CHAPTER - 10
INTERNATIONAL BUSINESS

- **Introduction**

  In this lesson we are going to have overall idea of International Business i.e., how to sell goods and services to other countries traders/users and how to buy goods and services from traders of others countries. You are going to learn the formalities and procedures involved in the process of international trade i.e., both imports and exports.

- **Meaning:**
  - The buying and selling of goods and services beyond the geographical limits of the country is known as International Business.
  - In other words trade between the countries 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, knowhow and copyrights.
  - If our country buys goods from some other country it is called IMPORT and if we sell goods to some other country it is called Export Trade.

Benefits of International Business

International Business is important to both nations and business firms. It offers them various benefits.

Benefits to Nations :

1. It helps a country to earn foreign exchange which can be used for importing various goods from abroad.
2. It leads to specialisation of a nation in the prodcution of those goods which can be produced by it in the most effective and economical manner.
3. It helps a nation in improving its growth prospects and also create opportunities for employment.
4. It make it possible for people to consume goods and services produced in other countries which help in increasing their standard of living.

Benefits to Firms :-

1. It helps in increasing profits of the firms by selling goods in the countries where prices are high.
2. It help firms in using their surplus production copacities and improving the profitability of their operations.
3. It help firms in improving their growth prospects.
4. It acts as one of the ways of achieving growth for firms facing tough market conditions in the domestic market.
5. It improves business vision as it make firms more competitive, and diversified.

• Problems of International business:

There are various complexities or problems involved in the international business. The major problems faced are as follows:

1. **Different currencies:**Every country has its own currency. So importer has to make payment in the currency of exporter's country.
2. **Legal Formalities:** International business is subject to a large number of legal formalities and restrictions. The government of every country exercises strict control over business with other nations.

3. **Distance Barriers:**

   Due to large distance between countries, it is difficult to establish quick and personal contacts between traders from different countries.

4. **Language Barrier:**

   Due to different languages in different countries, it becomes difficult for traders to understand the terms and conditions of the contract.

5. **Difference in Laws:**

International business transactions are subject to laws, rule and regulations of multiple countries.International business transactions are subject to laws, rule and regulations of multiple countries.

6. **Information Gap:**

   It is difficult to obtain accurate information about foreign markets and about the financial position of foreign merchants.

7. **Transport Problem:**

   Water and air transport are the important modes of transport used in international business. Shipping is less costly but time consuming. On the other hand airways are

   faster but the cost involved is very high.

Mode of Entry into International Business

I. Exporting and Importing

Exporting refers to selling of goods and services from the home country to a foreign country while importing refers to purchase of foreign products and bringing them into one s home country.

II. Contract Manufacturing

When a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain goods produced as per its specifications it is called contract manufacturing. It is also know as outsourcing and it can take place in following forms.

a) Production of components like automobile components to be used later for making final product like car.

b) Assembling of components into final products such as assembling of tyres, seat etc in a scooter.

c) Complete manufacture of products such as garments.

1. Licensing and Franchising :-

Permitting another party in foreign country to produce and sell goods under their trademarks, patents or copy right in lieu of a fee called royalty is termed as licensing. When there is mutual exchange of knowledge, technology and patents between the firms it is called cross-licensing. Franchising is similar to licensing, but it is used in connection with the provision of services. Pizza Hut and Wal-Mart are examples of some of the leading franchisers operating worldwide.

IV. JOINT VENTURE

Joint venture means establishing a firm that is jointly owned by two or more independent firms. It can be brought into existence in three major ways.

1. Foreign investor buying an interest in a local company.
2. Local firm acquiring an interest in an existing foreign firm.
3. Both the foreign and local entrepreneurs jointly forming a new enterprise.

EXPORT PROCEDURE

1. An exporter receives an enquiry from the prospective buyers seeking information regarding price, quality & other terms conditions for export of goods. The exporter sends a quotation known as proforma invoice as reply.
2. If the buyer is satisfied with the export price & other terms & conditions, he places the order or indent for the goods.
3. After receiving the order or indent, the exporter undertakes an enquiry regarding the credit worthiness of importer to assess the risk of non-payment by the importer.
4. According to custom laws the exporter or the export firm must have export license before proceeding with exports. The following procedure is followed for obtaining the export license.

· To open account in any authorised bank.

- To obtain import export code (IEC) number from Directorate General foreign Trade (DGFT) or Regional Import Export Licensing Authority (RIELA).
- Register with appropriate export promotion council.
- To get registered with Export Credit and Guarantee corporation (ECGC) in order to safeguard against risk of non-payments.

5. After obtaining the export license the exporter approaches his banker in order to obtain preshipment finance for carrying out production.
6. Exporter, after obtaining the preshipment finance from the bank, proceeds to get the goods ready as per the orders of the importer.
7. Government of India ensures that only good quality products are exported from India. The exporter has to submit the preshipment inspection report along with other documents at the time of export.
8. According to Central Excise Tariff Act, excise duty on the material used in manufacturing goods is to be paid. For this purpose exporter apply to the concerned Excise Commissioner in the region with an invoice.
9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.
10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment & port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.
11. The goods are packed & marked with necessary details like name & address of the importer, growss & net weight, port of shipment & destination etc. After this the exporter makes arrangement for the transportation of goods to the port.
12. In order to protect the goods against the risk of loss or damage due to the perils of the sea transit the exporter gets the goods insured with an insurance company.
13. Before loading the goods on the ship they have to be cleared by the customer. For this purpose the exporter prepares the shipping bill & submits five copies of the shipping bill along with following documents to the Customs Appraiser at the customs house.!

(i) Certificate of origin

(ii) Commercial Invoice

(iii) Export Order

(iv) Letter of credit

(v) Certificate of Inspection, where necessary.

(vi) Marine Insurance Policy.

On submitting the above documents, the superintendent of the concerned port trust is approached for obtaining the carting order which is the instruction to the staff at the gate of the port to permit the entry of cargo inside the dock.

14. After the goods have been loaded on board of the ship the captain or the mate of the ship issues mate s receipt to the port superintendent which contains information regarding vessel, berth, description of packages, date of shipments marks, condition of the cargo at the time of receipt on board the ship etc.

15. The clearing & forwarding agent (C&F agent) hands over the mate s receipt to the shipping company for calculating freight. On receiving the freight the shipping company issues a bill of lading.
16. The exporter prepares an invoice for the dispatched goods. Invoice contains information regarding the quantity of goods sent & the amount to be paid by the importer. It is duly attested by the customs.
17. After shipment of goods the importer is informed about it by the exporter. Various documents like certified copy of invoice, bill of lading packing list, Insurance policy, certificate of origin & letter of credit are sent by the exporter through his bank. These documents are required by the importer for getting the goods cleared from customs.

IMPORT PROCEDURE

1. The first step involved in importing goods is to gather information about the countries & firms which export the product required by the exporter. It can be gathered from trade directories, trade associations & organisations. The exporter prepares a quotation also known as Performa Invoice & sends it to the importer.

2. The Importer Consults the export import (EXIM) Policy in force, in order to know whether the goods that he/she wants to import are subjected to import licensing or not. If License is required then it is to be obtained.
3. In case of an import transaction the supplier resides in a foreign country hence he demands payment in foreign currency. This involves exchange of Indian Currency into foreign currency. The Exchange Control Department of the Reserve Bank of India (RBI) regulates foreign exchange transactions in India. As per rules, every importer has to secure the sanction of foreign exchange.

4. The importer places an import order or indent with the exporter for the supply of specified goods. The order contains information regarding price, quality, quantity, size & grade of goods instruction regarding packing, delivery shipping, mode of payment etc.
5. When the payment terms are agreed between the importer & the overseas supplier, the importer obtains the letter of credit from its banker & forwards it to the overseas supplier.
6. The importer arranges for the funds in advance to pay the exporter on arrival of goods at the port this enables the importer to avoid huge penalties on the imported goods lying uncleared at the port for want of payments.
7. The overseas supplier after loading the goods on the ship dispatches the Shipment Advice to the importer. It provides information regarding

   shipment of goods like invoice number, bill of lading / airway bill, name of ship with date description of goods & quantity etc.
8. After shipping the goods, the overseas supplier hands over the various documents like commercial invoice, bill of lading, insurance policy certificate of origin to his banker for their onward transmission to the importer when he accepts the bill of exchange drawn by the supplier. The acceptance of bill of exchange by the importer for the purpose of getting delivery of the document is known as retirement of import documents.
9. When the goods arrive in the importer s country, the person incharge of the carries informs the officer incharge at the dock or the airport about it. The person incharge of the ship or airway provides the docuement called import general manifest for unloading of cargo.

10. Imported goods are subjected to customs clearance which is a very lengthy process & involves a lot of formalities. The importer usually appoints a c & F agent for fulfilling these formalities.

First of all the importer obtains a delivery order which is also known as endorsement for delivery. This order enables the importer to take the delivery of goods after paying the freight charges.

Finally the importer fills in a form known as bill of entry for assessment of customs import duty. An examiner examines the imported goods & gives his report on the bill of entry. This bill is then presented to the port authority which on receiving necessary charges, issues the release order.

Documents used in Export Transactions

Documents related to Goods	Documents Related to Shipment	Documents Related to Payment
1. **Export Invoice:** • It is issued by the exporter. • It provides information like quantity of goods sent, total value of goods etc.	1. **Mate's Receipt:** • It is issued by the commanding officer of the ship to the exporter after the cargo is loaded on the ship. • It contains details like name of the vessel, berth, date of shipment, description of packages, marks and numbers etc. • It is very important receipt As shipping company issues the bill of lading only after getting this receipt.	1. **Letter of Credit:** • It is guarantee issued by the importer's Bank that it will honor payment up to a certain amount of export bills to the bank of the exporter.
2. **Packing List:** It indicates the number of cases or packs and the details of the goods contained in these packs	2. **Shipping Bill:** • It is the main document on the basis of which customs office grants permission for the export. • It contains details regarding goods to be exported, exporter's name and address, etc	2. **Bill of Exchange:** • It is drawn by the exporter on the importer. • It contains instruction to the importer to pay a specified amount to a certain person or the bearer of the instrument.

3. Certificate of Origin: • It specifies the country in which the goods are being produced. • It helps to get tariff concessions. • It is also required when there is a ban on imports of certain goods from selected countries	**3. Bill of Lading:** • It is prepared by Shipping company acknowledging the receipt of goods on board the ship. • It is a document of title of goods and is freely transferable by endorsement and delivery. • It contains an undertaking to carry them to the port of destination.	**3.Bank Certificate of Payment:** • It certifies that necessary documents relating to the particular export have been presented to the importer for payment.
4. Certificate of Inspection: • It ensures that only good quality products are exported. • Export Inspection Council of India is one such agency	**4 Airway Bill:** • It is prepared by the airline company to acknowledge the receipt of goods on board its aircraft. • It is also a document of title to the goods and is freely transferable by the endorsement and delivery.	
	5. Marine Insurance Policy: • It is an insurance contract. • It is an agreement to indemnify the insured against any loss caused due to perils of the sea in consideration of payment called premium.	
	6. Cart Ticket: It is prepared by the exporter, which provided details of export.	

Documents Used In Import Transactions:

1. **Trade Enquiry:**

   It is a written request by the importer to the exporter to provide information regarding price, terms and conditions etc.

2. **Proforma Invoice:**

   A proforma invoice is a document that contains detailed information regarding price, quality, grade, grade, size etc.

3. **Shipment Advice:**

   Shipment advice is a document that the exporter sends to the importer.

   It informs that the shipment of goods has been made and details regarding it.

4. **Bill of Entry:**

   It is a document prepared by the importer.

   It shows the details of goods imported and is used by custom authorities for determining import duty.

5. **Sight Draft:**

   It is a type of Bill of Exchange.

   Through this the exporter instructs the bank to hand over the relevant documents to the importer only against payment

6. **Usance Draft:**

   It is a type of Bill of Exchange.

   Through this the exporter instructs the bank to hand over the relevant documents to the importer only against Acceptance of Bill of Exchange.

7. **Import General Manifest:**

   It contains details regarding imported goods.

   On the basis of this Goods are unloaded from the carrier.

8. **Dock Challan:**

   It is prepared by the importer or his C& F (Clearing and Forwarding agent) IT specifies the amount of dock dues.

WORLD TRADE ORGANISATION (WTO)

- It was established on 1st January 1995.
- IT was established to have a permanent institution to promote free and fair trade amongst nations.
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- **Role of WTO**
  - Encouraging member countries to come forward to WTO for mitigating their grievances
  - Laying down a commonly accepted code of conduct in order to reduce trade barriers.
  - Acting as a dispute settlement body.
  - Ensuring that all 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 to bring better understanding and cooperation in global economic policy making
- Regularly supervising the operations of the revised Agreements and Ministerial declarations relating to goods, services and Trade Related Intellectual Property Rights (TRIPS).

- **Short Answers type questions :**

4. This certificate specifies the origin of goods exported. Name the document. (1)
   Ans. Certificate of Origin
5. This document is issued by the commanding officer of the ship to the exporter after the cargo is loaded on the ship. Identify the document. (1)
   Ans. Mate's Receipt.
6. This document is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to port of destination. Name the document. (1)
   Ans. Bill of lading.
4. This document is the most appropriate and secure method of payment to settle international transactions. Name the document. (1)
   Ans. Letter of Credit.
5. On the basis of this document, customs office grants permission for the export. Identify the document. (1)
   Ans. Shipping Bill
6. This document is prepared by the importer and it shows the details of goods imported and is used by custom authorities to determine import duty. State the name of the document. (1)
   Ans. Bill of Entry.
7. On the basis of this document, imported goods are unloaded from the carrier. Write the name of the document. (1)

8. What is meant by Bill of Lading? Explain the contents. Of it. (3)
   Ans. Meaning of Bill of Lading and its contents.
9. Explain the content and purpose of Bill of Entry.
   Ans. Bill of entry (3)