RIP 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

**ANSWER:**

The TRIP (Trade Related Aspects of Intellectual Property Rights) agreement is a World Bank agreement that deals with trade-related aspects of intellectual property rights. It states the minimum standards of protection that must be adopted by parties dealing in intellectual properties regarding copyrights, trademarks, geographical indication, industrial designs, patents, etc. Thus, it is not related to trade in agriculture, trade in services or trade-related investment.

Hence, the correct answer is option (d).

**Question 1:**

Differentiate between International trade and International business.

**ANSWER:**

|  |  |  |
| --- | --- | --- |
| ***Points of difference*** | ***International trade*** | ***International business*** |
| Definition | International trade refers to the exchange of goods and services across the international boundaries of countries. | International business includes movement of capital, personnel, technology and intellectual property such as trademarks, know-how and copyrights, ***besides*** international trade. |
| Scope | Narrower | Wider (as it includes much more than international trade) |
| Implications | International trade involves the movement of finished goods and raw material as exports and imports across countries. | International business involves the movement of goods and services, emigration and immigration of human capital, and exchange of technology, technical know-how, copyrights and trademarks. |

**Question 2:**

Discuss any three advantages of international business.

**ANSWER:**

The following are the advantages of international business.

**(a)** ***Medium for earning foreign exchange***: By facilitating the exchange of goods and services in the international market, international business acts as a medium for acquiring sufficient foreign exchange reserves for nations. This in turn enables them to import goods that may not be available domestically—for example, technology, capital goods and petroleum products.

**(b)** ***Tool for******speeding up******economic growth***: As international business provides a big platform to countries and local producers to cater to the needs of an international consumer base, it helps in promoting their growth prospects. It also helps in increasing employment opportunities for the people living in these countries.

**(c)*Means of improving living standards:*** International business facilitates the consumption of goods and services that are produced in other countries. This in turn helps the people living in the importing countries to enjoy a higher standard of living and facilitates the growth and development of the exporting countrie

**Question 3:**

What is the major reason underlying trade between nations?

**ANSWER:**

The following are the important reasons that encourage nations to engage in trade.

**(a)** ***Difference in resource endowment***: Every country is endowed with different kinds and combinations of resources. Thus, in order to obtain the resources which are not domestically available but are available in other countries, nations trade with one another.

**(b)** ***Aim of attaining specialisation***: Because of the availability of distinct resources, culture, labour force and technical know-how, every country has a specialisation in particular types of products. Thus, countries trade with an aim of attaining specialisation in the goods in which they have a superior technical know-how or the goods that can be produced only with the domestically available specific resources which are not available in other countries.

**(c)** ***Difference in labour productivity and production cost***: Production costs and labour productivity differ from one country to another. Thus, countries export the goods which they can produce efficiently at a low production cost. On the other hand, they import the goods which they are not able to produce efficiently at a lower cost

**Question 4:**

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

**ANSWER:**

The following are the important reasons put forward in favour of licensing as an easier way for a company to expand globally.

**(a)** ***Less expensive***: The licensor need not make huge investments abroad, and thus it is a relatively less expensive mode of entering into international markets.

**(b)** ***Lesser risk of government intervention***: The business in the overseas market is managed by the licensee, who is a local person. Thus, licensing involves lesser risk of government intervention in the operations.

**(c)** ***Better knowledge and contacts***: As the licensee is a local person, he or she has a better knowledge of the market conditions in his or her country than the licensor. This in turn helps the licensor to conduct the market operations smoothly and expand globally.

**Question 5:**

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

**ANSWER:**

|  |  |  |
| --- | --- | --- |
| ***Basis of difference*** | ***Contract manufacturing*** | ***Wholly owned production subsidiary*** |
| Meaning | A firm hires a local manufacturer in another country on a contractual basis to produce goods as per its requirements. | The parent company buys equity in a firm in another country and acquires full control over it. |
| Control | The firm has limited control over the local manufacturer. | The parent company has full control over its operations in another country through the subsidiary. |
| Investment | Negligible investment is made abroad. | The parent company buys up the entire equity of the firm abroad and makes this firm its subsidiary. |

**Question 6:**

Discuss the formalities involved in getting an export licence.

**ANSWER:**

Before exporting goods, it is mandatory for exporters and export firms to fulfill the legal formalities, including securing an export licence. The following are the formalities to obtain an export licence.

**(a)** ***Bank account number:*** An exporter must open an account in a bank authorised by the Reserve Bank of India and get an account number.

**(b)** ***IEC code:*** An export firm must obtain an IEC (Importer Exporter Code) from the Directorate General for Foreign Trade (DGFT) or the Regional Import Export Licensing Authority by submitting documents such as the exporter’s profile, prescribed certificates, two attested photographs and details of non-resident interest.

**(c)** ***Registration-cum-membership certificate:*** An export firm should get itself registered with the appropriate export promotion council, such as the Engineering Export Promotion Council (EEPC) and the Apparel Export Promotion Council (AEPC), and obtain a registration-cum-membership certificate (RCMC).

**(d)** ***Registration with ECGC:*** An export firm must also get itself registered with the ECGC (Export Credit and Guarantee Corporation) in order to protect itself from any uncertainties in payments brought upon by political or commercial risks

**Question 7:**

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

**ANSWER:**

If a firm wants to export goods, then it must first obtain an export licence. In order to obtain an export licence, the firm is required to register itself with the appropriate export promotion council, such as the Engineering Export Promotion Council (EEPC) and the Apparel Export Promotion Council (AEPC). Such councils are set up by the government for promoting the export of various goods falling under their purview. Once the registration is complete, the firm obtains the registration-cum-membership certificate (RCMC). This in turn enables it to take advantage of the benefits made available to export firms by the government. Thus, it is necessary for export firms to register themselves with an export promotion council.

**Question 8:**

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

**ANSWER:**

Pre-shipment inspection refers to the inspection of goods before their final shipment in order to ensure that only quality goods are exported. The government has initiated measures such as compulsory inspection of certain goods by promulgating the Export Quality and Inspection Act, 1963, and designating various agencies to undertake inspection. Exporters are required to contact the Export Inspection Agency (EIA) or another designated agency and obtain an inspection certificate after getting the goods checked. However, in the case of goods exported by star trading houses, export houses, 100 per cent export-oriented units and industrial units set up in export processing zones (EPZs) or special economic zones (SEZs), no such inspection is requir

**Question 9:**

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

**ANSWER:**

A bill of lading is an essential document required at the time of an export transaction. It is issued by the shipping company as a token of acceptance that the goods have been put on board in its vessel. A bill of lading is an undertaking from the shipping company to transfer the goods to the port of destination. Bills of lading are freely transferable.

In contrast, a bill of entry is required at the time of an import transaction. It is a form supplied by the customs office and filled by the importer once the goods are received. A bill of entry is submitted at the customs office with information such as the name and address of the importer, name of the ship in which the goods were transported, number of packages, marks on the package, description of imported goods, quantity and value of the imported goods, name and address of the exporter, port of destination and customs duty payable.

**Question 10:**

Explain the meaning of mate's receipt.

**ANSWER:**

A mate’s receipt is issued by the captain or commanding officer of a ship to an exporter. This receipt acts as evidence that the exporter’s cargo has been loaded on the ship. It contains information such as the name of the vessel, berth, date of shipment, condition of the cargo when it was loaded, description of the packages of the cargo, number of packages and marks on the packages. Once the port dues are received, the port superintendent gives the mate’s receipt to the C&F agent concerned. It is only after the mate’s receipt has been obtained that the shipping company will issue the bill of lading.

**Question 11:**

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

**ANSWER:**

A letter of credit is issued by the bank of an importer guaranteeing to honour a draft of a certain amount drawn on it by the exporter. It is an important document because, in international transactions, there is always a risk of the importer defaulting on payment once the goods are received. Thus, to minimise the risk of such defaults, the exporter often demands a letter of credit. A letter of credit enables the exporter to assess the creditworthiness of the importer. It is the most appropriate and secure method of payment for settling an international transaction.

**Question 12:**

Discuss the process involved in securing payment for exports.

**ANSWER:**

Once the goods for export are shipped, the importer is informed about the shipment by the exporter. However, to claim the title of the goods, the importer is required to submit various documents, such as a copy of the invoice, bill of lading, packaging list, insurance policy, certificate of origin and letter of credit. These documents are sent by the exporter and provided by the exporter’s bank only when the bill of exchange has been signed and accepted by the importer. The bill of exchange states the amount that the importer must pay to the bearer of the bill. Once the bill is received and accepted, the importer’s bank is instructed by the importer to transfer money to the exporter’s bank account.

In case the exporter wants immediate payment from his or her bank even if the payment has not been released by the importer, then he or she can secure payment by signing a letter of indemnity. This letter acts as an undertaking that the exporter will indemnify the bank, along with the accrued interest, in case of non-payment by the importer.

Last, when the exporter receives the payment from the bank, he or she obtains a bank certificate of payment. This certificate states 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.

**Question 1:**

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

**ANSWER:**

International business refers to the business transactions that take place across national boundaries. It encompasses all international activities including manufacturing and movement of goods, services, capital, personnel and intellectual property. On the other hand, international trade is an activity that is confined to just import and export of goods. It is itself a small part of international business. Therefore, we can say that international business is much bigger than international trade.

The following are some of the major operations that are a part of international business and help in distinguishing it from the international trade.

**(a)** ***Import and export of services***: Trading of services isanimportant constituent of international business. Services that are a part of international business include travel and tourism, entertainment, communication, transportation, construction, advertising, R&D and banking.

**(b)*Licensing and franchising***: International business includes activities related to licensing and franchising. Under licensing, a foreign firm is granted intellectual property rights by a home company, so that the firm abroad can produce and sell goods under the home company’s trademarks, patents or copyrights in exchange of a fee. Similarly, under franchising, a home country grants a foreign firm the right to produce and sell goods under a common brand name using the same operations support system in exchange of a fee.

**(c)** ***Foreign investment***: It refers to the funds that are invested abroad for some returns. It is an important part of international business and involves two components, as follows.

(i) *Direct investmen*t: It refers to an investment made directly in the plants and machinery of a foreign company so as to undertake production by acquiring controlling rights.

(ii). *Portfolio investment:* It refers to an investment made in securities or by providing loans to a foreign company with an objective of earning profits in the form of dividends or interests on loa

**Question 2:**

What benefits do firms derive by entering into international business?

**ANSWER:**

The following are some of the benefits that firms enjoy by entering into international business.

**(a)** ***Higher profits***: International business allows firms to earn higher profits by taking advantage of the price differences prevailing between countries. For instance, if the price of a commodity in the domestic market is lower than that prevailing in international markets, a firm can benefit by selling the commodity in international markets.

**(b)*Growth prospects:***Often,firms face a saturated domestic demand. In such cases, international trade provides a platform to them to increase their consumer base by opening up the route to overseas markets. This increases their growth prospects.

**(c)*Higher capacity utilisation***: Sometimes, the production capacity of a firm may exceed the demand for its product in the domestic market. Therefore, in such cases, trading in international markets helps in utilising its capacity fully (by serving a larger consumer base). This in turn helps the firm to improve the profitability of its operations and benefit from the economies of scale by lowering production costs and increasing the per unit profit margin.

**(d)** ***Method to escape high domestic competition***: International trading allows firms to escape the stiff competition in domestic markets. If domestic traders face high competition in domestic markets, they can turn towards international markets to sell their products and earn higher profits.

**(e)** ***Enhanced business perceptions:*** Every business firm strives to achieve long-term growth and expansion. This objective is aligned with the objective of stepping into international markets. Hence, companies aim at diversifying their products to enter into foreign markets to reap the benefits of overseas trading, and also to achieve growth

**Question 3:**

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

**ANSWER:**

Exporting refers to the process of selling goods and services to companies in other countries as per their requirements. It involves the movement of goods by air or sea from the home country (where the goods are produced) to other countries (which import these goods). On the other hand, a wholly owned subsidiary is a firm in which a parent company makes an equity investment to acquire full control over it. Despite the fact that a parent company has full control over a wholly owned subsidiary abroad, the exporting model is a better way of entering into international markets. This is because of the following factors.

**(a)** ***Lesser complexities involved***: Compared with setting up a wholly owned subsidiary, exporting is a much easier way of entering into international markets. This is because export management is a much simpler and easier process without complexities. On the other hand, the management of a wholly owned subsidiary is a complex and rigorous task.

**(b)** ***Less investment required***: The amount of time and money required to be invested in an export business is less than that in a wholly owned subsidiary. This is because subsidiaries involve setting up manufacturing plants and starting operations in other countries, which require large amounts of money and effort. Thus, export is a favourable mode of entering into international markets.

**(c)** ***Less exposure to risks and losses***: As exporting requires a smaller investment, the risk involved is negligible. On the other hand, in the case of a wholly owned subsidiary in another country, the parent company owns 100 per cent share, and thus, it bears the entire risk in case of failure of the subsidiary. Hence, exporting is said to be a better mode of entering into international market

**Question 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 for executing the export order.

**ANSWER:**

Rekha Garments will have to following the procedure given below to execute the export order.

**(a)**As the exporter, it should first assess the creditworthiness of the importer, Swift Imports, through an enquiry. It should then ask for a letter of credit from the importer’s bank, guaranteeing to honour a draft of a specified amount drawn on it by the exporter.

**(b)** Once Rekha Garments is assured that it will be paid for the goods, it will need to register itself and secure an Importer Exporter Code number in order to obtain an export licence.

**(c)** After obtaining the licence, it should acquire pre-shipment finance from a bank in order to purchase raw materials to undertake production and packaging.

**(d)** With the finance made available, Rekha Garments can procure the raw materials and other inputs required and start the production process.

**(e)** After the goods are produced, Rekha Garmets must get them inspected before exporting them. For this inspection, it must contact the Export Inspection Agency (EIA) or another designated agency and obtain a certificate of inspection.

**(f)** The exporter then needs to secure excise clearance, for which it must submit an invoice to the regional excise commissioner. The excise commissioner then examines the invoice and, if satisfied, issues the excise clearance to the exporter.

**(g)** Once the 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.

**(h)** The next step is for the exporter to submit an application to a shipping company for booking shipping space in a vessel. In the application, it must provide details such as the type of goods to be shipped and the port of destination. After the application is received, the shipping company will issue a shipping order to the captain of its ship to inform him or her that the specified goods will be received on board after the customs clearance.

**(i)**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.

**(j)** Once the goods are ready for export, Rekha Garments must insure the goods against perils of the sea or any related damage.

**(k)** It must then secure customs clearance 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.

**(l)** After customs clearance, a mate’s receipt will be issued by the captain or commanding officer of the ship to the exporter as evidence that the cargo has been loaded on the ship.

**(m)** Later, a bill of lading will have to be obtained from the shipping company as a token of acceptance that the goods have been put on board in its vessel.

**(n**) After the goods are shipped, an invoice will have to be prepared by the exporter, which will include the quantity of goods sent and the amount to be paid by the importer.

**(o)** 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.

**(p)** Last, the exporter 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.

**Question 5:**

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

**ANSWER:**

In order to import textile machinery from Canada, the firm will have to take the following steps.

**(a)**The firm (the importer) should first make an enquiry about the price of the machinery, terms and conditions on which the selected Canadian exporter is willing to supply the goods and such related information. It should then send the trade enquiry to the exporter. On receipt of the trade enquiry, the exporter will prepare a quotation and send it to the importer.

**(b)**The importer must find out whether the goods to be imported are subject to import licensing. If needed, it must secure an import license.

**(c)**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 in the prescribed form along with documents.

**(d)**Oncethe import licence is obtained, the importer can place an order with the exporter specifying the price, quantity and quality of the goods required.

**(e)**The importer will be required to send a letter of credit to the Canadian exporter. This letter is obtained from the importer’s bank and acts as a bank guarantee that a draft of a specified amount drawn on it by the exporter will be honoured.

**(f)**The next step is for the importer to arrange for finance in order to make payment to the exporter on the arrival of the goods. This is necessary to avoid penalties on account of any delay in payment.

**(g)**Once the goods are shipped, the exporter will send a shipment advice to the importer. This document is proof of dispatch of the goods and contains information about the bill of lading, name of the vessel with date, port of export, description of goods, etc.

**(h)**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.

**(i)**An import general manifest will be issued by the person in charge of the carrier (ship or airliner) in which the goods are being imported. This is done in order to inform the officer in charge at the dock or the airport about the arrival of the goods. This document contains information about the goods being imported, and it is on the basis of this document that unloading of the cargo will take place.

**(j)** Once the goods arrive at the port, the importer must get customs clearance, which in turn requires a delivery order, a port duty dues receipt and a bill of entry.

**Question 6:**

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

**ANSWER:**

In order to promote foreign trade, the government has set up the following institutions:

**(a)** ***Indian Institute of Foreign Trade (IIFT):*** Established in 1963 under the Societies Registration Act, the IIFT is an autonomous body responsible for the management of the country’s foreign trade. It is also a deemed university that provides training in international trade, conducts research in areas of international business and disseminates data related to international trade.

**(b)** ***Export Inspection Council (EIC):*** The EIC was established by the Government of India under Section 3 of the Export Quality Control and Inspection Act, 1963, with the objective of promoting exports through quality control and pre-shipment inspections. According to this act, all goods that are meant for exports (except some commodities) must pass through the EIC for quality inspection.

**(c)** ***Indian Institute of Packaging (IIP):*** The IIP is a training and research institute established in 1966 by the joint efforts of the Ministry of Commerce of the Government of India, Indian packaging industry and allied industries. The institute caters to the packaging needs of domestic manufacturers and exporters.

**(d)** ***Indian Trade Promotion Organisation (ITPO):*** The ITPO was formed on January 1, 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.

**(e)** ***Department of Commerce:*** The Department of Commerce is the apex body in the Ministry of Commerce of the Government of India and is responsible for formulating policies related to foreign trade as well as evolving import and export policies for the country. It is responsible for all matters related to the country’s external trade.

**(f)** ***Export Promotion Councils (EPCs):*** Registered under the Companies Act or the Societies Registration Act, EPCs are non-profit organisations that are responsible for promoting the exports of particular products. However, the product promoted by a particular EPC must fall under its jurisdictio

**Question 7:**

What is IMF? Discuss its various objectives and functions.

**ANSWER:**

The IMF, or the International Monetary Fund, came into existence in 1945 with the objective of establishing a healthy and orderly monetary system. It aimed at facilitating a system of international payments and taking care of the adjustments in exchange rates among national currencies. It is one of the three international institutions—the other two being the World Bank and the International Trade Organization—that were created for facilitating and monitoring the economic development of the world .

**Objectives of the IMF**

(a) To aid the balanced growth of international trade and market, thereby promoting the growth of employment and income

(b) To promote international monetary cooperation among the member countries

(c) To facilitate the orderly exchange of goods between the member countries

(d) To facilitate international payments with respect to the exchange transactions between the member countries

**Functions of the IMF**

(a) Providing short-term credit to member countries

(b) Maintaining stability in the exchange rate of the member countries

(c) Fixing and altering the value of a country’s currency whenever required, to facilitate the adjustment of exchange rate of member countries

(d) Collecting the currencies of member countries so as to allow them to borrow the currency of other nations

(e) Lending foreign currency to member nations and facilitating international payments with respect to the exchange transactions between member countries.

**Question 8:**

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

**ANSWER:**

**Features of the WTO (World Trade Organisation)**

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

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

(c) The decisions of the WTO are made by the governments of the member nations on the basis of consensus.

**Structure of the WTO**

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

**Objectives of the WTO**

(a) Reducing tariff and other non-trade barriers imposed by different nations

(b) Ensuring sustainable development by optimally using the world resources

(c) Developing a more integrated, feasible and stable trading system

**Functions of the WTO**

(a) Providing an environment to the member countries such that they can put forward their grievances before the WTO without any hesitation

(b) Resolving trade disputes among member nations

(c) Eliminating discriminations in trade relations by laying down a commonly accepted code of conduct

(d) Creating better understanding between member countries by consulting with the IMF, the World Bank and various other World Bank affiliates.