Class XI Business Studies

Chapter 11 International Business

Revision Notes

International Business

- Manufacturing and trade beyond the boundaries of one's own country is known as international business.
- International or external business can, therefore, be defined as those business activities that take place across the national frontiers
- 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.

Reason for International Business

- Countries cannot produce equally well or cheaply all that they need. This is because of the unequal distribution of natural resources among them or differences in their productivity levels
- Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons
- Principle of territorial division of labour is applicable at the international level too. Most developing countries which are labour abundant, for instance, specialise in producing and exporting garments
- Firms too engage in international business to import what is available at lower prices in other countries, and export goods to other countries where they can fetch better prices for their products

International Business vs. Domestic Business

BASIS	INTERNATIONAL BUSINESS	DOMESTIC BUSINESS
NATIONALITY OF BUYERS AND SELLERS	Buyers and sellers come from different countries	Buyers and sellers are from the same country
NATIONALITY OF OTHER STAKEHOLDERS	Belong from various countries and hence have wider set of values and aspirations	Belong to one country and hence consistency in their value system and behaviour
MOBILITY OF FACTORS OF PRODUCTION	Mobility with various restrictions	Free mobility
CUSTOMER HETEROGENEITY ACROSS MARKETS	Difference in taste and preference complicate the task of designing product in international market	Difference in taste and preference does not complicate the task of designing product in domestic market
DIFFERENCES IN BUSINESS SYSTEMS AND PRACTICES	The differences in business systems and practices are considerably much more among different countries	The differences in business systems and practices are considerably less within a country
POLITICAL SYSTEM AND RISKS	Political environment differs from one country to another. Special efforts are needed	Predict the impact of political environment on business operations

BUSINESS REGULATIONS AND POLICIES	Business laws, regulations and economic policies differ among different countries	Business laws, regulations and economic policies are more or less uniformly applicable within a country
CURRENCY USED IN BUSINESS TRANSACTIONS	The price of one currency expressed in relation to that of another country's currency, keeps on fluctuating.	No such problem is faced as only home currency is used

Scope of International Business

Merchandise exports and imports

- Merchandise exports means sending tangible goods abroad,
- Merchandise imports means bringing tangible goods from a foreign country to one's own country.
- Merchandise exports and imports, also known as trade in goods, include only tangible goods and exclude trade in services

Service exports and imports

- Service exports and imports involve trade in intangibles.
- It is because of the intangible aspect of services that trade in services is also known as invisible trade.
- A wide variety of services are traded internationally

Licensing and franchising

- Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copy rights in lieu of some fee is another way of entering into international business
- Franchising is similar to licensing, but it is a term used in connection with the provision of services

Foreign investments

- Foreign investment involves investments of funds abroad in exchange for financial return.
- Foreign investment can be of two types: direct and portfolio investments.
- Direct investment takes place when a company directly invests in properties such as plant and machinery in foreign countries with a view to undertaking production and marketing of goods and services in those countries
- A portfolio investment, on the other hand, is an investment that a company makes into another company by the way of acquiring shares or providing loans to the latter, and earns income by way of dividends or interest on loans

Benefits of International Business

Benefits to Countries

- International business helps a country to earn foreign exchange which it can later use for meeting its imports of other goods
- Produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently
- Exporting and flourishing in International trade helped in improving their growth prospects and created opportunities for employment of people
- Due to International business people in world community are able to consume and enjoy a higher standard of living

Benefits to Firms

- When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high
- Making use of surplus production capacities and thereby improving the profitability of operations.
- When Demand in home country gets saturated, the company can think of growth prospects in developing countries
- When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth
- 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.

<u>MODES OF ENTRY INTO INTERNATIONAL BUSINESS</u>

Exporting and Importing

Meaning	Merits	Limitations
• Exporting refers to sending of goods and services from the home country to a foreign country • Importing is purchase of foreign products and bringing them into one's home country • Two ways of exporting and Importing • 1. direct exporting/importing, a firm itself approaches the overseas buyers/ suppliers and looks after all the formalities related to exporting/ importing activities including those related to shipment and financing of goods and services • 2. Indirect exporting/ importing, on the other hand, is one where the firm's participation in the export/import operations is minimum, and most of the tasks relating to export/import of the goods are carried out by some middle men	• Easiest way of gaining entry into international markets. • Business firms are not required to invest that much time and money • Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower	• Expenses and paymentslike custom duty , transportation and other charges substantially increase product costs and makethem less competitive • Exporting is not a feasible option when import restrictions exist in a foreign country. Opt for modes like licensing or franchising • Export firms basically operate from their home country. Few visits are made to promote the product which lags them in understanding and serving the customer better

Contract Manufacturing

Meaning

- Type of international business where 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
- Contract manufacturing, also known as outsourcing, can take three major forms:
  - Production of certain components
  - Assembly of components into final products
  - Complete manufacture of the products such as garments

Merits

- They make use of the production facilities already existing in the foreign countries, thus, investment not required
- As no investment, no investment risk
- Gives advantage to international companies to manufacture or assemble the products at lower costs
- Idle production capacities in foreign country, obtains manufacturing jobs on contract basis in a way provide a ready market for their products
- Gets the opportunity to get involved with international business and avail incentives

Limitations

- Non adherence to production design and quality standards causes product quality problems to the international firm
- Local manufacturers loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications
- They are not free to sell the contracted output as per its will. It has to sell the goods to the international company at predetermined price

Licensing and Franchising

Meaning

- Licensing is a contractual arrangement in which one firm grants access to its patents, trade secrets or technology to another firm in a foreign country for a fee called royalty
- There is mutual exchange of knowledge, technology and/or patents between the firms which is known as cross-licensing
- Franchising applies to service business
- Franchisers usually set strict rules and regulations as to how the franchisees should operate while running their business

Merits

- As such, the licensor/franchiser has to virtually make no investments abroad. Licensing/franchising is, therefore, considered a less expensive mode of entering into international business.
- No or very little foreign investment is involved, licensor/ franchiser is not a party to the losses
- There are lower risks of business takeovers or government interventions
- Licensee/franchisee being a local person has greater market knowledge and contacts which can prove quite helpful to the licensor/franchiser in successfully conducting its marketing operations.
- Make use of the licensor's/ franchiser's copyrights, patents and brand names

Limitations

- There is a danger that the licensee can start marketing an identical product under a slightly different brand name
- If not maintained properly, trade secrets can get divulged to others in the foreign markets
- Conflicts over maintenance of accounts, payment of royalty and non-adherence to norms relating to production of quality products

Joint Ventures

Meaning	Merits	Limitations
•A joint venture means establishing a firm that is jointly owned by two or more otherwise independent firm •Three major ways: •Foreign investor buying an interest in a local company •Local firm acquiring an interest in an existing foreign firm •Both the foreign and local entrepreneurs jointly forming a new enterprise.	•Since the local partner also contributes to the equity capital of such a venture, the international firm finds it financially less burdensome to expand globally •Possible to execute large projects requiring huge capital outlays and manpower •The foreign business firm benefits from a local partner's knowledge of the host countries regarding the competitive conditions, culture, language, political systems and business systems •Sharing costs and risks avoids burdern on one	•The dual ownership arrangement may lead to conflicts, resulting in battle for control between the investing firms •Share of technology and trade secrets poses a threat of disclosing it to others

Wholly Owned Subsidiaries

Meaning	Merits	Limitations
•This entry mode of international business is preferred by companies which want to exercise full control over their overseas operations •Established in 2 ways: •Setting up a new firm altogether to start operations in a foreign country •Acquiring an established firm in the foreign country and using that firm to manufacture and/or promote its products in the host nation	•Exercise full control over its operations •Not required to disclose its technology or trade secrets to others.	•Not suitable for small and medium size firms which do not have enough funds with them to invest abroad •Has to bear the entire losses resulting from failure of its foreign operations •They are subject to higher political risks

EXPORT-IMPORT PROCEDURES AND DOCUMENTATION

Export Procedure

1. Receipt of enquiry and sending quotations

- Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer.
- The exporter sends a reply to the enquiry in the form of a quotation referred to as proforma invoice.
- The proforma invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms

2. Receipt of order or indent
    - Export price and other terms and conditions acceptable, it places an order for the goods to be despatched.
    - This order, also known as indent, contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions

3. Assessing the importer's creditworthiness and securing a guarantee for payments
    - Exporter makes enquiry about the creditworthiness of the importer
    - To minimise such risks, most exporters demand a letter of credit from the importer.
    - A letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter

4. Obtaining export licence
    - Export of goods in India is subject to custom laws which demand that the export firm must have an export licence before it proceeds with exports
    - Pre-requisites for getting an export licence:
        - Opening a bank account in any bank authorised by the Reserve Bank of India
        - 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
    - For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as exporter/importer profile, bank receipt for requisite fee, certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of the non-resident interest and declaration about the applicant's non association with caution listed firms.
    - It is obligatory for every exporter to get registered with the appropriate export promotion council
    - Registration with the ECGC is necessary in order to protect overseas payments from political and commercial risks

5. Obtaining pre-shipment finance
    - Exporter approaches his banker for obtaining pre-shipment finance to undertake export production.
    - 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.

6. Production or procurement of goods

- Exporter proceeds to get the goods ready as per the specifications of the importer. Either the firm itself goes in for producing the goods or else it buys from the market

7. Pre-shipment Inspection
    - Compulsory 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
    - The pre-shipment inspection report is required to be submitted along with other export documents at the time of exports
    - Inspection is not compulsory in case the goods are being exported by star trading houses, trading houses, export houses, industrial units setup in export processing zones/special economic zones (EPZs/SEZs) and 100 per cent export oriented units (EOUs

8. Excise clearance
    - 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
    - The refund of excise duty is known as duty drawback.
    - This scheme of duty drawback is presently administered by the Directorate of Drawback under the Ministry of Finance which is responsible for fixing the rates of drawback for different products

9. Obtaining certificate of origin
    - For availing trade concessions and other benefits, the importer may ask the exporter to send a certificate of origin.
    - The certificate of origin acts as a proof that the goods have actually been manufactured in the country from where the export is taking place.
    - This certificate can be obtained from the trade consulate located in the exporter's country

10. Reservation of shipping space
    - The exporting firm 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 the port of destination.
    - On acceptance of application for shipping, the shipping company issues a shipping order

11. Packing and forwarding
    - The goods are then properly packed and marked with necessary details such as name and address of the importer, gross and net weight, port of shipment and destination, country of origin, etc.
    - The exporter then makes necessary arrangement for transportation of goods to the port.
    - On loading goods into the railway wagon, the railway authorities issue a 'railway receipt' which serves as a title to the goods.
    - The exporter endorses the railway receipt in favour of his agent to enable him to take delivery of goods at the port of shipment

12. Insurance of goods
    - Goods are insured with an insurance company y to protect against the risks of loss or damage of the goods due to the perils of the sea during the transit

13. Customs clearance
    - 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.
    - Shipping bill is the main document on the basis of which the customs office gives the permission for export
    - Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:
        - Export Contract or Export Order
        - Letter of Credit
        - Commercial Invoice
        - Certificate of Origin
        - Certificate of Inspection
        - Marine Insurance Policy
    - After submission of these documents, the Superintendent of the concerned port trust is approached for obtaining the carting order. Carting order is the instruction to the staff at the gate of the port to permit the entry of the cargo inside the dock

14. Obtaining mates receipt
    - 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, descripton of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc.
    - The port superintendent, on receipt of port dues, hands over the mate’s receipt to the C&F agent.

15. Payment of freight and issuance of bill of lading
    - The C&F agent surrenders the mates receipt to the shipping company for computation of freight.
    - After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.
    - In the case the goods are being sent by air, this document is referred to as airway bill.

16. Preparation of invoice
    - The invoice states the quantity of goods sent and the amount to be paid by the importer. The C&F agent gets it duly attested by the customs.

17. Securing payment
    - The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared.
    - The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit
    - Submission of the relevant documents to the bank for the purpose of getting the payment from the bank is called ‘negotiation of the documents’

- On receiving the bill of exchange, the importer releases the payment in case of sight draft or accepts the usance draft for making payment on maturity 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
- Having received the payment for exports, the exporter needs to get a bank certificate of payment

Import Procedure

1. Trade enquiry
    - importing firm approaches the export firms with the help of a trade enquiry for collecting information about their export prices and terms of exports.
    - A trade enquiry is a written request by an importing firm to the exporter for supply of information regarding the price and various terms and conditions on which the latter is ready to exports goods
    - exporter prepares a quotation and sends it to the importer. The quotation is known as proforma invoice

2. Procurement of import licence
    - The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he or she wants to import are subject to import licensing.
    - In case goods can be imported only against the licence, the importer needs to procure an import licence
    - In India, it is obligatory for every importer (and also for exporter) to get registered with the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority, and obtain an Import Export Code (IEC) number

3. Obtaining foreign exchange
    - Payment in foreign currency involves exchange of Indian currency into foreign currency.
    - In India, all foreign exchange transactions are regulated by the Exchange Control Department of the Reserve Bank of India (RBI).
    - As per the rules in force, every importer is required to secure the sanction of foreign exchange.
    - For obtaining such a sanction, the importer has to make an application to a bank authorised by RBI to issue foreign exchange

4. Placing order or indent
    - Importer places an import order or indent with the exporter for supply of the specified products.
    - The import order contains information about the price, quantity size, grade and quality of goods ordered and the instructions relating to packing, shipping, ports of shipment and destination, delivery schedule, insurance and mode of payment

5. Obtaining letter of credit

- If the payment terms agreed between the importer and the overseas supplier is a letter of credit, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier

6. Arranging for finance
    - The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port.
    - Advanced planning for financing imports is necessary so as to avoid huge penalities

7. Receipt of shipment advice
    - After loading the goods on the vessel, the overseas supplier dispatches the shipment advice to the importer.
    - A shipment advice contains information about the shipment of goods

8. Retirement of import documents
    - the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit.
    - The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.

9. Arrival of goods
    - The person in charge of the carrier (ship or airway) informs the officer in charge at the dock or the airport about the arrival of goods in the importing country.
    - He provides the document called import general manifest. Import general manifest is a document that contains the details of the imported goods

10. Customs clearance and release of goods
    - Firstly, the importer has to obtain a delivery order which is otherwise known as endorsement for delivery. Generally when the ship arrives at the port, the importer obtains the endorsement on the back of the bill of lading. This endorsement is done by the concerned shipping company. In some cases instead of endorsing the bill, the shipping company issues a delivery order. This order entitles the importer to take the delivery of goods
    - The importer has to submit to the ‘Landing and Shipping Dues Office’ two copies of a duly filled in form — known as ‘application to import’. The ‘Landing and Shipping Dues Office’ levies a charge for services of dock authorities which has to be borne by the importer. After payment of dock charges, the importer is given back one copy of the application as a receipt. This receipt is known as ‘port trust dues receipt’.
    - The importer then fills in a form ‘bill of entry’ for assessment of customs import duty
    - After payment of the import duty, the bill of entry has to be presented to the dock superintendent
    - The importer or his agent presents the bill of entry to the port authority. After receiving necessary charges, the port authority issues the release order

<u>FOREIGN TRADE PROMOTION: INCENTIVES AND ORGANISATIONAL SUPPORT</u>

Foreign Trade Promotion Measures and Schemes

1. Duty drawback scheme
    - Duties paid on export goods are, therefore, refunded to exporters on production of proof of exports of these goods to the concerned authorities. Such refunds are called duty draw backs.
    - Some major duty draw backs include refund of excise duties paid on goods meant for exports, refund of customs duties paid on raw materials and machines imported for export production. The latter is also called customs drawback

2. Export manufacturing under bond scheme
    - This facility entitles firms to produce goods without payment of excise and other duties.
    - The firms desirous of availing such facility have to give an undertaking (i.e., bond) that they are manufacturing goods for export purposes

3. Exemption from payment of sales taxes
    - Goods meant for export purposes are not subject to sales tax
    - This benefit of exemption from income tax is available only to 100 per cent Export Oriented Units (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) for select years

4. Advance licence scheme
    - Exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods.
    - As such the exporter is not required to pay customs duty on goods imported for use in the manufacture of export goods.
    - The advance licences are available to both the types of exporters—those who export on a regular basis and also to those who export on an adhoc basis

5. Export Promotion Capital Goods Scheme (EPCG)
    - 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 is especially beneficial to the industrial units interested in modernisation and upgradation of their existing plant and machinery.

6. Scheme of recognising export firms as export house, trading house and superstar trading house
    - With an objective to promote established exporters and assist them in marketing their products in international markets, the government grants the status of Export House
    - This status is granted to a firm on its achieving a prescribed average export of performance in past select years. Besides attaining a minimum of past average export performance, such export firms have to also fulfill other conditions as laid down in the import-export policy

7. Export of Services
    - Objective is to boost the export of services
    - These houses are recognized on the basis of the export performance of the service providers.

- They are referred to as Service Export House, International Service Export House, International Star Service Export House

8. Export finance
    - Exporters require finance for the manufacture of goods
    - Two types of export finances are made available to the exporters by authorised banks.
    - They are termed as pre-shipment finance or packaging credit and postshipment finance.
    - Under the preshipment finance, finance is provided to an exporter for financing the purchase, processing, manufacturing or packaging of goods for export purpose.
    - Under the post-shipment finance scheme, finance is provided to the exporter from the date of extending the credit after the shipment of goods to the export country

9. Export Processing Zones (EPZs)
    - Export Processing Zones 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
    - Recently the EPZs have been converted to Special Economic Zones (SEZs) which are more advanced form of export processing zones. These SEZs are free from all rules and regulations governing imports and exports

10. 100 per cent Export Oriented Units (100 per cent EOUs)
    - EOUs have been established with a view to generating additional production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives
    - It adopts the same production regime, but offers a wider option in location

Organisational Support

1. Department of Commerce
    - It is the apex body responsible for the country's external trade and all matters connected with it.
    - It formulates policies in the sphere of foreign trade.
    - It also frames the import and export policy of the country in general.

2. Export Promotion Councils (EPCs)
    - They are non-profit organisations registered under the Companies Act or the Societies Registration Act
    - Objective is to promote and develop the country's exports of particular products falling under their jurisdiction

3. Commodity Boards
    - Established for the development of production of traditional commodities and their exports.
    - These boards are supplementary to the EPCs and functions are same as EPCs

4. Export Inspection Council (EIC)
   - 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

5. Indian Trade Promotion Organisation (ITPO)
   - Set up under the Companies Act 1956 by the Ministry of Commerce, Government of India
   - ITPO is a service organisation and maintains regular and close interaction with trade, industry and Government.
   - It serves the industry by organising trade fairs and exhibitions—both within the country and outside

6. Indian Institute of Foreign Trade (IIFT)
   - Setup 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 trade, conduct researches in areas of international business, and analysing and disseminating data relating to international trade and investments

7. Indian Institute of Packaging (IIP)
   - Set up jointly by the Ministry of Commerce, Government of India, and the Indian Packaging Industry and allied interests
   - It is a training-cum-research institutepertaining to packaging and testing.
   - It caters to the packaging needs with regard to both the 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

8. State Trading Organisations
   - The existing trade channels were unsuitable for promotion of exports and bringing about diversification of trade with countries other than European countries which gave need to set up State Trading Organisations
   - The main objective of the STC is to stimulate trade, primarily export trade among different trading partners of the world

INTERNATIONAL TRADE INSTITUTIONS AND TRADE AGREEMENTS

- They considered three organisations (the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and the International Trade Organisation) as three pillars of economic development of the world.
- While the World Bank was assigned with the task of reconstructing war-torn economies — especially the ones in Europe, the IMF was entrusted with the responsibility of ensuring stabilization of exchange rates to pave way for the expansion of world trade.

- The main objective of the ITO as they could foresee at that time was to promote andfacilitate international trade among the member countries by overcoming various restrictions and discriminations
- The idea of setting up of ITO, however, could not materialise due to stiff opposition from the United States. Instead of an organisation, what eventually emerged was an arrangement to liberalise international trade from high customs tariffs and various other types of restrictions. This arrangement came to be known as the General Agreement for Tariffs and Trade (GATT)
- India was one of the founding members of these three international bodies

World Bank

- The International Bank for Reconstruction and Development (IBRD), commonly known as World Bank, was result of the Bretton Woods Conference.
- The main objectives were to aid the task of reconstruction of the war-affected economies of Europe and assist in the development of the underdeveloped nations of the world
- Having achieved success in accomplishing, turned its attention to the development of underdeveloped nations.
- It realized that by investing more and more in these countries, especially in social sectors like
- health and education; it could bring about the needed social and economic transformation of the developing countries
- International Development Association (IDA) was formed with objective to provide loans on concessional terms and conditions to those countries whose per capita incomes are below a critical level
- IDA, thus, provides interest-free long-term loans to the poor nations. IBRD also provides loans but these carry interest charged on commercial basis
- The World Bank is a group of five international organisations responsible for providing finance to different countries.

International Monetary Fund

- The major idea underlying the setting up of the IMF is to evolve an orderly international monetary system, i.e., facilitating system of international payments and adjustments in exchange rates among national currencies

Objectives	Functions
• To promote international monetary cooperation through a permanent institution, • To facilitate expansion of balanced growth of international trade and to contribute promotion and maintenance of high level of employmet • 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.	• Acting as a short-term credit institution • Providing machinery for the orderly adjustment of exchange rates • Acting as a reservoir of the currencies of all the member countries • Acting as a lending institution of foreign currency and current transaction • Determining the value of a country's currency and altering it • Providing machinery for international consultations

World Trade Organization (WTO) and Major Agreements

- One of the key achievements of GATT negotiations was the decision to set up a permanent institution for looking after the promotion of free and fair trade amongst nations
- The GATT was transformed into World Trade Organization (WTO) with effect from 1 January 1995. Headquarters of the WTO are situated at Geneva, Switzerland
- It governs trade not only in goods, but also in services and intellectual property rights
- The WTO is a permanent organisation created by an international treaty ratified by the governments and legislatures of member states.
- It is, moreover, a member-driven rule-based organisation in the sense that all the decisions are taken by the member governments on the basis of a general consensus.
- India is a founding member of WTO

Objectives	Functions	Benefits
• 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.	• Encouraging 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 rules regulations prescribed in the Act are duly followed • Holding consultations 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)	• Helps promote international peace and facilitates international business. • All disputes between member nations are settled with mutual consultations. • Rules make international trade and relations very smooth and predictable. • Free trade improves the living standard of the people by increasing the income level. • Free trade provides ample scope of getting varieties of qualitative products. • Economic growth has been fastened because of free trade. • The system encourages good government. • WTO helps fostering growth of developing countries