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Exercises

Multiple Choice Questions

1. In which of the following modes of entry, does the domestic manufacturer give the right to use intellectual property such as patent and trademark to a manufacturer in a foreign country for a fee

(a) Licensing
(b) Contracted
(c) Joint venture
(d) None of these

► (a) Licensing

2. Outsourcing a part of or entire production and concentrating on marketing operations in international business is known as
(a) Licensing
(b) Franchising
(c) Contract manufacturing
(d) Joint venture

► (c) Contract manufacturing

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3. When two or more firms come together to create a new business entity that is legally separate and distinct from its parents is known as
(a) Contract manufacturing
(b) Franchising
(c) Joint ventures
(d) Licensing

► (c) Joint ventures

4. Which of the following is not an advantage of exporting?
(a) Easier way to enter into international markets
(b) Comparatively lower risks
(c) Limited presence in foreign markets

(d) Less investment requirements

► (c) Limited presence in foreign markets

5. Which one of the following modes of entry requires higher level of risks?
(a) Licensing
(b) Franchising
(c) Contract manufacturing
(d) Joint venture

► (d) Joint venture

6. Which one of the following modes of entry permits greatest degree of control over overseas operations?

(a) Licensing/franchising
(b) Wholly owned subsidiary
(c) Contract manufacturing
(d) Joint venture

► (b) Wholly owned subsidiary

7. Which one of the following modes of entry brings the firm closer to international markets?
(a) Licensing
(b) Franchising
(c) Contract manufacturing
(d) Joint venture

► (c) Contract manufacturing

8. Which one of the following is not amongst India's major export item?
(a) Textiles and garments
(b) Franchising
(c) Oil and petroleum products
(d) Basmati rice

► (b) Franchising

9. Which one of the following is not amongst India's major import items?
(a) Ayurvedic medicines
(b) oil and petroleum products
(c) Pearls and precious stones
(d) Machinery

► (a) Ayurvedic medicines

10. Which one of the following is not amongst India's major trading partner?
(a) USA
(b) UK
(c) Germany
(d) New Zealand

► (d) New Zealand

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Short Answer Questions

1. Differentiate between international trade and international business.

Answer

International trade	International business
International trade refers to the exchange of goods and services across the international boundaries of countries.	International business not only includes movement of capital, of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.
International trade means movements of goods only.	Business transaction that takes place between two or more countries is known as international business.
International trade is a narrow term.	International business is much broader than international trade.

2. Discuss any three advantages of international business.

Answer

Three advantages of international business are:

→ Earning of foreign exchange: International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

→ More efficient use of resources: International business allows a country to produce what a country can produce more efficiently and trade the surplus production so generated with other countries to procure what they can produce more efficiently.

→ Improving growth prospects and employment potentials: International business encourages many countries, especially the developing ones to produce on a larger scale which not only helps in improving their growth prospects, but also created opportunities for employment of people living in these countries.

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

Answer

The major reason underlying trade between nations are:
→ Unequal distribution of natural resources among different nations.
→ Availability of various factors of production such as labour, capital and raw materials that are required for producing different goods and services differ among nations.
→ Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons.

4. Discuss as to why nations trade.

Answer

The nations cannot produce equally well or cheaply all that they need because of the unequal distribution of natural resources and various other factors such as labour productivity and production costs.

Therefore, some countries are in an advantageous position in producing select goods and services which other countries cannot produce that effectively and efficiently, and vice-versa and procuring the rest through trade with other countries which the other countries can produce at lower costs.

5. Enumerate limitations of contract manufacturing.

Answer

The limitations of contract manufacturing are:

→ 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 profitability of local firm producing under contract manufacturing is low as it is not free to sell the contracted output as per its will. It has to sell the goods to the international company at prices agreed upon under the contract which may be lower than the open market prices.

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

Answer

Licensing is an easier way to expand globally because:

→ Under the licensing system, it is the licensor who sets up the business unit and invests his/her own money in the business and the licensor has to virtually make no investments abroad. Therefore, it is considered a less expensive mode of entering into international business.

→ Licensor is paid by the licensee by way of fees fixed in advance as a percentage of production or sales turnover and licensor does not bear risk of losses.

→ Since the business in the foreign country is managed by the licensee who is a local person, there are lower risks of business takeovers or government interventions.

→ Licensee being a local person has greater market knowledge and contacts which can prove quite helpful to the licensor in successfully conducting its marketing operations.

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

Answer

Contract manufacturing	Wholly owned production subsidiary
A firm enters into a contract with one or a few local manufacturers in foreign countries to get certain components or goods produced as per its specifications.	The parent company acquires full control over the foreign company by making 100 per cent investment in its equity capital.
The firm has limited control over the local manufacturer.	The parent company has full control over its operations in another country through the subsidiary.
There is no or little investment in the foreign countries	The parent company buys up the entire equity of the firm abroad and makes this firm its subsidiary.

8. Distinguish between licensing and franchising.

Answer

Licensing	Franchising
The licensor grants licence to a foreign company (licensee) to produce and sell goods under the licensor's logo and trademarks for a fee.	The franchiser grants a foreign firm (franchisee) the right to operate a business using a common brand name for an initial or a regular fee.
Operations are related to production and marketing of goods.	Operations are related to the services business.
Less stringent rules and regulations	Strict rules and regulations

9. List major items of India's exports.

Answer

The major items of India's exports are Tea, Basmati rice, Spices, Leather and leather products and Semi-precious stones.

10. What are the major items that are exported from India?

Answer

The major items that are exported from India are tea, pearls, precious and semi-precious stones,

medicinal and pharmaceutical products, rice, spices, iron ore and concentrates, leather and leather manufactures, textile yarns fabrics, garments and tobacco. It also holds the distinct position of being the largest exporter in the world in select commodities such as basmati rice, tea, and ayurvedic products.

11. List the major countries with whom India trades.

Answer

The major countries with whom India trades are USA, UK, Belgium, Germany, Japan, Switzerland, Hong Kong, UAE, China, Singapore and Malaysia.

Long Answer Questions

1. What is international business? How is it different from domestic business?

Answer

Manufacturing and trade beyond the boundaries of one's own country is known as international business. It involves not only the international movements of goods and services, but also of capital,

personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

It is different from domestic business in following ways:

Domestic business	International business
Trade within the national boundaries of a country.	Trade between two or more countries.
People or organisations from one nation participate	People or organisations of different countries participate
More homogeneous in nature.	Lack homogeneity due to differences in language, preferences, customs, etc., across markets.
It is subject to political system and risks of one single country.	It have different forms of political systems and different degrees of risks which often become a barrier to international business.
Subjected to rules, laws or taxation system of one country.	Subjected to rules, regulations and laws of many countries.
Currency of domestic country is used.	Transactions involve use of currencies of more than one country.

2. “International business is more than international trade”. Comment.

Answer

International trade comprises of exports and imports of goods and forms an important component of international business. But the scope of international business has substantially expanded. International trade in services such as international travel and tourism, transportation, communication, banking, ware-housing, distribution and advertising has considerably grown. The other equally important developments are increased foreign investments and overseas production of goods and services. Companies have started increasingly making investments into foreign countries and undertaking production of goods and services in foreign countries to come closer to foreign customers and serve them more effectively at lower costs. All these activities form part of international business. So, we can say that international business is a much broader term and is comprised of both the trade and production of goods and services across frontiers.

3. "What benefits do firms derive by entering into international trade". Comment.

Answer

There are many benefits that firms derive by entering into international trade:

→ Prospects for higher profits: International business can be more profitable than the domestic business as business firms can earn more profits by selling their products in countries where prices are high.

→ Increased capacity utilisation: Firms can make use of their surplus production capacities and also improving the profitability of their operations by going for overseas expansion and procuring orders from foreign customers. Production on a larger scale often leads to economies of scale, which in turn lowers production cost and improves per unit profit margin.

→ Prospects for growth:Once the market in the domestic country becomes saturated, it becomes difficult to grow the turnover. By entering into overseas markets, business firms can improve prospects of their growth.

→ Way out to intense competition in domestic market: If the competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth. International business thus acts as a catalyst of growth for firms facing tough market conditions on the domestic turf.

→ Improved business vision: The growth of international business of many companies is essentially a part of their business policies or strategic management. The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation.

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

Answer

The exporting is better way of entering into international markets than setting up wholly owned subsidiaries abroad in following ways:

→Exporting is less complex than setting up and wholly owned subsidiaries abroad.

→ Exporting involves lesser time and effort as business firms are not required to invest that much time and money as is needed when they set up manufacturing plants and facilities as wholly owned subsidiary in host countries.

→ Since exporting does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that in establishing wholly owned subsidiary.

5. Discuss briefly the factors that govern the choice of mode of entry into international business.

Answer

The factors that govern the choice of mode of entry into international business are:

→ Complexity:It is a major factor governing the choice of a mode of entry into international business. The level of complexity differs from one mode to another. For example: Starting an export and import business is less complex than setting up and managing joint-ventures or wholly owned subsidiaries abroad.

→ Risk factor: The risk involvement differ from one mode to another. For example: there is no or little risk involved in the contract manufacturing, exporting and licensing modes while the risk is comparatively higher in setting up a wholly owned subsidiary. Thus, companies needs and requirements play an important role in choosing risk factor.

→ Ownership and control: Some companies want to have full ownership and decision-making control over the foreign firm. Therefore, they choose wholly owned subsidiary mode to enter into international business. On the other hand, modes of entry into international business such as licensing and exporting do not offer ownership rights to the parent company.

→ Investment: It also have an important role while choosing various modes. If a company don't want to invest more amount of money then it can choose importing and exporting or for licensing a foreign company for entering into international business. One should also choose wholly owned subsidiary mode but the cost of setting up and managing is very high. Thus, the mode of entry preferred by a firm depends on its capacity and readiness to make an investment.

6. Discuss the major trends in India's foreign trade. Also list the major products that India trade with other countries.

Answer

India is now the 10th largest economy in the world and the fastest growing economy, next only to China. As per the Goldman Sach Report 2004, India is projected to be the second largest economy by 2050. Despite these features, India’s involvement with international business is not very impressive. India’s share in world trade in 2003 was abysmally low, just 0.8 per cent as compared to those of other developing countries such as China (5.9 per cent), Hong Kong (3.0 per cent), South Korea (2.6 per cent), Malaysia (1.3 per cent), Singapore (1.9 per cent), and Thailand (1.1 per cent).

→ Post liberalization, the share of foreign trade in the country's GDP (Gross Domestic Product) has grown from 14.6% in 1990-91 to 24.1% in 2003-04. Exports and imports have been increasing continuously since then.

→ India's total merchandise export was Rs. 606 crore in 1950-51. It has grown to Rs. 293, 367 crore in 2003-04. Thus, there has been an increase of 480 times in exports in the last five decades.

→ India's total import was Rs. 6.8 crore in 1950-51. It has grown to Rs. 359, 108 crore in 2003-03. This shows a growth of 590 times over the same period.

→ Although in overall terms India accounts for just 0.8 per cent of world exports, in many individual product items such as tea, pearls, precious and semi-precious stones, medicinal and pharmaceutical products, rice, spices, iron ore and concentrates, leather and leather manufactures, textile yarns fabrics, garments and tobacco, its share is much higher and ranges between 3 per cent to 13 per cent. Also it holds the distinct position of being the largest exporter in the world in select commodities such as basmati rice, tea, and ayurvedic products.

→ India mainly imported crude oil and petroleum products, capital goods (i.e., machinery), electronic goods, pearl, precious and semi-precious stones, gold, silver and chemicals

7. What is invisible trade? Discuss salient aspects of India’s trade in services.

Answer

Invisible trade basically refers to the trading of services because of the intangible aspect of services. Trade in services includes trade in tourism and travel, boarding and lodging, entertainment and recreation, transportation, professional services, communication, construction and engineering, marketing, educational and financial services.

India's trade in services has increased substantially over the years. Both the exports and imports of services relating to foreign travel, transportation and insurance have increased at a high rate during the last four decades. Software and other miscellaneous services (including professional technical and business services) have emerged as the main categories of India's exports of services. While the relative share of travel and transportation has declined from 64.3% in 1995-96 to 29.6% in 2003-2004, the share of software exports has gone up from 10.2% to around 49% in the corresponding period.

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Exercises

Multiple Choice Questions

1. Which of the following document are not required for obtaining an export license?
(a) IEC number
(b) Letter of credit
(c) Registration cum membership certificate
(d) Bank account number

► (b) Letter of credit

2. Which of the following documents is not required in connection with an import transaction?
(a) Bill of lading
(b) Shipping bill
(c) Certificate of origin
(d) Shipment advice

► (b) Shipping bill

3. Which of the following do not form part of duty drawback scheme?
(a) Refund of excise duties
(b) Refund of custom duties
(c) Refund of export duties
(d) Refund of income dock charges at the port of shipment

►(d) Refund of income dock charges at the port of shipment

4. Which of the following documents is not a document related to the fulfill the customs formalities?
(a) Shipping bill
(b) Export licence
(c) Letter of insurance
(d) Proforma invoice

► (b) Export licence

5. Which one of the following is not a part of export documents?
(a) Commercial invoice
(b) Certificate of origin
(c) Bill of entry
(d) Mate's receipt

► (c) Bill of entry

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

(a) Shipping receipt
(b) Mate receipt
(c) Cargo receipt
(d) Charter receipt

► (b) Mate receipt

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7. Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shippers name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo?
(a) Shipping bill
(b) Packaging list
(c) Mate's receipt
(d) Bill of exchange

► (a) Shipping bill

8. The document containing the guarantee of a bank to honour drafts drawn on it by an exporter is
(a) Letter of hypothetication
(b) Letter of credit
(c) Bill of lading
(d) Bill of exchange

► (b) Letter of credit

9. Which of the following does not belong to the World Bank group?
(a) IBRD
(b) IDA
(c) MIGA
(d) IMF

► (d) IMF

10. TRIP is one of the WTO agreements that deal with
(a) Trade in agriculture
(b) Trade in services
(c) Trade related investment measures
(d) None of these

► (d) None of these

Short Answer Questions

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

Answer

The formalities involved in getting an export license are:

→ Opening a bank account in any bank authorised by the Reserve Bank of India (RBI) and getting an account number.
→ Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.
→ Registering with appropriate export promotion council.
→ Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments.

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

Answer

It is necessary for firm to register with an export promotion council and obtain the registration-cum-membership certificate (RCMC). This enables the firm to take advantage of the benefits made available to export firms by the government. Export promotion councils carry out various promotional activities to create demand for domestically manufactured products in the international market. By joining appropriate export promotion council a firm can get support in the form of continuous promotion of its products.

3.What is IEC number?

Answer

IEC number stands for Importer Exporter Code number is an unique number granted by the Directorate General for Foreign Trade (DGFT) to an import/export firm depending upon the firm's credibility. It is needed to be filled in various export/import documents.

4. What is pre-shipment finance?

Answer

Pre-shipment finance is the finance that the exporter needs for procuring raw materials and other components, processing and packing of goods and transportation of goods to the port of shipment.

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

Answer

Pre-shipment inspection is a compulsory step for inspection of certain products by a competent agency as designated by the government. The government has passed Export Quality Control and

Inspection Act, 1963 for this purpose. and has authorised some agencies to act as inspection agencies. If the product to be exported comes under such a category, the exporter needs to contact the Export Inspection Agency (EIA) or the other designated agency for obtaining inspection certificate.

6. Discuss the procedure related to excise clearance of goods.

Answer

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. But in many cases the government exempts payment of excise duty or later on refunds the excise duty paid. This is done in order to encourage exports. The refund of excise duty is known as duty drawback.

7. Explain briefly the process of customs clearance of export goods.

Answer

The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the shipping bill that contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc. Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:

- Export order
- Letter of credit
- Commercial invoice
- Certificate of origin
- Certificate of inspection, if necessary
- Marine insurance policy

After submission of these documents the superintendent of the concerned port trust is approached for carting order and after obtaining it, the Cargo is physically moved into the port area and stored in shed.

8. What is bill of lading? How does it differ from bill of entry?

Answer

Bill of lading is a document wherein a shipping company gives its official receipt of the goods put on board its vessel and at the same time gives an undertaking to carry them to the port of destination.

It differ from bill of entry in following manner:

Bill of lading	Bill of entry
It is required at the time of an export transaction.	It is required at the time of an import transaction.
It is issued by the shipping company as a token of acceptance that the goods have been put on board in its vessel.	It is a form supplied by the customs office and filled by the importer once the goods are received.

9. What is shipping bill?

Answer

The shipping bill is the main document on the basis of which customs office grants permission for the export. It contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc.

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10. Explain the meaning of mate's receipt.

Answer

A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc.

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

Answer

A letter of credit is a guarantee issued by the importer’s bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter.

An exporter need this document as it is the most appropriate and secure method of payment adopted to settle international transactions.

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

Answer

After the shipment of goods, the exporter informs the importer about the shipment of goods. The exporter sends the documents like certified copy of invoice, bill of lading, packing list, etc. needed by the importer to claim the title of goods on their arrival at his/her country and getting them customs cleared. These documents are sent through exporter's banker with the instruction that these may be delivered to the importer after acceptance of the bill of exchange. The exporter's bank receives the payment through the importer's bank and is credited to the exporter's account. The exporter can get immediate payment from his/ her bank on the submission of documents by signing a letter of indemnity. After receiving the payment for exports, the exporter needs to get a bank certificate of payment which states that the necessary documents relating to the particular export consignment have been presented to the importer for payment and the payment has been received in accordance with the exchange control regulations.

13. Differentiate between the following

(i) Sight and usance drafts

(ii) Bill of lading and airway bill

(iii) Pre-shipment and post-shipment finance

Answer

(i) Sight and usance drafts

Sight drafts	Usance drafts
Documents are handed over to the importer once he or she agrees to sign the draft.	Documents are handed over to the importer after the acceptance of the bill of exchange.
Payment is made at the time of issuing the draft.	Payment is made on the expiry of a specified period.

(ii) Bill of lading and airway bill

Bill of lading	Airway bill
Issued by shipping companies.	Issued by airline companies.
Goods are sent by ship.	Goods are sent by air.

(iii) Pre-shipment and post-shipment finance

Pre-shipment finance	Post-shipment finance
Credit is obtained before the shipment of goods.	Credit is obtained after the shipment of goods.
Used for purchasing raw materials to undertake production activities, packaging of goods and transporting goods to the port of shipment.	Used for financing activities from the date of receiving credit till payment is received from the importer.

14. Explain the meaning of the following documents used in connection with import transactions
(i) trade enquiry (ii) Import licence (iii) Shipment of advice
(iv) Import general manifest (v) Bill of entry

Answer

(i) trade enquiry: A trade enquiry is a written request by the importer to the exporter for supply of information regarding the price and various terms and conditions on which the importer is ready to exports goods.

(ii) Import licence: It is a licence which permits the import of goods that cannot be imported freely. In India, for obtaining an import licence, an importer requires an IEC (Importer Expert Code) number, which is obtained after the importer's registration with the Directorate General for Foreign Trade (DGFT) or the Regional Import Export Licensing Authority.

(iii) Shipment of advice: The shipment advice is a document that the exporter sends to the importer informing him that the shipment of goods has been made. Shipment of advice contains invoice number, bill of lading/airways bill number and date, name of the vessel with date, the port of export, description of goods and quantity, band the date of sailing of the vessel.

(iv) Import general manifest: Import general manifest is a document that contains the details of the imported good. It is the document on the basis of which unloading of cargo takes place.

(v) Bill of entry: It is a form filled by the importer for assessment of custom import duty. It contains information such as the name and address of the importer, name of the ship in which the goods were transported and number of packages. The importer fills in the bill form and returns it to the customs office.

15. List out major affiliated bodies of the World Bank.

Answer

The major affiliated bodies of the world bank are:
- International Bank for Reconstruction and Development (IBRD)
- International Financial Corporation (IFC)
- International Development Association (IDA)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

16. Write short notes on the following
(i) UNCTAD
(ii) MIGA
(iii) World Bank
(iv) ITPO
(v) IMF

Answer

(i) UNCTAD: The United Nation Conference on Trade and Development was established in 1964 with the objective of integrating the developing countries with the world economy through discussions. It undertakes activities such as collecting research and data for policy making and extending technical assistance to the less developed countries as per their requirements.

(ii) MIGA: The Multinational Investment Guarantee Agency, or MIGA , was established in April 1988 with the objective of encouraging foreign direct investment in the less developed countries. It aims at insuring investors against political and non-commercial risks, providing advisory services, etc.

(iii) World Bank: It is earlier known as International Bank for Reconstruction and Development (IBRD) setup to assist the reconstruction of war -affected countries and to facilitate the development of the under-developed nations of the world. Now, the world bank turned its attention to the development of underdeveloped nations. Apart from investing in infrastructure development, agriculture, health and industry, the World Bank is significantly involved in programmes to remove poverty, increasing the income of the poor and providing technological support.

(iv) ITPO: Indian Trade Promotion Organisation was setup on 1st January 1992 under the Companies Act 1956. Its main objective is to maintain close interactions among traders, industry and the government. In order to fulfil this objective, the ITPO organises trade fairs and exhibitions within and outside the country, thereby helping export firms to interact with international trade bodies.

(v) IMF: International Monetary Fund (IMF) came into existence in 1945 has its headquarters located in Washington DC. It aims at facilitating a system of international payments and adjustments in exchange rates among national currencies in order to bring about balanced growth at the international level and increase the levels of employment and income.

Long Answer Questions

1. 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 for executing the export order.

Answer

Rekha Garments will have to do the following tasks in order to execute the export order:

→ After receiving receipt of order, they should first makes necessary enquiry about the creditworthiness of the importer, Swift Imports Ltd. They can also demand a letter of credit by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter to minimise credit risks.

→ Becoming assured about payments, it will need to register itself and secure an Importer Exporter Code number in order to obtain an export licence.

→ After obtaining licence, this company will need to obtain pre-shipment finance from the importer's bank in order to purchase raw materials to undertake production and packaging.

→ After obtaining the pre-shipment finance from the bank, Rekha garments proceeds to get the garments ready as per the specifications of the importer.

→ After the goods are ready, Rekha Garmets must get them inspected before exporting them. For this inspection, it must contact the Export Inspection Agency (EIA) or another designated agency for obtaining a certificate of inspection.

→ After clearing the pre-shipment inspection, it will have to obtain excise clearance from the relevant Excise Commissioner. The excise commissioner then examines the invoice and, if satisfied, issues the excise clearance to the exporter.

→ After excise clearance is received, Rekha Garments needs a certificate of origin, which specifies the country in which the goods are being produced. It allows the importer to claim tariff concessions and other exemptions, if any.

→ Now, Rekha garments applies to the shipping company for provision of shipping space. It has to specify the types of goods to be exported, probable date of shipment and destination, the port of destination. On acceptance of application for shipping, the shipping company issues a shipping order.

→ The goods are then properly packed and labelled with all the necessary information such as the importer's name, port of destination, and gross and net weight of the goods, port of shipment and destination, country of origin, etc.

→ After that, Rekha garments needs to get the consignment insured against the risks involved during sea voyage.

→ The goods must be cleared from the customs before loading the goods on the ship. For getting customs clearance, the exporter must submit the necessary documents to the customs appraiser at Customs House. For obtaining customs clearance, Rekha Garments would have to prepare the shipping bill. Five copies of the shipping bill along with the other required documents would then be submitted to the Customs Appraiser at the customs house.

→ The goods are then loaded on board the ship for which the mate or the captain of the ship issues mate's receipt to the port superintendent.

→ After the receipt of freight, the shipping company would issue a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.

→ After sending the goods, an invoice of the dispatched goods would be prepared which states the quantity of goods sent and the amount to be paid by the importer and would be presented to Swift Imports Ltd. for payment.

→ The exporter then needs to send a set of documents to the banker, which are to be handed over to the importer on acceptance of a bill of exchange. After receiving the bill of exchange, the importer, Swift Imports, will instruct its bank to transfer money to the exporter's bank account.

→ Lastly, Rekha garments would be required to collect a bank certificate of payment, which will state that the necessary documents, along with the bill of exchange, have been presented to the importer for payment, and that the payment has been received in accordance with the exchange control regulations.

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

Answer

To import textile machinery from Canada, the firm will have to do following procedure:

→ The importing firm will have to gather information about the price of the machinery, terms and conditions on which the selected Canadian exporter is willing to supply the goods. It should then send the trade enquiry to the exporter. After gathering information, the exporter will prepare a quotation called proforma invoice and send it to our firm.

→ The importer needs to consult the Export Import (EXIM) policy to know whether the goods that he or she wants to import are subject to import licensing. If needed, it must secure an import license.

→ The firm needs to obtain the IEC number. For this, the firm needs to contact Directorate General Foreign Trade (DGFT) or the relevant Regional Import Export Authority. The IEC (Import Export Code) number needs to be quoted in almost all the relevant documents.

→ The firm must then convert domestic currency into foreign currency to make payment to the exporter. This is done by submitting an application to a bank authorised by RBI to issue foreign exchange. in the prescribed form along with documents.

→ After obtaining the import licence, the importer places an import order or indent with the exporter for supply of the specified products containing information about the price, quantity, grade and quality of machinery and the instructions relating to packing, shipping, ports of shipment and destination, delivery schedule, insurance and mode of payment.

→ The importer also needs to obtain a letter of credit from its bank. The letter of credit needs to be sent to the exporter so that the exporter gets a guarantee of payment.

→ The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. This is necessary to avoid penalties on account of any delay in payment.

→ After loading the goods at the port, the exporter sends the shipment advice to the importer. The shipment advice contains various details; such as invoice number, bill of lading/airways bill, name of vessel with date, port of export, description of goods, date of sailing vessel, etc.

→ The importer must then prepare a bill of exchange that is to be handed over to the exporter's banker in exchange for the export documents. After this is done, the importer is required to instruct its bank to transfer money to the exporter's bank account.

→ Goods will be shipped by the overseas supplier as per the contract. The officer in charge at the dock will provide the document called import general manifest on the basis of which unloading of cargo will take place.

→ The importer needs to pay certain amount of custom duty. Custom clearance is a complicated procedure. Importers usually take the services of Carrying and Forwarding (C&F) Agent for getting custom clearance. Goods are released only after custom clearance.

3. Discuss the principal documents used in exporting.

Answer

The principal documents used in exporting are:

• Documents related to goods

→ Export invoice: It is a sellers' bill for merchandise and contains information about goods such as quantity, total value, number of packages, marks on packing, port of destination, name of ship, bill of lading number, terms of delivery and payments, etc.

→ Packing list: It is a statement of the number of cases or packs and the details of the goods contained in these packs. It gives details of the nature of goods which are being exported and the form in which these are being sent.

→ Certificate of origin: This is a certificate which specifies the country in which the goods being exported were produced. It allows the importer to claim tariff concessions and other exemptions.

→ Certificate of inspection: It is proof that the goods being exported are of good quality. The exporter contacts the Export Inspection Agency (EIA) or another designated agency and obtains the certificate of inspection after getting the goods inspected.

- Documents related to shipment

→ Mate’s receipt: This receipt is given by the commanding officer of the ship to the exporter after the cargo is loaded on the ship. It contains information of the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The shipping company does not issue the bill of lading unless it receives the mate’s receipt.

→ Shipping Bill: It is the main document on the basis of which customs office grants permission for the export. The shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter’s name and address, etc.

→ Bill of lading: It is a document wherein a shipping company gives its official receipt of the goods put on board its vessel and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

→ Airway Bill: It 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: It is a certificate of insurance contract under which the insurance company concerned, in return for a premium, agrees to pay an exporter a specified amount in case of loss of goods or damage caused during transport by sea.

→ Cart ticket: A cart ticket is also known as a cart chit, vehicle or gate pass. It is prepared by the exporter and includes details of the export cargo in terms of the shipper’s name, number of packages, shipping bill number, port of destination and the number of the vehicle carrying the cargo.

- Documents related to payment

→ Letter of credit: It is a guarantee issued by the importer’s bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. It is the most appropriate and secure method of payment adopted to settle international transactions

→ Bill of exchange: It is a written instrument whereby the person issuing the instrument directs the other party to pay a specified amount to a certain person or the bearer of the instrument. In the context of an export-import transaction, on receiving a bill of exchange, the importer instructs its bank to transfer the amount to the exporter's bank account.

→ Bank certificate of payment: It is a certificate that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

4. List and explain various incentives and schemes that the government has evolved for promoting the country's export.

Answer

The various incentives and schemes that the government has evolved for promoting the country's export are:

→ Duty drawback scheme: Since the goods are not produced for domestic consumption, they are entitled to get exemption from various excise and custom duties. If an exporting firm pays excise duty, then it is usually refunded to the exporter. This is called duty drawback scheme. If the exporter has paid some custom duty on import of raw materials and machinery, he can also get the refund of custom duties paid. This is called custom duty drawback.

→ Export manufacturing under bond scheme: This facility entitles a firm to produce goods without payemnt of excise and other duties. For availing this facility, the firm has to give an undertaking that it will export all its products and the products shall not be channelized into domestic market.

→ Exemptions from payment of sales tax: Goods meant for export purposes are not subject to sales tax. For a long time, incomes derived from export operations were exempt from income tax. Now this benefit is limited only to goods being produced in 100% Export Oriented Units (EOUs) and goods being produced in Export Processing Zones (EPZs) or Special Economic Zones (SEZs) for certain number of years.

→ Advance License Scheme: It is a scheme under which an exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. This facility is available both for regular exporters and intermittent exporters. A regular exporter can avail this benefit against his production plan.

→ Export Promotion Capital Goods Scheme (EPCG): This scheme allows export firms to

import capital goods at negligible or lower rates of customs duties subject to actual user condition and fulfilment of specified export obligations. This scheme helps the firms which may be interested in upgrading their manufacturing facilities.

→ Scheme of recognizing firms as export house, trading house and superstar trading house: This scheme encourages firms to export in ever larger quantities. Based on performance of a specified number of years, a firm can be recognized as export house, trading house and superstar trading house. These firms have to fulfill certain criteria as per the Export Import Policy of the government.

→ Export of Services: In order to boost the export of services, various categories of service houses have been recognized on the basis of the export performance of the service providers.

→ Export finance: Finance is made available at concessional rates of interest to the exporters. Pre-shipment finance is provided to an exporter for financing the purchase, processing, manufacturing or packaging of goods for export purpose. Post-shipment finance is provided to the exporter from the date of extending the credit after the shipment of goods to the export country.

→ Export Processing Zones (EPZs): These are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA). These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

→ 100% Export Oriented Units (100 per cent EOUs): The 100%. Export oriented units scheme was introduced in early 1981 adopting the same production regime as EPZs but a wider option in location. EOUs were established with a view to generating additional production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives.

5. Identify various organisations that have been set up in the country by the government for promoting country's foreign trade.

Answer

The various organisations that have been set up in the country by the government for promoting country's foreign trade are:

→ Department of Commerce: This department comes under the Ministry of Commerce, Government of India is the apex body responsible for formulating policies in the sphere of foreign trade, increasing commercial relations with other countries, state trading, export promotional measures and the development, and regulation of certain export oriented industries and commodities.

→ Export Promotion Councils (EPCs): These are non profit organisations registered under the Companies Act or the Societies Registration Act. The basic objective of the export promotion councils is to promote and develop the country's exports of particular products falling under their jurisdiction.

→ Commodity Boards:These are the boards which have been specially established by the Government of India for the development of production of traditional commodities and their exports. These boards are supplementary to the EPCs and functions are also similar.

→ Export Inspection Council of India: It was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection.

→ Indian Trade Promotion Organisation (ITPO): It was setup on 1st January 1992 under the

Companies Act 1956 by the Ministry of Commerce, Government of India. Its headquarter is at New Delhi. It is a service organization which serves the industry by organizing trade fairs and exhibitions within the country and abroad and helps export firms in participating in international trade fairs and in developing exports of new items.

→ Indian Institute of Foreign Trade (IIFT): It is an institution that was setup in 1963 by the Government of India as an autonomous body registered under the Societies Registration Act with the

prime objective of professionalising the country's foreign trade management. It provides training in international business, conducts research in related areas and analyses and disseminates data related to international trade and investment.

→ Indian Institute of Packaging (IIP): It was set up as a national institute jointly by the Ministry of Commerce, Government of India, and the Indian Packaging Industry and allied interests in 1966. It is a training-cum-research institute pertaining to packaging and testing and caters to both domestic and export markets. It also undertakes technical consultancy, testing services on packaging developments, training and educational programmes, promotional award contests, information services and other allied activities.

→ State Trading Organisations: The State Trading Organisation was set up in 1956. Its main objective is to stimulate trade; primarily export with various trading partners in the world. Many other trading organizations were also set up by the government; like Metals and Minerals Trading Corporation (MMTC), Handloom and Handicrafts Export Corporation (HHEC) etc.

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

Answer

The International Bank for Reconstruction and Development (IBRD), commonly known as World Bank is an international financial institution that was established in 1944 at the Bretton Woods Conference.The various objectives of world bank are:

→ To facilitate the task of reconstruction of the war-affected European countries
→ To focus on the development of underdeveloped nations of the world
→ To encourage investments in infrastructure development, agriculture, health and industry.
→ To eradicate poverty, increase the income of the poor and provide technological support.

The role of its affiliated agencies are:

→ International Development Association (IDA): It was set up in 1960 as an affiliate of the World Bank. It was established primarily to provide finance to the less developed member countries on a soft loan basis.

→ International Finance Corporation (IFC): It was established in July 1956 in order to provide finance to the private sector of developing countries. It is also an affiliate of the World Bank, but it has its own separate legal entity, funds and functions.

→ The Multinational Investment Guarantee Agency (MIGA): It was established in April 1988 with the objective of encouraging foreign direct investments in the less developed nations of the world. It also aims at insuring investors against political and non-commercial risks and providing advisory services.

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

Answer

International Monetary Fund (IMF) is the second international organisation next to the World Bank which came into existence in 1945 has its headquarters located in Washington DC. It aimed at facilitating a system of international payments and taking care of the adjustments in exchange rates among national currencies.

The various objectives of IMF are:

→ To promote international monetary cooperation through a permanent institution

→ To facilitate expansion of balanced growth of international trade and to contribute thereby to the

promotion and maintenance of high levels of employment and real income,

→ To promote exchange stability with a view to maintain orderly exchange arrangements among member countries

→ To assist in the establishment of a multilateral system of payments in respect of current transactions between members.

Functions of IMF are:

→ Providing short-term credit to member countries

→ Providing machinery for the orderly adjustment of exchange rates

→ Acting as a reservoir of the currencies of all the member countries, from which a borrower nation can borrow the currency of other nations

→ Acting as a lending institution of foreign currency and current transaction

→ Determining the value of a country's currency and altering it, if needed, so as to bring about an

orderly adjustment of exchange rates of member countries

→ Providing machinery for inter-national consultations.

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

Answer

Features of WTO are:

→ The GATT was transformed into World Trade Organisation (WTO) with effect from 1st January 1995.

→ The head quarters of WTO are situated at Geneva, Switzerland.

→ It governs trade in goods, services and intellectual property rights among the member countries.

→ It is a body created by an international treaty with the approval of the governments and legislatures of the member states.

→ The decisions of the WTO are made by the governments of the member nations on the basis of consensus.

Structure of WTO is:

→ WTO comprises of The Ministerial Conference, which is composed of international trade ministers from all member countries and is responsible for setting the strategic direction of the organization and making all final decisions on agreements under its wings. The Ministerial Conference meets at least once every two years.

→ The General Council is composed of senior representatives of all members responsible for overseeing the day-to-day business and management of the WTO.

→ The Trade Policy Review Body is also composed of all the WTO members. It periodically reviews the trade policies and practices of all member states.

→ The Dispute Settlement Body is also composed of all the WTO members and oversees the implementation and effectiveness of the dispute resolution process for all WTO agreements.
Council and are composed of all members. They provide a mechanism to oversee the details of the general and specific agreements on trade in goods and services.

→ The Secretariat and Director General undertakes the administrative functions of running all aspects of the organization. The Secretariat has no legal decision-making powers but provides vital services, and often advice, to those who do. The Secretariat is headed by the Director General, who is elected by the members.

→ The Committee on Trade and Development and Committee on Trade and Environment have specific mandates to focus on these relationships, which are especially relevant to how the WTO deals with sustainable development issues.

Objectives of WTO are:

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

→ To engage in such activities which improve the standards of living, create employment, increase
income and effective demand and facilitate higher production and trade

→ To facilitate the optimal use of the world's resources for sustainable development

→ To promote an integrated, more viable and durable trading system.

Functions of WTO are:

→ Promoting an environment that is encouraging to its member countries to come forward to WTO in mitigating their grievances.

→ Laying down a commonly accepted code of conduct with a view to reducing trade barriers including tariffs and eliminating discriminations in international trade relations.

→ Acting as a dispute settlement body.

→ Ensuring that all the rules and regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes.

→ Holding consultations with IMF and IBRD and its affiliated agencies so as to bring better understanding and cooperation in global economic policy making.

→ Supervising on a regular basis the operations of the revised Agreements and Ministerial declarations relating to goods, services and Trade Related Intellectual Property Rights (TRIPS).