Chapter 11

International Business

VERY SHORT ANSWER TYPE QUESTIONS :

1. **Differentiate between International trade and international business?**

Solution:

Points of Comparison	International Trade	International Business
Definition/Meaning	It is the exchange of capital, goods and services across international borders.	It is the trade of goods, technology, services, knowledge and capital across national borders or on a global level between two or more countries.
Scope of Applicability	Narrow	Relatively wide

2. Discuss any three advantages of international business.

Solution:

The advantages of international business are listed below:

1. International business acts as a source of earning foreign exchange reserves for the nations, which can be utilised in importing technology, petroleum and capital goods.

2. International business helps the development of both importing and exporting countries.

3. It provides a platform for the countries and producers to sell their produce to a base of international consumers. In this way, it increases employment opportunities for the people of those nations.

3. What is the major reason underlying trade between nations?

The following reasons encourage trade between nations:

1. Each country is blessed with different types of natural resources which may not be available or very scarcely available in other nations. Trading helps to make such items available to all nations.

2. Having an abundance of a resource, a country becomes specialised in that particular resource and one that can be produced locally with the available resources.

3. The cost of production and the productivity of labour will vary among countries, so it is easier to export goods that can be produced in surplus with the available expertise and import goods that a nation won't be able to produce.

4. Why is it said that licensing is an easier way to expand globally?

Licensing is a comparatively easy way to expand globally due to the following reasons:

1. The amount of investment that needs to be made by the licensor is negligible hence it is a less expensive mode that can be adopted for entering international markets.

2. License is managed by the licensee, and thus there is less risk of government intervention in conducting operations.

3. Licensee will have good knowledge of the local market and hence will be helpful for the licensor to conduct marketing successfully.

5. Differentiate between contract manufacturing and setting up wholly owned production subsidiaries abroad.

Basis of Comparison	Contract Manufacturing	Wholly Owned Production Subsidiary
Meaning	In this system, a firm hires a local manufacturer in a foreign country to produce goods on a contractual basis according to its requirement.	In this system, the firm buys 100% equity in a foreign company and acquires full authority over its operations.

Level of Control	Limited control	Full control over operations
Investment	Investment is negligible	Maximum investment as the firm buys the whole company

6. Discuss the formalities involved in getting an export licence.

The following formalities are required in order to get an export license:

1. Opening a bank account with any bank that is authorised by the Reserve Bank of India and getting a registered account number.

2. Obtain an IEC (Import Export Code) from the DGFT (Directorate General for Foreign Trade) or the regional authority dealing with import-export licensing.

3. Get registered with the appropriate export promotion council and obtain a membership cum registration certificate.

4. Get registered with the ECGC (Export Credit and Guarantee Corporation) to protect itself from any type of payment risk.

7. Why is it necessary to get registered with an export promotion council?

Registering a firm with an export promotion council helps in the following ways:

1. For obtaining registration cum membership certificate

2. To reap the benefits available to the export firms by the government

3. The export promotion council will carry out promotional activities to create demand for domestic products in the international market.

4. Get support for promoting its products.

8. Why is it necessary for an export firm to go in for a pre-shipment inspection?

The pre-shipment inspection is necessary due to the following reasons:

1. It ensures that only good-quality items are exported.

2. Products get exported by a competent agency as chosen by the government.

3. Government has made it mandatory to check for export goods based on the Export Quality Control and Inspection Act 1963 and designated some agencies to carry out the task.

4. It is necessary to obtain an inspection certificate from the Export Inspection Agency for goods that are exported.

9. What is a bill of lading? How does it differ from the bill of entry?

A bill of lading differs from a bill of entry in its functionality, i.e. a bill of entry is a document that is supplied by customs and needs to be filled by the importer as soon as the goods are received. Meanwhile, a bill of lading is provided by the shipping company, and it is required at the time of the export transaction. A bill of entry contains details about the goods and the destination where it is going.

10. Explain the meaning of the mate's receipt

A receipt that is issued by the commanding officer of the ship at the time cargo is landed on board is called a mate's receipt. It contains the details about the vessel name, shipment date, package description, numbers and the condition of the cargo.

11. What is a letter of credit? Why does an exporter need this document?

A letter of credit is issued by the importer's bank, and it is a guarantee to honour the payment of export bills to the bank of the exporter up to a certain amount. It is important for the exporter to get this document as this ensures that the mode of payment is protected by security and hence is a secure way to settle transactions that are international in nature.

12. Discuss the process involved in securing payment for exports.

The following steps are involved in securing payment for exports:

1. The exporter informs the importer about the shipment once it has been shipped.

2. Exporter sends important documents such as bill of lading, invoice copy, insurance policy, and letter of credit. These items are required by the importer at the time of claiming the goods on arrival and getting clearance from customs.

3. These documents are sent through the exporter's bank along with an instruction that these should be delivered to an importer only when the importer accepts the bill of exchange.

4. The exporter bank receives the payment through the importer's bank, and the amount is credited to the exporter's account.

5. Immediate payment can also be received if the exporter submits the documents signing a letter of indemnity.

6. Once payment is received for exports, the exporter needs to obtain a certificate of payment from the bank. It contains all necessary documents stating that the export consignment has been presented to the import of payment and payment is received according to exchange control regulations.

LONG ANSWER TYPE QUESTIONS :

1. "International business is more than international trade"?

The following points will show how International business is more than international trade:

1. International business has a wider scope than international trade.

2. International trade consists of the import and export of goods and is an important part of international business, while international business encompasses many other departments.

3. International business includes services like travel, tourism, finance, banking, warehousing, insurance etc. It also consists of foreign investment and the production of goods and services overseas.

4. International trade is done on the basis of exporting goods, while international business is done by licensing, joint venture, wholly owned subsidiaries etc.

2. What benefits do firms derive by entering into international business?

Firms derive the following benefits by entering international business:

1. Firms can earn high profits by selling a product to international markets that have a low price in the domestic market than international market rates.

2. Better growth prospects for goods that are saturated in the domestic market.

3. By expanding to international markets, a firm can utilise its full capacity to produce goods and drive profits by taking advantage of economies of scale.

4. Businesses can beat the high domestic competition by exploring international markets.

5. Tap into long-term growth by expanding into international markets.

3. In what ways is exporting a better way of entering into international markets than setting up wholly owned subsidiaries abroad?

Exporting is considered a better option than setting up subsidiaries because of the following reasons:

1. Managing an export business is relatively easy as compared to managing wholly-owned subsidiaries.

2. It needs less investment as compared to subsidiaries

3. Exporting is less risky as no equity investment is required, whereas, in the case of subsidiaries, 100% equity is borne by the company. Hence, it is responsible for all the losses in case of failure.

4. Exporting has a lower degree of political risk as compared to wholly owned subsidiaries.

4. Rekha Garments has received an order to export 2000 men's trousers to Swift Imports Ltd., located in Australia. Discuss the procedure that Rekha Garments would need to go through to execute the export order.

Rekha Garments will have to follow the procedure given below to execute the export order:

1. Rekha must inquire about the importer's creditworthiness, in this case, Swift Imports Limited. She can also ask for a letter of credit to be provided by the importer's bank.

2. After conducting the check, she needs to register Rekha Garments to obtain an IEC so as to receive an export license.

3. Need to obtain the pre-shipment finance from the importer's bank so as to get raw material for production and packaging.

4. Prepare garments as per the specification of the importer. Start working after receiving pre-shipment finance from the bank.

5. Obtain a certificate of inspection from an export inspection agency or any similar authority.

6. Obtain excise clearance from the Excise Commissioner. Issue of clearance subjected to the satisfaction of the Excise Commissioner.

7. Obtain a certificate of origin which states the country where goods are produced.

8. Apply to a shipping company to get shipping space. All essential details, such as types of goods, port name and shipment date mentioned.

9. Goods get properly packed and labelled with all the essential information

10. Insure the goods against risks and obtain customs clearance.

11. Goods loaded into the ship and issued a mate’s receipt.

12. Issuing of the bill of lading on receipt of freight as a token of acceptance

13. After shipping goods, the exporter prepares an invoice, which includes the goods sent and the amount paid by the importer.

14. Exporter sends a set of documents to the banker that needs to be given to the importer on acceptance of the bill of exchange. On receiving it, Swift Imports will instruct its bank to transfer money to the exporter’s bank account.

15. The exporter collects a bank certificate of payment, producing the necessary documents and bill of exchange presented to the importer for payment, and the payment has been received according to exchange control regulations.

5. Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing.

Importing textile machinery from Canada requires the following procedures:

1. Importer should obtain IEC (Import Export Code) by applying to the Regional Import-export Licensing Authority. It is necessary to complete the import procedure.

2. Importer needs to obtain a Registration cum Membership Certificate (RCMC) which is issued by Import Promotional Council and Import Development Authority.

3. Importer needs to issue a letter of credit in favour of the exporter from the bank and instructs about documents that need to be collected from the exporter before making the payment.

4. Exporter ships goods as per the specifications communicated by the importer, and on reaching, the importer country ship captain informs the Dock Officer about imported goods and submits this to customs to obtain customs clearance.

5. Customs officer examines the bill of entry and passes it to the appraiser officer, who verifies the details and the bill is returned to the importer to collect customs duty.

6. Identify various organisations that have been set up in the country by the government to promote the country’s foreign trade?

The following organisations were set up to promote foreign trade:

1. Export Inspection Council: Established by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. Its aim is to promote exports through quality control and pre-shipment inspection.

2. Indian Institute of Foreign Trade: It was set up under Societies Registration Act in 1963, and it is an autonomous body which is responsible for managing the country's foreign trade. It provides training in international trade.

3. Indian Institute of Packaging: Setup in 1966 by the combined effort of the Ministry of Commerce, the Indian packaging industry and other allied industries. It serves the packaging needs of exporters and domestic manufacturers.

4. Department of Commerce: It is the apex body of the Ministry of Commerce that deals with the formulation of policies related to foreign trade and import-export policies.

5. Export Promotion Council: It is aimed at promoting exports of particular products and is registered under the Companies Act.

6. Indian Trade Promotion Organisation: Formed in 1992 under the Companies Act, 1956. It maintains close interactions among traders, government and industry and organises trade fairs involving domestic and international goods.

7. What is IMF? Discuss its various objectives and functions.

IMF, or International Monetary Fund, was established in 1945, and it is headquartered in Washington, DC. The purpose of setting up IMF was to set up a system of the orderly monetary system. Its aim is to facilitate a system of international payments and checking adjustments in exchange rates for all currencies.

Objectives

1. Promoting International Monetary Cooperation among member countries.

2. Promoting the growth of employment and income and also promoting balanced growth of international trade.

3. Promoting exchange stability so as to maintain orderly exchange arrangements among member countries.

4. Facilitating international payments among member countries.

Functions

1. Providing short-term credit to member countries.

2. To determine the value of a country's currency and alter it to bring an orderly arrangement among member countries.

3. Maintain exchange rate stability.

4. Become a lending institution of foreign currency.

8. Write a detailed note on the features, structure, objectives and functioning of WTO.

WTO, or World Trade Organisation, was established in the year 1995. It was a successor to the GATT (General Agreement on Tariffs and Trade), based in Geneva. It deals with the trading of goods and services as well as Intellectual Property rights.

The features of WTO are as follows:

1. Trade of goods and services.

2. Decisions of WTO taken by member nations based on consensus.

The objectives of WTO are as follows:

1. Reducing tariff and non-tariff barriers imposed on the country.

2. Facilitates sustainable development by using optimum resources.

3. Improve the standard of living for members of foreign countries.

The functions of WTO are as follows:

1. Act as a dispute settlement body.

2. Provides an environment where member countries are encouraged to discuss their grievances.

3. Establishing a common code of conduct to eliminate trade discrimination.