Trade

1. **Proforma Invoice:** A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product and the terms and conditions on which their export will take place.

2. **Import Order or Indent:** It is a document in which the importer orders for supply of requisite goods to the supplier. The order contains information such as quantity and quality of goods price of goods, method of forwarding the goods, nature of packing, mode of payment, etc.

3. **Export Invoice:** It is a seller bill information about goods like quantity, number of packages, name of ship, terms of delivery, payments, etc.

4. **Packing List:** This document provides complete details regarding the goods exported and the form in which they are being sent.

5. **Certificate of Origin:** It specifies the country in which the goods are being manufactured. This certificate enables the importer to claim tariff concessions or other exemptions. It is also used in the case when there is a ban on imports of some goods from certain countries.

6. **Certificate of Inspection:** For ensuring quality, the government has made inspection of certain goods compulsory by some authorized agency like Export Inspection Council of India (EICI). After inspecting the goods, the agency issues a Certificate of Inspection that the consignment has been inspected as required under the Export (Quality Control and Inspection) Act, 1963. Note Documents mentioned in points to (w) above relate to goods exported.

7. **Mate's Receipt:** This receipt is issued by the captain or mate of the ship to the exporter after the goods are loaded on board of the ship. Such receipts contain name of the vessel, description of packages, marks, conditions of the cargo, etc.

8. **Shipping Bill:** With the help of this document, permission is granted for the export of goods by the custom office. It contains details regarding the goods being exported, name of the vessel, exporters name and address, country of final destination, etc.

9. **Bill of Lading:** It acts as an evidence regarding the acceptance of shipping company to carry the goods to the port of destination. It is also referred to as document of title to the goods and is freely transferable by endorsement and delivery.

10. **Airway Bill:** It is a document issued by the airline company on receiving the goods on board, its aircraft and at the same time giving its acceptance to carry them to the port of destination.

11. **Marine Insurance Policy:** It is a document containing contract between the exporter and the insurance company to indemnify against loss.

12. **Cart Ticket:** It is also known as cart chit or gate pass. It is prepared by the exporter and contains details regarding export cargo like number of packages, shipping bill number, port of destination, etc.

13. **Letter of Credit:** It is a guaranteed letter issued by the importer bank stating that it will honor the export bills to the bank of the exporter up to a certain amount.

Foreign Trade Promotion Measure and Schemes

1. **Duty Drawback Scheme:** Merchandise that is to be export is not conditional for payment of different excise, levy charges and customs duties. On showing verification of export of these products to the concerning authority such charge returns. Such refunds are 'Duty Drawbacks.'

2. **Export Manufacturing under the Bond Scheme:** Under this freeway, organizations can manufacture merchandise without giving excise duty and different charges. The organizations

can benefit this facility after giving an endeavor (i.e. bond) that they are producing commodities for the export goal.

3. **Exemption from Payment of Sales Taxes:** Merchandise manufactured for the sole reason of exporting is not conditional upon payment of sales tax. Money received from exporting operations has been absolved from giving of Income-tax for a long time now. This exemption is only available to 100% Export oriented units and units set up in Export Processing Zones / special economic zones.

4. **Advance License Scheme:** In this government policy which permits the supplier duty-free supply of local and also in addition imported resources required for the manufacturing of export merchandise. The firms exporting irregularly can likewise acquire these licenses against particular export orders.

5. **Export Processing Zones:**They are industrial domains, which shape enclaves from the Domestic Tariff Areas. These are generally located close to seaports or air terminals. They intend to provide an internationally competitive duty-free environment for export production at low cost. There are different measures, for example, availability of export fund, export promotion, capital merchandise scheme is in use for foreign trade promotion.

6. **Organizational Support:** The government has set up from time-to-time various institutions in order to facilitate the process of foreign trade. Following are few of them.

7. **Department of Commerce:** Department of Commerce in the Ministry of Commerce, Government of India is the most authoritative body responsible for the country's international trade and all jurisdiction linked with it. This might be in the shape of expanding business relations with other nations, state trading, export promotional measures and the development, and regulation of certain export-oriented industries and commodities.

   The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.

8. **Export Promotion Councils:** Export Promotion Councils are non-profit institutions register under the Companies Act or the Societies Registration Act. The fundamental objective of the export promotion councils is to market and produce the nation's exports of particular products falling under their jurisdiction. Currently, there are 21 EPC's dealing with different commodities.

Indian Institute of Foreign Trade (IIFT)

Indian Institute of Foreign Trade is an establishment by the Government of India as an autonomous body in 1963. IIFT is registered under the Societies Registration Act with the prime objective of professionalizing the country's foreign trade management.

It gives training in international business, conducts research in areas of international business, and analyzing and disseminating information relating to international trade and investments scenario.

State Trading Organization

State Trading Organization (STC) was established in May 1956. The main purpose of STC is to promote trade, primarily export trade among different trading partners of the globe. A huge number of local firms in India find it very difficult to compete in the global market.

In the meantime, the present trade routes are not suitable for the promotion of exports and bringing about diversification of trade with countries other than European countries.

Indian Institute of Packaging (IIP)

The Indian Institute of Packaging is an establishment as a national institute mutually run by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966. Its base and prime laboratory are located at Mumbai and three regional laboratories are situated at Kolkata, Delhi and Chennai. It is a training-cum-research institute pertaining to packaging and testing.

International Trade Institutions and Trade Agreements

Business activities are conducted on a global level and even between nations. There is an emergence of global markets. To keep the trade fair and manage trade-related issues on a global level, various International Institutions and Trade Agreements were established.

International Trade Associations:

The nations were influenced financially because of World War 1 and World War2. The reconstruction couldn't happen as there was an interruption in the financial system furthermore there was a shortage of resources. At this crossroads, the prominent economist J. M. Keynes with Bretton Woods establish an association with 44 countries to meet this and to reestablish commonship on the planet.

This gathering brought forth the International Monetary Fund (IMF) International bank Of Reconstruction and Development (IBRD) and the International Trade Organization (ITO). These three associations were considered as three columns for the improvement of the global economy.

WorldBank

The International Bank of Reconstruction and Development (IBRD) is usually known as the World Bank. The fundamental point of IBRD is to remake the war influenced the economies of Europe and help the improvement of underdeveloped economies of the world. The World Bank after 1950 focused more on financially unstable nations and invested heavily into social segments like health and education of such immature nations.

Currently, the World Bank includes five universal bodies responsible for offering fund to various countries. These bodies and its partners are headquartered in Washington DC taking into account diverse financial requirements and necessities.

As specified before, the World Bank has been allocated the undertaking of financial development and expanding the extent of the international business. Amid its underlying years of foundation, it gave more significance on creating facilitates like transportation, health, energy and others.

This has profited the underdeveloped nations too, without doubt, however, because of poor regulatory structure, the absence of institutional system and absence of accessibility of skilled labour in these nations has prompted disappointment. World Bank and its Affiliates Institutions:

- International Bank for Reconstruction and Development (IBRD) 1945.
- International Financial Corporation (IFC) 1956.
- Multilateral Investment Guarantee Agency (MIGA) 1988.
- International Development Association (IDA) 1960.
- International Centre for Settlement of Investment Disputes (ICSID) 1966.

The World Bank is no longer limited to simply offering money related help for infrastructure development, agriculture, industry, health and sanitation. It is somewhat significantly engaged with regions like reducing rural poverty, increasing income of the rural poor, offering specialized help, and beginning research schemes.

International Development Association (IDA)

International Development Association (IDA) was set up in 1960 as a partner of the World Bank. IDA was set up essentially to offer fund to the less developed countries on a soft loan basis. It is because of its intention of providing soft loans that it is called the Soft Loan Window of the IBRD.

The objectives of IDA are as follows:

- To help the underdeveloped countries by giving loans in simple terms.
- Help at the end of poverty in the poorest nations
- Give macroeconomics services such as, for example, those relating to health, nutrition, education, human resource advancement and control of the population.
- To offer loans at marked down interests in order to energize economic development, the increment in manufacturing limit and good expectations for standard of living in the underdeveloped nations.

International Finance Corporation (IFC)

Established in July 1956, IFC was aimed to assist in terms of finance to the private sector of developing nations. IFC is also an associate of the World Bank, but it has its own separate legal entity, functions and funds. All the members of the World Bank are entitled to become members of IFC.

Multinational Investment Guarantee Agency (MIGA)

Established in April 1988, The Multinational Investment Guarantee Agency's aim was to support the task of the World Bank and IFC. Some objectives of the MIGA are

Advance the stream of direct foreign investment into less developed member countries.

Give protection cover to fund supplier against political risks.

Guarantee extension of current investment, privatization and economic reconstruction.

Provide assurance against noncommercial perils, for example, dangers engaged in currency transfer, war and domestic clashes, and infringement of agreement.

Trade Agreements

Let us take a look at some of the important trade agreements that are a part of the World Bank.

1. **Agreement Forming Part of GATT:** The recent General Agreement on Tariffs and Trade (GATT) after as significant alteration in 1994 is especially part of the WTO assertions. GATT likewise incorporates certain particular agreement developed to manage particular non-tariff hindrances. It is one of the important trade agreements of the WTO.
2. **Agreement on Textile and Clothing (ATC):** Trade agreements were developed under WTO to phase out the quota restrictions as imposed by the developed nations on the supply of textiles and clothing form the developing countries. The developed countries were imposing different kinds of quota hindrances under the Multi-Fiber Arrangement (MFA) that itself was a major departure from the GATT's basic principle of free trade in goods.
3. **Agreement On Agriculture (AOA):** It is an agreement to make sure free and fair trade in agriculture. Although original GATT rules were applicable to trade in agriculture, these suffered from certain loopholes such as an exemption to member countries to use some non-tariff measures such as customs tariffs, import quotas and subsidies to protect interests of the farmers in the home country. AOA is a significant step towards a systematic and fair trade in agricultural products.
4. **General Agreement on Trade Services (GATS):** Services mean acts or performances that are essentially intangible and cannot be as such touched or smelt as goods. GATS is regarded as a landmark achievement of the Uruguay Round as it extends the multilateral rules and disciplines to services. It is because of GATS that the basic rules governing 'trade in goods' have become applicable to 'trade in services.
5. **Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS):** The WTO's agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was negotiated in 1986-1994. It was the Uruguay Round of GATT negotiations where for the first time the rules relating to intellectual property rights were discussed and introduced as part of the multilateral trading system. Intellectual property means information with commercial values.

World trade organization (W.T.O)

WTO is one of the youngest global international organization that deals with the rules and regulations of trade between different nations. It operates with the purpose of liberalizing trade and flow of goods and services in the international market. It provides a framework for negotiating and formalizing trade agreements. At present, 159 countries are the members ofWTO.

Objectives of WTO:

WTO has some basic objectives which are enu- merated below:

i. Raising standards of living and incomes.

ii. Ensuring full employment.

iii. Expanding production and trade.

iv. Optimal use of the resources with the idea of sustainable development.

WTO also has some major objectives apart from the above mentioned basic objectives. These are:

i. To ensure reduction of tariffs and other trade barriers imposed by different countries.

ii. To engage in activities that improve the standards of living, create employment, increase income and effective demand, facilitate production, etc.

iii. To promote an integrated, viable, durable trading system and ensure international peace.

iv. To settle disputes among member nations.

v. To ensure a smooth process for international trade by framing common rules and regulations.

vi. To accelerate economic growth of developing countries.

Advantages of WTO to India:

WTO offers a range of benefits to India:

i. Boost Exports India's exports have boosted due to reduction of tariffs on the product of export interest to India.

ii. Policy Assistance As a member of the WTO, India can get assistance from the International Trade Center in formulating and implementing export promotion programmers.

iii. Trade Links India has the advantage of having trade links with all others member countries.

iv. Settlement of Disputes WTO provides a forum for trade negotiations and settlement of disputes among member countries. India can approach WTO in case it wants to settle certain disputes with trading countries.

v. Special Concessions There are several concessions and exemptions for developing countries like India.

Disadvantages of WTO to India:

i. Focuses on Developed Nations WTO focuses more on the interests of developed countries.

ii. Price Rise WTO agreements are likely to cause a hike in the prices of drugs and agricultural inputs.

iii. Not Really Free Trade World trade has not really opened up. Developed countries are imposing more restrictions on trade than underdeveloped countries.

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International Business

Difference between the Domestic trade and international Trade

Domestic trade	Foreign trade
(i) Trade within the boundary of the nation	(i) Trade Outside the boundary of the country
(ii) Less capital needed to be Invested	(ii) Huge capital needed to be Invested
(iii) Less risk association	(iii) High risk assossiation
(iv) Does not earn foreign currency	(iv) Earns foreign currency
(v) Less Profit to be Earned	(v) High Profit to be Earned

Meaning of International Trade

Manufacturing and trade beyond the boundaries of one's own country is known as international trade

Scope of International Trade

- •Merchandise Exports and Imports
- •Service Export and Import
- •Licensing and Franchising
- •Foreign investments

Benefits of international trade to nation

- •Earning of foreign Exchange
- •More efficient use of resources
- •Improving growth prospects
- •Increased standard of living

India's Involvement in World

India is now the 10th largest Economy in the world and the fastest growing Economy, next only to china. India is an Important Country for international trade

Foreign trade promotion Scheme

- Duty drawback scheme
- Export manufacturing under bond scheme
- Exemption from payment of sales tax
- Advance licence scheme
- Export of services
- Export processing zones

Benefits of international trade to firms

- Prospects of higher Profits
- Increased capacity Utilisation
- Prospects for growth
- Improved Business vision

Export Procedure

- Receipt of enquir Receipt of order or indent y and sending quotation
- Assessing importer's credit worthiness and securing a guarantee for payment
- Obtaining export licence • Obtaining pre - shipment finance
- •Production or procurement of goods
- Excise clearance
- Obtaining certificate of origin
- Reservation of shipping space
- Packing and Forwarding
- •Insurance of goods
- Customs clearance
- Obtain mate receipt
- Payment of freight
- Preparation of invoice
- Securing payment

Import Procedure

- Trade Enquiry
- Procurement of import licence
- Obtaining foreign exchange
- Placing order or indent
- Obtaining letter of credit
- Arranging of finance
- Receipt of shipment advice
- Retirement of import documents Arrival of goods
- Customs clearance and release of goods

International Trade Institure

- IMF = International Monetary Fund
- MIG A = Multinational Investment Guarantee Agency
- IDA = International Development Association
- IFC=International Finance Corporation
- World Bank

Organisational Support

- Department of commerce
- Export Promotion councils
- Commodity boards
- Export inspection council
- Indian trade Promotion organisation
- Indian Institute of foreign trade

Modes of entry into the international trade

- Exporting and Importing : sending goods from one country to another
- Contract manufacturing- Outsourcing of Products
- Licensing and franchising:- firm grants access to its patents to another firm in foreign country
- Joint venture-agreement between two firms of two nations

Important Questions

Multiple Choice Questions-

Question 1. The degree of mobility of factors of production like labour and capital is relatively more within in __________

(a) Domestic Business

(b) International business

(c) Both Domestic and International business

(d) None of the above

Question 2.

Foreign investment can be of two types

(a) Domestic and International investment

(b) Direct and Portfolio

(c) Licencing and Franchising

(d) Direct and Franchising

Question 3. Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shipper’s name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo?

(a) Shipping bill

(b) Mate’s receipt

(c) Packaging list

(d) Bill of exchange

Question 4. Which one of the following modes of entry requires a higher level of risks?

(a) Licensing

(b) Contract manufacturing

(c) Franchising

(d) Joint venture

Question 5. The method of obtaining payment from the importer is:

(a) By getting a bill of exchange

(b) By getting a Letter of Credit

(c) By Foreign Draft

(d) All of the above

Question 6. Which of the following documents are not required for obtaining an export license?

license?

(a) IEC number

(b) Registration cum membership certificate

(c) Letter of credit

(d) Bank account number

Question 7. Which of the following documents is not required in connection with an import transaction?

(a) Certificate of origin

(b) Bill of lading

(c) Shipping bill

(d) Shipment advice

Question 8. W.T.O is the only organization dealing with the:

(a) Home trade rules

(b) Entrepot trade rules

(c) Global trade rules

(d) None of the above

Question 9. Import trade procedure starts with

(a) Obtaining quota

(b) Arranging L.C

(c) Trade enquiry

(d) Placing Indent

Question 10. When two or more firms come together to create a new business entity that is legally separate and distinct from its parents it is known as

(a) Franchising

(b) Contract manufacturing

(c) Joint Ventures

(d) Licensing

Question 11. Which one of the following is not amongst India's major trading partners?

(a) Germany

(b) New Zealand

(c) the UK

(d) the USA

Question 12. A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as

(a) Cargo receipt

(b) Mate receipt

(c) Shipping receipt

(d) Charter receipt

Question 13. Which one of the following is not a document related to fulfilling the customs formalities

(a) Letter of insurance

(b) Shipping bill

(c) Export license

(d) Proforma invoice

Question 14. Which one of the following is not a part of export documents?

(a) Commercial invoice

(b) Mate's receipt

(c) Certificate of origin

(d) Bill of entry

Question 15. The document containing the guarantee of a bank to honour drafts drawn on it by an exporter is

(a) Letter of hypothecation

(b) Letter of credit

(c) Bill of exchange

(d) Bill of lading

Very Short-

QUESTION 1 Name the entry mode in which domestic manufacturer gives the right to access to the trademark, technology, and trade secret to a manufacturer is a foreign land.

QUESTION 2 In which term do two companies jointly agree to share each other's trade secrets and technology?

QUESTION 3 Mention the common points between licensing and franchising.

QUESTION 4 In terms of import transaction which two documents are required?

QUESTION 5 Define shipping bill.

QUESTION 6 State IEC number.

QUESTION 7 ABC company acquires XYZ company located in Delhi by investing 100% of its equity. What will the XYZ company call?

QUESTION 8 Which document contains a guarantee of a bank to honor a draft drawn on it by an exporter's bank?

QUESTION 9 Explain C&F agent.

QUESTION 10 Define Bill of Landing.

Short Questions-

1. Differentiate between the contract manufacturing and setting up wholly owned production subsidiary abroad.

2. It is not just a sale of a trademark for a fee; also it abides the purchaser to follow strictly the rules of serving. Which mode of entry is this? Discuss any two limitations of it.

3. What is the objective of WTO? What are its benefits?

4. Write notes on Bill of lading, Bills of entry, Shipping advice.

5. Give the difference between Internal trade and International trade.

6. State the reasons to have international business?

7. China is a major producer of electronic goods at very low cost as compared to India. Discuss the benefits that India will derive if it enters into a trade agreement with China for electronic goods.

8. List the formalities involved in getting an export license.

9. Explain the following documents used in International trade:

(i) Mate's Receipt.

(ii) Letter of credit.

(iii) Certificate of origin.

10. List the codal formalities to obtain IEC No.

Long Questions-

1. What is WTO? Write its objectives and Functions?

2. In what ways exporting/importing is better than setting up wholly owned subsidiaries abroad.

3. What is the World Bank? Discuss the various objectives and role of its affiliated agencies.

4. What is IMF? Write its objective and functions.

5. Identify the documents highlighted in the following statements:

(i) This document is issued by the commanding officer of the ship to the exporter after cargo is loaded on the ship.

(ii) This document is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to the port of destination.

(iii) This document is the most appropriate and secure method of payment to settle international transactions.

(iv) On the basis of this document, the customs office grants permission for the export.

(v) This document is prepared by the importer and it shows the details of goods imported.

(vi) On the basis of this document imported goods are unloaded from the carrier.

6. Mr. Manchanda is a business man in Gurgaon he manufactures scooters. His son after doing an MBA in the USA returns to India and suggests that they should set up a fully owned factory in Bangkok for supplying to customers in the South East Area and Middle East. Mr. Manchanda however does not agree to his proposal and wants to set this unit in South India. They are having a debate on this. In your opinion with whom you agree. Give reasons to support your answer.

Case Study Questions-

1. Direction: Read the following text and answer the questions that follow.

Kalakriti Industries is a company manufacturing stationery items. The company has set its objective of increasing revenue from ₹ 50 crores to 100 crores within 2 years. Unfortunately with the saturating domestic demand, underutilization of production capacity, etc. their objectives could not be achieved even after 3 years. In a long discussion in the meeting with all the managers, the company discussed the scope of international business and reached the decision to extend its market territory beyond the nation's boundaries by selling goods to foreign countries. For this, the company decided to import exclusive stationery items from Japan. After identifying a suitable exporter, Kalakriti Industries sent a written request to the exporter to provide information regarding price, terms and conditions, etc. on which basis the exporter will be able to supply goods.

(i) .... to extend its market territory beyond the nation's boundaries.' Identify the means through which the company can do so in light of the given case.

a) Improving promotion strategy

b) Improving productivity

c) Opening more retail outlets in the country

d) Exporting the goods

(ii) _________ is a written request to the exporter to provide information regarding price, terms and conditions, etc. on which the exporter will be able to supply goods.

a) Trade Enquiry

b) Proforma Invoice

c) Quotation

d) None of the above

(iii) 'Unfortunately with the saturating domestic demand ....'. In the reference of the given statement which of the benefits of international trade suits this case?

a) Way out to intense competition in the domestic market

b) Prospects for growth

c) Prospects for higher profits

d) Improved business vision

(iv) How will an increase in the production capacity of Kalakriti Industries benefit it?

a) Economies of scale

b) Reduction in production cost

c) Improve profit margin

d) All of the above

2. Read the following text and answer the questions that follow.

Paras Manek is a successful businessman who is engaged in manufacturing auto spare parts. The products manufactured by his business enterprise Paras Manek Ltd. are sold not only in India, but also exported to various countries such as Singapore, Switzerland, China, North Korea, etc. Trudy Ltd., a Russian company wants to import auto spare parts from Paras Manek Ltd. Paras Manek Ltd. has received an enquiry regarding the goods and trade. Paras Manek Ltd. has replied to it in the form of a quotation. Finding it favourable, Trudy Ltd. has placed an order containing description of goods, price and other instructions, etc. But before exporting the goods it has to fulfill certain legal formalities like procuring export license and preparing the documents related to goods, shipment, and payment.

(i) "................... but also exported to various countries such as Singapore, Switzerland, China, North Korea, etc." Identify the type of business discussed above.

a) Domestic Business

b) International Business

c) Both (a) and (b)

d) Neither (a) nor (b)

(ii) Which of the following documents contains a description of goods, price and other instructions.

a) Proforma Invoice

b) Indent

c) Letter of Credit

d) Enquiry

(iii) In case of export, a buyer sends an enquiry to exporter to seek information about:

a) Availability of goods

b) Price of goods

c) Terms and conditions of trade

d) All of the above

(iv) "Paras Manek Ltd. has replied to it in the form of a quotation." Identify the document stated here.

a) Proforma Invoice

b) Indent

c) Letter of Credit

d) Enquiry

MCQ Answers-

1. Answer: (a) Domestic Business
2. Answer: (b) Direct and Portfolio
3. Answer: (a) Shipping bill
4. Answer: (d) Joint venture
5. Answer: (d) All of the above
6. Answer: (c) Letter of credit
7. Answer: (c) Shipping bill
8. Answer: (c) Global trade rules
9. Answer: (b) Trade enquiry
10. Answer: (c) Joint Ventures
11. Answer: (b) New Zealand
12. Answer: (b) Mate receipt
13. Answer: (d) Proforma invoice
14. Answer: (d) Bill of entry
15. Answer: (b) Letter of credit

Very Short Answers-

1. Answer: Licensing is the entry mode or a contractual arrangement when a domestic manufacturer gives the right to access to its trademark, technology, and trade secret to a manufacturer is a foreign land.

2. Answer: Cross-licensing is the agreement where the two companies jointly agree to share each other's trade secrets and technology.

3. Answer: The common points between licensing and franchising is that both can use brand names, patent, and copyrights.

4. Answer: The two documents required for import transaction are

- Commercial Invoice
- Airway/landing bill

5. Answer: Shipping bill refers to the documents required for the export of goods. Under the basis of this document, the customs officer gives permission to export the goods.

6. Answer: IEC number is defined as the Import Export Code number which is used to acquire an export license. This code is taken from the Directorate General Foreign Trade or Regional Import Export Licensing Authority.

7. Answer: The XYZ company will be known as a solely owned subsidiary of ABC company.

8. Answer: An importer's bank issues 'A letter of credit' a guarantee certificate that will

acknowledge payment up to a certain amount of export bills to the bank of the exporter.

9. Answer: C&F agent is defined as a clearing and forwarding agent who is involved in implementing services directly or indirectly, connected with the clearing and forwarding.

10. Answer: Bill of Landing refers to the list of shipped cargo in the form of receipt given by the head of the shipment to the individual heading the shipment.

Short Answers-

1. Ans: The difference between contract manufacturing and setting up wholly owned production subsidiary is as follows:

Basis	**Contract Manufacturing**	**Wholly Owned Production Subsidiary**
Meaning	A type of international business in which a company contracts with one or a few local manufacturers in another country to have particular components or commodities manufactured according to its specifications.	Companies that seek complete control over their abroad operations use this way of international company entry.
Control	Because things are created completely according to the terms and standards, local businesses lose control over the manufacturing process.	Take complete control of the company's operations.
Investment and Risk	If there is no investment, there is no risk.	It is not ideal for small and medium-sized businesses that do not have the finances to invest abroad. And it is responsible for all losses incurred as a result of its international businesses failing.

2. Ans: Licensing is defined as a contractual arrangement in which one firm (licensor) grants access to its patents, copyrights, trademarks, or technology to another firm in a foreign country for a fee called royalty.

Limitations

- The major risk is that the licensee can start marketing an identical product under a slightly different brand name. If not taken care of, the trade secrets can be passed on to the foreign markets.

- Conflicts over maintenance of accounts, payments of royalty, and non-adherence to norms relating to production of quality products.

3. Ans: Objectives of WTO are as follows:

Objectives

- To ensure that tariffs and other trade barriers imposed by different countries are reduced.
- To engage in activities that improve living standards, create jobs,
- Increase income and effective demand, and facilitate increased production and trade;
- To facilitate the most efficient use of the world's resources for sustainable development.
- To promote a more integrated, viable, and long lasting trade system.

Benefits

- Aids in the promotion of international peace and the facilitation of international trade.
- All member-nation conflicts are resolved by mutual talks.
- International trade and ties are made much easier and more predictable by rules.
- Free trade raises people's living standards by raising their income levels.
- Free trade allows for a wide range of high-quality products to be obtained.
- Because of free trade, economic growth has accelerated.
- The system promotes effective government.
- The World Trade Organization (WTO) aids in the development of poorer countries.

4. Ans: The explanations are:

- Bill of Lading: The shipping company issues a bill of lading after receiving the freight, which acts as proof that the goods have been accepted for transport to the specified destination. This document is referred to as an airway bill when goods are being shipped by air.
- Bill of Entry: The bill of entry is presented to the port authority by the importer or his representative. The port authority issues the release order after obtaining the relevant charges. It is prepared by a qualified custom clerk or broker, and is examined by the customs authorities for its accuracy and conformity with the tariff and regulation.
- Shipping advice: It is a commercial document which is issued by the exporter, who is the beneficiary of the letter of credit, in order to give shipment details to the importer who has applied for the letter of credit.

5. Ans: The difference between Internal trade and International trade is as follows:

Basis	International Trade	Internal Trade
Nationality of buyers and sellers	Buyers and sellers are from different countries.	The buyers and the sellers belong to the same country of business.
Nationality of stakeholders	Belong to different countries and have a wider set of values and aspirations.	Belong to one country and they have consistency in their value system and behaviour.
Mobility of factors production	Restricted mobility.	Free mobility.
Customer heterogeneity over the market	Difference in taste and preference does not induce complications in the task of designing products in the domestic market.	Difference in taste and preference does not induce any complication in the task of designing products in the domestic market.
Differences in business systems and practices.	Differences are considerably more among different countries.	Differences are less within the country.
Political systems and risks	In international business, the political environment differs from one country to another so the amount of risks is different.	The governing body within the country affects the domestic business.
Business regulations and policies	Business laws, regulations, and economic policies differ among different countries.	Business laws, regulations, and economic policies are less uniformly applicable within a country.
Currency used in business transactions	The price of one currency is expressed in relation to that of another country's currency. Thus, it keeps fluctuating.	No such problem is faced as only home currency is used.

6. Ans: Reason for international Business:

- Unequal Distribution of Natural Resources: Countries cannot manufacture the same level of quality and at the same cost. This is due to the unequal distribution of natural resources and differences in productivity levels among different geographical places.
- Varied Differences: There is a disparity between labour productivity and

manufacturing costs. Because of varied socioeconomic, geographical, and political factors, it varies in each country.

- Specialization Advantage: The principle of territorial division of labour can be applied internationally as well. Most developing countries with plenty of labour, for example, specialise in producing and exporting clothing.
- Price Differences: Firms also engage in the export and import of goods due to the difference in prices of products. They import cheaper things from other countries and export goods to other countries where they can fetch better prices for their products.

7. Ans: Benefits to India if it enters into a trade agreement with China are as follows:

- Foreign exchange: International business facilitates foreign exchange within a country that aids in the payment of imported goods expenses, hence India's foreign exchange would flourish with this trade agreement.
- Efficient use of resources: Every country is specialised in the production of goods and services, leading to efficient utilisation of resources.
- Growth: Exporting and flourishing in international trade helps in improving the economic growth of the country and creates opportunities for employment of people. Hence, India's growth prospects would increase as a result of trade agreement.
- Stability: It also helps in bringing stability in the prices of domestic products of India.
- Better living standards: Due to International business, people in India would be able to consume and enjoy a higher standard of living.

8. Ans: Prerequisites for getting an export license:

- Opening a bank account with any bank that has been approved by the Reserve Bank of India;
- Getting an Import Export Code (IEC) from the Directorate General of Foreign Trade (DGFT) or a Regional Import Export Licensing Authority;
- Creating an account with the right export promotion council.
- To protect against non-payment risks, you should register with the Export Credit and Guarantee Corporation (ECGC).
- A company must submit an exporter/importer profile, a bank receipt for the required fee, a certificate from the banker, two copies of photographs attested by the banker, details of non-resident interest, and a declaration about the application to obtain an IEC number to the Director General for Foreign Trade (DGFT).
- It is a legal requirement for all exporters to register with the proper export promotion council.
- To secure international payments from political and commercial interference, you must register with the ECGC.

9. Ans: (i) A mate receipt is a

- Receipt that is provided by the ship's commanding officer when the cargo is loaded on board.
- The receipt contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on.
- The port superintendent gives the C&F agent the mate's receipt after receiving the port dues.

(ii) A letter of credit is a guarantee issued by the importer's bank that it will honour payment of export invoices to the exporter's bank up to a specific amount. A letter of credit is asked from the importer to reduce the extent of risk. The importer should get the letter of credit from its bank and send it to the overseas supplier.

(iii) To avail the trade concessions and other benefits, the importer has to ask the exporter to send a certificate of origin. The certificate of origin issued by the importer acts as a proof that the goods are manufactured in the country from where the export is taking place.

10. Ans: For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as:

- Exporter/importer profile
- Bank receipt for requisite fee
- Certificate from the banker on the prescribed form
- Two banker-attested copies of photos
- Details of the non-resident interest
- Statement of the applicant's non-association with the businesses on the caution list

Long Answers-

1. Ans: One of the key achievements of GATT negotiations was the decision to set up a permanent institution for looking after the promotion of free and fair trade amongst nations. The GATT was transformed into the World Trade Organization (WTO) with effect from 1 January 1995. Its headquarters are in Geneva, Switzerland.

It regulates not just products but also services and intellectual property rights. It is, moreover, a member-driven rule-based organization in the sense that all the decisions are taken by the member governments on the basis of a general consensus. India is the founding member of the World Trade Organisation.

Objectives

- To ensure that tariffs and other trade barriers imposed by different countries are reduced.
- To engage in activities that improve living standards, create jobs,
- Increase income and effective demand, and facilitate increased production and trade;

- To facilitate the most efficient use of the world's resources for sustainable development.
- To promote a more integrated, viable, and long lasting trade system.

Functions

- Establishing a commonly accepted code of behaviour with the goal of reducing trade obstacles, such as tariffs, and eradicating discrimination in international trade relations by encouraging its member countries to come forward to the WTO to resolve their problems.
- Acting as a dispute resolution body.
- Ensuring that all of the Act's rules and regulations are obeyed.
- Holding consultations to improve understanding and cooperation in global economic policymaking.

2. Ans: Exporting/Importing: Exporting refers to sending of goods and services from the home country to a foreign country. Whereas, Importing is defined as the purchase of foreign products and bringing them into one's home country.

Wholly Owned Subsidiary: Those companies which want to exercise full control over their overseas operations, set up a wholly owned subsidiary in an overseas country.

Benefits of Exporting/Importing over Wholly Owned Subsidiary:

- Ease of entry: Exporting is the easiest way of gaining entry into international markets as compared with wholly-owned subsidiaries.
- Investment: Business firms are not required to invest that much time and money in exporting whereas in the case of wholly-owned subsidiaries, it is not suitable for small and medium size firms as they do not have enough funds with them to invest abroad.
- Risk: Because exporting and importing do not necessitate a large amount of foreign investment, the risk of foreign investment is negligible or very low. In the case of wholly owned subsidiaries, they face greater political risks and are responsible for all damages resulting from the failure of their international activities.
- Government Interference: There are high political risks in the case of wholly owned subsidiaries as against exporting.
- Profit/Loss Risk: 100% equity is invested in case of wholly owned subsidiaries, making it riskier in comparison to exporting/importing.
- Complexity: The degree of complexity is higher in case of wholly owned subsidiaries as compared to exporting/importing.

3. Ans: The Bretton Woods Conference led to the formation of the International Bank for Reconstruction and Development (IBRD), which is also referred to as the World Bank.

- The main goals were to aid in the reconstruction of Europe's war-torn economies and to aid in the development of the world's disadvantaged nations.
- After achieving success, it shifted its focus to the development of undeveloped countries.
- It realised that by investing more in these countries, particularly in social sectors such as health and education, it might help them achieve the requisite social and economic transformation.

Objectives and role of its affiliated agencies:

- The International Development Association (IDA): The International Development Association (IDA), an affiliate of the World Bank was established with the goal of providing loans on favourable terms and circumstances to countries with per capita incomes below a crucial level. IDA thus offers poor countries with interest-free long-term loans.
- The International Finance Corporation: The International Finance Corporation, or IFC, was established in 1956 as a separate legal body with the mission of providing financing to the private sector in developing countries. Despite being a World Bank affiliate, the IFC has its own funds and functions that are controlled independently.
- MIGA (Multinational Investment Guarantee Agency): MIGA, or the Multinational Investment Guarantee Agency, was founded in April 1988 with the goal of stimulating foreign direct investment in developing countries. It also provides advising services and insures investors against political and noncommercial hazards.

4. Ans: The IMF was established with the primary goal of developing an orderly international monetary system, which includes facilitating international payments and adjusting exchange rates between national currencies.

Objectives

- Facilitate the expansion of balanced international commerce and contribute to the promotion, maintenance of a high level of employment through the establishment of a permanent institution.
- Assist in the construction of a multilateral system of payments for current transactions between members to enhance exchange stability and preserve orderly exchange arrangements among member nations.

Functions

- Acting as a short-term credit institution.
- Providing machinery for the orderly adjustment of exchange rates Acting as a short-term credit institution.
- Provision of necessary facilities to ensure that the exchange rates are adjusted timely and orderly

- Acting as a repository for all member countries' currencies.
- Acting as a foreign currency and current transaction lending institution Determining the value of a country's currency and altering it.
- Providing machinery for international consultations.

5. Ans: (i) Mate receipt: It is a receipt provided by the ship's commanding officer when the cargo is loaded on board, and it contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on.

(ii) Bill of lading: After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.

(iii) Bill of exchange: When the bill of exchange is received, the importer either releases the money in the event of a sight draught or accepts the usance draught for payment on the bill of exchange's maturity date. The money is received by the exporter's bank via the importer's bank and credited to the exporter's account. By signing a letter of indemnity, the exporter might receive quick money from his or her bank upon submission of paperwork.

(iv) Shipping bill: It is the main document on the basis of which the customs office permits to export.The exporter prepares the shipping bill in order to gain custom clearance.

(v) Import order: This document is generated by the importer and contains the following information on the products imported: The import order includes information on the price, amount, size, grade, and quality of the items ordered, as well as packing, shipping, ports of shipment and destination, delivery date, insurance, and payment methods.

(vi) Import manifest: Imported items are unloaded from the container using this document:He supplies an import general manifest paper. An import general manifest is a document that contains information on the products being imported.

6. Ans: I would agree to set up a wholly-owned factory i.e. wholly-owned subsidiary in Bangkok for supplying customers in the South East area and the Middle East area.

Companies that desire complete control over their overseas activities prefer a wholly owned subsidiary as an entrance route into international company.

It can be determined in two ways:

- Setting up a new firm.
- Acquiring an already settled and established firm in the foreign country and further using it to manufacture as well as promote the products within the host country. This allows it to maintain complete control over the company's activities.

Benefits of doing business Internationally are:

- Cost of transportation from India will be reduced by setting up a production plant overseas.

- It will make the Manchadasmore closer and nearer to their overseas customers.
- Business firms can earn more profits by selling their products in countries with high pricing when local prices are lower.
- The company can exercise full control over its operations.
- Making use of excess production capacity in order to increase operational profitability.
- When demand in the home country dries up, the corporation might look to developing countries for expansion opportunities.
- When domestic market competition is fierce, internationalisation appears to be the only way to grow significantly.
- The desire to become more international stems from a want to expand, a desire to become more competitive, a desire to diversify, and a desire to reap the strategic benefits of internationalisation.

Case Study Answers-

1.

(i) d)Exporting the goods

Solution: Exports are goods and services that are produced in one country and sold to buyers in another. Exports, along with imports, make up international trade.

(ii) a)Trade Enquiry

Solution: Trade enquiry is essential in Import Trade as it enables the importer to mention all the details regarding the quantity of items needed. It is a written request regarding the price and the terms on which the exporter will be able to supply goods.

(iii) b)Prospects for growth

Solution: The definition of a prospect is an expected outcome or a likely customer. An example of prospect is a new client with whom a company is counting on signing a contract. The direction in which an object, such as a building, faces; an outlook. Something presented to the eye; a scene.

(iv) d)All of the above

Solution: Industrialization provides increased employment opportunities in small- and large-scale industries. In an industrial economy, industry absorbs underemployed and unemployed workers from the agricultural sector, thereby increasing the income of the community.

2.

(i) (b) International Business

Solution: International business refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale. It involves cross-border transactions of goods and services between two or more countries.

International business is also known as globalization.

(ii) b)Indent

Solution: Indent Order means an order placed with the Company by the Buyer whereby the Company, in order to satisfy that order, is required to specifically purchase goods or services from a third party because such goods or services are not usually stocked or provided by the Company.

(iii) c)Terms and conditions of trade

Solution: An inquiry is a request from the prospective buyer to keep him informed of the terms and conditions of sale. Any export inquiry has to be attended with promptness and meticulous care. It is desirable to send samples as they speak better about quality, which is the main criterion for selection of exporter.

(iv) a)Proforma Invoice

Solution: Proforma invoices are sent to buyers ahead of a shipment or delivery of goods or services. Most pro forma invoices provide the buyer with a precise sale price. A pro forma invoice requires only enough information to allow customs to determine the duties needed from a general examination of the included goods.