Class XI BUSINESS STUDIES

CHAPTER -11 International Trade

IMPORTANT QUESTIONS

MULTIPLE CHOICE QUESTIONS (1 MARKS)

Question 1

By using which mode of entry, does the domestic manufacturer give the right to use its trademark to a manufacturer in a foreign country for a fee?

Answer

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

---

Question 2

Name the term when two businesses mutually agree to share each other trade secrets and technology?

Answer

There is mutual exchange of knowledge, technology and/or patents between the firms which is known as cross-licensing

---

Question 3

Write a common point between licensing and franchising?

Answer

A common point between licensing and franchising is to make use of the licensor's/ franchiser's copyrights, patents and brand names

---

Question 4

Whose objective was to reconstruct the war defeated and under develop countries?

Answer

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

Question 5

State any two necessary documents require in connection with an import transaction

Answer

Commercial invoice, bill of lading/airway bill are documents required in connection with an import transasction

---

Question 6

What is a shipping bill?

Answer

Shipping bill is the main document on the basis of which the customs office gives the permission for export

---

Question 7

What is IEC number?

Answer

IEC Number is Import Export Code Number which is obtained from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority. It is a pre requisite to obtain export license

---

Question 8

XYZ Co. (USA) acquires another Co. R. Ltd. situated at Geneva by investing100% in its equity. What will be the R. Ltd. Co. called?

Answer

R ltd will be called wholly owned subsidiary of XYZ Co. Wholly owned subsidiary is an entry mode of international business is preferred by companies which want to exercise full control over their overseas operations

---

Question 9

Identify the mode of entry into an international business when an Indian Company enters into a contract with local manufacturers in foreign countries to get certain components as per its specifications

Answer

Contract Manufacturing is a 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

---

Question 10

Name the document containing guarantee of a bank to honour drafts drawn on it by an exporter's bank

Answer

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

---

Question 11

Who is C&F agent?

Answer

C&F Agent is Clearing and forwarding agent who is engaged in providing services, directly or indirectly, concerned with clearing and forwarding operations in any manner to any other person and includes a consignment agent. The C&F agent surrenders the mates receipt to the shipping company for computation of freight.

VERY SHORT AND SHORT ANSWER QUESTIONS (2 OR 3 MARKS)

Question 1

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

Answer

Basis	Contract Manufacturing	Wholly owned production subsidiary
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	This entry mode of international business is preferred by companies which want to exercise full control over their overseas operations

Control	Local manufacturers loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications	Exercise full control over its operations
Investment and Risk	No investment, no investment risk	It is not suitable for small and medium size firms which do not have enough funds with them to invest abroad. And has to bear the entire losses resulting from failure of its foreign operations

---

Question 2

It is not just a sale of trademark for a fee; also it abides the purchaser to follow strictly the rules of serving. Which mode of entry is this? Discuss any two limitations of it.

Answer

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

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

---

Question 3

What is the objective of WTO? What are its benefits?

Answer

Objectives of WTO are as follows:

- 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.

Benefits of WTO are as follows:

- 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

Question 4

Write note on Bill of lading, Bills of entry, Shipping advice.

Answer

Bill of Lading: It is a detailed list of a ship's cargo in the form of a receipt given by the master of the ship to the person consigning the goods.

Bill of Entry: declaration by an importer or exporter of the exact nature, precise quantity and value of goods that have been landed or being shipped out. It is prepared by a qualified custom clerk or broker, it is examined by the custom authorities for its accuracy and conformity with the tariff and regulation.

Shipping advice: It is a commercial document which is issued by the exporter, who is the beneficiary of the letter of credit, in order to give shipment details to the importer who is the applicant of the letter of credit.

Question 5

Give difference between Internal trade and International trade

Answer

BASIS	INTERNATIONAL BUSINESS	DOMESTIC BUSINESS
NATIONALITY OF BUYERS AND SELLERS	Buyers and sellers come from different	Buyers and

	countries	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 doesnot 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

---

Question 6

State the reasons to have international business?

Answer

- 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

---

Question 7

China is a major producer of electronic goods at very low cost as compared to India. Discuss the benefits that India will derive if it enters into a trade agreement with China for electronic goods.

Answer

Benefits to India if it enters into trade agreement with china are as follows:

1. International business with China will help India to earn foreign exchange which it can later use for meeting its imports of other goods

2. Exporting and flourishing in International trade with China will help in improving growth prospects and created opportunities for employment of people

3. Due to International business with China, people in world community are able to consume and enjoy a higher standard of living

---

Question 8

List the formalities involved in getting an export license

Answer

Pre-requisites for getting an export licence:

1. Opening a bank account in any bank authorised by the Reserve Bank of India
2. Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority. 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
3. Registering with appropriate export promotion council.
4. Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments
5. It is obligatory for every exporter to get registered with the appropriate export promotion council

6. Registration with the ECGC is necessary in order to protect overseas payments from political and commercial risks

---

Question 9

Explain the following documents used in International trade:

(i) Mate's Receipt.

(ii) Letter of credit

(iii) Certificate of origin

Answer

(i) Mate's 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.

(ii) Letter of credit: 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. To minimise such risks, most exporters demand a letter of credit from the importer.

iii) 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. For availing trade concessions and other benefits, the importer may ask the exporter to send a certificate of origin.

Question 10

List the codal formalities to obtain IEC No.

Answer

For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as

1. exporter/importer profile

2. bank receipt for requisite fee

3. certificate from the banker on the prescribed form

4. two copies of photographs attested by the banker

5.details of the non-resident interest

6. declaration about the applicant's non-association with caution listed firms

---

LONG ANSWER QUESTIONS (5 OR 6 MARKS)

Question 1

What is WTO. Write its objectives and Functions?

Answer

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

- To ensure reduction of tariffs and other trade barriers imposed by different countries;
- To engage in such activities which improve the standards of living, create employment, increase income and effective demand and facilitate higher production and trade;
- To facilitate the optimal use of the world's resources for sustainable development
- To promote an integrated, more viable and durable trading system.

Functions

- 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)

Question 2

In what ways exporting/importing is better than setting up wholly owned subsideries abroad.

Answer

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

There are 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

Wholly owned subsidiary is entry mode of international business which is preferred by companies who want to exercise full control over their overseas operations. It can be 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

Exporting is better than setting up wholly owned subsidiaries abroad because of the following:

- Exporting is the easiest way of gaining entry into international markets as compared with wholly owned subsidiaries
- Business firms are not required to invest that much time and money in exporting whereas in case of wholly owned subsidiaries, small and medium firms which do not have enough funds with them to invest abroad
- Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower. In case of wholly owned subsidiaries they are subject to higher political risks and has to bear the entire losses resulting from failure of its foreign operations

---

Question 3

ABS Garment Company has received an order to export 2000 men's trouser to XYZ Imports Ltd. located in Australia. Discuss the procedure that abs would need to go through for executing the export order.

Answer

ABS should follow the export procedure given below:

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

---

Question 4

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

Answer

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.

Question 5

What is IMF? Write its objective and functions

Answer

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

---

Question 6

What incentives and schemes are provided by government for country export?

Answer

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

---

Question 7

Identify the documents highlighted in the following statements:

(i) This document is issued by the commanding officer of the ship to the exporter after cargo is loaded on the ship.

(ii) 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.

(iii) This document is the most appropriate and secure method of payment to settle international transactions.

(iv)On the basis of this document, customs office grants permission for the export.

(v) This document in prepared by the importer and it shows the details of goods imported

(vi)On the basis of this document imported goods are unloaded from the carrier. (import manifest)

Answer

(i) This document is issued by the commanding officer of the ship to the exporter after cargo is loaded on the ship: Mate's 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.

(ii) 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: Bill of lading. 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

(iii) This document is the most appropriate and secure method of payment to settle international transactions: Bill of exchange. 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

(iv)On the basis of this document, customs office grants permission for the export: Shipping bill is the main document on the basis of which the customs office gives the permission for export

(v) This document in prepared by the importer and it shows the details of goods imported: 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

(vi)On the basis of this document imported goods are unloaded from the carrier: import manifest. He provides the document called import general manifest. Import general manifest is a document that contains the details of the imported goods

---

Question 8

Mr. Manchanda is a business man in Gurgoan he manufactures scooters. His son after doing an MBA in USA returns to India and suggests that they should set up a fully owned factory in Bangkok for supplying to customers in South East Area and Middle East. Mr. Manchanda however does not agree to his proposal and wants to set this unit in South India.They are having a debate in this. In your opinion with whom you agree. Give reasons for support of your answer.

Answer

I would agree to set up a wholly owned factory i.e. wholloy owned subsidiary in Bangkok for supplying customers in South East area and Middle East area.

Wholly owned subsidiary is the entry mode of international business is preferred by companies which want to exercise full control over their overseas operations. It can be established in 2 ways:

1. Setting up a new firm altogether to start operations in a foreign country

2. Acquiring an established firm in the foreign country and using that firm to manufacture and/or promote its products in the host nation

This helps us to Exercise full control over its operations. And we are not required to disclose technology or trade secrets to others.

International Business benefits firm by the following ways:

1. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high

2. Making use of surplus production capacities and thereby improving the profitability of operations

3. When Demand in home country gets saturated, the company can think of growth prospects in developing countries

4. When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth

5. 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