Unit 10

International Trade

CBSE Syllabus

- International trade: concept and benefits
- Export trade – Meaning and procedure
- Import Trade - Meaning and procedure
- Documents involved in International Trade; indent, letter of credit, shipping order, shipping bills, mate's receipt (DA/DP)
- World Trade Organization (WTO) meaning and objectives

Learning Outcomes

After going through this unit, the student/ learner would be able to:

- Understand the concept of international trade.
- Describe the scope of international trade to the nation and business firms.
- State the meaning and objectives of export trade.
- Explain the important steps involved in executing export trade.
- State the meaning and objectives of import trade.
- Discuss the important steps involved in executing import trade.
- Develop an understanding of the various documents used in international trade.
- Identify the specimen of the various documents used in international trade.
- Highlight the importance of the documents needed in connection with international trade transactions
- State the meaning of World Trade Organization.
- Discuss the objectives of World Trade Organization in promoting international trade.

International Trade

BUSINESS QUOTE To Enhance Enterprising Skills

Success means growth and growth means change. Satisfaction leads to stagnation, so never let your passion for growth, die.

Mr. Happy Manchanda is a small manufacturer of automobile components. His factory is located in Gurgaon and employs about 55 workers with an investment of Rs. 9.2 million in plant and machinery. Due to recession in the domestic market, he foresees prospects of his sales going up in the next few years in the domestic market. He is exploring the possibility of going international. Some of his competitors are already in export business. A casual talk with one of his close friends in the tyre business reveals that there is a substantial market for automobile components and accessories in South-East Asia and Middle East. But his friend also tells him, "Doing business internationally is not the same as carrying out business within the home country. International business is more complex as one has to operate under market conditions that are different from those that one faces in domestic business". Mr. Manchanda is, moreover, not sure as to how he should go about setting up international business. Should he himself identify and contact some overseas customers and start exporting directly to them or else route his products through export houses which specialise in exporting products made by others?

Mr. Manchanda's son who has just returned after an MBA in USA suggests that they should set up a fully owned factory in Bangkok for supplying to customers in South-East Asia and Middle East. Setting up a manufacturing plant there will help them save costs of transporting goods from India. This would also help them coming closer to the overseas customers. Mr. Manchanda is in a fix as to what to do. In the face of difficulties involved in overseas ventures as pointed out by his friend, he is wondering about the desirability of entering into global business. He is also not sure as to what the different ways of entering into international market are and which one will best suit his purpose.

Introduction

Countries all over the world are undergoing a fundamental shift in the way they produce and market various products and services. The national economies which so far were pursuing the goal of self-reliance are now becoming increasingly dependent upon others for procuring as well as supplying various kinds of goods and services. Due to increased cross border trade and investments, countries are no more isolated. The prime reason behind this radical change is the development of communication, technology, infrastructure etc. Emergence of newer modes of communication and development of faster and more efficient means of transportation have brought nations closer to one another. Countries that were cut-off from one another due to geographical distances and socio-economic differences have now started increasingly interacting with others. World Trade Organisation (WTO) and reforms carried out by the governments of different countries have also been a major contributory factor to the increased interactions and business relations amongst the nations. We are today living in a world where the obstacles to cross-border movement of goods and persons have substantially come down. The national economies are increasingly becoming borderless and getting integrated into the world economy. Little wonder that the world has today come to be known as a 'global village'. Business in the present day is no longer restricted to the boundaries of the domestic country. More and more firms are making forays into international business which presents them with numerous opportunities for growth and increased profits. India has been trading with other countries for a long time. But it has of late considerably speeded up its process of integrating with the world economy and increasing its foreign trade and investments.

International Trade – Concept and Benefits

Meaning

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. **International trade comprises exports and imports of merchandise (goods). It is also called 'visible trade' because goods are tangible. Items of visible trade include machinery, electronic goods, gold and silver, chemicals, etc.**

Top Tip

It may be mentioned here that mostly people think of international business as international trade. But this is not true. No doubt international trade, comprising exports and imports of goods, has historically been an important component of international business. But of late, the scope of international business has substantially expanded. International trade in services such as international travel and tourism, transportation, communication, banking, warehousing, distribution and advertising has considerably grown. The other equally important developments are increased foreign investments and overseas production of goods and services. Companies have started increasingly making investments into foreign countries and undertaking production of goods and services in foreign countries to come closer to foreign customers and serve them more effectively at lower costs. All these activities form part of international business. To conclude, we can say that international business is a much broader term and is comprised of both the trade and production of goods and services across frontiers.

Extra Shots

Reason for International Business

The fundamental reason behind international business is that the 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. Availability of various factors of production such as labour, capital and raw materials that are required for producing different goods and services differ among nations. Moreover, labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons.

Due to these differences, it is not uncommon to find one particular country being in a better position to produce better quality products and/ or at lower costs than what other nations can do. In other words, we can say that some countries are in an advantageous position in producing select goods and services which other countries cannot produce that effectively and efficiently, and viceversa. As a result, each country finds it advantageous to produce those select goods and services that it can produce more effectively and efficiently at home, and procuring the rest through trade with other countries which the other countries can produce at lower costs. This is precisely the reason as to why countries trade with others and engage in what is known as international business.

The international business as it exists today is to a great extent the result of geographical specialisation as pointed out above. Fundamentally, it is for the same reason that domestic trade between two states or regions within a country takes place. Most states or regions within a country tend to specialise in the production of goods and services for which they are best suited. In India, for example, while West Bengal specialises in jute products; Mumbai and neighbouring areas in Maharashtra are more involved with the production of cotton textiles. The same 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. Since they lack capital and technology, they import textile machinery from the developed nations which the latter are in a position to produce more efficiently.

What is true for the nation is more or less true for firms. 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. Besides price considerations, there are several other benefits which nations and firms derive from international business. In a way, these other benefits too provide an impetus to nations and firms to engage in international business.

International Trade vs. Internal Trade

1. Nationality of buyers and sellers

Nationality of the key participants (i.e., buyers and sellers) to the business deals differs between domestic and international businesses. In the case of domestic business, both the buyers and sellers are from the same country. This makes it easier for both the parties to understand each other and enter into business deals. But this is not the case with international business where buyers and sellers come from different countries. Because of differences in their languages, attitudes, social customs and business goals and practices, it becomes relatively more difficult for them to interact with one another and finalise business transactions.

2. Nationality of other stakeholders

Domestic and international businesses also differ in respect of the nationalities of the other stakeholders such as employees, suppliers, shareholders/ partners and general public who interact with business firms. While in the case of domestic business all such factors belong to one country, and therefore relatively speaking depict more consistency in their value systems and behaviours; decision making in international business becomes much more complex as the concerned business firms have to take into account a wider set of values and aspirations of the stakeholders belonging to different nations.

3. Mobility of factors of production

The degree of mobility of factors like labour and capital is generally less between countries than within a country. While these factors of movement can move freely within the country, there exist various restrictions to their movement across nations. Apart from legal restrictions, even the variations in socio-cultural environments, geographic influences and economic conditions come in a big way in their movement across countries. This is especially true of the labour which finds it difficult to adjust to the climatic, economic and sociocultural conditions that differ from country to country.

4. Customer heterogeneity across markets

Since buyers in international markets hail from different countries, they differ in their socio-cultural background. Differences in their tastes, fashions, languages, beliefs and customs, attitudes and product preferences cause variations in not only their demand for different products and services, but also in variations in their communication patterns and purchase behaviours. It is precisely because of the socio-cultural differences that while people in China prefer bicycles, the Japanese in contrast like to ride bikes. Similarly, while people in India use right-hand driven cars, Americans drive cars fitted with steering, brakes, etc., on the left side. Moreover, while people in the United States change their TV, bike and other consumer durables very frequently — within two to three years of their purchase, Indians mostly do not go in for such replacements until the products currently with them have totally worn out. Such variations greatly complicate the task of designing products and evolving strategies appropriate for customers in different countries. Though to some extent customers within a country too differ in their tastes and preferences. These differences become more striking when we compare customers across nations.

5. Differences in business systems and practices

The differences in business systems and practices are considerably much more among countries than within a country. Countries differ from one another in terms of their socio-economic development, availability, cost and efficiency of economic infrastructure and market support services, and business customs and practices due to their socio-economic milieu and historical coincidences. All such differences make it necessary for firms interested in entering into international markets to adapt their production, finance, human resource and marketing plans as per the conditions prevailing in the international markets.

6. Political system and risks

Political factors such as the type of government, political party system, political ideology, political risks, etc., have a profound impact on business operations. Since a business person is familiar with the political environment of his/her country, he/she can well understand it and predict its impact on business operations. But this is not the case with international business. Political environment differs from one country to another. One needs to make special efforts to understand the differing political environments and their business implications. Since political environment keeps on changing, one needs to monitor political changes on an ongoing basis in the concerned countries and devise strategies to deal with diverse political risks. A major problem with a foreign country's political environment is a tendency among nations to favour products and services originating in their own countries to those coming from other countries. While this is not a problem for business firms operating domestically, it quite often becomes a severe problem for the firms interested in exporting their goods and services to other nations or setting up their plants in the overseas markets.

7. Business regulations and policies

Coupled with its socioeconomic environment and political philosophy, each country evolves its own set of business laws and regulations. Though these laws, regulations and economic policies are more or less uniformly applicable within a country, they differ widely among nations. Tariff and taxation policies, import quota system, subsidies and other controls adopted by a nation are not the same as in other countries and often discriminate against foreign products, services and capital.

8. Currency used in business transactions

Another important difference between domestic and international business is that the latter involves the use of different currencies. Since the exchange rate, i.e., the price of one currency expressed in relation to that of another country's currency, keeps on fluctuating, it adds to the problems of international business firms in fixing prices of their products and hedging against foreign exchange risks.

Difference between Internal trade and International trade

Basis	Internal Trade	International Trade
1. Nationality of buyers and sellers	People or organisations from one nation participate in domestic business transactions.	People or organisations of different countries participate in international business transactions.
2. Nationality of other stakeholders	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are usually citizens of the same country.	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are from different nations.
3. Mobility of factors of production	The degree of mobility of factors of production like labour and capital is relatively more within a country.	The degree of mobility of factors of production like labour and capital across nations is relatively less.
4. Customer heterogeneity across markets	Domestic markets are relatively more homogeneous in nature.	International markets lack homogeneity due to differences in language, preferences, customs, etc., across markets.
5. Differences in business systems and practices	Business systems and practices are relatively more homogeneous within a country.	Business systems and practices vary considerably across countries.
6. Political system and risks	Domestic business is subject to political system and risks of one single country.	Different countries have different forms of political systems and different degrees of risks which often become a barrier to international business.
7. Business regulations and policies	Domestic business is subject to rules, laws and policies, taxation system, etc., of a single country.	International business transactions are subject to rules, laws and policies, tariffs and quotas, etc. of multiple countries.
8. Currency used in business transactions	Currency of domestic country is used.	International business transactions involve use of currencies of more than one country.

Extra Shots

Scope of International Business

Major forms of business operations that constitute international business are as follows.

1. **Merchandise exports and imports:** Merchandise means goods that are tangible, i.e., those that can be seen and touched. When viewed from this perceptive, it is clear that while 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.
2. **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 and these include: tourism and travel, boarding and lodging (hotel and restaurants), entertainment and recreation, transportation, professional services (such as training, recruitment, consultancy and research), communication (postal, telephone, fax, courier and other audio-visual services), construction and engineering, marketing (e.g., wholesaling, retailing, advertising, marketing research and warehousing), educational and financial services (such as banking and insurance). Of these, tourism, transportation and business services are major constituents of world trade in services.
3. **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. It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world by local bottlers in foreign countries. Franchising is similar to licensing, but it is a term used in connection with the provision of services. McDonalds, for instance, operates fast food restaurants the world over through its franchising system.
4. **Foreign investments:** Foreign investment is another important form of international business. 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. Direct investment provides the investor a controlling interest in a foreign company, known as Direct Investment, i.e., FDI. It can be in the form of joint venture on PPP. A company, if it so desires, can also set up a wholly owned subsidiary abroad by making 100 per cent investment in foreign ventures, and thus acquiring full control over subsidiary's operations in the foreign market. 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. Unlike foreign direct investments, the investor under portfolio investment does not get directly involved into production and marketing operations. It simply earns an income by investing in shares, bonds, bills, or notes in a foreign country or providing loans to foreign business firms.

Benefits of International Trade

Benefits to Nations

1. **Earning of foreign exchange:** International business helps a country to earn foreign exchange which can be used for payment for imports of capital goods, technology, petroleum products, fertilisers, pharmaceutical products, etc.
2. **More efficient use of resources:** Every country produces select goods and services which it can produce most effectively and efficiently. Gradually, it attains specialisation in the production of these goods and services, leading to efficient utilisation of resources.
3. **Improving growth prospects and employment potentials:** Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries.
4. **Increased standard of living:** In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and

Benefits to Business Firms

1. **Prospects for higher profits:** International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in the international markets where prices are high.
2. **Increased capacity utilisation:** By procuring export orders, a firm can make use of its surplus production capacity. Production on large-scale leads to economies of scale which, in turn, lowers the cost of production.
3. **Way out to intense competition in domestic market:** Highly competitive domestic market drives many companies to go international in search of markets for their products.
4. **Prospects for growth:** When demand of a firm's products starts getting saturated in the domesticmarket, the firm has to search overseas markets for improving its growth prospects.
5. **Improved business vision:** The growth of international business of many companies (e.g., Pepsi, Samsung, Ford Motors, Hindustan Unilever Ltd., etc.) is essentially a part of their business policies to become more competitive and to diversify.

Export Trade: Meaning and Procedure

Meaning of Export Trade

Export trade refers to selling goods and services produced in the home country to other markets abroad.

Export trade is a function of international trade whereby goods produced in one country are shipped to another country for sale or trade.

The seller of such goods and services is referred to as an 'exporter' who is based in the country of export whereas the overseas based buyer is referred to as an 'importer'.

Steps Involved in a Typical Export Transaction

1. Receipt of enquiry and sending quotations

The prospective buyer (i.e., importing firm) of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. The exporter sends a reply to the enquiry in the form of a quotation (called proforma invoice), which 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

In case the prospective buyer finds the export price and other terms and conditions acceptable, it places an order (known as indent) for the goods to be despatched. This order contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

3. Assessing importer's credit-worthiness and securing a guarantee for payments

After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer to assess the risks of non-payment by the importer once the goods reach the import destination. 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

The export firm must have an export licence before it proceeds with exports.

Important steps/prerequisites for getting an export licence are as follows:

(i) **Opening a bank account:** The export firm must open a bank account in any bank authorised by the Reserve Bank of India (RBI) and has to get an account number.

(ii) **Obtaining Import Export Code (IEC) number:** The export firm needs to have the Import Export Code (IEC) number as it has to be filled in various export/ import documents. For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) or Regional Import Export Licensing Authority 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.

(iii) **Registering with the appropriate export promotion council:** It is obligatory for every exporter to get registered with the appropriate export promotion council, become its member and obtain a Registration-cum-Membership Certificate (RCMC) for availing benefits available to export firms from the Government. Various export promotion councils such as Engineering Export Promotion Council (EEPC) and Apparel Export Promotion Council (AEPC) have been set up by the Government of India to promote and develop exports of different categories of products.

(iv) **Registering with Export Credit and Guarantee Corporation (ECGC):** Registration with the ECGC is necessary in order to safeguard against risks of non-payments. Such a registration also helps the export firm in getting financial assistance from commercial banks and other financial institutions.

5. Obtaining pre-shipment finance

The 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

After obtaining the pre-shipment finance from the bank, the exporter either produces the goods as per the specifications of the importer or procures them from the market.

7. Pre-shipment inspection

The government has passed Export Quality Control and Inspection Act, 1963 to ensure that only good quality products are exported from the country. For this purpose, it has authorised some agencies to act as inspection agencies. Export Inspection Council of India (EICI) is one such agency which carries out such inspections and issues the 'Certificate of Inspection' after satisfying the conditions relating to quality and export-worthiness of the goods.

The exporter needs to contact the Export Inspection Agency (EIA) for inspection of the export goods and obtaining inspection certificate, which has to be submitted along with other export documents at the time of exports.

For the following exporting firms, pre-shipment inspection is not compulsory:

- Star trading houses
- Export houses
- Industrial units set up in export processing zones (EPZs)
- Industrial units set up in special economic zones (SEZs)
- 100 per cent export oriented units (EOUs)

8. Excise clearance

Excise duty is payable on the materials used In manufacturing goods. The exporter 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.

However, in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports. The refund of excise duty is known as duty drawback. The main purpose of such exemption or refund is to provide an incentive to the exporters to export more and also to make the export products more competitive in the world markets.

9. Obtaining certificate of origin

This is a certificate which specifies the country in which the goods are being produced.
This certificate entitles the importer to claim tariff concessions or other exemptions in his country.
This certificate is also required when there is a ban on imports of certain goods from select countries. The goods are allowed to be brought into the importing country if these are not originating from the banned countries.
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 the application for shipping, the shipping company issues a shipping order. A shipping order is an instruction to the captain of the ship that the specified goods, after their customs clearance at a designated port, be received on board.

11. Packing and forwarding

The goods are 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

Note

Packing list is a statement of the number of cases or packs and the details of the goods contained in these packs. It gives details of the nature of goods which are being exported and the form in which these are being sent.

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

The exporter then gets the goods insured with an insurance company 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.
Process of customs clearance of export goods:

(i) 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. Shipping bill contains the following details:

- Exporter's name and address
- Particulars of the goods being exported
- Name of the vessel
- Port at which goods are to be discharged
- Country of final destination.

(ii) Five copies of the shipping bill along with the following documents have to be 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, where necessary
- Marine Insurance Policy.

(iii) 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.

(iv) After obtaining the carting order, the cargo is physically moved into the port area and stored in the appropriate shed.

Since the exporter cannot make himself or herself available all the time for performing all these formalities, these tasks are entrusted to an agent—referred to as Clearing and Forwarding (C&F) agent.

14. Obtaining mate's receipt

The goods are then loaded on board the ship. The mate or the captain of the ship issues mate's receipt to the port superintendent.

A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board.

It contains the following information:

- Name of the vessel, berth
- Date of shipment
- Description of packages, marks and numbers
- Condition of the cargo at the time of receipt on board the ship.

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 mate's receipt to the shipping company for computation of freight. After receipt of the freight, the shipping company issues a bill of lading. Bill of lading is a document which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.

Note

Airway Bill: Like a bill of lading, an airway bill is a document wherein an airline company gives its official receipt of the goods on board its aircraft and the same document gives title to the goods which as such is freely transferable by the endorsement for delivery.

16. Preparation of invoice

After sending the goods, the exporter prepares an invoice of the dispatched goods. 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

After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his country and getting them customs cleared, such as:

- Certified copy of invoice
- Bill of lading
- Packing list
- Insurance policy
- Certificate of origin
- Letter of credit

The exporter sends these documents through his banker with the instruction that these may be delivered to the importer after acceptance of the bill of exchange. Bill of exchange is drawn by exporter on the importer asking him to pay a certain amount to a certain person or the bearer of the bill of exchange.

Bill of exchange can be of two types:

(a) **Document against sight (sight draft):** In case of sight draft, the documents are handed over to the importer only against payment. The moment the importer agrees to sign the sight draft, the relevant documents are delivered.

(b) **Document against acceptance (usance draft):** In the case of usance draft, the documents are delivered to the importer against his or her acceptance of the bill of exchange for making payment at the end of a specified period, say, three months.

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, however, need not wait for the payment till the release of money by the importer. The exporter can get immediate payment from his/ her bank on the submission of documents by signing a letter of indemnity. **Letter of indemnity is a letter by which the exporter undertakes to indemnify the bank in the event of non-receipt of payment from the importer along with accrued interest.**

Having received the payment for exports, the exporter needs to get a bank certificate of payment. Bank certificate of payment is a certificate which says that necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

Import Trade: Meaning and Procedure

Meaning of Import Trade

Import trade refers to buying goods and services from another country.

Countries are most likely to import goods that domestic industries cannot produce as efficiently or cheaply. They may also import raw materials or commodities that are not available in the country. For example, developing countries like India import machinery, equipment, materials, etc. required for economic development. Similarly, essential commodities are imported to meet shortfall in their domestic output.

Steps Involved in a Typical Import Transaction

1. Trade enquiry:

The importing firm gathers information about the countries and the exporting firms from the trade directories and/or trade associations and organisations. Then, importing firm approaches the exporting firms with the help of a trade enquiry. 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 of export of goods.

After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer. The quotation is known as proforma invoice.

2. Procurement of import licence and obtaining an IEC number

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 to get registered with the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority, and obtain an Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents.

3. Obtaining foreign exchange

The overseas supplier demands payment in a foreign currency. 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).

The importer is required to secure the sanction of foreign exchange. For obtaining such a sanction, he has to make an application (in a prescribed form along with the import licence) to a bank authorised by the RBI to issue foreign exchange. After proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

4. Placing order or indent

The importer places an import order or indent.

5. Obtaining letter of credit

The importer should obtain the letter of credit from his bank and forward it to the overseas supplier.

6. Arranging for finance

The importer makes arrangements of finance in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary to avoid huge demurrages (i.e., penalties) on the imported goods lying uncleared at the port for want of payments.

7. Receipt of shipment advice

After loading the goods on the ship, the overseas supplier despatches shipment advice to the importer. A shipment advice contains information about the shipment of goods such as:

- Invoice number
- Bill of lading/Airways bill number and date
- Name of the vessel with date
- Port of export
- Description of goods and quantity
- Date of sailing of vessel

8. Retirement of import documents

Having shipped the goods, the overseas supplier prepares a set of necessary documents (bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.) and hands it over to his banker for their onward transmission and negotiation to the importer. The bill of exchange accompanying the above documents is known as the documentary bill of exchange, which can be of two types– sight draft and usance draft.

The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as retirement of import documents. Once the retirement is over, the bank hands over the import documents to the importer.

9. Arrival of goods

Goods are shipped by the overseas supplier as per the contract. The person in charge of the ship/airway informs the officer in charge at the dock/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. It is a document on the basis of which unloading of cargo takes place.

10. Customs clearance and release of goods

All the goods imported into India have to pass through customs clearance after they cross the Indian borders. When the ship arrives at the port, the importer has to obtain a delivery order/endorsement for delivery on the back of the bill of lading from the concerned shipping company. This order entitles the importer to take the possession of the goods after payment of the freight charges (if these have not been paid by the exporter).

The 'Landing and Shipping Dues Office' levies a charge for services of dock authorities (called dock charges). The importer has to pay dock charges and obtain port trust dues receipt. For this, he has to submit two copies of a duly filled form, called 'application to import'. 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'.

Dock charges are to be paid when all the formalities of the customs are completed.

While paying the dock dues, the importer or his clearing agent specifies the amount of dock dues in a challan or form which is known as 'dock challan'.

The importer then fills in a form 'bill of entry' for assessment of customs import duty. Bill of entry is a form supplied by the customs office to the importer. It is to be filled in by the importer at the time of receiving the goods. It has to be in triplicate and is to be submitted to the customs office. The bill of entry contains information such as name and address of the importer, name of the ship, number of packages, marks on the package, description of goods, quantity and value of goods, name and address of the exporter, port of destination, and customs duty payable.

After payment of the import duty, the bill of entry has to be presented to the dock superintendent, who marks the bill of entry and asks an examiner to physically examine the goods imported. The examiner gives his report on the bill of entry. 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.

Documents involved in international trade

1. Indent

It is a document for placing an export or import order, which contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

2. 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. It is necessary to minimise the risks of non-payment by the importer once the goods reach the import destination.

3. Shipping Order

The exporting firm applies to the shipping company for provision of the shipping space. On acceptance of the application for shipping, the shipping company issues a shipping order.

A shipping order is an instruction to the captain of the ship that the specified goods, after their customs clearance at a designated port, be received on board.

4. Shipping Bills

Before the goods can be loaded on the ship, customs clearance is necessary. For this, 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. Shipping bill contains the details of the exporter's name and address, particulars of the goods being exported, name of the vessel, port at which goods are to be discharged and the country of final destination.

5. Mate's Receipt

A mate's receipt is a receipt issued by the captain/ commanding officer of the ship (called 'mate') when the cargo (i.e., the goods) is loaded on the ship. It is a prima facie evidence that goods are loaded on board. Mate's receipt is first handed over to the port superintendent. The port superintendent, on receipts of port dues, hands over the mate's receipts to the Clearing and Forwarding agent (C & F agent) appointed by the exporter.

Mate's receipt is an important document because the title document of goods (i.e., bill of lading) is prepared on the basis of the mate's receipt.

Types of Mate's Receipts

(i) *Clean Mate's Receipt:* The commanding officer of the ship issues a clean mate's receipt, if he is satisfied that goods are packed properly and there is no defect in the packing of the cargo.

(ii) *Qualified Mate's Receipt:* A qualified mate's receipt is issued when the commanding officer of the ship is not satisfied with the packing of the goods, and the shipping company does not take any responsibility of damage in transit.

DO YOU KNOW?

What is DP/DAP?

It is one of the terms of payment in international trade. DP or DAP terms of payment means, Documents against Payment. The exporter submits all required documents along with Bill of Lading/Airway Bill, Invoice, Packing List, Bill of Exchange with the bank to send to the buyer through the buyer's bank. The seller's bank, after verification, sends these shipping documents to the buyer's bank. The buyer's bank, then, notifies the buyer to collect original shipping documents from the bank after making necessary payment for the imports.

Why delay to receive money from overseas buyer under DP terms?

Although terms of payment under sale contract is against DP basis, some of the exporters (sellers) receive money late. This happens commonly under sea mode of shipment since transit time to arrive goods under sea shipment is more than air shipment. Moreover, under DP terms, some of the importers do not accept documents immediately from bank even after notifying by his bank. He delays to accept documents from bank till arrival of goods at port of destination.

World Trade Organisation (WTO): Meaning and Objectives

Meaning

The World Trade Organisation (WTO) is an inter-governmental orgnisation that is concerned with the regulation of international trade between nations.

World Trade Organisation (WTO)

- WTO was set up on 1st January, 1995.
- The headquarters of WTO is at the Centre William Rappard, Geneva, Switzerland.
- WTO has a global status similar to that of the International Monetary Fund (IMF) and the World Bank.
- The WTO has 164 members and 23 observer governments since 29 July, 2016. India is a founding member of WTO.
- **WTO is the principal international body concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations.** It helps promote international peace and facilitates international business. All disputes between member nations are settled with mutual consultations.

Objectives

The basic objectives of WTO are raising standards of living and incomes, ensuring full employment, expanding production and trade, and optimal use of the world's resources. WTO objectives talk of the idea of 'sustainable development' in relation to the optimal use of the world's resources so as to ensure protection and preservation of the environment.

The following are the major objectives of WTO:

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

RECAP

International Trade: Concept and Benefits

International trade comprises exports and imports of merchandise (goods) only. It is also called 'visible trade' because goods are tangible. Items of visible trade include machinery, electronic goods, gold and silver, chemicals, etc.

Benefits to Nations

1. Earning of foreign exchange
2. More efficient use of resources
3. Improving growth prospects and employment potentials
4. Increased standard of living

Benefits to Business Firms

1. Prospects for higher profits
2. Increased capacity utilisation
3. Way out to intense competition in domestic market
4. Prospects for growth
5. Improved business vision

International vs. Domestic Business

Conducting and managing international business operations is more complex than undertaking domestic business. Differences in the nationality of parties involved, relatively less mobility of factors of production, customer heterogeneity across markets, variations in business practices and political systems, varied business regulations and policies, and use of different currencies are the key aspects that differentiate international businesses from domestic business. These, moreover, are the factors that make international business much more complex and a difficult activity.

Export Trade: Meaning and Procedure

In international trade, 'export trade' refers to selling goods and services produced in the home country to other markets abroad.

Steps involved in export procedure

1. Receipt of enquiry and sending quotations
2. Receipt of order or indent
3. Assessing importer's credit-worthiness and securing a guarantee for payments
4. Obtaining export licence
5. Obtaining pre-shipment finance
6. Production or procurement of goods
7. Pre-shipment inspection
8. Excise clearance
9. Obtaining certificate of origin
10. Reservation of shipping space
11. Packing and forwarding
12. Insurance of goods
13. Customs clearance
14. Obtaining mate's receipt
15. Preparation of invoice
16. Payment of freight and issuance of bill of lading
17. Securing payment

The starting point in an export transaction is the receipt of an enquiry from the overseas buyer. In response, the exporter prepares an export quotation — called proforma invoice, giving out details about the export goods and the terms and conditions of export. In case, the importer finds the quotation acceptable, he/she places an order or indent and gets a letter of credit issued from his/her bank to the exporter. The exporter then proceeds with the formalities related to obtaining an export licence from the Director General of Foreign Trade and getting a registration-cum-membership certificate from the export promotion council looking after the export of the concerned product. In case, the exporter requires funds, he/she can avail of pre-shipment finance from a bank. The exporter then proceeds with the production or procurement of the goods and gets them inspected from Export Inspection Council. If required by the importer, the exporter approaches the foreign consulate for obtaining the certificate of origin to enable the importer to claim tariff of quota concessions at the time of clearance of cargo at the import destination. The exporter, then, makes arrangement, for reserving space on the ship and insuring goods against transit perils. After obtaining the excise clearance, goods are sent to the concerned port for customs clearance. Since customs clearance is a tedious process, exporters often employ C&F agents for availing their services in preparation of various customs documents and getting the goods customs cleared.

After customs clearance and payment of dock charges to the port authorities and freight charges to the shipping company, goods are loaded on the ship. The captain of the ship issues a mate's receipt. This mate's receipt is submitted to the shipping company's office for the payment of freight. After receiving the freight charges, the shipping company issues a bill of lading, which is a document of contract relating to shipment of the goods by the shipping company. Once the goods are dispatched, the exporter prepares an invoice and sends the necessary documents, such as certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin, letter of credit and bill of exchange to the importer through his/her bank to release a certificate of payment. Certificate of payment document that certifies that the export transaction is over and the payment has been received.

Import Trade: Meaning and Procedure

In international trade, 'import trade' refers to buying goods and services from another country.

Steps involved in import procedure

1. Trade enquiry
2. Procurement of import licenceand obtaining an IEC number
3. Obtaining foreign exchange
4. Placing order or indent
5. Obtaining letter of credit
6. Arranging for finance
7. Receipt of shipment advice
8. Retirement of import documents
9. Arrival of goods
10. Customs clearance and release of goods

The procedure to import is also beset with several formalities. The process starts with a search for export firms and making a trade enquiry about the product, its price and terms and conditions of exports. Having selected an export firm, the importer asks the exporter to send him/her a formal quotation called proforma invoice. The importer, then, proceeds to obtain the import licence, if required, from the office of the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority. The importer also applies for the Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents. Since payment for imports requires foreign currency, the importer has to send an application to a bank authorised for sanction of the necessary foreign exchange.

After obtaining an import licence, the importer places an import order or indent with the exporter for supply of the specified products. If required as per the terms of contract, the importer arranges for the issuance of a letter of credit to the exporter from the bank. Having shipped the goods under shipment advice to the importer, the exporter sends a set of necessary documents containing bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc., to enable the importer claim title to the goods on their arrival at the port of destination. The exporter sends these documents through his/her bank to the importer. The bank presents these documents to the importer and after obtaining his/her acceptance of the bill of exchange, delivers the documents to the importer. After the arrival of the goods in the importing country, the person in charge of the carrier (ship or airway) prepares import general manifest to inform the officer in charge at the dock or the airport that the goods have reached the ports of the importing country. The importer or his/her C&F agent pays the freight (if not already paid by exporter) to the shipping company and obtains delivery order from it which entities the importer to take the delivery of the goods at the port. At this time, port dock dues are also paid and a port trust dues receipt is obtained. The importer, then, fills in a form 'bill of entry' for assessment of customs import duty. After the payment of the import duty, the bill of entry has to be presented to the dock superintendent for physical examination of the goods. The examiner gives his report on the bill of entry. The importer or his agent presents the bill of entry to the port authority for issuance of the release order.

Documents Involved In International Trade

1. Indent: It is a document for placing an export or import order, which contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.
2. 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.
3. Shipping Order: A shipping order is an instruction to the captain of the ship that the specified goods, after their customs clearance at a designated port, be received on board.
4. Shipping Bills: Shipping bill is the main document on the basis of which the customs office gives the permission for export.
5. Mate's Receipt: A mate's receipt is a receipt issued by the captain/ commanding officer of the ship (called 'mate') when the cargo (i.e., the goods) is loaded on the ship.

WTO: Meaning and Objectives

WTO was set up on 1st January, 1995, replacing the General Agreement on Tariffs and Trade (GATT). It supervises and liberalises international trade by reducing trade barriers including tariffs and eliminating discriminations in international trade relations. It helps promote international peace by solving trade problems between countries.

Objectives

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

Key Terms

International trade comprises exports and imports of merchandise (goods). It is also called 'visible trade' because goods are tangible. Items of visible trade include machinery, electronic goods, gold and silver, chemicals, etc.

International business – Manufacturing and trade beyond the boundaries of one's own country is known as international business.

Export trade refers to selling goods and services produced in the home country to other markets abroad.

Certificate of origin – This is a certificate which specifies the country in which the goods are being produced.

Airway Bill – Like a bill of lading, an airway bill is a document wherein an airline company gives its official receipt of the goods on board its aircraft and the same document gives title to the goods which as such is freely transferable by the endorsement for delivery.

Letter of indemnity is a letter by which the exporter undertakes to indemnify the bank in the event of non-receipt of payment from the importer along with accrued interest.

Import trade refers to buying goods and services from another country.

Import general manifest is a document that contains the details of the imported goods. It is a document on the basis of which unloading of cargo takes place.

Dock challan – While paying the dock dues, the importer or his clearing agent specifies the amount of dock dues in a challan or form which is known as 'dock challan'.

Indent – It is a document for placing an export or import order, which contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

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.

Shipping order is an instruction to the captain of the ship that the specified goods, after their customs clearance at a designated port, be received on board.

Shipping bill is the main document on the basis of which the customs office gives the permission for export. It contains the details of the exporter's name and address, particulars of the goods being exported, name of the vessel, port at which goods are to be discharged and the country of final destination.

Mate's receipt is a receipt issued by the captain/ commanding officer of the ship (called 'mate') when the cargo (i.e., the goods) is loaded on the ship.

World Trade Organisation (WTO) is an inter-governmental orgnisation that is concerned with the regulation of international trade between nations.

Objective Type Questions

1. Which of the following documents is not required for obtaining an export license? *(Choose the correct alternative)*
   (a) IEC number
   (b) Letter of credit
   (c) Registration-cum-membership
   (d) Bank account number certificate
2. Which of the following documents is not required in connection with an import transaction? *(Choose the correct alternative)*
   (a) Bill of lading
   (b) Shipping bill
   (c) Certificate of origin
   (d) Shipment advice
3. Which one of the following is not a document related to fulfil the customs formalities? *(Choose the correct alternative)*
   (a) Shipping bill (b) Export licence
   (c) Letter of insurance (d) Performa invoice
4. Which one of the following is not a part of export documents? *(Choose the correct alternative)*
   (a) Commercial invoice (b) Certificate of origin
   (c) Bill of entry (d) Mate's receipt

5. A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as *(Choose the correct alternative)*
   (a) Shipping receipt
   (b) Mate's receipt
   (c) Cargo receipt
   (d) Charter receipt
6. Which of the following documents is prepared by the exporter and includes details of the cargo in terms of the shipper's name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo? *(Choose the correct alternative)*
   (a) Shipping bill
   (b) Packaging list
   (c) Mate's receipt
   (d) Bill of exchange
7. The document containing the guarantee of a bank to honour drafts drawn on it by an exporter is *(Choose the correct alternative)*
   (a) Letter of hypothetication
   (b) Letter of credit
   (c) Bill of lading
   (d) Bill of exchange
8. International business is more than international trade. *True/False? Give reason.*
9. A letter of credit is a guarantee issued by the importer's bank. *True/False? Give reason.*
10. Obtaining pre-shipment finance is necessary to undertake export production. *True/False? Give reason.*
11. Pre-shipment inspection is obligatory for all exporting firms. *True/False? Give reason.*
12. In case of sight draft, the documents are delivered to the importer against his/her acceptance of the bill of exchange. *True/False? Give reason.*
13. In India, all foreign exchange transactions are regulated by the Central government. *True/False? Give reason.*
14. A change for services of dock authorities is called customs duty. *True/False? Give reason.*
15. Which is the most appropriate and secure method of payment adopted to settle international transactions?
16. What is the purpose of pre-shipment finance?
17. Why is it necessary for an export firm to go in for pre-shipment inspection?
18. Why does an importer ask the exporter to send a 'Certificate of Origin'?
19. What is IEC number?
20. From where the exporter of goods can obtain the 'Certificate of Origin'?
21. What is carting order?
22. Name any one method of sending an enquiry to different exporters for quotations by an importing firm.
23. Why do most exporters demand a letter of credit from the importer?
24. What is pre-shipment finance?
25. Why is advanced planning for financing imports necessary?
26. What information does performa invoice contain?
27. Why should the indent be carefully drafted?
28. What do you mean by 'customs drawback'?
29. It is an instruction to the captain of the ship that the specified goods after their custom clearance at a designated port be received on board. Name it.
30. It is main document on the basis of which the custom office gives the permission for export. Name it.
31. It acts as a proof that goods have actually been manufactured in the country from where the export is taking place. Which certificate is highlighted in this statement?
32. At international level, various organisations exist for accelerating the pace of development and trade among the nations. Name one such organisation.

Case Studies

Analysing, Evaluating & Creating Type Questions

Q.1 Rekha Garments has received an order to export 20,000 men's trousers to Swift Imports Ltd. located in Australia. Rekha garments makes necessary enquiry about the credit-worthiness of Swift Imports Ltd. and demands a letter of credit from it. After a week, Rekha garments gets a letter of credit issued by the importer's bank.

Discuss the six-steps procedure that Rekha Garments would need to go through for executing the export order. (6 marks)

Ans. Following is the procedure that Rekha Garments would need to go through for executing the export order of 20,000 men's trousers:

(i) Obtaining Export License: Rekha Garments would obtain export license. For this, it would open a bank account, obtain Import Export Code (IEC) number and get registered with the appropriate export promotion council and Export Credit and Guarantee Corporation (ECGC).

(ii) Obtaining Pre-shipment Finance and Production or Procuring: Rekha Garments will approach its banker for obtaining pre-shipment finance to undertake production or procurement of trousers as per the specifications of the importer.

(iii) Pre-shipment Inspection, Excise Clearance and Obtaining Certificate of Origin: Rekha Garments will obtain 'Certificate of Inspection' after satisfying the designated agency that only good quality trousers are being exported. Rekha Garments will also apply to the concerned Excise Commissioner in the region with an invoice for the excise clearance. It will also obtain 'Certificate of Origin' from the trade consulate.

(iv) Reservation of Shipping Space, Packing, Forwarding and Insurance: Now Rekha Garments will approach the shipping company for shipping space and obtain shipping order. Rekha Garments will pack the trousers properly and mark with necessary details. It will make arrangements for forwarding the goods to the port and will take an insurance policy.

(v) Customs Clearance and Port Formalities: Now Rekha Garments will prepare Shipping Bill and get clearance from the Customs House. The goods are then loaded on board the ship for which captain of the ship issues Mate's Receipt. Rekha Garments would make payment of freight and obtain a bill of lading.

(vi) Preparation of Invoice and Securing Payment: After sending the goods, an invoice will be prepared by Rekha Garments. It will submit all relevant documents to the bank for getting payment. The bank will give these documents to the importer only after ensuring the payment.

Q.2 Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing. (6 marks)

Ans. Following are the procedures for importing textile machinery from Canada:

(i) <u>IEC Number, RCMC Number and Import License</u>: The first step is to obtain Import Export Code Number from Directorate General Foreign Trade Authority and Registration-cum-Membership Certificate. I shall also apply for import license.

(ii) <u>Trade Enquiry</u>: I will seek trade enquiry from various suppliers about the price and terms and conditions. Based on the quotations from suppliers. I will identify from whom I should import the goods.

(iii) <u>Foreign Exchange</u>: I shall apply to a bank authorised by Reserve Bank of India to issue foreign exchange.

(iv) <u>Placing the Order</u>: After receiving the sanction of RBI for release of foreign exchange, I will place the order called indent for required goods.

(v) <u>Sending Letter of Credit</u>: Usually, the exporter asks the importer to send a letter of credit, to be sure about the credit-worthiness of the importer. I will obtain a letter of credit from his banker.

(v) <u>Receiving Shipping Documents</u>: Now, I will receive the shipping documents like bill of lading, insurance policy, shipping bill, etc. On the basis of these documents, I will take the delivery of the goods.

(vi) <u>Payment of Custom Duties</u>: Now, I will approach the custom authorities to make payment of custom duties. On payment of custom duties, I will receive the delivery order or release order.

(vii) <u>Taking Delivery of Goods</u>: Having completed all the formalities I or my clearing agent will take the delivery of goods from the dock.

Q.3 ITC Ltd. is an Indian company catering to domestic markets as well as engaged in exports to other nations. Differentiate between the two types of trade that ITC Ltd. is engaged in on any five basis. (5 marks)

Ans. ITC Ltd. is engaged in both the types of trade – Internal trade and International trade.

Basis	Internal Trade	International Trade
1. Nationality of buyers and sellers	People or organisations from one nation participate in domestic business transactions.	People or organisations of different countries participate in international business transactions.
2. Mobility of factors of production	The degree of mobility of factors of production like labour and capital is relatively more within a country.	The degree of mobility of factors of production like labour and capital across nations is relatively less.
3. Political system and risks	Domestic business is subject to political system and risks of one single country.	Different countries have different forms of political systems and different degrees of risks which often become a barrier to international business.
4. Business regulations and policies	Domestic business is subject to rules, laws and policies, taxation system, etc., of a single country.	International business transactions are subject to rules, laws and policies, tariffs and quotas, etc. of multiple countries.
5. Currency used in business transactions	Currency of domestic country is used.	International business transactions involve use of currencies of more than one country.