**. AU-6445**

## M.B.A. (Third Semester) Examination, 2014-15

## INTERNATIONAL MARKETING

## Model Answer

## Section – A (Short answer type questions)

Q1. What is global environment ?

ANSWER : **The term "global environment" refers to Earth's environment in general.** Many environmental issues primarily affect local and national areas. Others deal with problems that face the entire planet. Many environmental issues deal with local problems faced by nations and smaller communities. Particulate pollution, for example, tends to affect a metropolitan area but spread no further.

Q2. What do you mean by FDI?

Answer : A **Foreign direct investment** (**FDI**) is a controlling ownership in a business enterprise in one country by an entity based in another country. foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, venture, transfer and expertise.

Q3. What is Export Insurance?

Answer : Export insurance allows country to increase their export sales by limiting your international risk, offering credit to your international buyers, and enabling you to access working capital funds.

- Benefits:
- Reduces nonpayment risk
- Enables you to extend competitive credit terms to buyers
- Helps you export to new markets with more confidence
- Increases cash flow

Q4.why do companies entered in foreign market?

Answer: The international marketplace offers a world of business opportunities for American companies seeking to sell or source products worldwide. Not only can you tap into a world marketplace of 7 billion people, but according to business.gov, companies that do international business grow faster and fail less often than companies that don't. There are following reasons why companies entered foreign market :

- Increase sales
- Improve profit
- Long term security
- Short term security
- Increase innovation.
- Exclusivity.
- Economies of scales
- Education
- Competitive strikes.
- Government incentives.

Q5. What is international marketing Mix?

Answer : When launching a product into foreign markets firms can use a standard marketing mix or adapt the marketing mix, to suit the country they are carrying out their business activities in. This article talks you through each element of the marketing mix and the arguments for and against adapting it suit each foreign market.


**International Marketing Mix: Product**

Basic marketing concepts tell us that we will sell more of a product if we aim to meet the needs of our target market. In international markets this will involve taking into consideration a number of different factors including consumer's cultural backgrounds, religion, buying habits and levels of personal disposable income.

**International Marketing Mix: Promotion**

As with international product decisions an organization can either adapt or standardize their promotional strategy and message. Advertising messages in countries may have to be adapted because of language, political climate, cultural attitudes and religious practices. For example a promotional strategy in one country could cause offence in another.

**international Marketing Mix: Pricing**

Pricing on an international scale is a complex task. As well as taking into account traditional price considerations such as fixed and variable costs, competition and target groups

**International Marketing Mix: Place**

The Place element of the marketing mix is about distributing a product or service to the customer, at the right place and at the right time. Distribution in national markets such as the United Kingdom will probably involve goods being moved in a chain from the manufacturer to wholesalers and onto retailers for consumers to buy from.

Q6. Discuss any five Export Quotations.

Answer : A quotation describes the products, its price ,time of shipment, and terms of sales, and terms of payments . Followings are the important quotations: EX WORKS, FAS, FOB, C&F, CIF , ExDOC , DDP . (Explain any five)
Q7.what document must accompany in export shipment?

ANSWER : **The following are the export documents required for the processing of the Shipping Bill:**
GR forms (in duplicate) for shipment to all the countries.

I. 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.
II. 4 copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total f.o.b./ c.i.f. value, correct & full description of goods etc.
III. Contract, L/ C, Purchase Order of the overseas buyer.
IV. AR4 (both original and duplicate) and invoice.
V. Inspection/ Examination Certificate.

**Documents Required** **Customs Clearance**

In case of Post Parcel, no Shipping Bill is required. The relevant documents are mentioned below:

**Customs Declaration Form** - It is prescribed by the Universal Postal Union (UPU) and international apex body coordinating activities of national postal administration. It is known by the code number CP2/ CP3 and to be prepared in quadruplicate, signed by the sender.
**Commercial invoice** - Issued by the seller for the full realisable amount of goods as per trade term.
**Consular Invoice** - Mainly needed for the countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Burma, Iraq, Ausatralia, Fiji, Cyprus, Nigeria, Ghana, Zanzibar etc. It is prepared in the prescribed format and is signed/ certified by the counsel of the importing country located in the country of export.
**Customs Invoice** - Mainly needed for the countries like USA, Canada, etc. It is prepared on a special form being presented by the Customs authorities of the importing country. It facilitates entry of goods in the importing country at preferential tariff rate.
**Legalised/Visaed Invoice** - This shows the seller's genuineness before the appropriate consulate/ chamber of commerce/ embassy. It do not have any prescribed form.
**Certified Invoice** - It is required when the exporter needs to certify on the invoice that the goods are of a particular origin or manufactured/ packed at a particular place and in accordance with specific contract. Sight Draft and Usance Draft are available for this. Sight Draft is required when the exporter expects immediate payment and Usance Draft is required for credit delivery.
**Packing List** - It shows the details of goods contained in each parcel/ shipment.
**Certificate of Inspection** - It shows that goods have been inspected before shipment.
**Black List Certificate** - It is required for countries which have strained political relation. It certifies that the ship or the aircraft carrying the goods has not touched those country(s).
**Weight Note** - Required to confirm the packets or bales or other form are of a stipulated weight.
Manufacturer's/ Supplier's Quality/ Inspection Certificate.
**Manufacturer's Certificate** - It is required in addition to the Certificate of Origin for few countries to show that the goods shipped have actually been manufactured and are available.
**Certificate of Shipment** - It signifies that a certain lot of goods have been shipped.
**Health/ Veterinary/ Sanitary Certification** - Required for export of foodstuffs, marine products, hides, livestock etc.
**Certificate of Conditioning** - It is issued by the competent office to certify compliance of humidity factor, dry weight, etc.
**Antiquity Measurement** - Issued by Archaeological Survey of India in case of antiques.
**Short Shipment Form** - It is an application to the customs authorities at port which advises short shipment of goods and required for claiming the return.
**Shipping Advice** - It is prepared in aligned document to be used to inform the overseas customer about the shipment of goods.

Q8. What is Export Finance ?

Answer : Export finance refers to financial assistance extended by banks and other financial institutions to businesses for the shipping of products outside a country or region. Export financing enables MSMEs to expand its reach to a global audience.
An exporter should first gain understanding of some documents commonly required by export finance institutions. These documents are mandatory requirements for most types of export finance assistance. Export finance assistance is extended at various stages of exports. Loans or advances are granted by financial institutions to exporters for financing the purchase, processing, manufacturing or packing of goods prior to shipment which is known as pre-shipment credit .Loans or advances are granted by financial institutions to exporters from the date of extending credit after shipment of goods to the date of realization of export proceeds which is known as post shipment credit .

Q9 What are the functions of Export houses in India ?

Ans: Export houses may be defined as any company or firm not being a manufacturer whose main activity is the handling or financing of trade or international trade not concern with the same country.
This export houses are free to decide what they will buy, where they will buy and at what price. They are usually well financed and maintain their branches at port towns and important center abroad. They usually have a system of gathering market information and keep close watch on market trends.

Q10. What is international Pricing?
Ans: Price is an important element of marketing mix. Price plays a significant role in bringing market product, integration for international marketing companies. As per W.J. Stanton, " Price is the amount of money which is needed to acquire a product. The objectives of international pricing are as follows:

1- Return on Investment
2- Profit maximization
3- Maintain or increase Market share
4- Price Stabilization
5- Meeting competition

**SECTION – B (long answer type questions)**

Q 2.Describe the different theories of international trade?
Answer : **International trade** is the exchange of capital, goods, and services across international or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries. It is the presupposition of international trade that a sufficient level of geopolitical peace and stability are prevailing in order to allow for the peaceful exchange of trade and commerce to take place between nations.
1-Comparative Advantage and Gains from Trade

Comparative advantage is one of the most fundamental ideas in trade theory.
A country has comparative advantage in a good if has a lower opportunity cost of producing the good than another country. Countries are expected to export goods for which their autarky (no trade) relative prices are lower than other countries.
Countries gain from trade when they have different autarky relative prices of goods.
2- Factor Proportions Theory by Hecksher-Ohlin
3- Human Capital Approach Specially by Becker, Kennen kissing
4- Natural Resource by Vanek
5- R & D and Product Life Cycle Theories by Vernon
6- Scale Economies
7- Identical Preference by Linder

Q 3 What are the main problems faced by developing countries in increasing their export? Discuss the role of UNCTAD?
Answer :
On the face of it, developing countries as a group have achieved an impressive degree of production diversification over the past two decades, and this has also been reflected in export performance. From the early 1980s, merchandise exports from developing countries have been growing much faster (at 11.3 per cent per annum) than the world average of 8.4 per cent.

More significantly, there has been a big shift in developing country exports, away from primary commodities (whose share has fallen from 51 per cent in 1980 to only 19 per cent in 1998) and towards manufactured goods, which now account for more than 80 per cent of their exports. What seems most promising is that the largest increase has been in the increased exports of manufactures with high skill and technology intensity, whose share jumped from 12 per cent of total developing country exports in 1980 to 31 per cent in 1998.

Despite all these apparently positive signs, however, there is no evidence of improved income shares for developing country exporters. In fact, some new research (discussed in the latest Trade and Development Report 2002 (TDR) produced by UNCTAD) suggests that product diversification in itself ensures neither more dynamic exports nor even higher incomes from such activities. The report argues that "while the share of developing countries in world manufacturing exports, including those of rapidly growing high-tech products, has been expanding rapidly, the income earned from such activities does not appear to share in this dynamism."

This becomes apparent from a comparison of shares in exports and value added in world manufacturing. While developing countries as a group more than doubled their share of world manufacturing exports from 10.6 per cent in 1980 to 26.5 per cent in 1998, their share of manufacturing value added increased by less than half, from 16.6 per cent to 23.8 per cent. By contrast, developed countries experienced a substantial decline in share of world manufacturing exports, from 82.3 per cent to 70.9 per cent. But at the same time their share of world manufacturing value added actually increased, from 64.5 per cent to 73.3 per cent.

**THE MAIN PROBLEMS FACED BY DEVELOPING COUNTRIES IN INCREASING THEIR EXPORT**

I. Integration into global markets offers the potential for more rapid growth and poverty reduction.
II. Developing countries generally face higher barriers to their exports than industrial countries.
III. Statutory protection in the form of tariffs and quotas
IV. Many developing countries are concerned that they are ill-prepared to meet increasingly complex and burdensome standards and regulations.
V. Technical barriers have become a key concern regarding market acces
VI. Developing countries have found it difficult to participate in designing standards in ways that better reflect their concerns and capabilities, and to challenge them where they were imposed in a discriminatory manner.
VII. Protection carries a high price in both industrial and developing countries.
VIII. Pockets of protection remain in products of particular interest to developing countries.
IX. Agricultural liberalization in both industrial and developing countries is likely to have long-term, dynamic effects on developing country production and trade
Textiles and clothing exports have been central to industrialization strategies, but barriers continue to be very high.
X. Most developing countries have preferential access to industrial country markets for a wide range of products
XI. Preferential trade regimes invariably bring with them the monitoring of rules of origin to avoid transshipment. This appears to have reduced the benefits expected from such schemes.
XII. Improving market access for developing country exports requires a comprehensive approach to liberalization.

**UNCTAD**

**Objectives**

The objective of UNCTAD is (a) to reduce and eventually eliminate the trade gap between the developed and developing Countries, and (b) and to accelerate the rate of economic growth of the developing world.

**Functions:**

The main Functions of the UNCTAD are:

I. To promote international trade between developed and developing countries with a view to accelerate economic development.
II. To formulate principles and policies on international trade and related problems of economic development.
III. To make proposals for putting its principles and policies into effect,
IV. To negotiate trade agreements.
V. To review and facilitate the coordination of activities of the other U.N. institutions in the field of international trade.
VI. To function as a center for a harmonious trade and related documents in development policies of governments.

Q 4 Name the importance export promotion organization established in India and describes their main functions.
Ans: The Department of Commerce is the primary Government Agency responsible for evolving and directing foreign trade policy and programs, including commercial relation with other countries, State trading, varies trade promotional measures and development and regulation of certain export-oriented industries.
Apart from the Finance and administrative division's, the Principal functional Divisions of the Department of Commerce are Economic Division, Trade Policy Division, Foreign Trade Territorial Division, Export Product Division, Export Service Division and Export Industries Division.

The Export Promotion Offices at Mumbai, Kolkata, Chennai, Kochin, Nagpur and Pune are also functioning Under the administrative control of the Regional Joint Director General of Foreign Trade.

1- Advisory Broad:
   a. Board of trade : setup on 5th may 1989, they advice the govt. on policies measures for preparation and implementation of both short term and long term plan for increasing export.to review export performance of various sector , identify constant and suggest measure , to examine the existing institutional framework for export and suggest the practical measures.to review the policy instrument package of incentives and procedure for export and suggest steps to rationalize and channelizes incentives.
   b. Export promotion board : it is concern for boosting the growth of export directly connected with facilitating foreign trade .

2. Commodity organization
a. it appraise the govt of exporter problems export promotion council.
b. To keep its member posted with regards to trade enquiries and opportunities.
c. to render assistance on specific problems.
d. commodity boards
marine product export development authority.
f. agricultural and processed food product export development authority.
3. Service institution
a. Indian institute of foreign trade
b. Indian trade promotion organization.
c. national center for trade information
d. trade fair portal.

**4.ECGC** is in process of seeking 'online' feedback regarding its services from the exporter clients.

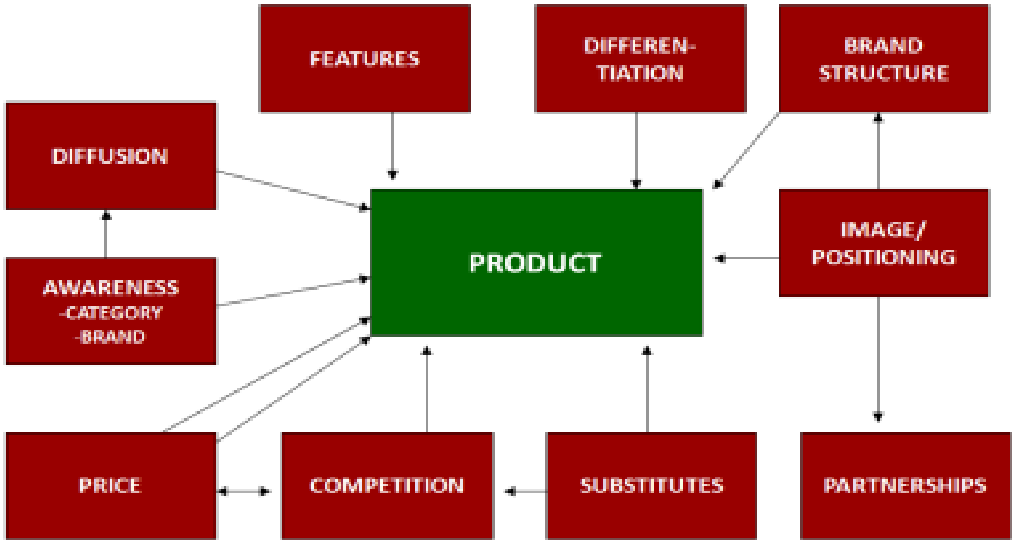
Export Credit Guarantee Corporation of India Ltd. ( ECGC ) is a Government of India Enterprise which provides export credit insurance facilities to exporters and banks in India. It functions under the administrative control of Ministry of Commerce & Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking , insurance and exporting community. Over the years, it has evolved various export credit risk insurance products to suit the requirements of Indian exporters and commercial banks. ECGC is the seventh largest credit insurer of the world in terms of coverage of national exports. The present paid up capital of the Company is Rs. 1000 Crors and the authorized capital is Rs. 1000 Crores.

ECGC is essentially an export promotion organization, seeking to improve the competitive capacity of Indian exporters by giving them credit insurance covers comparable to those available to their competitors from most other countries. It keeps it's premium rates at the lowest level possible

Q 5 Competitive strength of a product in international marketing depends on several factors." Discuss.

Answer : Competitive strength of a product in international marketing depends on several factors. Products come in several forms. Consumer products can be categorized as *convenience* goods, for which consumers are willing to invest very limited shopping efforts. Thus, it is essential to have these products readily available and have the brand name well known. *Shopping* goods, in contrast, are goods in which the consumer is willing to invest a great deal of time and effort. For example, consumers will spend a great deal of time looking for a new car or a medical procedure. *Specialty* goods are those that are of interest only to a narrow segment of the population—e.g., drilling machines. Industrial goods can also be broken down into subgroups, depending on their uses. It should also be noted that, within the context of marketing decisions, the term product refers to more than tangible goods—a service can be a product, too

In international market the product required to fulfil many criteria and eligibility to be accepted by the foreign buyer. To cut off the competition , it should posses certain quality and factor which can make it competitive in all the forms.




Products may be differentiated in several ways. Some may be represented as being of superior quality (e.g., Maytag), or they may differ in more arbitrary ways in terms of styles—some people like one style better than another, while there is no real consensus on which one is the superior one. Finally, products can be differentiated in terms of offering different levels of service—for example, Volvo offers a guarantee of free, reliable towing anywhere should the vehicle break down. American Express offers services not offered by many other charge cards.
Factors affect the competiveness of a product in international market
Price :
Price decision is the most primary factor. The price should be kept as per the quality and cot of the product . it should match the brand image and competitors effect on the market.
Features:
The product should have some unique and attractive features which should make it differ from the other competitors and substitute product.
Brand structure :
The product should have a sound brand image and its promotion should on high level to make it identified even in the lowest level.it should create its own brand image by strong means of promotions.
Differentiation :
Products may be differentiated in several ways. Some may be represented as being of superior quality (e.g., Maytag), or they may differ in more arbitrary ways in terms of styles—some people like one style better than another
Image / positioning :
Its position in the market too plays an important scenario in the competitive sector . a product having a position and image in the market hold an edge point in sales.

**Q 6 what do you understand by international marketing logistics? What are the areas of decision in this regards?**

**Answer:**
International Marketing logistic is the process through which the firm organizes the flow of goods to the right location and at the right to so as to achieve maximum satisfaction of the middleman and the ultimate customers and thus achieve the firms sales and profit objectives

**A logistic plan can be draw by considering the following points** :

What are the alternative modes of transport , viz., rail ,air or ship available for transporting the goods from the point of purchase ?
What is the mode which is optimal from the standpoint of total distribution costs?

Is there is any need for warehousing arrangements ,keeping in view the product and marketing characteristics?

In fact, firsts two points are important to be consider even at the time of selection of export markets . the non-availability of the required type of transportation facility can overweigh all other marketing advantages that the exporter may have .
for example, the exporter may be keep in consent in case of export of flower in the foreign country with the facility of cold keeping to keep the flower fresh for the longer period of time.

There is another problem of logistic planning that the exporting country may not be connected with the importing country directly by shipping or air services in such a situation , transportation of goods will involve transshipment from a intermediate point .transshipment along with the higher cost also do not care with the safety of the cargo box and delay services. Since delivery of the goods depends upon one basic condition on which success in export depends , the delays , if any , may become crucial on which success in export depends , the delay , if any may be become crucial for logistics planning . Export shipment may have to be planned much in advance to coordinate the schedule of the ongoing vessel from the port of shipment to the transshipment point and from there to the port of final delivery.
There are certain areas for decision in international marketing logistic:
Surface or air transportation:
The choice regards to the selection of transport in relation to export marketing revolves around the appropriateness of transporting goods by ship or by air.
Assuming that the both types of transportation is available to the exporter the choice should be depends upon the estimates he makes as to the total cost of distribution by ship or by air. It is found that the important element of costs behave in the following fashion for oceans and the air transport:

| | **Cost element of air** | **Cost element of surface trans.** |
|---|---|---|
| **Freight** | **High** | **Low** |
| **Depot cost** | **Low** | **High** |
| **packaging** | **Low** | **high** |
| **Fixed inventory** | **low** | **High** |
| **insurance** | **Low** | **high** |

It is important to realize that marketing logistic is an integrated element of the total marketing strategy. The ultimate consummation of the export contract takes place when the goods have been delivered at the right place when the goods have been delivered at the right place at the right time. Getting the goods at contracted time is extremely important for the buyer because, otherwise his own planning will be disrupted . for e.g. A civil engineering work abroad will need continuous supply of, say , imported steel pipes. If the imports do not reach in time. The production schedule will suffer.

**Q 7 Explain the process of export documentation.**

Answer: export documentation.-: export documentation plays a vital role in international marketing as it facilitate the smooth flow of goods and payment thereof across national frontiers' number of document accompany every shipment. These document must be properly and correctly filled. Export documentation is, however, complex as the number of concerned authorities to whom the relevant document are to be submitted .more ever document differ from country to country.
Process of export documentation:
first stage : the exporter should scrutinize the export order with the reference to the terms and condition of the contract. This is the most crucial stage. A subsequent actions and reactions will depend on the terms and condition of the export contract. It should ensure that the contract has been entered into in accordance with the prevalent export promotion policies of the country and the foreign exchange .the document required by the foreign buyer must be prepared and submitted to the negotiating bank in the exact specific form and manners: the most imp. doc are :

Commercial invoice
Bill of lading
Consular invoice
Certificate of origin

Inspection certification
Dock receipt and warehouse receipt
Destination control statement
Insurance certificate
Export license
Export packing list

**STEP1: Enquiry :**

The starting point for any Export Transaction is an enquiry.
An enquiry for product should, inter alia, specify the following details or provide the following data
Size details - Std. or oversize or undersize
Drawing, if available
Sample, if possible
Quantity required
Delivery schedule
Is the price required on FOB or C& F or CIF basis
Mode of Dispatch - Sea, air or Sea/air
Mode of Packing
Terms of Payment that would be acceptable to the Buyer - If the buyer proposes to open any Letter of Credit, any specific requirement
Exporter
Is there any requirement of Pre-shipment inspection and if so, by which agency
Any Certificate of Origin required - If so, from what agency.

**STEP 2: - Proforma generation :**

After studying the enquiry in detail, the exporter - be it Manufacturer Exporter or Merchant Exporter - will provide a Proforma Invoic

**STEP 3: Order placement :**

If the offer is acceptable to the Buyer in terms of price, delivery and payment terms, the Buyer will then place an order on the Exporte
possible in terms of specifications, Part No. Quantity etc. (No standard format is required for such a purchase order)

**STEP 4: Order acceptance :**

It is advisable that the Exporter immediately acknowledges receipt of the order, giving a schedule for the delivery committed.

**STEP 5: Goods readiness & documentation :**

Once the goods are ready duly packed in Export worthy cases/cartons (depending upon the mode of despatch), the Invoice is prepared
If the number of packages is more than one, a packing list is a must.
Even If the goods to be exported are excisable, no excise duty need be charged at the time of Export, as export goods are exempt from
procedure is to be followed for claiming such an exemption.
Similarly, no Sales Tax also is payable for export of goods.

**STEP 6: Goods removal from works :**

There are different procedures for removing Export consignments to the Port, following the AR4 procedure, but it would be advisable
by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoide
If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise dut
on the exporter to provide proof of export to the Central Excise authorities

**STEP 7: Documents for C & F agent :**

The Exporter is expected to provide the following documents to the Clearing & Forwarding Agents, who are entrusted with the task of
either by air or by sea.
Invoice
Packing List
Declaration in Form SDF (to meet the requirements as per FERA) in duplicate.
AR4 - first and the second copy
Any other declarations, as required by Customs
On account of the introduction of Electronic Data Interchange (EDI) system for processing shipping bills electronically at most of the
consignments - the C&F Agents are required to file with Customs the shipping documents, through a particular format, which will var

the shipment. Broad categories of export shipments are:
Under claim of Drawback of duty
Without claim of Drawback
Export by a 100% EOU
Under DEPB Scheme

**STEP 8: Customs Clearance :**

After assessment of the shipping bill and examination of the cargo by Customs (where required), the export consignments are permitte
Export. This is what the concerned Customs officials call the 'LET EXPORT' endorsement on the shipping bill.

**STEP 9: Document Forwarding :**

After completing the shipment formalities, the C & F Agents are expected to forward to the Exporter the following documents:
Customs signed Export Invoice & Packing List
Duplicate of Form SDF
Exchange control copy of the Shipping Bill, processed electronically
AR4 (original duplicate) duly endorsed by Customs for having effected the Export
Bill of Lading or Airway bill, as the case may be.

**STEP 10: Bills negotiation :**

With these authenticated shipping documents, the Exporter will have to negotiate the relevant export bill through authorized dealers of
Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporte
are expected to furnish the GSP Certificate of Origin to the Bankers, along with other shipping documents.
Broadly, payment terms can be:
DP Terms
DA Terms
Letter of Credit, payable at sight or payable at... days.

**Step11: Bank to bank documents forwarding :**

The negotiating Bank will scrutinize the shipping documents and forward them to the Banker of the importer, to enable him clear the c
It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor has to be intimated to the
periodical Returns.

**STEP 12: Customs obligation discharge :**

As indicated above, Exporters are also expected to provide proof of export to the Central Excise authorities, on the basis of the Custom
reverse of AR4s and get their obligation, on this score, discharged.

**STEP 13: Receipt of Bank certificate :**

Authorized dealers will issue Bank Certificates to the exporter, once the payment is received and only with the issuance of the Bank C
transaction becomes complete.
It is mandatory on the part of the Exporters to negotiate the shipping documents only through authorized dealers of Reserve Bank, as o
Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Q 8 critically evaluate the working of the STC (state trading corporation)?

Answer :
In India, the State Trading Corporation (STC) was set up in May 1956 as an entirely state- owned organization. Its basic aim is to stimulate India's foreign trade, by enlarging the scope of Indian exports and facilitating essential imports.

**Objectives of STC:**

Following are the important objectives of State Trading Corporation:

1. To enlarge exports,
2. To facilitate trade (imports) in specific commodities,
3. To augment the revenue of the State,
4. To bring about greater economic equality,
5. To regulate trade (imports and exports) in certain commodities, and
6. To regulate and overcome difficulties of trade with communist countries.

**Functions of STC:**
To fulfil the objectives as stated above, STC has the following functions to carry out:
1. Improving overall trade, domestic as well as international.
2. Augmenting the national resources of the country for promoting trade.
3. Undertaking of trading generally with State trading countries and private foreign traders too.
4. Exploring of new markets for traditional export items and developing exports of new items.
5. Stabilization of price and traditional distribution by importing at the Government's instance any commodity in short supply.
6. Handling of such internal trade as promotes foreign trade.
7. Ensuring the quantity and quality of various commodities to foreign buyers at competitive rates.
8. Assisting in the settlement of trade disputes between exporters and importers in different countries wherever, India is directly concerned.
9. Implementation of all trade agreements entered into by the Government of India with other nations.

Q9 write short notes on:

A. Various Forms of International Business

Answer: **The Various Forms/Types of International Business are:**

**1. Import trade**

Imports are the inflow of goods and services into a country's market for consumption.

A country specializes in the export of goods for which it has a comparative advantage and imports those for which it has a comparative disadvantage. By doing so, the country can increase its welfare.
Comparative advantage describes the ability of a country to produce one specific good more efficiently than other goods.
A country enhances its welfare by importing a broader range of higher-quality goods and services at lower cost than it could produce domestically.
comparative advantage
The concept that a certain good can be produced more efficiently than others due to a number of factors, including productive skills, climate, natural resource availability, and so forth.
EXAMPLES
A country in certain tropical areas of the world has a comparative advantage at growing crops like sugar or coffee beans, but it would be much less efficient at growing wheat (due to the climate). Therefore, they should export their sugar/coffee beans and import wheat at a lower cost than trying to grow wheat themselves.

**2. Export trade**

Exporting is the practice of shipping goods from the domestic country to a foreign country.

- This term export is derived from the conceptual meaning as to ship the goods and services out of the port of a country.
- In national accounts "exports" consist of transactions in goods and services (sales, barter, gifts or grants) from residents to non-residents.
- Statistics on international trade do not record smuggled goods or flows of illegal services. A small fraction of the smuggled goods and illegal services may nevertheless be included in official trade statistics through dummy shipments that serve to conceal the illegal nature of the activities.

**3. Licensing**

Licensing is a business agreement involving two companies: one gives the other special permissions, such as using patents or copyrights, in exchange for payment.
An international business licensing agreement involves two firms from different countries, with the licensee receiving the rights or resources to manufacture in the foreign country.
Rights or resources may include patents, copyrights, technology, managerial skills, or other factors necessary to manufacture the good.
Advantages of expanding internationally using international licensing include: the ability to reach new markets that may be closed by trade restrictions and the ability to expand without too much risk or capital investment.

Disadvantages include the risk of an incompetent foreign partner firm and lower income compared to other modes of international expansion.
A business arrangement in which one company gives another company permission to manufacture its product for a specified payment.

**4. Franchising**

Franchising is the practice of licensing another firm's business model as an operator.
Essentially, and in terms of distribution, the franchiser is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.
Thirty three countries, including the United States, China, and Australia, have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect impact on franchising.
Franchise agreements carry no guarantees or warranties, and the franchisee has little or no recourse to legal intervention in the event of a dispute.

Franchising is the practice of using another firm's successful business model. For the franchiser, the franchise is an alternative to building "chain stores" to distribute goods that avoids the investments and liability of a chain. The franchiser's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business. Essentially, and in terms of distribution, the franchiser is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.

**5. Foreign Direct Investment (FDI)**

A **Foreign direct investment** (**FDI**) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the *Financial Times*, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.

**6.Management Contract**

A **management contract** is an arrangement under which operational control of an enterprise is vested by contract in a separate enterprise that performs the necessary managerial functions in return for a fee. Management contracts involve not just selling a method of doing things (as with franchising or licensing) but involve actually doing them. A management contract can involve a wide range of functions, such as technical operation of a production facility, management of personnel, accounting, marketing services and training.
In Asia, many hotels operate under management contract arrangements, as they can more easily obtain economies of scale, a global reservation systems, brand recognition etc. It is not unusual for contracts to be signed for 30 years, and having a fee as high as 3.5% of total revenues and 6-10% of gross operating profit. The Marriott International Corporation operates solely on management contracts.

**7. outsourcing**

Outsourcing is the contracting out of a business process, which an organization may have previously performed internally or has a new need for, to an independent organization from which the process is purchased back as a service. Though the practice of purchasing a business function—instead of providing it internally—is a common feature of any modern economy, the term outsourcing became popular in America near the turn of the 21st century. An outsourcing deal may also involve transfer of the employees and assets involved to the outsourcing business partner. The definition of outsourcing includes both foreign or domestic contracting , which may include offshoring, described as "a company taking a function out of their business and relocating it to another country."

B**.ECGC**

**ECGC** is in process of seeking 'online' feedback regarding its services from the exporter clients.

Export Credit Guarantee Corporation of India Ltd. ( ECGC ) is a Government of India Enterprise which provides export credit insurance facilities to exporters and banks in India. It functions under the administrative control of Ministry of Commerce & Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking , insurance and exporting community. Over the years, it has evolved various export credit risk insurance products to suit the requirements of Indian exporters and commercial banks. ECGC is the seventh largest credit insurer of the world in terms of coverage of national exports. The present paid up capital of the Company is Rs. 1000 Crores and the authorized capital is Rs. 1000 Crores.

ECGC is essentially an export promotion organization, seeking to improve the competitive capacity of Indian exporters by giving them credit insurance covers comparable to those available to their competitors from most other countries. It keeps it's premium rates at the lowest level possible

**ROLE OF ECGC**

Provides a range of credit risk insurance covers to exporters against loss in export of goods and services

Offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them

Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

Functioning

Offers insurance protection to exporters against payment risks

Provides guidance in export-related activities

Makes available information on different countries with it's own credit ratings

Makes it easy to obtain export finance from banks/financial institutions

Assists exporters in recovering bad debts

Provides information on credit-worthiness of overseas buyers

**Need for export credit insurance**

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

**c.Tariff And Non Tariff Barrier**

Tariff derived from the word meaning rate , price or list of charge, is a customs duty or a tax on products that move across borders.

Tariff barriers/ marketing barriers :marketing barriers are further classified into following parts

On the basis of direction → Import tariff, Export tariff

On the basis of Purpose → Protective Tariff, Revenue Tariff

On the basis of Length

Tariff Surcharge

Countervailing Duty

On the basis of rates

Specific

Combined

Ad Valorem

NON Tariff Barriers

There are several hundred types of nontariff barriers. These barriers are categorized in five major categories. Each category contains a number of different non- Tariff barriers

**GOVT, PARTICIPATION IN TRADE**

1.Administration guidance

Many govt routinely provide trade consultation to private companies. Japan has been doing this on a regular basis to help implement its industrial policies.

2.Govt. procurement and state trading :

State trading is the ultimate in government participation because the govt itself is now the customer or buyer who determine what , when , where , how and how much to buy. In this practice state engage in commercial operation either directly or indirectly, through the agencies under its control.

3.Subsidies

Acc. To gatt “subsidy is a financial contribution provided directly or indirectly by the govt. and which confer a benefits.

**CUSTOM AND ENTRY PROCEDURE**

Custom and entry procedure can be employed as nontariff barriers . thes restrictions involve classification , valuation, documentation , license, inspection , and health and safety regulations.

- Classification
- valuation
- documantation
- inspection
- health and safety reguilatio**n**

**PRODUCT REQUIIREMENT**

- Product standard
- Packaging labelling and marking
- Product testing
- Product specification`

**QUOTAS**

- Absolute quota
- Tariff quota
- Voluntary quota

**Financial control**

- Exchange control
- Multiple exchange rates
- Prior import deposites and credit restrictions
- Profit remittance restriction