

Chapter 11: International Business

NCERT · Class 11 · Business Studies

Textbook exercises

Question 1

Differentiate between international trade and international business.

Solution

Ans: Difference between international trade and international business are as following:

Sr No	International Trade	International Business
Basis	International trade refers to the exchange of goods and services across the international boundaries of countries.	International business not only includes movement of capital, of goods and services, but also of capital personnel, technology and intellectual property like patents, trademark, know-how and copyrights.
Movement of	International trade means movement of goods only.	A business transaction that takes place between two or more countries is known as international business.
Scope	International trade is a narrow term.	International business is much broader than International Trade.

Question 2

Discuss any three advantages of international business.

Solution

Ans: Three advantages of international business are:

- Foreign exchange: International business facilitates foreign exchange within a country that aids in the payment of imported goods expenses
- Efficient use of resources: Every country is specialised in the production of goods and services, leading to efficient utilisation of resources.
- Growth: Exporting and flourishing in international trade helps in improving the economic growth of the country and creates opportunities for employment of people.

Question 3

What is the major reason underlying trade between nations?

Solution

Ans: The major reason underlying trade between nations are:

- Unequal Distribution of Natural Resources: Countries cannot manufacture the same level of quality and at the same cost. This is due to the unequal distribution of natural resources and differences in productivity levels among different geographical places.
- Varied Differences: There is a disparity between labour productivity and manufacturing costs. Because of varied socioeconomic, geographical, and political factors, it varies in each country, thus creating a need for trade.
- Specialization Advantage: The principle of territorial division of labour can be applied internationally as well. Most developing countries with plenty of labour, for example, specialise in producing and exporting clothing.
- Price Differences: Firms also engage in the export and import of goods due to the difference in prices of products. They import cheaper things from other countries and export goods to other countries where they can fetch better prices for their products.

Question 4

Why is it said that licensing is an easier way to expand globally?

Solution

Ans: The following are some of the most compelling arguments in favour of licencing as a means of a company's global expansion.

- Less expensive: Because the licensor does not need to make large expenditures abroad, it is a less expensive way to access international markets.
- Lower risk of government intervention: The licensee, who is a local person, manages the business in the overseas market. As a result, licencing reduces the danger of government intrusion in business operations.
- Better knowledge and contacts: As a local, the licensee has a better understanding of the market dynamics in his or her nation than the licensor. This, in turn, aids the licensor's seamless market operations and global expansion.

Question 5

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

Solution

Ans: Difference between contract manufacturing and setting up wholly owned production subsidiary abroad are as following:

Basis	Contract Manufacturing	Wholly owned production subsidiary
Meaning	A firm enters into a contract with one or a few manufacturers in foreign countries to get certain components or goods produced as per its specifications.	The parent company acquires full control over the foreign company by making 100 per cent investment in its equity capital

Control	The firm has limited control over the local manufacturer.	The parent company has full control over its operations in another country through the subsidiary.
Investment	There is no or little investment in the foreign countries.	The parent company buys up the entire equity of the firm abroad and makes the firm its subsidiary.

Question 6

Discuss the formalities involved in getting an export licence.

Solution

Ans: Prerequisites for getting an export license:

- Opening a bank account with any bank that has been approved by the Reserve Bank of India;
- Getting an Import Export Code (IEC) from the Directorate General of Foreign Trade (DGFT) or a Regional Import Export Licensing Authority;
- Creating an account with the right export promotion council.
- To protect against non-payment risks, you should register with the Export Credit and Guarantee Corporation (ECGC).
- A company must submit an exporter/importer profile, a bank receipt for the required fee, a certificate from the banker, two copies of photographs attested by the banker, details of non-resident interest, and a declaration about the application to obtain an IEC number to the Director General for Foreign Trade (DGFT).
- It is a legal requirement for all exporters to register with the proper export promotion council.
- To secure international payments from political and commercial interference, you must register with the ECGC.

Question 7

Why is it necessary to get registered with an export promotion council?

Solution

Ans: To be eligible for benefits provided by the , the exporter firms must have a certificate (RCMC). To secure payment from political and commercial dangers from other organisations in other countries such registration is required.

It also aids the export company in obtaining commercial financing support from financial institutions such as banks etc.

Question 8

Why is it necessary for an export firm to go in for pre-shipment inspection?

Solution

Ans: There is a requirement for the inspection of some products by a competent agency recognised by the government. For this aim, the government created the Export Quality Control and Inspection Function in 1963 and authorised specific entities to act as inspection agencies. At the time of export, the pre-shipment inspection report is required to be submitted along with other export paperwork.

Such inspection is not needed in the event of the goods exported by star trading houses, export houses, trading houses etc.

Question 9

What is bill of lading? How does it differ from bill of entry?

Solution

Ans: 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.

It is different from the bill of entry because the bill of entry is required at the time of import and filed by the importer at the time of import of goods. This is required for customs duty assessment. Hence, bill of lading is a legal document acknowledging the receipt of cargo, whereas bill of entry is more like a

declaration, specifying elements like quantity, quality, value of the goods imported/exported.

Question 10

Explain the meaning of mate's receipt.

Solution

Ans: A mate receipt is a receipt that is provided by the ship's commanding officer when the cargo is loaded on board. The receipt contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on. The port superintendent gives the C&F agent the mate's receipt after receiving the port dues.

Question 11

What is a letter of credit? Why does an exporter need this document?

Solution

Ans: A letter of credit is a guarantee issued by the importer's bank that it will honour payment of export invoices to the exporter's bank up to a specific amount. A letter of credit is asked from the importer to reduce the extent of risk. The importer should get the letter of credit from its bank and send it to the overseas supplier.

This document is important for an exporter to determine the creditworthiness of the importer and obtain a payment guarantee.

Question 12

Discuss the process involved in securing payment for exports.

Solution

Ans: The process is as follows:

- The importer will require a variety of documentation in order to claim ownership of goods upon their arrival in his or her nation and get them customs cleared.
- In this case, a certified copy of the invoice, a bill of lading, a packing list, an insurance policy, a certificate of origin, and a letter of credit is needed.
- The submission of necessary documents to the bank for the purpose of receiving payment from the bank is referred to as "document negotiation."
- When the bill of exchange is received, the importer either releases the money in the event of a sight draught or accepts the usance draught for payment on the bill of exchange's maturity date.
- The payment is collected by the exporter's bank through the importer's bank and credited to the exporter's account.
- The exporter can receive immediate payment upon submission of documentation from his/her bank by signing a letter of indemnity.

Question 13

"International business is more than international trade". Comment.

Solution

Ans: Scope of international business is much wider than international trade because it includes the following:

- **Merchandise Exports and Imports:**
Merchandise export and import implies the export and import of tangible goods to and from abroad. Merchandise export and import is also known as trade in goods, including only tangible goods and excluding trade in services.
- **Service Exports and Import:**
It is also called invisible trade, and Includes, transportation, communication, warehousing, distribution and advertising, banking, tourism etc. Service exports and imports involve trading of intangible goods.
- **Licensing and Franchising**
Licensing is defined as a contractual arrangement in which one firm (licensor) grants access to its patents, copyrights, trademarks, or technology to another firm in a foreign country for a fee called

royalty. Franchising is also similar to licensing. It is a term used in context with the provision of services.

- Foreign Investments

Foreign investments involve investments of funds abroad in exchange for financial return. Foreign investments are of two types namely,

- Foreign Direct Investment: When a firm invests directly in properties such as plants and machinery in foreign countries with the intention of producing and distributing goods and services in those countries, this is known as Foreign Direct Investment.
 - Portfolio investment: A portfolio investment, on the other hand, is an investment made by one company into another by the acquisition of shares or the provision of loans, with the latter earning income through dividends or interest on loans.
- Foreign Direct Investment: When a firm invests directly in properties such as plants and machinery in foreign countries with the intention of producing and distributing goods and services in those countries, this is known as Foreign Direct Investment.
 - Portfolio investment: A portfolio investment, on the other hand, is an investment made by one company into another by the acquisition of shares or the provision of loans, with the latter earning income through dividends or interest on loans.

Hence, due to these the scope of international business has considerably multiplied, as it entails International exchange offerings along with international journey and tourism, transportation, communication, banking, ware-housing, distribution and advertising.

Companies have started making an increasing number of investments into foreign nations. So, we are able to say that international business is a far broader term than international trade.

Question 14

What benefits do firms derive by entering into international trade", Comment.

Solution

Ans: Benefits of international trade to firms are:

- More Profitable: International business can be more profitable than domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in

countries where prices are high enough.

- Improved profitability: A firm can make use of its surplus production capacity and thereby improve the profitability of the operations.
- Growth prospects: When demand in the home country gets saturated in the domestic market, the company can think of growth prospects in developing countries.
- Facing Competition: When competition in the domestic market is very intense, internationalism seems to be the only way to achieve significant growth.
- Self- Improvement: When a country visualizes becoming international, then it develops the urge to be more competitive, more diversified, and more strategically strong.

Question 15

In what ways is exporting a better way of entering into international markets than setting up wholly owned subsidiaries abroad.

Solution

Ans: Exporting: Exporting refers to sending of goods and services from the home country to a foreign country.

Wholly Owned Subsidiary: Those companies which want to exercise full control over their overseas operations, set up a wholly owned subsidiary in an overseas country.

Benefits of Exporting over Wholly Owned Subsidiary:

- Ease of entry: Exporting is the easiest way of gaining entry into international markets as compared with wholly-owned subsidiaries.
- Investment: Business firms are not required to invest that much time and money in exporting whereas in the case of wholly-owned subsidiaries, it is not suitable for small and medium size firms as they do not have enough funds with them to invest abroad.
- Risk: Because exporting and importing do not necessitate a large amount of foreign investment, the risk of foreign investment is negligible or very low. In the case of wholly owned subsidiaries, they face greater political risks and are responsible for all damages resulting from the failure of their international activities.

- **Government Interference:** There are high political risks in the case of wholly owned subsidiaries as against exporting.
- **Profit/Loss Risk:** 100% equity is invested in case of wholly owned subsidiaries, making it riskier in comparison to exporting/importing.
- **Complexity:** The degree of complexity is higher in case of wholly owned subsidiaries as compared to exporting/importing.

Question 16

Rekha Garments has received an order to export 2000 men's trousers to Swift Imports Ltd., located in Australia. Discuss the procedure that Rekha Garments would need to go through for executing the export order.

Solution

Ans: Rekha Garments should follow the export procedure given below:

A. Receipt of enquiry and sending quotation

- Exporters can be notified of a request for information even if the importer places an advertisement in the press.
- The exporter responds to the inquiry with a quotation, often known as a proforma invoice.
- The proforma invoice comprises information about the price at which the exporter is willing to sell the goods, as well as information about the quality, grade, size, weight, mode of delivery, packing type, and payment terms.

B. Receipt of order or indent

- It sets an order for the items to be sent if the export price and other terms and conditions are acceptable.
- Also referred to as indent, contains the details of the goods ordered, and other information in respect to price, delivery, packing, marking etc.

C. Determining the creditworthiness of the importer and obtaining a payment guarantee

- The importer's creditworthiness is investigated by the exporter.
- A letter of credit is asked from the importer to reduce the extent of risk.
- A letter of credit is a guarantee issued by the importer's bank that it will honour payment of export invoices to the exporter's bank up to a specific amount.

D. Obtaining export licence

- In India, exporting commodities is governed by customs laws, which require that an export firm obtain an export licence before proceeding with exports.
- Prerequisites for getting an export licence:
Opening a bank account with any bank that has been approved by the Reserve Bank of India;
- Getting an Import Export Code (IEC) from the Directorate General of Foreign Trade (DGFT) or a Regional Import Export Licensing Authority;
 - Creating an account with the right export promotion council.
 - To protect against non-payment risks, you should register with the Export Credit and Guarantee Corporation (ECGC).
 - A company must submit an exporter/importer profile, a bank receipt for the required fee, a certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of non-resident interest, and a declaration about the application to obtain an IEC number to the Director General for Foreign Trade (DGFT).
 - It is a legal requirement for all exporters to register with the proper export promotion council.
 - To secure international payments from political and commercial interference, you must register with the ECGC.
- Creating an account with the right export promotion council.
- To protect against non-payment risks, you should register with the Export Credit and Guarantee Corporation (ECGC).
- A company must submit an exporter/importer profile, a bank receipt for the required fee, a certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of non-resident interest, and a declaration about the application to obtain an IEC number to the Director General for Foreign Trade (DGFT).

- It is a legal requirement for all exporters to register with the proper export promotion council.
- To secure international payments from political and commercial interference, you must register with the ECGC.

E. Obtaining pre-shipment finance

- To begin pre-production, the exporter asks his banker for pre-shipment financing.
- Pre-shipment finance is the funding required by an exporter to purchase raw materials and other components, process items, and transport goods to the port of shipment.

F. Production or procurement of goods

- The exporter then gets the goods ready according to the importer's specifications.
- Either the company produces the commodities itself or it purchases them from the market.

G. Pre-shipment Inspection

- Inspection of some products by a competent agency recognised by the government is required.
- For this aim, the government created the Export Quality Control and Inspection Function in 1963 and authorised specific entities to act as inspection agencies.
- At the time of export, the pre-shipment inspection report is required to be submitted along with other export paperwork.

H. Excise Clearance

- The materials used to make the items are subject to excise duty.
- The exporter must submit an invoice to the relevant Excise Commissioner in the region.
- The Excise Commissioner issues the Excise clearance if he is satisfied with the invoice.
- The refund of an excise duty is known as a duty drawback.
- This scheme of duty drawback is administered by the Directorate of drawback under the ministry of finance which fixes the rates of drawback for different products.

I. Obtaining certificate of origin

- To avail the trade concessions and other benefits, the importer has to ask the exporter to send a certificate of origin.

- The certificate of origin issued by the importer acts as a proof that the goods are manufactured in the country from where the export is taking place.

J. Reservation of shipping space

- The exporting company submits a request for shipping space to the shipping company.
- It must specify the types of commodities to be exported, the expected shipment date, and the final destination port.
- The shipping business issues a shipping order after accepting the application for shipping.

K. Packing and forwarding

- The items are then properly packed and labelled with relevant information such as the importer's name and address, gross and net weight, shipping port and destination, country of origin, and so on.
- The exporter then arranges for the transportation of the goods to the port.
- The railway authorities issue a "railway receipt" when commodities are loaded into a railway waggon, which serves as a title to the items.
- To enable his agent to take delivery of goods at the port of shipping, the exporter endorses the railway receipt in his favour.

L. Insurance of goods

- During transit, items are covered for loss with an insurance company to safeguard against the danger of loss or damage due to the perils of the sea.

M. Custom clearance

- Before the products can be loaded into the ship, they must first be cleared from customs.
- The exporter prepares the shipping bill in order to gain custom clearance.
- The main document on which the customs office grants export permission is the shipping bill.
- Five copies of the shipping bill are subsequently presented to the Customs Appraiser at the Customs House, together with the following documents:
- Export Contract or Export Order
 - Letter of Credit

- Commercial Invoice
 - Certificate of Origin
 - Certificate of Inspection
 - Marine Insurance Policy
- Following the submission of these documents, the Superintendent of the relevant port trust is contacted to acquire a carting order.
 - The command to the workers at the port's gate to allow the goods to enter the dock is known as a carting order.
 - Letter of Credit
 - Commercial Invoice
 - Certificate of Origin
 - Certificate of Inspection
 - Marine Insurance Policy

N. Obtaining mates receipt

- A mate receipt is a receipt that is provided by the ship's commanding officer when the cargo is loaded on board.
- The receipt contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on.
- The port superintendent gives the C&F agent the mate's receipt after receiving the port dues.

O. Payment of freight and bill of lading

- The C&F agent hands along the mate's receipt to the shipping business for freight calculation.
- The shipping company issues a bill of lading after receiving the freight, which acts as proof that the goods have been accepted for transport to the specified destination.
- This document is referred to as an airway bill when goods are being shipped by air.

P. Preparation of invoice

- The invoice specifies the quantity of products shipped as well as the money due from the importer.
- The C&F representative arranges for it to be duly authenticated by customs.

Q. Securing payment

- The importer will require a variety of documentation in order to claim ownership of goods upon their arrival in his or her nation and get them customs cleared.
- In this case, a certified copy of the invoice, a bill of lading, a packing list, an insurance policy, a certificate of origin, and a letter of credit is needed.
- The submission of necessary documents to the bank for the purpose of receiving payment from the bank is referred to as "document negotiation."
- When the bill of exchange is received, the importer either releases the money in the event of a sight draught or accepts the usance draught for payment on the bill of exchange's maturity date.
- The payment is collected by the exporter's bank through the importer's bank and credited to the exporter's account.
- The exporter can receive immediate payment from his/her bank upon submission of documentation by signing a letter of indemnity.

Question 17

Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing

Solution

Ans: The import procedure is as follows:

I. Trade enquiry

- With the use of a trade inquiry, an importing firm contacts export firms to learn about their export pricing and terms of export.

- A trade enquiry is a formal request from an importing company to an exporter for information on the price and other terms and conditions under which the latter is willing to export products.
- A quotation is always prepared by the exporter. It is sent to the importer.

II. Procurement of import licence

- To determine whether the items he or she wishes to import are subject to import licencing, the importer should review the current Export Import (EXIM) policy.
- If items can only be imported with a permit, the importer must get a permit.
- Every importer (and exporter) in India is required to register with the Directorate General Foreign Trade (DGFT) or the Regional Import Export Licensing Authority and get an Import Export Code (IEC) number.

III. Obtaining foreign exchange

- Payment in foreign currency necessitates the conversion of Indian currency into that of the foreign country.
- The Reserve Bank of India's (RBI) Exchange Control Department regulates all foreign exchange transactions in India.
- Every importer is required to obtain foreign exchange sanctions under the current laws.
- To acquire such a sanction, the importer must apply to a bank that is authorised by the RBI to issue foreign exchange.

IV. Placing order or indent

- The import order which is also called indent comprises information about the price, amount, size, grade, and quality of items requested. It also includes the instructions related to packing, shipping, ports of shipment and destination, delivery schedule, insurance, and mode of payment.

V. Obtaining letter of credit

- If the importer and the overseas supplier agreed on a letter of credit as payment terms, the importer should get the letter of credit from its bank and send it to the overseas supplier.

VI. Arranging for finance

- Importers should plan ahead of time to pay the exporter when the items arrive at the port.

- Import finance should be planned ahead of time to prevent large penalties.

VII. Receipt of shipment advice

- The overseas supplier sends the shipment advice to the importer after loading the products onto the vessel.
- A shipment advice is a document that contains information on the products being shipped.

VIII. Retirement of import documents

- The overseas supplier creates a set of required documents in accordance with the terms of the contract and the letter of credit, and then gives them to his or her banker for transmission and negotiation to the importer in the manner described in the letter of credit.
- A bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, maritime insurance policy, and other documents are usually included in the package.

IX. Arrival of goods

- The person in command of the carrier (ship or airline) notifies the officer in charge at the dock or airport when goods arrive in the importing country.
- He gives an import general manifest. An import general manifest is a document that contains information on the products being imported.

X. Custom clearance and release of goods

- To begin, the importer must get a delivery order, often known as an endorsement for delivery.
- The importer usually obtains the endorsement on the back of the bill of lading when the ship arrives at the port. The shipping firm in question is responsible for this endorsement.
- The shipping company may issue a delivery order instead of certifying the bill in some instances. This order allows the importer to accept items for delivery.
- The importer must submit two copies of a completed "application to import" form to the "Landing and Shipping Dues Office."
- The 'Landing and Shipping Dues Office' imposes a fee for dock authorities' services, which must be paid by the importer. The importer receives one copy of the application as a receipt after paying the dock fees. The receipt is referred to as a "port trust dues receipt."

- The importer then completes a 'bill of entry' form for customs duty assessment.
- The bill of entry must be delivered to the dock superintendent after the import duty has been paid.
- The bill of entry is presented to the port authority by the importer or his representative. The port authority issues the release order after obtaining the relevant charges.

Question 18

Identify various organisations that have been set up in the country by the government for promoting country's foreign trade.

Solution

Ans: The various organizations are:

I. Department of Commerce

- This department is responsible for foreign trade, and issues relating to it. It formulates foreign trade policy.
- It also sets the tone for the country's overall import and export policies.

II. Export Promotion Councils (EPCs)

- They are non-profit organisations that are registered under the Companies Act or the Societies Registration Act with the goal of promoting and developing the country's exports of specific items.
- There are 21 EPCs currently active.

III. Commodity Boards

- These boards are supplemental to Export Promotion Councils (EPCs) and perform the same functions as EPCs in the development of conventional commodity production and its exports.

IV. EIC- Export Inspection Council

- The Export Quality Control and Inspection Council was established by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963, with the goal of sound development of the export trade using quality control and pre-shipment inspection.

V. Indian Trade Promotion Organisations

- On 1 January 1992, the Ministry of Commerce, Government of India, established it under the Companies Act 1956.
- New Delhi is where the headquarters of Indian Trade Promotion Organisations is located.
- It helps the industry by organising trade fairs and exhibitions both within and outside the country.
- It is a service organisation that maintains regular and close engagement with trade, industry, and government.

VI. Indian Institute of Foreign Trade (IIFT)

- It provides training in international trade, conducts research in areas of international business, and analyses and disseminates data relating to international trade and investments.
- It is an autonomous body established by the Government of India and is registered under the Societies Registration Act with the foremost objective of professionalising the country's foreign trade management.

VII. Indian Institute of Packaging

- In 1966, the Ministry of Commerce, Government of India, and the Indian Packaging Industry and Allied Interests established the Indian Institute of Packaging as a national institute.
- Mumbai is where the company's headquarters and principal laboratory are located.
- The three other regional laboratories are in Kolkata, Delhi, and Chennai.
- It is a training and research institute that focuses on packaging and testing.
- It offers good infrastructure to meet the diverse needs of the packaging manufacturing and user industries.
- Also training, education and consultancy services regarding packaging development is provided by this institute.

VIII. State Trading Organisations (STC)

- Existing trade channels were insufficient for promoting exports and diversifying commerce with countries other than European countries, necessitating the establishment of State Trading Organizations.
- The STC's, which was set up in 1956 has a major goal to promote international trade, particularly export trade, among various trading partners across the world.

Question 19

What is IMF? Discuss its various objectives and functions

Solution

Ans: The IMF was established with the primary goal of developing an orderly international monetary system, which includes facilitating international payments and adjusting exchange rates between national currencies.

Objectives

- Facilitate the expansion of balanced international commerce and contribute to the promotion, maintenance of a high level of employment through the establishment of a permanent institution.
- Assist in the construction of a multilateral system of payments for current transactions between members to enhance exchange stability and preserve orderly exchange arrangements among member nations.

Functions

- Acting as a short-term credit institution.
- Providing machinery for the orderly adjustment of exchange rates Acting as a short-term credit institution.
- Provision of necessary facilities to ensure that the exchange rates are adjusted timely and orderly
- Acting as a repository for all member countries' currencies.
- Acting as a foreign currency and current transaction lending institution Determining the value of a country's currency and altering it.
- Providing machinery for international consultations.

Question 20

Write a detailed note on features, structure, objectives and functioning of WTO.

Solution

Ans: 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 the World Trade Organization (WTO) with effect from 1 January 1995. Its headquarters are in Geneva, Switzerland.

Features

- It regulates not just products but also services and intellectual property rights.
- It is a member-driven rule-based organization.
- All the decisions are taken by the member governments on the basis of a general consensus.
- The World Trade Organization (WTO) has a global significance comparable to that of the World Bank and the International Monetary Fund (IMF).
- India is the founding member of the World Trade Organisation.

Structure

The WTO's highest authority, the Ministerial Conference, is made up of delegates from all WTO members who are expected to meet at least every two years and who have the authority to make decisions on all aspects of any multilateral trade agreement.

Objectives

- To ensure that tariffs and other trade barriers imposed by different countries are reduced.
- To engage in activities that improve living standards, create jobs,
- Increase income and effective demand, and facilitate increased production and trade;
- To facilitate the most efficient use of the world's resources for sustainable development.
- To promote a more integrated, viable, and long lasting trade system.

Functions

- Establishing a commonly accepted code of behaviour with the goal of reducing trade obstacles, such as tariffs, and eradicating discrimination in international trade relations by encouraging its member countries to come forward to the WTO to resolve their problems.
- Acting as a dispute resolution body.

- Ensuring that all of the Act's rules and regulations are obeyed.
- Holding consultations to improve understanding and cooperation in global economic policymaking.

Project/Assignment - India In the World Trade

Question 21

Carefully read the given data. This pertains to India's performance in world trade. The recent initiatives of the Government of India, such as 'Make in India', 'Digital India', and 'Skill India', etc., have impacted the Indian economy in terms of exports and imports and trade balance.

S. No.	Country	% share in global trade
1.	United States	24.60
2.	China	16.10
3.	Japan	5.93
4.	Germany	4.67
5.	India	3.36
6.	France	3.23
7.	United Kingdom	3.19
8.	Italy	2.40
9.	Brazil	2.19
10.	Canada	2.07

A.

Table 1 shows India's position in the world's largest economies. Prepare a trend report on the position of India in the global scenario of international trade from the year 2005-2017.

B.

Discuss how business and trade activities help in promoting peace and harmony among nations.

C.

Recall Section I of Chapter 1. Discuss in the class the position of exports and imports in ancient times and compare the status of international trade in today's scenario.

D.

Discuss the benefits of "Make in India" scheme of the Government of India in the promotion of internal and external trade of India.

Solution

Ans: Since the onset of the 'Financial Crisis' in 2008, the global economy has been on a slow development path, but it has just begun to show indications of recovery. In October 2017, the IMF predicted that global GDP growth will accelerate from 3.2 percent in 2016 to 3.6 percent in 2017, and then to 3.7 percent in 2018. Economic activity has increased in established market economies such as the United States, the United Kingdom, and Europe. There has been an increase in global demand, which is projected to continue. The economic performance of developing and emerging market economies has been uneven.

Investment demand has been driving the increase in global demand momentum. More precisely, since the second half of 2016, both consumer durables and capital goods output have increased. Global investment rebound, spearheaded by infrastructure and real estate investment in China; firming global commodities prices; and the end of an inventory cycle in the United States are some of the causes that have contributed to these developments.

India's development has been phenomenal, particularly since the turn of the century. The Indian economy has gone a long way since economic liberalisation, and it is now one of the world's fastest-growing major economies. While India's GDP grew at a slower pace from 2011 to 2013 due to the global economic slowdown, it grew at a solid rate of 7.5 percent from 2014 to 2016, far above other emerging and developing nations. With the implementation of the Goods and Services Tax and the demonetisation of higher currency notes in the recent year, important economic policy changes have occurred.

Overall, global growth is likely to contribute to the restoration of international trade, but downside risks, such as the potential adoption of protectionist trade policies by developed market economies around the world, are weighing on trade recovery. As a result, India and other developing market economies that rely on export-led growth must become more proactive in their support for globalisation and international commerce.

We need to alter our focus away from exporting what we can (or supply-based) and toward products that are in high demand globally. Exports could benefit greatly from a demand-based export basket diversification strategy. While India has made significant progress in recent years, it now faces an even more difficult global climate. Ensure that India repositions itself as a major engine of global economic growth is a difficult but achievable undertaking.

Ans: Following are the activities that promotes peace and harmony among nations:

- Cross-border marketing: Companies can contribute to peace through mobilising advertising efforts that bring people of different faiths and backgrounds together, as shown in the Coke Small World ads. One of their marketing campaigns, for example, used Coca-Cola vending machines with live video streams to connect people in Pakistan and India.
- Rewarding intercultural understanding: For global corporations like BMW, cross-cultural communication and cooperation are an important element of their everyday operations. The BMW Group gives an annual award for groups that propose innovative methods to intercultural understanding, including interfaith understanding and peace, in partnership with the UN Alliance of Civilizations. A Middle Eastern tour firm that offers fresh ideas to build bridges and bring civilizations together through joint Muslim-Jewish tourism in the Holy Lands is among the winners of this award.
- Fostering social entrepreneurs: The business environment provides a neutral ground for religious differences to give way to common concerns about business and economic development. For example, the Yola Innovation Machine in Adamawa State, Nigeria, works to combat extremism by assisting businesses and new entrepreneurs in conflict-affected areas. Similarly, Petrobras in Brazil encourages Afro-Brazilian company incubation, establishing models for how small businesses can benefit members of underrepresented ethno-religious communities, with a particular focus on women's development.

Ans: We are all aware that international trade has been popular for ages, and that all civilizations have conducted trade with various parts of the globe. Trading is necessary due to differences in resource

availability and comparative advantage. No country can afford to stay isolated and self-sufficient in the current situation, where technology and innovation in all disciplines have thrown open borders to globalisation.

History since 16th Century

The history of international trades has been prevalent from the 16th and 17th centuries, when the barter system was in existence. The transition to liberalism began in the 18th century. During this time, Adam Smith, the father of economics, produced the classic book 'The Wealth of Nations' in 1776, in which he established the necessity of specialisation in production and placed international trade under the same umbrella. The Comparative Advantage Principle was developed by David Ricardo, and it still holds true today.

Government Policies

All of these economic ideas and principles have influenced each country's international trade strategies. Though, during the previous few centuries, governments have signed a number of pacts to progress toward free trade, in which countries do not impose taxes on imports and allow free movement of goods and services.

The Onset of 19th Century

The beginning of the nineteenth century saw a shift toward professionalism, which faded by the century's close. Around 1913, the western countries made a major shift toward economic liberty, removing quantitative limits and lowering customs taxes across the board. Gold was the universal monetary currency of exchange, and other currencies were easily convertible into it. It was simple to start a business anywhere and get work, and trade between countries was relatively unrestricted throughout this time.

First World War

The First World War altered the entire direction of global trade, with governments erecting barriers and implementing wartime controls. After World War II, it took up to five years to dismantle the wartime restrictions and restore trade to normalcy. However, the economic recession of 1920 shifted the balance of international commerce once more, and many countries saw their fortunes change due to currency fluctuations and depreciation, putting economic pressure on governments to adopt protective measures such as raising customs taxes and tariffs.

GATT

The need to relieve economic pressures and facilitate international trade between countries prompted the League of Nations to organise the World Economic Conference in May 1927, which brought together the world's most powerful industrial countries and resulted in the creation of the Multilateral Trade Agreement. This was followed in 1947 by the General Agreement on Tariffs and Trade (GATT).

Today, we have a far better grasp of international trade and the forces that influence it. The understanding and theories developed by economists based on natural resources available to various countries that give them a comparative advantage, economies of scale of large scale production, technology in terms of e-commerce as well as product life cycle changes in tune with technological advancements as well as financial market structures have guided the context of global markets.

Ans: The benefits are:

- Increased FDI in India: More FDI is welcomed as the improved ease of doing business in India attracts a large amount of FDI.
- Boost economic growth: The Make in India programme has resulted in an increase in manufacturing and exports. Increased exports boost the economy, and India is slowly moving towards becoming a global manufacturing hub. Higher manufacturing has also helped India's GDP and economic growth.
- A Shift from Foreign to Native Brands: Indians are drawn to international goods and ignore indigenous brands, resulting in a loss of revenue for indigenous producers. Indigenous items have started to gain respect in India as a result of Make in India, and producers have begun to profit.
- Making Business Easier: Make in India is an open call to producers from throughout the world. The government has lifted several limitations in order to invite as many firms as possible to come and manufacture in India.
- Inflow of capital: The Indian money has been spent in foreign countries since the beginning of capitalization. With the advent of Make in India, not only will the capital remain in India, but the country will also receive foreign currency. In a nutshell, India will not spend on other countries, but foreign countries would invest and pay wages in India.