International Business

INTERNATIONAL BUSINESS

❖ International Business

International business refers to the trade in goods and services along with the exchange of capital, technology, skills and patents that takes place across national boundaries.

❖ Scope of International Business

Component of international business	**Meaning**
Merchandise exports and imports	Trade in tangible commodities
Service exports and imports (invisible trade)	Trade in intangible commodities
Licensing and franchising	Allowing a foreign company to produce and sell goods using the logos and trademarks of the domestic company in return for a fee
Foreign investment	Investments that are made outside a country with the objective of earning returns

❖ International Trade

➢ Meaning

International trade refers to only the exchange of goods and services across the boundaries of countries.

➢ Characteristics of international trade

i. There must be ***an involvement of at least two countries*** between which the exchange of goods and services takes place.
ii. International trade involves ***payment being made and received in terms of foreign currency*.**
iii. It is usually a ***time-consuming process*** because of such factors as wide geographical distances, procedural formalities and barriers to trade.
iv. A large set of ***legal formalities and restrictions*,** such as import licence and export clearance, must be completed before international trade can begin.
v. International trade is exposed to ***various types of risks*,** such as risk of loss of goods during transit, fluctuations in prices of goods and fluctuations in the exchange rate.

❖ Differences between International Trade and International Business

Points of difference	***International trade***	***International business***
Definition	Refers to only the exchange of goods and services across the international boundaries of countries.	Refers to the trade of goods and services, along with the exchange of capital, technology, skills and patents, that takes place across national boundaries
Scope	Narrower	Wider (as it includes much more than international trade)
Implications	Involves the movement of finished goods and raw material as exports and imports across countries	Involves the movement of goods and services, emigration and immigration of human capital, and exchange of technology, technical know-how, copyrights and trademarks

➢ Internal trade
Internal trade refers to the trade in goods and services within the national boundaries of a country.

➢ Differences between internal and external trade

Basis of Difference	***Internal Trade***	***External Trade***
Meaning	Trade within the national boundaries of a country	Trade across the national boundaries of a country
Degree of mobility	High factor mobility within the country	Low factor mobility across national boundaries
Nature of market	Homogeneous	Heterogeneous

Regulations and policies	Subject to the rules, laws and taxation system of a single country	Subject to the rules, regulations and laws of the countries with which trading takes place
Currency used	Domestic currencies	Foreign currencies
Legal restrictions	Only national laws apply to internal trade	National as well as international laws apply to external trade
Mode of payment	Cash or cheque	Bill of exchange or through banks
Risk involved	Low	High

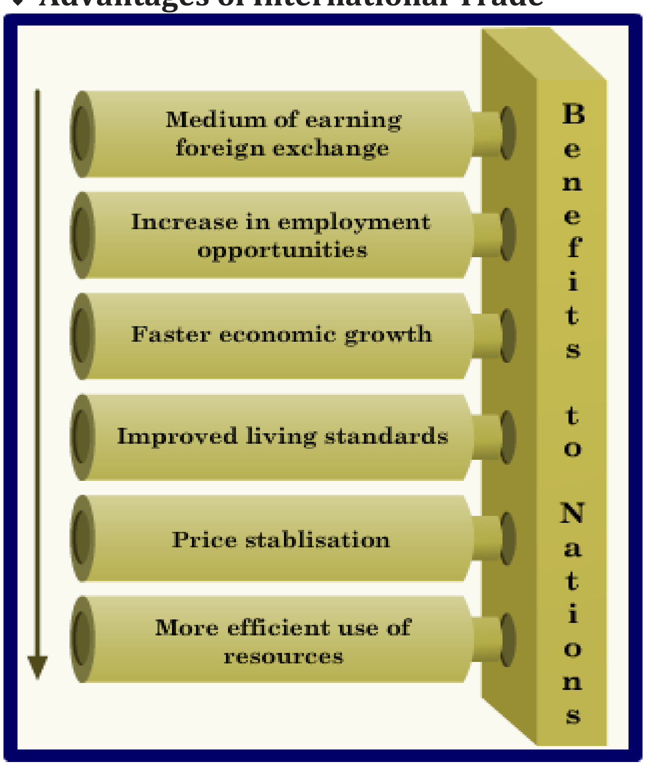
➢ ***Reasons why countries engage in trade with each other***

Countries engage in trade with each other ***because of the differences in the following factors.***

1. Endowment of resources
2. Availability of different factors of production
3. Productivity of the factors of production

Because of the differences in these factors, countries find it advantageous to produce only those goods and services that they can most effectively and efficiently produce, and obtain the rest at a lower cost through trade with other countries.

❖ Advantages of International Trade



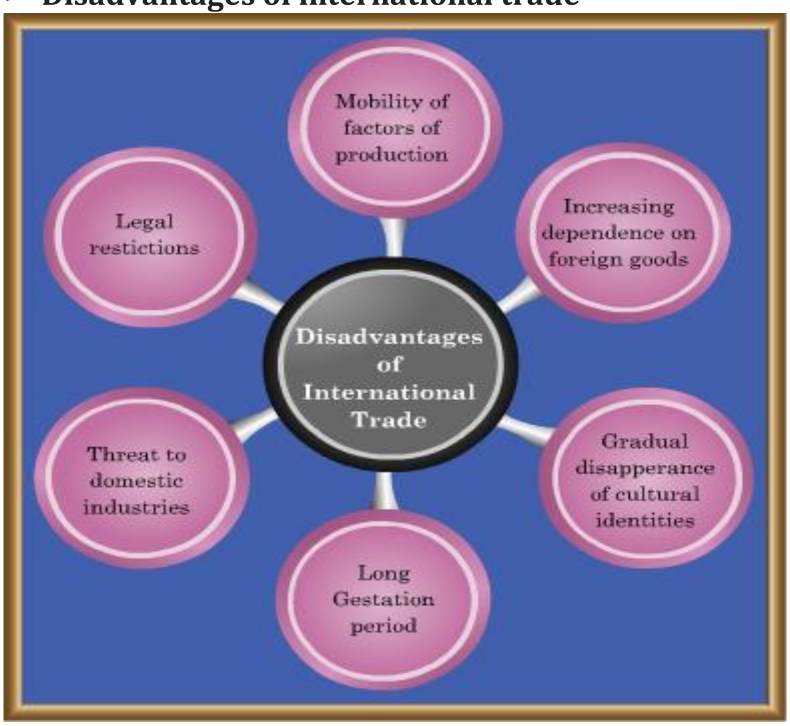
➢ ***Benefits to nation***

i. Acts as a **source of earning foreign exchange,** which can be used for imports
ii. ***Stimulates production operations*,** which in turn ***stimulates employment generation opportunities***
iii. ***Improves the prospects of growth by*** producing for international markets and for a wider consumer base
iv. Enables the availability of a wider variety of goods and services in the country, which in turn helps to ***improve the living standards of the people***
v. ***Helps in maintaining price stability*** through the adjustment of demand and supply
vi. ***Facilitates efficient use of resources*,** as international trade is based on the principle of comparative advantage (i.e., countries produce only those goods and services than can be produced most efficiently and effectively, and obtain the rest through trade with other countries)

➢ ***Benefits to firms***

i. ***Provides opportunities to earn greater profits*,** by taking advantage of the price differences between different countries
ii. ***Improves growth prospects*** by producing for a larger consumer base
iii. Enables large-scale production, which brings to firms the ***benefits of economies of scale and increased capacity utilisation***
iv. Serves as a ***strategy to avoid high domestic competition*** and earn greater profits
v. ***Fits into the modern business vision*** and provides an incentive to diversify products and to reap the benefits of trading overseas

➢ **Disadvantages of international trade**



i. Increases the ***dependence on foreign goods***
ii. Leads to ***the gradual disappearance of the individual cultural identities of nations***
iii. ***Can prove to be a time-consuming process*** because of such factors as wide geographical distances, procedural formalities and barriers to trade
iv. ***Can sometimes threaten domestic industries*****,** particularly infant industries, if the trade is unrestricted
v. ***Involves a large set of legal formalities*****,** such as import licence and export clearance, which must be completed before international trade can begin
vi. Faces ***lack of mobility of factors of production***

➢ **Problems of international trade**
i. The existence of ***different currencies*** in countries creates a hindrance in trade, as one country's currency cannot be used in other countries.
ii. International trade involves a host of ***legal formalities*****,** such as import licence and export clearance, that must be completed before international trade can begin.
iii. Because of large physical differences, there exist ***problems in transport*** of goods across borders.
iv. International trade can turn out to be a ***lengthy and time-consuming process*****.**
v. Because of long physical distances that exist between countries, there exists a ***time lag*** between the dispatch of goods and their delivery.
vi. International trade faces ***hindrances in the mobility of factors*** of production.

➢ **Price quotations in international trade**

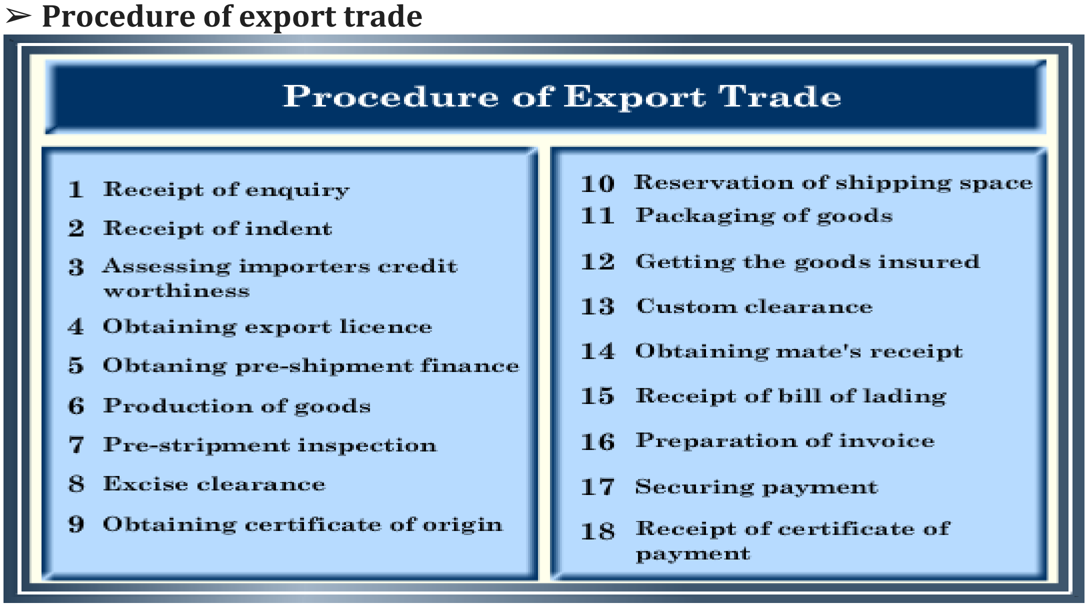
Type of quotation	**Meaning**
F.A.S. **(*Free Alongside Ship*)**	Cost of the goods and all the expenses involved in transporting the goods
F.O.B. **(*Free on Board*)**	All the expenses including shipment and loading costs till the goods are loaded on the carrier at the port of departure
C&F **(*Cost and Freight*)**	Cost incurred in transporting the goods to the port of destination (excluding insurance charges)
C.I.F. **(*Cost, Insurance, Freight*)**	C&F plus insurance charges

❖ **Export Trade**
➢ **Meaning**
Export trade refers to the selling of goods and services from the producer country (where the goods are produced or services are offered) to another country.

➢ **Objective**

i. ***To sell the surplus produce*** of a country, thereby enabling its effective utilisation
ii. To enhance ***mutual cooperation*** and ***understanding*** between countries.
iii. To stimulate production operations and, thereby, ***generate*** greater ***employment opportunities***
iv. To ***increase the national income*** by increasing production and employment in the country

➢ **Procedure of export trade**



i. ***Step 1: Receiving the enquiry from the importer*** asking for such information as price of goods, quality and conditions for exporting
ii. ***Step 2: Receiving the indent*** (i.e., order for goods) from the importer
iii. ***Step 3: Assessing the credit worthiness of the importer*** through a letter of credit from

the importer's bank, guaranteeing to honour a draft of a specified amount drawn on it by the exporter
iv. ***Step 4: Obtaining an export licence*** by registering with the authority concerned (Directorate General of Foreign Trade) and securing an Importer Exporter Code
v. ***Step 5: Obtaining pre-shipment finance*** from a bank in order to purchase raw materials so as to undertake production and packaging
vi. ***Step 6:*** Starting the ***production of goods***
vii. ***Step 7:*** Contacting the Export Inspection Agency (EIA) or another designated agency for the ***pre-shipment inspection***
viii. ***Step 8: Securing excise clearance*** by submitting an invoice to the Regional Excise Commissioner, who, if satisfied, would issue excise clearance to the exporter
ix. ***Step 9: Obtaining the certificate of origin*** that allows the importer to claim tariff concessions and other exemptions, if any
x. ***Step 10: Reserving shipping space*** in a vessel
xi. ***Step 11: Packaging and labelling of the goods*** with all the necessary information such as the importer's name, port of destination, and gross and net weight of the goods
xii. ***Step 12: Getting the goods insured*** against the perils of the sea or related risks
xiii. ***Step 13: Obtaining customs clearance*** from the customs house before loading the goods on the ship
xiv. ***Step 14: Obtaining the mate's receipt*, ** which provides such details as the name of the vessel and date of shipment. This serves as evidence that the cargo has been loaded on the ship.
xv. ***Step 15: Receiving the bill of lading*,** which serves as a token of acceptance that the goods have been put on board the vessel
xvi. ***Step 16: Preparation of the invoice*,** which contains such information as the quantity of goods sent and the amount to be paid by the importer
xvii. ***Step 17: Securing payment*** by submitting a set of documents to the banker, which is to be handed over to the importer on acceptance of a bill of exchange
xviii. ***Step 18: Receiving the certificate of payment*** specifying that the payment has been received in accordance with the exchange control regulations

➢ Documents related to export trade

Document	Details
Export invoice	Gives information such as the quantity of the goods, their total number and value, marks of packaging and the name of the ship
Packing list	Provides information related to the goods that are packed, such as the number of items packed in one package and details of the goods contained in one package
Certificate of origin	Specifies the country in which the goods being exported were

	produced (allows the importer to claim tariff concessions and exemptions)
Certificate of inspection	Provides proof that the goods being exported are of good quality
Mate's receipt	Is the receipt issued by the captain or commanding officer of a ship to an exporter as evidence that the exporter's cargo has been loaded on the ship
Shipping bill	Forms the basis for obtaining customs clearance
Bill of lading	Is an undertaking signed by the shipping company to transfer the goods to the port of destination
Airway bill	Is issued by an airline as a token of acceptance that the goods for export have been put on board its aircraft
Marine insurance policy	Is a contract by which the insurance company agrees to pay an exporter a specified amount in case of loss of goods or damage caused during transport by sea
Cart ticket / cart chit / gate pass	Provides information about the exporter's cargo
Letter of credit	Is issued by the bank of an importer guaranteeing to honour a draft of a specified amount drawn on it by the exporter
Bill of exchange	Indicates the amount to be paid by the importer to the bearer of the bill
Bank certificate of payment	Confirms that the necessary documents have been presented to the importer and that payment from the importer has been received

❖ **Import Trade**

➢ **Meaning**

Import trade refers to the purchase of goods from abroad.

➢ **Objective**

i. To improve the availability of a variety of goods to consumers, thereby enabling them to enjoy a ***higher standard of living***
ii. To help ***meet the consumer demand*** in the domestic market (the goods that are in demand but are not easily available in the market because f short supply can be imported from other countries)
iii. ***To help maintain price stability*** by filling the gap between demand and supply
iv. ***To speed up the production process*** by enabling the procurement of raw material from abroad

➢ **Procedure of import trade**

i. ***Step 1: Making the trade enquiry*** with the exporter regarding the price of the goods required and the terms and conditions on which the exporter is willing to supply the goods
ii. ***Step 2: Obtaining an import licence***

iii. ***Step 3: Obtaining foreign exchange*** to make payment to the exporter
iv. ***Step 4: Placing an order*** with the exporter specifying the price, quantity and quality of the goods required
v. ***Step 5: Obtaining a letter of credit*** from the bank and sending it to the exporter
vi. ***Step 6: Arranging for finance*** to make payment to the exporter on the arrival of the goods
vii. ***Step 7: Receiving shipment advice from the exporter*** (serves as proof of despatch of the goods)
viii. ***Step 8: Retirement of import documents*** that are to be handed over to the exporter's banker in exchange for the export documents
ix. ***Step 9: Obtaining*** **(*on the arrival of the goods*)** ***an import general manifest*** from the person in charge of the carrier (ship or airliner) in which the goods are being imported. It is on the basis of this document that unloading of the cargo will take place.
x. ***Step 10: Obtaining customs clearance and release of goods*** on presenting the delivery order, a port duty dues receipt and a bill of entry

➢ **Documents related to import**

Document	Detail
Trade enquiry	Is the document sent by an importer to an exporter, seeking information about the prices of goods and the terms and conditions for supply of goods
Pro forma invoice	Contains all the necessary information about the goods being imported and also the conditions on which the exporter will supply those goods
Import order	Refers to the order placed with the exporter stating the quantity of goods to be supplied and the expected time of delivery
Import licence	Refers to the licence issued by the government, permitting the importer to bring in goods from outside the country
Letter of credit	Is the document issued by the bank of the importer guaranteeing to honour a draft of a specified amount drawn on it by the exporter
Shipment advice	Refers to the document sent by the exporter to the importer as proof that the goods ordered have been shipped

Bill of lading	Is the undertaking signed by the shipping company to transfer the goods to the port of destination
Airway bill	Is issued by an airline as a token of acceptance that the goods have been put on board its aircraft
Bill of entry	Refers to the form given by the customs clearance, which is to be filled by the importer at the time of receiving the imported goods
Bill of exchange	Indicates the amount to be paid by the importer to the bearer of the bill
Sight draft	Instructs the bank of the exporter to hand over the documents to the importer only after the payment has been received
Usance draft	Instructs the bank of the exporter to hand over the documents to the importer after the bill of exchange has been received
Import general manifest	Is issued by the person in charge of the carrier (ship or airliner) in which the goods are being imported (on the basis of which the cargo will be unloaded)
Dock challan	Contains the dock charges that the importer must pay in order to get customs clearance

❖ **WTO**

➢ **Features of the WTO (World Trade Organization)**

i. ***Governs*** trade in goods, services and intellectual property rights among the member countries
ii. Is a **body *created* by an international treaty** with the approval of the governments and legislatures of the member countries
iii. Takes ***decisions by consensus*** with the governments of the member nations.

➢ **Structure of the WTO**

• ***On January 1, 1995, GATT*** **(*General Agreement on Tariffs and Trade*)** ***was transformed into the WTO*** to facilitate international trade among the member countries.
• The WTO is a ***permanent body created by an international treaty*** and represents the implementation of the original proposal to form the ITO (International Trade Organization).
• The WTO was made much more powerful than ***GATT,*** by removing tariff and non-tariff barriers between the member nations.

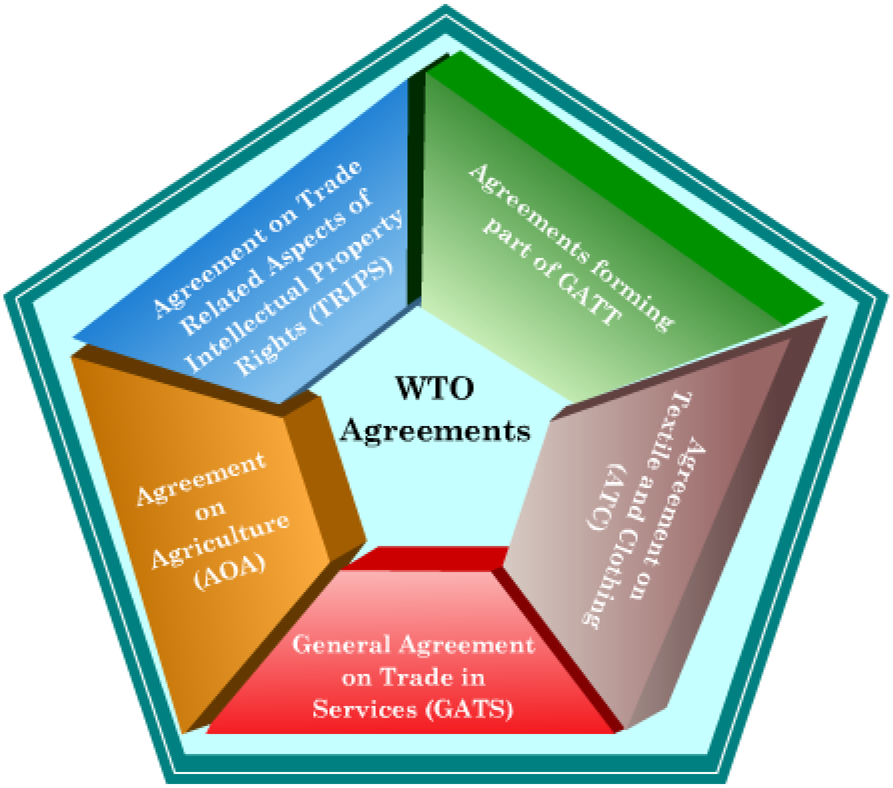
➢ **Objectives of the WTO**

i. To ***reduce tariff and other non-trade barriers*** imposed by different nations
ii. To ***ensure sustainable development*** by optimally using the world's resources
iii. To develop a more ***integrated, feasible and stable trading system***

➢ **Functions of the WTO**

i. Providing a ***platform to the member countries to put forward their grievances***
ii. ***Resolving trade disputes*** among member nations
iii. ***Eliminating discriminations in trade relations*** by laying down a commonly accepted code of conduct
iv. Creating ***better understanding between member countries*** by consulting with the IMF, World Bank and World Bank affiliates.
v. ***Ensuring strict adherence to the rules and regulations*** in the charter by all the member nations
vi. ***Regularly supervising the activities and operations of the revised Agreements and Ministerial Declarations*** regarding trade in goods, services and intellectual properties

➢ **WTO Agreements**



i. *Agreements Forming Part of GATT*: After a substantial modification in 1994, GATT (General Agreements on Tariffs and Trade) included a range of regulations on foreign trade that were to be binding on all the member nations.
ii. *Agreement on Textile and Clothing* (*ATC*): This agreement was signed to eliminate all the quota restrictions imposed by the developed countries on the export of textiles and clothing from the developing countries.
iii. *Agreement on Agriculture* (***AoA***): This pact was signed to ensure free and fair trade in agricultural produce.
iv. *General Agreement on Trade in Services* (*GATS*): This agreement lays down the rules and disciplines for the provision of services internationally.
v. *Agreement on Trade-Related Aspects of Intellectual Property Rights* (*TRIPS*): This agreement deals with the protection of seven intellectual properties, namely, copyright, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits and trade secrets.