

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.

- **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.

IMPORT PROCEDURE

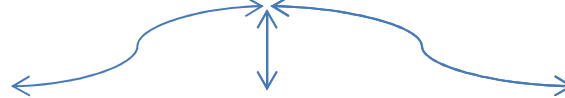
Trade Enquiry
Procurement of Import License
Obtaining Foreign Exchange
Placing order or Indent
Obtaining Letter of Credit
Arranging for Finance
Receipt of shipment Advice
Retirement of Import Documents
Arrival of Goods
Customs clearance and Release of goods

EXPORT PROCEDURE

Receipt of Enquiry and Sending Quotations
Receipt of Order or Indent
Assessing Importer's Credit worthiness and securing a guarantee for payments.
Obtaining Export license
Obtaining Pre shipment Finance
Production or Procurement of Goods
Pre shipment Inspection
Excise Clearance
Obtaining certificate of Origin
Reservation of Shipping Space

Packing and forwarding
Insurance of Goods
Customs Clearance
Obtaining Mate's Receipt
Payment of Freight and issuance of Bill of Lading
Preparation of Invoice and Securing Payment

Documents used in Export Transactions



Documents related to Goods	Documents Related to Shipment	Documents Related to Payment
1. <u>Export Invoice:</u> <ul style="list-style-type: none"> • It is issued by the exporter. • It provides information like quantity of goods sent, total value of goods etc. 	1. <u>Mate's Receipt:</u> <ul style="list-style-type: none"> • 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. <u>Letter of Credit:</u> <ul style="list-style-type: none"> • 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. <u>Packing List:</u> It indicates the number of cases or packs and the details of the goods contained in these packs	2. <u>Shipping Bill:</u> <ul style="list-style-type: none"> • 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, 	2. <u>Bill of Exchange:</u> <ul style="list-style-type: none"> • 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.

	etc.	
3. <u>Certificate of Origin:</u> <ul style="list-style-type: none"> • 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. <u>Bill of Lading:</u> <ul style="list-style-type: none"> • 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. <u>Bank Certificate of Payment:</u> <ul style="list-style-type: none"> • It certifies that necessary documents relating to the particular export have been presented to the importer for payment.
4. <u>Certificate of Inspection:</u> <ul style="list-style-type: none"> • It ensures that only good quality products are exported. • Export Inspection Council of India is one such agency 	4 <u>Airway Bill:</u> <ul style="list-style-type: none"> • 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. <u>Marine Insurance Policy:</u> <ul style="list-style-type: none"> • 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. <u>Cart Ticket:</u> <p>It is prepared by the exporter, which provides details regarding export</p>	

	<p>cargo, like shipper's name, number of packages, shipping bill number etc.</p> <p>It is also known as a cart chit, vehicle pass or gate pass.</p>	
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- **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.
- **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 :**
 1. This certificate specifies the origin of goods exported. Name the document. (1)
Ans. Certificate of Origin
 2. 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.
 3. 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)
Ans. Import general Manifest.

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)

Long Answer type Questions and Answers:

10. Describe the role of WTO.

Ans. Role of WTO (*Refer WTO given earlier*) (4)

11. Differentiate between

1) Sight and usance draft and Bill of lading and Airway Bill. (4)

Ans. In case of sight draft importer makes payment when relevant documents are delivered. Whereas in case of usance draft importer accepts the bill of exchange and makes payment on maturity of bill.

2) Bill of lading is issued by the shipping company when goods are loaded on the ship.

Whereas the airway bill is issued by airline company when goods are loaded on the aircraft.

12. What is meant by pre shipment finance? (4)

Ans. Meaning of Pre shipment finance. (*Refer Pre shipment finance given earlier*)

13. List the major countries with whom India trades

Ans. USA, UK, Belgium, Germany, Japan Switzerland, Hong Kong, UAE, China, Singapore and Malaysia. (4)

14. Explain the meaning of the following documents used in connection with import transactions: i) Trade Enquiry ii) Import License iii) Shipment advice **Ans.** (*Refer Import Documents*) (5)

15. Trendz industries has received an export order of 5,000 kids jeans from walmart store, USA. What procedure you will follow to execute this export order?

Ans. Export Procedure. (6)

- **Gist of the Lesson:**

- ❖ ***Concept and Problems of International Trade***

- ❖ ***Export Import Procedure and documents***

- ❖ ***Role of WTO***